



GRUPPO

CREDEM

2020 FINANCIAL STATEMENTS

Mario Schifano (Homs 1934 - Rome 1998), *Untitled*, screen printing on paper, detail, Reggio Emilia, Credem art collection

2020 FINANCIAL STATEMENTS

GRUPPO

CREDEM

Credito Emiliano Spa
Credito Emiliano Banking Group - Credem
3032 - Joint stock company

Registered Office and Headquarters:

Via Emilia San Pietro No. 4 - 42100 Reggio Emilia
Fully paid-up share capital € 332,392,107
Taxpayer's Code 01806740153 - VAT Number 02823390352
ABI Code 03032
Bank enrolled in the Banks Register under No. 5350
Bank enrolled in the Banking Groups Register under No. 03032
Member of the Interbank Deposit Protection Fund
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Code BACRIT22
Website: www.credem.it



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2020 CONSOLIDATED FINANCIAL STATEMENTS

Renato Guttuso (Bagheria 1911 - Rome 1987), *Limoni*, lithograph on paper, detail, Reggio Emilia, Credem art collection

CONSOLIDATED FINANCIAL STATEMENTS

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GOVERNING AND CONTROL BODIES

BOARD OF DIRECTORS

Chairman	Lucio Iginò Zanon di Valgiurata	
Vice-Chairmen	Enrico Corradi*	Luigi Maramotti*
Directors	Claudia Alfieri	Riccardo Bruno**
	Giorgio Ferrari*	Giorgia Fontanesi*
	Alessandro Merli**	Ernestina Morstofolini**
	Benedetto Renda	Paola Schwizer**
	Giovanni Viani	

* Members of the Executive Committee

** Independent directors pursuant to Art. 148, paragraph 3, Italian Legislative Decree no. 58/1998 (Consolidated Financial Act)

BOARD OF STATUTORY AUDITORS

Chairman	Anna Maria Allievi	
Standing auditors	Giulio Morandi	Maria Paglia
Alternate auditors	Maurizio Bergomi	Riccardo Losi

SENIOR MANAGEMENT

General Manager	Nazzareno Gregori	
Joint General Manager	Angelo Campani	
Deputy General Managers	Giuliano Cassinadri Stefano Pilastrì	Stefano Morellini
Central Managers	Giuliano Baroni Francesco Reggiani	Paolo Magnani
Deputy Central Manager	Maurizio Giglioli	

MANAGER RESPONSIBLE for preparing the company's financial reports

Paolo Tommasini

INDEPENDENT AUDITOR

Ernst & Young S.p.A.



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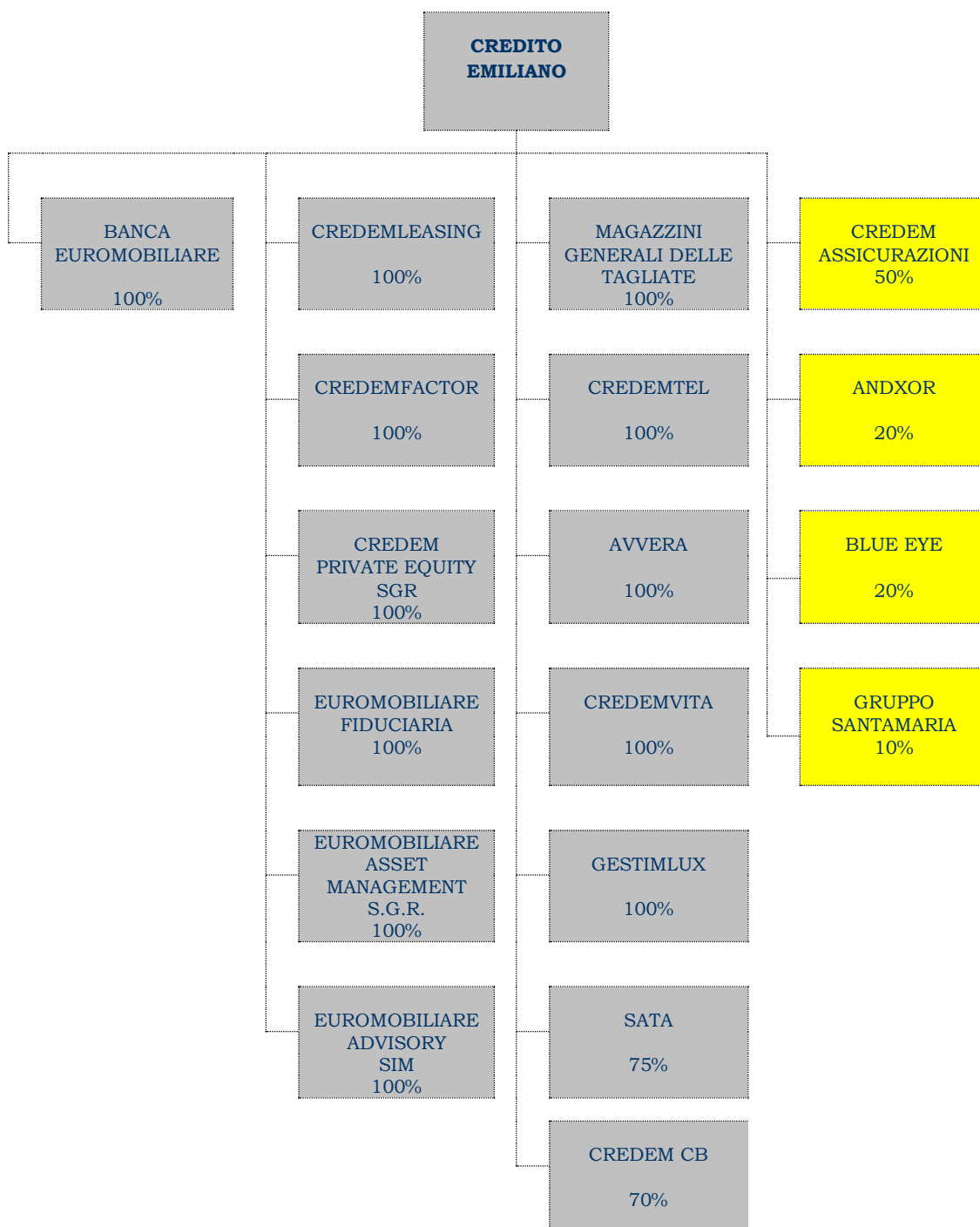
2020 CONSOLIDATED FINANCIAL STATEMENTS

Antonio Bueno (Berlin 1918 - Fiesole 1984), *Uomo con cappello e sigaro*, lithograph on paper, detail, Reggio Emilia, Credem art collection

CONSOLIDATED FINANCIAL STATEMENTS

REPORT ON OPERATIONS

SCOPE OF CONSOLIDATION



Notes:

the percentages refer to directly or indirectly exercisable voting rights
the highlighted equity investments are valued under the equity method

To our Shareholders,

This section provides the usual brief preliminary overview of the macroeconomic scenario, the financial markets and major factors influencing the banking sector.

1. MACROECONOMIC SCENARIO

The economic trends in 2020 were deeply impacted by the evolution of the Covid-19 epidemic. The first wave, which started in China at the beginning of the year, took just a few months to spread globally, with particular intensity first in Europe, then in the United States and Latin America. The majority of the affected countries launched stringent containment measures, generating an exceptional macroeconomic shock, with a collapse of historic proportions of global economic activity, especially in the second quarter. In response to the crisis, many countries adopted a wide range of measures to support lending to the real economy and ensure the orderly functioning of markets and full operation of financial institutions.

In the summer months, thanks to a reduction in infections and the recovery of many economic activities, the world economy recovered its breath with a rebound in GDP in the third quarter of the year that was better than expected.

The resurgence of the pandemic between October and December, particularly intense in Europe and the United States, and the consequent strengthening in many countries of the containment measures, albeit at a lower intensity than last Spring, resulted in a new slowdown in the global economy in the last quarter of 2020.

According to the information available, China has not experienced the second wave of infections and has therefore not adopted new restrictive measures either for economic activities or for the movement of people, with positive effects on the progress of the Chinese economy and the prospects of global economy. The Chinese economy, unlike most others in the world, continued to grow in 2020, but at the slowest pace experienced in over 40 years: the GDP of the entire year rose by +2.3% compared to 2019 (when +6.1% was recorded).

In the United States, GDP decreased by -3.5% in 2020, compared to an increase of +2.2% in 2019. The decrease was due to the decline in private consumption and non-residential fixed investments. These trends were partly offset by increases in federal government spending and residential fixed investments. Imports fell.

With regard to the Eurozone, the GDP recorded a decline of -6.8% for the whole of 2020, due to the impact of the Covid-19 containment measures. The contraction was disparate in the various countries and in the different sectors. For Spain, the economy most affected by the pandemic due to the almost total block of tourism, 2020 ended with a drop in GDP of 11%: the worst in the entire history of democracy in the country. The French economy was down by 8.3%. The German GDP fell by 5% in 2020.

With regard to Italy, the data released by ISTAT show that in 2020 GDP, adjusted for calendar effects, decreased by 8.9%, while the GDP estimated on raw quarterly data indicated a decrease of 8.8%. This variance is the result of a combination of lower added value in all the main production industries, i.e. agriculture, forestry and fishing, industry and services. On the demand side, both the domestic component made a negative contribution (before stocks), and the foreign component. The change expected for 2021 is +2.3%.

As regards monetary policy, and in response to the pandemic, the Governing Council of the European Central Bank intervened with a number of measures:

- At the meeting of 12 March, and in the subsequent extraordinary meeting of 18 March, various expansionary measures were introduced aimed at supporting credit to households and businesses, guaranteeing relaxed liquidity conditions and intervening in the public securities market in a flexible and concentrated manner on segments and countries suffering tensions. The measures concerned the conduction of new Longer-Term Refinancing Operations (LTRO), a further

easing of the conditions applied to the third series of targeted longer-term refinancing operations (TLTRO3), an additional endowment of € 120 billion for additional net purchases as part of the Expanded Asset Purchase Program (APP) and a new program for the purchase of public and private securities for the pandemic emergency (Pandemic Emergency Purchase Program, PEPP). The latter, intended to counter a tightening in financial conditions, had an initial endowment of € 750 billion with the goal of being active until the end of the pandemic crisis and, in any case, for all of 2020.

- At the meeting on 30 April, a further easing of conditions applied to the targeted longer-term refinancing operations (TLTRO3) was approved. In addition, a new series of non-targeted, longer-term refinancing operations for the pandemic emergency (PELTRO) was announced to support liquidity conditions in the Eurozone financial system. The PELTROs were initially made up of seven additional refinancing operations (in the period May-December 2020 and maturities staggered between July and September 2021), carried out through the fixed-rate repo facility with full allotment of the requested amounts, with an interest rate 25 basis points lower than the average for refinancing transactions. The Governing Council also stated that the net acquisitions under the asset purchase programme (APP) would continue at the monthly rate of € 20 billion.
- At the meeting of 4 June, the Governing Council of the ECB decided to increase the endowment of the Pandemic Emergency Purchase Program (PEPP) by € 600 billion for a total of € 1,350 billion and extended the time horizon to at least the middle of 2021 or the conclusion of the critical situation linked to the Coronavirus. The “ordinary” quantitative easing programme will continue at a rate of € 20 billion per month (and with an additional € 120 billion envelope) until the end of the year, and in any case as long as necessary to reinforce the accommodating stance of its interest rate policy.
- On 25 June, the ECB’s Governing Council decided to activate a new backstop instrument, the Eurosystem Repo Facility for Central Banks (EUREP). The objective was to ensure precautionary euro refinancing lines for central banks outside the Eurozone. The purpose of EUREP is to satisfy “any need for liquidity in euro in the event of market disruptions caused by the Covid shock, which could negatively affect the smooth transmission of ECB monetary policy”. The instrument was initially available until June 2021.
- At the meetings of 16 July, 10 September and 29 October, the Governing Council of the ECB decided to maintain the very accommodating stance of its monetary policy.
- At the monetary policy meeting of 10 December 2020, the Governing Council decided to recalibrate its monetary policy instruments. It decided to increase the Pandemic Emergency Purchase Program (PEPP) by a further € 500 billion, a total of € 1,850 billion, and extended the time period of net purchases to at least March 2022. It also decided to further recalibrate the conditions applied to the third series of targeted longer-term refinancing operations (TLTRO3). In particular, it decided to extend by 12 months, until June 2022, the period in which more favourable conditions will apply. Three additional operations will also be carried out between June and December 2021. In addition, the Governing Council decided to increase the total amount that counterparties will be able to borrow in TLTRO3 from 50% to 55% of the respective stock of eligible loans. The Governing Council decided to extend the duration of the set of measures to relax the eligibility criteria applicable to the guarantees until June 2022 (adopted on 7 and 22 April 2020). The Governing Council also decided to offer four additional longer-term refinancing operations for the pandemic emergency (PELTRO) in 2021, to provide effective liquidity support. Net purchases under the asset purchase program (APP) will continue at a monthly rate of € 20 billion. Eurosystem repo transactions for central banks (Eurosystem Repo Facility for Central Bank, EUREP) and all the swap temporary lines and repurchase agreements with central banks of countries outside the Eurozone were extended until March 2022.

With regard to the performance of the financial markets, we would like to note:

- In the first quarter of 2020, financial markets experienced severe fluctuations, which pushed share prices downward and caused large swings in Government bond yields, in a context of reduced liquidity, increased risk aversion and strong volatility. In March, as a result of the gradual extension of the measures to contain the epidemic to the main advanced countries, the preference of investors for financial assets considered safer (flight to quality) increased considerably; this phenomenon led to significant reductions in returns in some jurisdictions and increases in others. In the Eurozone, yield spreads against German bonds increased in all countries, to a larger extent in Greece, Italy and Portugal while more limited in Belgium, France, Ireland and Spain. After the decision by the ECB's Governing Council to set up a new asset purchase programme for € 750 billion, tensions in the Eurozone eased.
- In the second quarter of 2020, strains on financial markets caused by the spread of the pandemic partially subsided, thanks to the expansionary measures adopted in the major economic areas and the subsequent gradual easing of the restrictive measures imposed as a result of the pandemic. Starting from April, share prices partially recovered the losses recorded in the most severe phase of the pandemic, benefiting from a greater propensity for risk by investors, given the expansionary measures and the elimination of restrictive measures. Yield spreads with German ten-year bonds decreased from the first ten days of April in Greece, Portugal, Italy and, to a lesser extent, Spain and Belgium.
- In the third quarter of 2020, there was an improvement in the conditions in the financial markets favoured by the considerable interventions of the monetary authorities in support of liquidity and by the expectations encouraged by the wide-ranging measures to support the economies. Since the beginning of July, the yield spreads with German securities have fallen for several European countries and share prices have risen in the United States and Japan, driven by a more favourable economic performance than expected and by encouraging news relating to the progress of the vaccines, but fell in the United Kingdom, held back by the increase in infections and uncertainty over the outcome of negotiations with the European Union. At the beginning of September, the US stock market indices reached new all-time highs, driven by the strong appreciation of the technology sector, subject to a partial correction of the gains in subsequent weeks due to the growing uncertainty regarding the new fiscal stimulus package and global infection trends.
- In the last quarter of 2020, conditions on the international financial markets gradually improved due to the lack of uncertainty on the outcome of the US elections and the optimism that spread thanks to the effectiveness of some vaccines. Long-term rates remained at low or slightly negative levels in the main advanced economies, where monetary policies remained highly accommodating. The yield spreads with respect to German bonds narrowed in Greece, Portugal, Italy and Spain. Share prices have risen since November in all the main advanced countries. In the United States and Japan, stock prices exceeded the levels prior to the pandemic.

As regards currencies:

- During the first quarter of 2020, volatility in currency markets grew and, following an initial increase, the euro/dollar exchange rate began to depreciate.
- In the second quarter, the euro exchange rate appreciated against the dollar.
- In the third quarter and in the fourth quarter, the euro continued to appreciate against the dollar, mainly reflecting a reduction in risk aversion in global financial markets. Looking ahead, expectations of further strengthening prevail.

Looking at Italy in more detail:

- In the first quarter of 2020, the yields on Italian Government bonds, which had dropped considerably between the end of January and the first half of February, rose sharply. Yields on ten-year bonds increased from 0.9% in mid-February to 2.4% on 18 March (with a spread of around 300 bps). After the market

interventions of Banca d'Italia on behalf of the Eurosystem and the Governing Council's decision to set up an asset purchase portfolio for € 750 billion in order to stabilise financial markets and preserve monetary policy transmission, tensions eased.

- In the second quarter of 2020, the spread between the BTP and the Bund benefited from the policies implemented by European authorities: the ECB's decision to temporarily accept junk collateral in refinancing operations, the PEPP and its extension, and the proposal for the Recovery Fund. The spread closed the second half at around 170 bps.
- In the third quarter of 2020, the yields of Italian Government bonds fell for almost all maturities. The drop was mainly due to a decrease in the sovereign risk premium; the BTP-Bund spread closed at 137 bps, reaching slightly lower levels than those observed before the pandemic.
- In the last quarter of the year, the spread with the yield of German Government bonds on the ten-year maturity fell further, remaining at values lower than those observed before the pandemic (around 110 bps at the end of December); the redenomination risk premium remained stable at low levels and the volatility implicit in the derivative contracts on the Italian ten-year security remained very low.

The Italian stock market declined sharply in the first quarter of 2020, with the FTSE Mib at -27.5% at the end of March compared to the end of 2019. Subsequently, the market experienced a partial recovery in prices: the FTSE Mib at the end of June recorded a -17.6% compared to the end of 2019. After a period of substantial stability during the summer, share prices fell from the end of August, reflecting the resurgence of infections in some European countries. At the end of September, the FTSE Mib recorded -19.1%. The Italian Stock Exchange closed 2020 with a -5.4%, strongly reducing the entries recorded in the previous months. This trend was supported by the optimism generated by the announcements on the effectiveness of the vaccines, by the additional monetary and budget support and by the resolution of the uncertainty linked to the presidential elections in the United States.

On 24 April 2020, the Standard & Poor's rating agency kept a rating of BBB for Italy, with a negative outlook. On 28 April, the rating agency Fitch cut the rating on Italy's debt to BBB- from BBB; the rating was subsequently confirmed on 10 July and 4 December. On 8 May, Moody's maintained its "Baa3" rating, as did DBRS, which confirmed its BBB (high) rating, but changed its outlook to negative. Both ratings were confirmed in the autumn. On 23 October Standard & Poor's reconfirmed the triple B of the Italian debt but changed the outlook from negative to stable.

2. REGULATORY CONTEXT AND BANKING INDUSTRY PERFORMANCE

The Covid-19 pandemic has had serious repercussions on global economic activity, as described above. In addition to the monetary authority measures already described, the supervisory authorities have used regulatory flexibility to temporarily loosen certain prudential constraints and thus support credit to the economy. In the meantime, governments have launched numerous interventions to support liquidity for the manufacturing sector and to ensure access to credit, including issuing public guarantees on loans to businesses, disbursing loans and offering moratoriums on taxes and loans.

With regard to banking supervision, we note:

- The ECB (on 12 March) and Banca d'Italia (on 20 March), for the significant and so-called "less significant" banks respectively, allowed intermediaries to temporarily operate below certain capital and liquidity buffers. In detail:

- The possibility of temporarily operating below the levels of the capital conservation buffer (or CCB, equal to 2.5% from 2019), *of the Pillar 2 Guidance (P2G) and of the liquidity coverage requirement (LCR)*.
- Bringing forward diversification rules of the Pillar 2 Requirement (P2R) contained in CRD V: Art. 104-*bis* allows banks to satisfy part of the Pillar 2 Requirement through Additional Tier 1 (AT1) and Tier 2 (T2) instruments, up to a maximum of 18.75% and 25% of P2R, respectively.
- Also on 12 March, the ECB postponed by six months the deadline of any remedial actions required of banks following on-site audits, the TRIM process (Targeted Review of Internal Models) and verifications performed on internal models. The six-month postponement also referred to compliance reviews with the qualitative measures envisaged by the SREP process and the supervisory decisions not yet communicated.
- These actions were taken in alignment with those of the European Banking Authority (EBA), which in the meantime has moved the stress tests of the primary banks scheduled for 2020 to 2021 and announced a review of the main deadlines that required the direct involvement of banks (public consultations, funding plans, and QIS).
- The EBA (25 March) and the Basel Committee (3 April) specified that a borrower's use of moratoriums introduced by law (or promoted by a large part of the banking system) and use of public guarantees did not necessarily entail the reclassification of loans into forborne or non-performing exposures; it was also clarified that access to moratoriums did not in itself lead to a significant increase in credit risk for accounting purposes (i.e., the transfer from Stage 1 to Stage 2 of the classification envisaged by IFRS 9). The supervisory authorities (Basel Committee, EBA) have also provided guidelines to banks on the methods of applying the IFRS 9 accounting standard to mitigate possible pro-cyclical effects in calculating value adjustments on loans; in addition, they recommended to intermediaries who have not yet done so to make use of the transitional regime connected with the entry into force of IFRS 9, introduced specifically to alleviate the impact of higher value adjustments on regulatory capital.
- In order to encourage the strengthening of the banks' own means and put them in the best position to continue to support the economy, on 27 March 2020, the ECB and Banca d'Italia accompanied the measures on capital buffers with the recommendation not to distribute dividends and to refrain from repurchasing treasury shares.
- On 16 April 2020, the ECB adopted a temporary measure to mitigate the pro-cyclical effects linked to an increase in capital requirements in the face of market risks induced by the increase in market volatility, to the benefit of banks that make use of the internal models for market risks.
- The Basel Committee postponed by one year, to 1 January 2023, the entry into force of the international standards relating to the completion of Basel 3. The new deadline will allow banks to deal with the increase in capital requirements determined by the entry into force of the new standards.
- On 28 April 2020, in order to support loans to businesses and households, the European Commission also took action, with an interpretation relating to IFRS 9 accounting standards as well as some targeted modifications intended to bring forward the application of certain rules (extension of SME Supporting Factor, weighting assignment of 35% for salary-backed loans, and the "non-deductibility" from CET1 capital of some investments in software), which were already envisaged in the Capital Requirements Regulation (CRR2). In line with the Basel Committee's decisions, the Commission proposed to defer the entry into force of the leverage ratio buffer for systemic banks by one year (from January 2022 to January 2023) and to amend the transitional provisions on the impact of IFRS 9 on own funds. These rules were approved by the European Parliament on 24 June 2020 and became effective on 27 June 2020.
- Also in April, the European Council approved the establishment of a temporary support to mitigate the risks of unemployment linked to the health emergency (Temporary Support to mitigate Unemployment Risks in an Emergency, SURE),

a guarantee fund managed by the European Investment Bank (EIB) for loans to businesses, a new precautionary credit line to support the management of the pandemic crisis (Pandemic Crisis Support) of the European Stability Mechanism (ESM) to meet public spending needs directly or indirectly related to the fight against the pandemic. Taken together, these interventions enabled resources of up to € 500 billion to be mobilised.

- In May, the European Commission also presented a proposal to the European Parliament, then approved on 10 and 11 December 2020, for the creation of a new tool known as Next Generation EU. Through the latter, the European Union will be able to raise financial resources, borrowing up to € 750 billion on the market, to be used as loans and subsidies in favour of member countries, especially those most affected by the pandemic. Approximately € 200 billion were allocated to Italy.

Also in the second half of the year, the interventions linked mainly to the pandemic by the authorities continued, also due to the resumption of the infections during the autumn. We will note the main initiatives:

- On 28 July, the ECB intervened to extend the recommendation to banks on the distribution of dividends and on the repurchase of treasury shares until 1 January 2021. It also asked banks to be extremely moderate with regard to variable remuneration. It clarified that it will allow sufficient time for banks to replenish their capital and liquidity reserves in order not to act pro-cyclically. The exact timing will be decided following the 2021 stress test and based on the individual situation of each bank. The ECB has undertaken to allow banks to operate below the P2G and the combined reserve requirement at least until the end of 2022 and below the LCR at least until the end of 2021, without automatically activating supervisory actions. Finally, given that the banking sector has shown operational resilience, the ECB stated that it did not plan to extend the six-month operational relief measures granted to banks in March 2020, with the exception of the strategies to reduce non-performing loans (NPL) for the high NPLs. The ECB also sent a letter to the banks communicating its expectations that they will have effective management practices and sufficient operational capacity to deal with the expected increase in exposures in difficulty.
- On 17 September, the ECB announced the possibility of excluding exposures to central banks from the calculation of the Leverage Ratio until 27 June 2021.
- On 18 September, the ECB finalised the guide that defines the methodology to be followed to calculate the exposure to Counterparty Credit Risk (CCR) and Advanced Credit Valuation Adjustment (CVA) risk.
- On 22 September, the EBA declared that the guidelines on moratoriums would expire at the end of September. Subsequently, on 2 December, after monitoring the introduction of new lockdowns for the second wave of infections, the EBA decided to extend the guidelines on moratoriums until 31 March 2021, to allow banks to keep the flow of the credit open to businesses and households with cash flow problems. At the same time, it amended the guidelines by introducing two new safeguards so that the moratoriums do not last longer than nine months and that non-performing loans, and the resulting losses, are identified and promptly recorded by the banks.
- On 27 November, the ECB published the final text of the “Guide on climate and environmental risks”. The document illustrates how the ECB expects banks to manage these risks in a prudent manner and to provide transparent disclosure in this regard in compliance with current prudential regulations.
- On 15 December, the ECB stated that, given the persistent uncertainty about the economic impact of the pandemic, dividends and buybacks of treasury shares should remain within 15% of the cumulative profit of 2019-2020, or not exceed 20 basis points in terms of Common Equity Tier 1 capital, applying the lowest value. For the ECB, banks that intend to issue dividends or buy back treasury shares must be profitable and have a solid capital profile.
- On 16 December, the European Commission, in an attempt to deal with the impact of the post-pandemic recession on the financial system in the best

possible way, presented a new action plan to reduce bad loans in the financial statements of banks. The plan takes a four-pronged approach: strengthening the secondary market on which to sell and buy bad quality securities through the creation of a European database; a reform of bankruptcy law, with the approval of the resulting EU proposal dating back to 2018; the creation of national bad loan management platforms (AMC, Asset Management Companies); the use of precautionary measures to strengthen bank financial statements.

Specifically with regard to Italy, starting from March, the government launched a comprehensive plan of measures relative to businesses to limit the risk that liquidity tensions due to the abrupt decline in production or a tightening of credit conditions generate long-term business crises.

- Italian Law Decree no. 18/2020 (“Cura Italia”) introduced a moratorium for small and medium-sized enterprises (SMEs) that had no debts classified as non-performing as at 17 March 2020. These companies could obtain: (a) the extension until 30 September of loans maturing in the following months; (b) the suspension for the same period of mortgage payments and lease instalments; and (c) the freezing until 30 September of revocable loans (opening of current account credit facilities and loans for advances on receivables).
- To facilitate the access of businesses to new loans, Italian Law Decree no. 23/2020 (“Liquidity”) considerably extended the public guarantees “on first demand” that can be issued up to the end of the year. For SMEs, the manoeuvre relied mainly on the Central Guarantee Fund (FCG). For large companies and SMEs, which have exhausted their ability to access the FCG, Italian Law Decree no. 23/2020 assigned SACE the task of issuing public guarantees on loans with a duration not exceeding six years, with percentage coverages reduced from 90% to 70% as the company grows. With regard to households, the main measures included: the moratorium on mortgages, temporary income support for self-employed individuals and seasonal workers, the freezing of lay-offs, and expansion of the use of the redundancy fund.
- The “August” Decree (Italian Law Decree no. 104/2020) strengthened the interventions described above by adding a further € 25 billion in expenditure. With regard to businesses, note the extension to 31 January 2021 of the moratoriums and the refinancing of the guarantee fund for SMEs.
- The autumn resurgence of the pandemic required further actions by the Government. The decrees, known as “Reliefs”, extended the redundancy fund and the emergency income, introduced grants for operators most affected by the new lockdown, and provided for tax and social security postponements. The Budget Law for 2021, in the knowledge that the support to the economy could not be removed prematurely, provided for measures aimed at supporting employees and self-employed workers, such as the extension of the redundancy fund for another 12 weeks and one-year’s relief for professionals and self-employed workers. The moratoriums of the first home Solidarity Fund were extended to all of 2021. With regard to companies, the moratoriums (envisaged by the “Cura Italia” Law Decree), loans and guarantees (envisaged by the “Liquidity” Law Decree) were extended until 30 June 2021.

Turning to the performance of the Italian banking system, in December 2020, loans to the private sector, adjusted to consider securitisations and other receivables assigned and derecognised from bank financial statements, rose by 4.7% yoy (+0.1% at December 2019). The growth rates were calculated by Banca d’Italia, including loans not recorded in bank financial statements as securitised and other receivables assigned and derecognised from bank financial statements.

More specifically, loans to businesses increased by 8.5% yoy (-1.9% at December 2019). Starting from the second quarter of 2020, the growth in loans to non-financial companies was robust, still driven by the extensive use of loans backed by public guarantees. On the basis of the surveys carried out by Banca d’Italia at the end of January 2021, the requests for participation in the moratoriums on loans were more than 2.7 million, for a value of approximately € 300 billion, and requests for

guarantees for new bank loans for micro, small and medium-sized enterprises submitted to the Guarantee Fund for SMEs exceeded the amount of € 128 billion. In addition, through SACE's "Garanzia Italia", guarantees of € 20.9 billion were granted, for a total of 1,449 transactions. The increase in loans to businesses was concentrated in the segment of loans with a maturity of more than one year, up by around € 83 billion, up +19.1% on an annual basis; those with a duration of less than one year decreased (-23.1% on an annual basis). These trends probably reflect the greater preference of companies for longer-term loans, which make it possible to face extended periods of uncertainty, also given the guarantees offered by the Government.

With regard to lending to households, a positive trend was recorded, but limited in general: in December 2020, growth was 2.2% yoy (+2.6% in December 2019). In December 2020, mortgages recorded an increase of 2.1% yoy, accelerating their trend compared to the first part of 2020. With regard to the evolution of the real estate market, according to data from the Inland Revenue, the third quarter of 2020 marked a new trend reversal for sales volumes in the residential sector which, after two periods of sharp decline, recorded over 4,200 more homes traded than the third quarter of 2019, +3.1%. The trend was distributed differently between provincial capitals and non-capitals: for the former, a negative trend continues (-6.7%); for the non-provincial capitals, on the other hand, growth reached an overall +8.1%. Among the territorial areas, the distribution is similar to the national one, with the exception of Central Italy, where the positive change recorded in the smaller municipalities (+5%) cannot offset the downward trend of the provincial capitals (-9.5%), generating the only case of negative trend change (-1.7%). In the South there was +9.6%, in the North West +3.1%, in the North East +1% and in the Islands +6.8%.

Consumer credit posted a very weak performance (-0.8% in December 2020) after the satisfactory trend of last year (+8.3% yoy in December 2019), due to the pandemic's impacts on household consumption of durable and semi-durable goods. With regard to the level of risk, gross bad loans reached € 51.6 billion in December 2020 (€ 72.4 billion in December 2019, a decrease of 28.7% yoy). Bad loans, net of valuation reserve at December 2020 fell to € 20.7 billion from € 27.0 billion in December 2019 (-23.4% yoy). This trend benefited from the sale of bad loans carried out in 2020. The sales were not significant in the initial months of 2020 due to the pandemic's effects on financial markets. In the second part of the year, there was a recovery in the sale of bad loans and transactions were carried out for more than € 15 billion (88% of the total for the year 2020). The percentage of total loans represented by the flow of new non-performing loans fell in the third quarter (to 0.9% net of seasonal factors from 1.3% in the second quarter). The decrease regarded both loans to households (to 0.9%, from 1.0%), and those to businesses (to 1.2%, from 1.7%). The trend of these indicators continues to reflect the measures to support access to credit introduced by the Government (moratoriums and guarantees on new loans), as well as the use of the flexibility inherent in the rules for classifying loans, according to the guidelines indicated by the supervisory authorities.

Turning to direct deposits of Italian banks, private sector deposits recorded a considerable upward trend. In summary, deposits were up +11.1% yoy in December 2020 (+5.3% yoy in December 2019, again yoy). The high degree of uncertainty associated with the crisis led to a significant increase in the propensity to save and an accumulation of non-risky liquid assets. Household deposits (+6.3% in December 2020) were affected by both the inability to spend for certain types of consumption, due to containment measures, and greater precautionary savings. The increase in deposits also concerned companies, with growth well above that recorded by the private sector (+27.5% in December 2020); part of the loans in the sector, requested to deal with the pandemic and the uncertainty of the economic situation, constituted an important liquidity buffer deposited with the banks.

More specifically, demand liquidity instruments held in current accounts posted performance of +14.1% yoy in December 2020. Fixed-term deposit instruments fell 4.2% yoy, while deposits repayable with advance notice recorded a positive trend

(+2.5% in December 2020). Repurchase agreements closed at -26.6% (again in December 2020).

Within the scope of deposits with a set duration, the bond segment recorded a decline, reaching -7.6% year-on-year in December 2020, as there were no issues by banking groups aimed at meeting the MREL requirements, due to the worsening of the conditions of the financial markets in the first part of the year and then due to the wide availability of liquidity made available by the Eurosystem. However, there were issues of this type in the second half of 2019.

With regard to assets under management, the decline in stock and bond prices which occurred in the first few months of 2020 dampened the performance of mutual funds, with considerable outflows in the first quarter (€ -12.1 billion), mainly attributable to banking distribution. The following months showed positive deposit flows. As at 31 December 2020, the net inflow of savings into open-end mutual investment funds (Italian and foreign) was equal to € +18.9 billion. According to the figures provided by Assogestioni, deposits were positive in shares (€ 15.2 billion representing 25% of total managed assets), balanced products (€ 8.5 billion representing 12% of total managed assets), bonds (€ 8.2 billion, representing 39% of the total managed assets) and monetary funds (€ 5.3 billion representing 3% of total managed assets). Flexible funds recorded outflows of € -18.1 billion (representing 21% of total managed assets). The total assets of open-end funds at December 2020 was € 1,116.5 billion compared to € 1,063.2 billion in December 2019; the trend was positively affected by both the trend of net deposits and market performance.

In December 2020, based on ANIA data, life premiums (individual policies) collected amounted to € 96.2 billion, down by 7.4% compared to the previous year. Segment I products were down by 11.6% (accounting for 57% of total deposits), while Segment III products were up (+3.4% yoy, representing 26% of total production). With regard to the distribution channels of life insurance policies, there was a decline in the bank and post office branches (-9.0% yoy, accounting for 65% of total deposits), and the network channel also posted a negative trend (-7.3% yoy, representing 13% of total flows).

At the same time, household securities in custody (at nominal value) posted a decline of 8.9% yoy in December 2020. The decline would have been greater if in May there had been no placement of the BTP Italia, which achieved good success among Italian households (in May, Italian household securities recorded € +12.5 billion compared to the previous month of April).

In the first nine months of 2020, the profit margins of the major banking groups fell with respect to the corresponding period of the previous year: The ROE (Return On Equity), calculated net of extraordinary components, decreased to 2.2% from 7.8% in September 2019, largely due to the increase in impairment losses on receivables (up by the 36.4% on an annual basis). Total revenues decreased (-4.7% on an annual basis), although the decline slowed during the third quarter. The decline in operating expenses continued (-3.9%); net of the expenses incurred to facilitate the early termination of the employment relationship, costs decreased more than revenues, resulting in a reduction in their incidence on the net interest and other banking income (cost-income ratio) of more than two percentage points compared to the first nine months of 2019, at 62.8%. Also in the third quarter of the year, the level of capitalisation of significant banking groups, measured as CET1 ratio (Common Equity Tier 1 ratio), increased by around 30 basis points, to 15.1%. Growth was due to the decline in risk-weighted assets (-3%), attributable to the restructuring of some banking portfolios towards less risky assets and the use of public guarantees.

The challenges deriving from the crisis induced by the pandemic are added to those that the banks were already facing. Banks were already supposed to meet higher capital requirements in the near future, associated with the adoption of new rules (Basel, MREL, review of internal models conducted by the ECB) which were partly postponed or diluted over time so that they did not determine pro-cyclical effects in this phase. In the meantime, long-term low interest rates, an increase in the cost of credit linked to the pandemic, the presence of obsolete physical distribution

networks, the upgrade of technological infrastructures and increased competition from new and big-tech operators will continue to exert strong pressure on bank profitability. In this context, investments in technology play a primary role. Thanks to these, it is possible to manage risks more effectively, optimise production processes and offer new services. They are essential to reduce costs and pursue a more efficient work organization. A prudent, though not exclusive, use of the experiences gained with the pandemic in terms of smart working and digitalisation of processes and services can help set up a more contained cost structure and create a more sustainable business model.

3. MAIN EFFECTS OF COVID-19

The severe crisis brought about by the Covid-19 pandemic that affected the country, and then the rest of the world, had an impact on all banking groups: the government decrees and support measures put in place by both the Italian government and the European Authorities to manage the resulting economic and financial emergency involved the banks, which became one of the key players in implementing support measures for households and businesses. This role has had substantial repercussions, both in reference to lending strategies and to operations and processes that banks, and therefore also Credem, have had to set up under emergency conditions. At the same time, reporting to Supervisory Authorities has also intensified, as there have been and will be repercussions also with regard to valuation aspects and methods for applying accounting standards; for more details please refer to the Explanatory notes.

The situation that, during the summer months, had appeared calmer, saw a resurgence of the epidemic starting from autumn. Fears of a new increase in viral spread led to both an increase in the attention threshold with regard to security measures, and a greater effort of the structure to maintain suitable levels of service to customers.

In 2020, the Credito Emiliano Group set up a task force that reports to the Board of Directors, composed of the management of some key functions, aimed at constantly monitoring the epidemiological developments within the Group, which met periodically to put in place the necessary organisational measures to ensure operational continuity, compliance with the prevention measures regarding employees and customers and the raising of the level of security against cyber-attacks.

In all branches, access to advisory services is by appointment, while access to cash services is free, maintaining the necessary distance.

Security measures and rules of conduct are in force in all Group offices, while remote working, now widespread, remains, for all compatible roles, the priority to maintain operational continuity and at the same time preserve the safety of employees and safeguarding the health of customers.

A constant organisational effort was made to intercept and make all public support measures available to customers (so-called “moratoriums” and disbursement of loans backed by public guarantees).

One of the primary objectives was also to support the networks and customers in the application of additional support measures which, following the approval of the budget law, on 30 December 2020, were extended, albeit with some changes compared to the original provisions.

The functions in charge have been constantly and proactively committed to assessing the prospective impacts of the pandemic, albeit in a context that is still characterised by high degrees of uncertainty and accompanied by a constantly evolving regulatory framework.

On the basis of these assumptions, the Board of Directors examined the periodic focuses on Covid-19 at each meeting, also with reference to the periodic recommendations made by the supervisory authorities on the distribution of dividends.

The primary activities that the Group has implemented as part of the reaction to the phase of uncertainty that has emerged since the end of February are described below in more detail.

REAZIONE GRUPPO CREDEM - SCENARIO COVID-19				
AREE DI INTERVENTO	BUSINESS CONTINUITY	MONITORAGGIO, PIANIFICAZIONE E CONTROLLO	SUPPORTO STAKEHOLDERS	GOVERNANCE E COMUNICAZIONE
ATTIVITA'	Attivazione Comitato di Crisi sui temi di business continuity, sicurezza sui luoghi di lavoro, organizzazione dello staff, cyber risk, presidio dei livelli di servizio dei fornitori	Incremento attività di Monitoraggio (indicatori di risk appetite framework, liquidità, trend commerciali)	Adesione ai progetti statali in tema sostegno alla clientela (es: Moratorie e Garanzie)	Informazione dedicata sul sito internet aziendale e sui corporate social network
	Remote Working come approccio di preferenza per tutti gli "eligible Workers" Attività a supporto clientela (es. consulenza con sistemi di videoconferenza, digitalizzazione processi commerciali)	Aggiornamento mensile del forecast al 2020, con analisi di impatto che tengono conto anche di scenari differenti	Previsione supporti vs dipendenti (psicologico, estensione polizzeassicurative)	Istituito un "Bollettino Covid19" a favore dei dipendenti contenente le informazioni riguardanti le norme di prevenzione e sicurezza che regolano le modalità di lavoro
	Sicurezza luoghi di lavoro e cyber risk	Istituzionalizzato un "Covid-19 Reporting" con Banca Centrale Europea, strutturato su diversi template: informazioni di dettaglio in tema di consuntivi mensili su conto economico, situazione patrimoniale, indici patrimoniali, e informazioni inerenti la continuità operativa, aggiornamento su situazione crediti e facilitazioni concesse alla clientela, informazioni in merito al market risk, moratorie e garanzie statali	Iniziativa benefiche: raccolta fondo a favore della protezione civile, con un contributo aziendale che ha affiancato quello dei dipendenti	Sensibilizzazione della clientela con informativa dedicata a supporto sia dell'accesso in filiale sia delle modalità di utilizzo dei canali remoti

BUSINESS CONTINUITY

- *Activation of the Crisis Committee*

The Crisis Committee met periodically beginning from the earliest stages of the pandemic in order to monitor the situation, ensure business continuity, evaluate preventive measures, establish intervention strategies and take the resulting decisions regarding management of the emergency. In addition to the development of the pandemic, the Committee monitored the needs and responses of the organisational structure, guiding solutions in order to ensure the safety of employees and protect the health of customers, including the manner of entering bank offices, its branches and Group companies.

- *Smart Working*

Remote working from home, which has been adopted as a strategic option in ordinary conditions for some time now, was progressively applied to all Group companies and was extended, where possible, also to the commercial network functions. The accelerated implementation of smart working for the structure involved a considerable effort in relation to IT systems, which immediately strengthened the system's structural capacity, to ensure functionality for the user base, which exceeded 85% of the Group's workforce as the pandemic continued. In a short time, laptops were supplied to a few functions that did not yet have sufficient equipment to support their staff's needs, allowing the structures to operate in full-digital mode in a very short time frame.

The extension of the state of emergency further strengthened the desire to maintain smart working as a measure of choice to limit the spread of infections, at least until 31 March 2021. The CEO of Alphabet and Google cited Credem as an example of smart-working best practices, thanks to its use of technology.

- *Business continuity*

Business continuity was guaranteed by safeguarding customer service (services were provided continuously), in compliance with all the measures necessary for protecting public health. During the pandemic, only 11 branches were closed, of which 7 due to regional ordinances and 4 due to organisational decisions, redirecting operations to neighbouring branches. By mid-May, all branches were reopened. Branch operations were initially limited to morning hours by appointment, as per the ABI-trade union agreement. Instead, one closing day a

week was introduced to further facilitate the use of smart working for the greatest possible number of employees. Starting only in mid-June, customer access was extended to afternoon hours, restoring the opening hours to the “pre-Covid emergency” schedule. The branches in the “red areas” identified by the Government continued to close in the afternoon. Safety rules have been defined to ensure access to facilities while maintaining social distancing and the use of individual protection systems, both by employees and customers, who, for this purpose, were appropriately informed regarding the behavioural rules that must be followed. During the lockdown phase, sanitation activities were carried out on the premises (at the same time providing for extraordinary interventions in the event of infection), frequent cleaning cycles were ensured, carried out in accordance with the instructions issued by the Ministry of Health. Protective screens, gel dispenser units and floor markings were provided to the sales network to facilitate the correct positioning of customers to maintain the necessary distance.

- *Activation of new digital processes*

Commercial relationship management was facilitated by the activation of new digital processes and the acceleration of ongoing activities that would have entailed longer release times. The digitisation of commercial procedures has reached the stage of releasing advanced digital systems for customer contact, an intense project supported by the use of video calls, digital signature and certified email systems (PEC). A new APP was also released dedicated to home mortgage underwriters to track the progress of their application from the time of submission.

- *Cyber risk*

The pandemic and the restrictive measures imposed have led to a massive increase in remote working. As envisaged by the ECB and evidenced in the CERTFin threat intelligence bulletins, criminal organisations operating on the web immediately attempted to exploit the new scenario by intensifying both infrastructure and client/employee cyber-attacks in the financial industry.

Credem Group was prepared for this, both from an infrastructure/technology and organisational perspective, for remote working. In fact, remote working has been an established practice within the company for years and was designed from the outset by focusing on the main aspects of IT security, including strong authentication for access and the use of VPN (Virtual Private Network).

The IT Security functions addressed certain specific issues in order to maintain an appropriate level of cyber security protection and monitoring for this new scenario and promptly manage any indications or reports, in particular: review of the client-patching process and technologies to adapt them to VPN connectivity and ensure that they are performed in a timely manner as well as reference to the company safety regulations and best practices to reduce the risks inherent in the new context.

MONITORING, PLANNING AND CONTROL

The situation resulting from the pandemic has created a dynamic and rapidly evolving context. For this reason, a “point in time” management was also necessary for the monitoring, programming and control phases:

- The Group has established monitoring by the risk management function of all risk appetite framework (RAF) indicators on a monthly basis, as indicated by Supervisory Authorities, monitoring of the liquidity profile and classification of funding needs, as well as monitoring of production trends for the main commercial aggregates: Deposits, Loans, Assets Under Custody and Assets under Management.
- The data that emerged also led to a periodic forecast of financial figures that may reflect the continuous updating of the reference macroeconomic scenario, the trend in actual data and the implementation of compensatory actions. The reference scenario was, at certain points, also compared with a more severe

scenario, developed centrally by the Planning and Risk Management functions, *in line with the stress testing methods adopted using the ICAAP process, to verify the stability of economic targets and capital ratios*. The monitoring was and is ongoing and also entailed the finalisation of the accounting standard IFRS 9 effects on the cost of credit. The analyses, in fact, also assessed all the impact variables on the IFRS 9 model for determining expected credit losses and are providing support in guiding short and medium-term strategic choices, strengthening the belief that the Group may find itself in a more than adequate income and capital sustainability condition also in the delicate context of the pandemic.

- The outputs of the monitoring, planning and control activities were shared with the Supervisory Authorities. The “Covid-19 Reporting”, structured on different templates and detailed information, was promptly forwarded to the European Central Bank. A similar dialogue was developed with Banca d’Italia.

With regard to credit monitoring in particular, the following should be noted:

- The impact of the Covid emergency on asset quality and credit strategy is constantly monitored through the Group's periodic Credit Strategy Committee (since the first extraordinary committee held in May 2020), in particular with a focus on 4 areas: observatory (macroeconomic, sectorial, regulatory and asset quality); risk monitoring (with the introduction of an extensive set of indicators in order to proactively identify positions with fragility or possible future difficulties once the government measures come to an end, evaluating the correct actions and classifications); forward-looking assessment (creation of a new measurement methodology that combines the sector view with an assessment of the resilience of the individual company); strategies and initiatives dedicated to each customer segment.
- Since the beginning of the emergency situation in March 2020, the Credem Group has been structured to adapt its granting and oversight processes, so as to guarantee a correct approach that guarantees that it will offer adequate and timely support measures to debtors in difficulty (often temporary) and, at the same time, maintain an accurate identification and classification of the measures. In this regard, specific processes were structured for each individual granting measure, governmental and non-governmental, in line with the criteria defined by the EBA in April 2020 (“Guidelines on legislative and non-legislative moratoria on loan repayments applied in light of the Covid-19 crisis” - EBA/GL/2020/02), and subsequent clarifications by the Supervisory Authorities.
- The ad hoc processes structured on each individual measure, described above, are accompanied by the monitoring and control of credit risk, extended and strengthened since the beginning of the pandemic, and subject to continuous updates, with which, with a proactive approach, the potentially problematic positions in the emergency context are promptly identified, including those subject to suspension or beneficiaries of the Covid government measures, even in the absence of past due.
- It should be noted that the Group has adopted a rigorous quarterly monitoring process of the aforementioned specific Covid-19 structure, updating the estimates every quarter on the basis of the most recent data.
- The changed economic and financial context and the consequent prospective view are also taken into account in determining the provisions for Stage 3. Provisions on positions classified as unlikely to pay and bad loans are always made “single-name”, periodically assessing the most likely estimate of the future recoveries in terms of timing and amounts (considering the realisable value of the associated guarantees) and therefore incorporating elements of the changed context (difficulty / lengthening of normal recovery processes, auction postponement, etc.).
- In this context, as part of the Covid-19 emergency, the Group activated a dedicated monthly monitoring process to verify any progressive deterioration of the distribution of counterparties along the rating scale, in order to promptly deal with potential significant trends of deterioration in the quality of credit assets.

STAKEHOLDERS SUPPORT

The Group has also taken action through initiatives to support the various stakeholders with the aim of alleviating the inconveniences of households and helping businesses to deal with the serious situation created by the spread of the epidemic. As it was impossible to make full use of the physical channels (always open but by appointment), the Group worked to make lending procedures linear and straightforward. This has made it possible to respond to the considerable number of customer assistance requests and develop better process automation.

- In this regard, we would like to remind you that, on the basis of the survey carried out by the task force set up to promote the implementation of the measures in support of liquidity adopted by the Government to deal with the Covid-19 emergency, at the Industry level, the requests to adhere to the moratoriums on loans amounted to over € 2.7 million, for a value of around € 300 billion, and requests for guarantees for new bank loans for micro, small and medium-sized enterprises submitted to the Guarantee Fund for the SMEs exceed € 129.5 billion. Through SACE's "Garanzia Italia", guarantees of € 20.8 billion were granted, for a total of 1,410 transactions. More specifically, applications from non-financial companies account for 43% of the total, against loans of € 192 billion. With regard to SMEs, the requests pursuant to Art. 56 of the "Cura Italia" Italian Law Decree (almost 1.3 million) concerned loans and credit lines for € 153 billion. The 62 thousand subscriptions to the moratorium promoted by the Italian Banking Association involved € 18 billion in loans to businesses. Applications from households concerned loans of € 96 billion. The banks received more than 206 thousand applications for the suspension of the mortgage instalment payments on first homes (access to the so-called Gasparrini Fund), for an average amount of approximately € 94 thousand. The moratoriums of ABI and Assofin for households collected 571 thousand subscriptions, for around € 27 billion in loans.
- In this context, the Credito Emiliano Group has allocated substantial upper spending limits to support households and businesses since the beginning. The amount of initiatives implemented since the beginning of the Covid-19 pandemic for the Group, limited to the moratoriums that fall within the scope of the "Guidelines on legislative and non-legislative moratoria on loan repayments applied in light of the Covid-19 crisis" published by the EBA (EBA/GL/2020/02) and subsequent amendments and additions, exceeds € 6.5 billion.
- Details of the measures that were granted from the beginning of the pandemic to 31/12/2020* are provided below, referring to the Explanatory notes for more detailed information on the existing moratoriums (figures in euro):

	Gross exposure
a) Subject to forbearance compliant with the GLs	4,136,944,204
b) Subject to other forbearance measures	81,359,978
c) New loans	2,392,923,778
TOTAL	6,611,227,960

(*) The line "Loans subject to forbearance compliant with the GLs" shows information on financial assets subject to moratoriums that fall within the scope of the "Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the Covid-19 crisis" published by the EBA (EBA/GL/2020/02) and subsequent amendments and additions. The line "Loans subject to other forbearance measures" contains information relating to loans subject to Covid-19 support measures that meet the conditions of "exposure subject to forbearance measures" as defined by current supervisory reports and which are not included in the category "Loans subject to forbearance compliant with the GLs". The line "New loans" includes, inter alia, the financial assets recognised as a result of forbearance measures that led to a refinancing with derecognition of the original asset and the recognition of a new loan, or a

restructuring of several debts with the recognition of a new loan in the financial statements.

- With regard to the employees, the Group provided psychological support, with in-depth webinars dedicated to better management of the more serious phases of the pandemic. To ensure maximum support, should infection occur, a health policy was signed for all Group people - employees, financial advisors and agents - to cover the risk of Coronavirus infection. Lastly, Group employees were reimbursed for the flu shot for the 2020-2021 season.
- The Credem Board of Directors approved charitable donations for handling the Covid-19 emergency: a donation to the Niguarda hospital and one to the local public health service of Reggio Emilia for psychological support, hotel accommodation for doctors and patients and the supply of masks. Fundraising was extended to customers and employees, which enabled the collection of an additional € 1 million for the Civil Protection forces. Similarly, in the face of greater poverty linked to the unravelling of the economic crisis, Credem sought to support the most deprived people by activating a partnership with the Food Bank, allowing them to meet the demands expected for the first 6 months of 2021.

COMMUNICATION

Communication was also crucial in the most critical stages of the emergency, benefiting all stakeholders. Online platforms and digital channels were used in order to reach a significant number of stakeholders. More specifically:

- Customers were supported through dedicated initiatives to inform the various segments regarding the issues of their respective interest: by way of example, note the information on moratoriums and state guarantees for companies, the possibility of extending the insurance policy to Covid-19 events for private customers, and support in making investment decisions that involved the wealth management area.
- Through specific channels on the company intranet, employees were constantly informed on regulatory changes, supported in daily operations, and guided in managing emergencies and any critical issues that could progressively arise. For this purpose, a “Covid Bulletin” was established, with periodic updates regarding access to workplaces, the methods of entry for external suppliers, protective equipment, provisions for workers, the duties of Safety Officers, assessments carried out with the help of experts and the Coordinating Medical Professional in the area of diagnostic tests, and the method for returning to work for employees who tested positive for Covid-19.

The actions taken by the entire Group provided an immediate response during the emergency, but the aftermath of the pandemic is destined to continue for some time. In this scenario and also for the future, the approach adopted by the Group is aimed at maintaining a high level of supervision, in particular in the credit area (as already mentioned, focused on four pillars: sectoral observatory, risk monitoring, forward-looking assessment and specific initiatives for the commercial segment).

Based on experience gained during the pandemic, a programme designed to “normalise” the processes activated in contingency mode was launched, with particular reference to introducing a new digital signature platform and the creation of a project to define the “new way of working” (smart working, web collaboration tools, digitisation of internal processes, etc.). The omni-channel evolution of the service model also continues, which includes the renewal of Mobile Banking, the study for the authorisation of Open Banking, the analyses for the developments in the offer of products and services and the digital processes for the Business segment, the experimentation of the digital offer model for micro-insurance policies. In parallel, there are also expected to be developments in digital channels, an upgrade of customer segmentation from a behavioural perspective and the branch operating model (with implementation of payment-enabled ATMs in 24/7 self-service areas and automatic teller machines inside the branches).

4. MAIN EVENTS OF THE CREDEM GROUP

The main events relating to the Credem Group in 2020 are illustrated below:

Early redemption of the Tier 2 bond

Following the authorisation issued by the competent Supervisory Authority, Credito Emiliano announced on 31 January 2020 that it intended to exercise the voluntary call option on the subordinated loan for € 200,000,000, “Callable Fixed Rate Reset Notes” (ISIN: XS1199020295). All noteholders were informed through formal notifications required both by current regulations and by the terms and conditions governing the issue, proceeding with the full redemption of all outstanding securities as at 3 March 2020, the effective date of the call.

Communication binding MREL requirement

On 27 February 2020, Banca d'Italia, as the National Resolution Authority, gave notice of the binding Minimum Requirement for Eligible Liabilities (MREL) to be met at consolidated level for Credito Emiliano S.p.A. This requirement, initially subject to a transitional period until 31 December 2021, subsequently fell within the scope of the “flexibility” granted by supervisory authorities to mitigate the pandemic’s impact on the banking system. Therefore, in line with the communication by the Single Resolution Board (SRB) for all significant banks, the requirement was reformulated for Credem too, as was the transitional period granted for gradually reaching the individual requirement.

Decision to postpone the stress test to 2021

On 23 March 2020, the EBA officially notified the Group of the decision to postpone the “EU-wide stress test” exercise to 2021 to allow the relevant groups to focus on business continuity, postponing the “full data collection” to the following year.

Decision amending the composition of the additional Pillar 2 requirement in terms of own funds

The Governing Council of the European Central Bank (ECB) announced, on 8 April 2020, the decision to change the prudential requirement following the supervisory review and evaluation process (SREP) ECB-SSM-2019-ITCRE-12 of 25 November 2019, based on a draft proposal from the Supervisory Board pursuant to Art. 26, paragraph 8, of Regulation (EU) no. 1024/20131 of the Council.

The requirement of additional Pillar 2 own funds, originally to be held entirely in the form of Common Equity Tier 1 (CET1), may, by virtue of this decision, be satisfied with a minimum of 56.25% of CET1 capital and with 75% of Tier 1 capital. This decision, retroactively effective from 12 March 2020, aims to support supervised banks given the extraordinary circumstances caused by the spread of Covid-19.

The minimum ratios to comply with in 2020 are therefore 7.56%, 9.25% and 11.5% with regard to the CET1 ratio, Tier 1 ratio and Total Capital ratio.

Confirmation of the Pillar 2 requirement by the European Central Bank (ECB)

With a communication of 18 November 2020, the Pillar 2 requirement (P2R) of Credito Emiliano at 1% was confirmed for 2021, the lowest in Italy and among the commercial banks in Europe, confirming the strength of the Group at the top of the Industry. Consequently, the overall SREP requirement, which indicates the minimum level of capital to comply with for the activities carried out by the Group, for 2021 amounts to 7.56% for the CET1 ratio, 9.25% for the Tier 1 ratio and 11.5% for the Total Capital ratio.

Pursuant to the regulatory amendments introduced by the ECB in response to the emergency generated by Covid-19, the Pillar 2 requirement can be met with CET1 capital at 56.25%, with additional Tier 1 capital at 75% and with any T2 instruments for the remaining 25%.

On 28 January 2021, the European Central Bank published the results of the Supervisory Review and Evaluation Process (SREP) conducted in 2020 and announced the supervisory priorities for 2021. The pragmatic approach of the ECB to the SREP focused on the ability of banks to face the challenges and risks for capital and liquidity deriving from the current crisis. The ECB decided to keep the Pillar 2 requirements (P2R) and the Pillar 2 Guidance (P2G) stable and not to update the SREP scores, unless the changes were justified by the exceptional circumstances of the individual banks. Supervisory concerns were mainly addressed through qualitative recommendations rather than supervisory measures. Based on the SREP analysis and taking into account the situation created by the pandemic, the ECB Banking Supervision decided to focus its efforts on four key areas that have suffered the significant impact of the current crisis situation, setting the following priorities for supervision for 2021: credit risk, capital strength, sustainability of business models and governance.

Transposition of ECB recommendations on dividend distribution

In its meeting of 9 April 2020, the Board of Directors of Credito Emiliano, given the economic and health situation of the country and in line with the recommendations of the ECB (ECB/2020/19), resolved to withdraw the proposed distribution of € 0.22 per share, thus determining the allocation of the entire profit for the year 2019 to the extraordinary reserve. The decision regarding a possible distribution was initially postponed to a subsequent Shareholders' Meeting, to be convened not before 1 October 2020 and in any case after the uncertainty caused by the health situation is eliminated. On 27 July 2020, the ECB, referencing the previous recommendation, issued an additional notice "Dividend Distributions during the Covid-19 Pandemic", requesting that credit institutions not pay dividends until 1 January 2021.

On 15 December 2020, the Governing Council of the European Central Bank, recording the resilience of the banking system, issued a further recommendation that repeals the previous one, recommending that until 30 September 2021, significant credit institutions exercise the utmost prudence in adopting decisions with regard to the distribution of dividends or the repurchase of treasury shares in order to remunerate shareholders. Dividends should remain below 15% of the accumulated profits in the 2019-2020 period and in any case not absorb more than 20 *basis points* of the CET1 ratio; it also drew attention to the principle of prudence that should also guide the disbursement of variable remuneration.

The Board of Directors of Credito Emiliano took note of the ECB's recommendations and proposed a distribution of dividends in line with them.

Opinions of rating agencies

Following the downward revision of estimates for Italy's GDP, the rating agencies took the following actions:

- At the end of March, Fitch confirmed Credito Emiliano's long-term rating at "BBB" and the Viability Rating at "bbb". The Outlook was initially confirmed as "Negative", in line with sovereign debt, however, the following month the agency revised the Outlook to "Stable", in light of the solidity of Credem's capital position and due to the fact that, even considering various worsening scenarios compared to the base, Fitch expects the Group to be able to maintain a capital level sufficient to absorb greater risks associated with credit quality, even in the event of potential lower profitability. The revisions followed a change in methodology in defining ratings that Fitch had already communicated on 4 March 2020, putting some instruments of European banks under observation. The further rating action of 28 April 2020 resulted in the following ratings:
 - *Long-term rating*: lowered to "BBB-" from "BBB", Stable Outlook
 - *Short-term rating*: confirmed at "F3"
 - *Viability Rating*: lowered to "bbb-" from "bbb"
 - *Support Rating*: confirmed at "5"
 - *Support Rating Floor*: confirmed at "No Floor"
 - *Long-Term Deposit Rating*: lowered to "BBB" from "BBB+"

- *Short-Term Deposit Rating*: new “F3” rating
 - *Derivative Counterparty Rating*: lowered to “BBB- (dcr)” from “BBB (dcr)”
 - *Senior Non-Preferred Debt*: raised to “BB+” from “BBB-”
 - *Subordinated Debt*: lowered to “BB” from “BB+”
- In addition, Moody's Investors Services (Moody's) carried out a rating action on 15 Italian banks on 26 March 2020. In this context, all Credem ratings have been confirmed. Long-Term Outlook on Deposits has changed to “Negative” from “Stable”.
 - On 29 April 2020, Standard & Poor's Global Ratings (S&P) confirmed all Credito Emiliano ratings (“BBB-” Long Term and “A-3” Short Term) and the related Outlook, which remained “Stable”. The rating company assessed Credem's resilience to shocks thanks to: a business model capable of generating stable profitability, a solid track record in credit risk management; an asset quality higher than the industry average. On 12 November, S&P confirmed all the ratings of Credem and the related Outlook, which remained “Stable”, even after the signing of the agreement with Fondazione Caricento. This decision reflects the opinion of the agency according to which a potential acquisition would allow the Group to maintain its creditworthiness substantially unchanged. S&P also confirmed its Outlook, recognising the Group's strong diversification of revenues and excellent asset quality that the agency believes to be superior to all other Italian commercial banks. In fact, these characteristics would allow Credem to absorb potential impacts deriving from adverse economic conditions. S&P expects Credem to continue to show resilience despite the recession generated by the Covid-19 pandemic, as already occurred in previous economic crises. Credem, on 25 November, communicated to Standard & Poor's Global Ratings the exercise of the right of withdrawal from the issuer rating hedging contract, with the intention of aligning the Bank with the practice adopted by most Italian banks of similar size. At the time of the divestment, the ratings assigned by S&P to Credem, recently confirmed, were BBB- / A-3 / Stable, unchanged since 2014, the year of the Outlook upgrade.

Negotiations with Fondazione Cassa di Risparmio di Cento

On 30 April, Credem Group announced to the market that it has started exclusive discussions with the Cassa di Risparmio di Cento Foundation regarding the possible acquisition of the controlling interest held by the same in Cassa di Risparmio di Cento. On 23 October 2020, at the end of the successful conclusion of the negotiations, Credito Emiliano and Fondazione Cassa di Risparmio di Cento, together with its subsidiary Holding CR Cento, signed a framework agreement aimed at implementing the merger by incorporation of Cassa di Risparmio di Cento into Credito Emiliano. The formal authorisation from the supervisory bodies for the merger, received in February 2021, is also confirmed. As at 30 June, the Ferrara-based banking group had total deposits from ordinary customers of € 3.5 billion and loans to customers of € 1.8 billion. The transaction will allow the Credem Group to consolidate its presence in the provinces of Ferrara, Bologna, Ravenna and Modena, also leveraging the growth initiatives already launched by the Cassa di Risparmio di Cento. Moreover, by joining the Credito Emiliano Banking Group, Cassa di Risparmio di Cento will benefit from the wide and competitive range of specialist services provided by the Group, boosting its commercial development and further improving the satisfaction of its customers.

With the merger of the two entities, higher returns are expected for the shareholders thanks to the synergies that will be created, both in terms of higher revenues, related to the broader offer of customer services, and lower costs, favoured by the adoption of a single IT platform owned by Credito Emiliano.

The Agreement envisages a merger by incorporation of Cassa di Risparmio di Cento into Credito Emiliano, after obtaining the approval of the Boards of Directors and their Shareholders' Meetings respectively. The completion of the

transaction is also conditional upon the absence of any significant adverse events occurring that could have a significant impact on the activities of the two banks, a usual condition in similar transactions. More details on the transaction are contained in the press release of 23 October 2020.

Amendments to the Articles of Association

On 30 April 2020, the Shareholders' Meeting, in an extraordinary session, approved amendments to the Articles of Association on the system for publishing regulated information. These changes, made available on the Parent Company's website in the "Board of Directors' Report on the Agenda Items", made it possible to:

- Redefine the procedures for submitting lists for the election of the Board of Directors and the Board of Statutory Auditors, in order to simplify the procedures for submitting them by minority shareholders.
- Structure a process aimed at ensuring a constant generational turnover, introducing an age limit for the election.

Acquisition of SATA S.r.l.

Credemtel originally acquired a 20% stake in SATA S.r.l. in 2017, and, on 14 May 2020, exercising its purchase option, acquired an additional 55%, resulting in a 75% shareholding of the Modena-based company.

SATA S.r.l. is specialised in the development of software solutions for businesses, such as electronic invoicing and data extraction from documents.

Market shares

As for the core direct deposits, the "deposits" figure was used (updated at the reporting date), given the different timings of the return flows of bonds and repurchase agreements broken down by counterparty.

Related parties

For information on Related Party transactions, on the basis of Art. 5, paragraph 8 of the Consob Regulation containing provisions on Related Party transactions (adopted by Consob with Resolution no. 17221 dated 12 March 2010 and subsequently amended with Resolution no. 17389 dated 23 June 2010), please refer to the content of part H of these consolidated financial statements.

Note that, due to the necessary rounding, some calculations in the following tables could contain insignificant differences in the totals.

5. BROKERAGE ACTIVITIES: LOANS

In the reference context described in the introduction, total loans at Industry level recorded increasing volumes compared to the previous year, supported, on one hand, by the demand for liquidity by households and businesses and, on the other, by the support measures put in place by the authorities. Credem Group, as shown in the table below, shows a much steadier change in the aggregate compared to the Industry.

The introduction of the TLTRO3 continues to cause tension in the competitive dynamics between the various banks.

In this context, the Credem Group's Risk Appetite for 2020 was based on the search for a balance between margins, growth and risk. Following the first Covid impacts, the Executive Committee authorized the Risk Officer to increase the frequency of monitoring a significant subset of indicators from quarterly to monthly and to initiate, in line with the monthly forecasting activities in progress, a review of the Risk Appetite and Risk Tolerance thresholds. The stabilisation of relationships with satisfactory risk-return profiles and the increase of new customer loans, which can guarantee adequate profit margins, led to the strengthening of all project oversights and great efforts by the distribution network, accompanied by an improvement in decision-making processes. The implementation of the automatic approval system has facilitated activities; further technological investments are underway both to support automated assessment mechanisms, and for open banking. The Group confirmed the importance of risk oversight, boosted by the introduction of new indicators, which make monitoring more effective, as signs of a potential increase of credit risk on single positions can be detected earlier.

Despite the difficult scenario, volumes of loans increased by 9.8% against the end of 2019. Loans therefore continue to have a positive growth rate which is higher than the previous year.

LOANS TO CUSTOMERS	€/million		% change	
	2020	2019	Group	Industry (*)
(€/million)	29,299	26,684	9.8	2.2

(*) the industry figure includes Italian residents net of public administrations and repurchase agreements with central counterparts

As regards the breakdown of gross loans by type of customer, please refer to the more detailed tables contained in the Separate Report on Operations, while at Group level, the contributions of individual companies to book value are shown below (in €/million).

LOANS PER COMPANY (€/mln)	2020		2019		change
	amount	% impact	amount	% impact	%
Credito Emiliano	28,520	85.7	25,934	85.6	10.0
Credemleasing	2,838	8.5	2,681	8.8	5.9
Credemfactor	1,132	3.4	1,109	3.7	2.1
Banca Euromobiliare	382	1.1	390	1.3	-2.0
Other	388	1.2	181	0.6	114.2
Aggregate	33,260	100.0	30,295	100.0	9.8
Consolidation adjustments	-3,961		-3,611		
Consolidated	29,299		26,684		9.8

As shown in the table, all companies made a positive contribution to the increase in volumes, growing from one year to the next, also to a greater extent than the trends indicated for the Industry in the specific operating sectors, contributing to the extraordinary performance of the Group.

The breakdown of loans by residual maturity (in %; since 2018 this figure also includes financial assets measured at amortised cost) is shown below.

LOANS BY RESIDUAL MATURITY (%)	2020	2019	2018
On demand	7.9	9.9	15.4
Up to 1 year	32.6	38.1	33.8
Over	59.5	52.0	50.8
	100	100	100

The national market shares relative to the Italian banks of the Group show the following evolution (in %):

MARKET SHARES OF LOANS relating to Italian banks (%)	2020	2019	2018
Total cash loans (*) of which	1.797	1.674	1.585
– Non-financial companies	1.849	1.807	1.641
– Consumer households	2.051	1.945	1.869
– Income generating households	1.308	1.132	1.129
– Total “core” share	1.902	1.827	1.706

(*) Includes “repurchase agreements with institutional counterparties”; does not include loans to Public Administrations.

Analysing the volumes of performing loans, the significant increase in loans continued in 2020 due to the growth in residential mortgages and credit lines envisaged by government decrees, to the detriment of short-term loans. The increase

in loans is attributable to performing loans, as the trend in non-performing loans is down.

- The long-term trends that characterise Credem Banca's lending offer are confirmed, in particular the heavy concentration on positions with better ratings. The comparison is tangible both in terms of the agreed amount and in terms of amount used, and the data is further strengthened if only the business segment managed by the Enterprise Centres is taken into consideration. In the period in question, despite the phase of economic uncertainty caused by the pandemic, there was a year-on-year growth in terms of agreements and uses.
- The portfolio of Small Businesses managed by the branches or by Small Business centres also shows a high quality.
- The portfolio of Micro Businesses and Income Generating Households confirmed a high quality in December 2020, with a growth in total uses of 10% compared to the previous year.
- With regard to loans to Private Customers and Consumer Households, there was a highly positive trend in the disbursement of Residential Mortgages, posting a +42% change compared to the corresponding period of the previous year on the Mutuo Presticasa product, net of early repayments and the disbursements made by Avvera. With reference to Consumer Credit, in particular to personal loans, there was a decrease of 3% yoy (net of early repayments).

Regarding the issue of risk, we also provide (in %) the classification of loans relating to the corporate regulatory function, made according to the internal model approach:

CLASSIFICATION OF LOANS RELATING TO THE CORPORATE REGULATORY FUNCTION (INTERNAL MODEL)		2020	2019	2018
C1	No risk issues at the moment nor, most likely, over the medium/long term	20.0	26.3	26.1
C2	No risk issues at the moment nor, most likely, over the medium term	32.8	35.0	32.1
C3	No risk issues at the moment nor, most likely, over the short term	24.8	20.9	21.9
C4	Risk compatible with possibility for reduction/slight worsening over the short term	13.0	10.7	11.7
C5	Risk situation with symptoms of worsening already evident	6.6	4.9	5.6
C6	Situation highlighting evidently problematic aspects	2.1	1.7	1.8
C7	Highly problematic situation with potential risk of default	0.5	0.3	0.5
C8	Highly problematic situation with short-term risk of default	0.2	0.2	0.2
		100	100	100

For a more detailed analysis of the applied method, please see the Explanatory notes to the consolidated financial statements, Part E, Section 2 - Risk of prudential
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consolidation - A.2. "Classification of exposures based on external and internal ratings".

The same approach, applied to positions belonging to the regulatory retail function (substantially small businesses and private customers) gave the following results (in %):

CLASSIFICATION OF LOANS RELATING TO THE RETAIL REGULATORY FUNCTION		2020	2019	2018
Positions				
C1	No risk issues at the moment nor, most likely, over the medium/long term	1.6	1.9	1.8
C2	No risk issues at the moment nor, most likely, over the medium term	46.2	49.0	48.2
C3	No risk issues at the moment nor, most likely, over the short term	7.7	3.8	3.5
C4	Risk compatible with possibility for reduction/slight worsening over the short term	21.1	20.6	19.0
C5	Risk situation with symptoms of worsening already evident	15.5	14.4	16.0
C6	Situation highlighting evidently problematic aspects	3.8	5.7	5.7
C7	Highly problematic situation with potential risk of default	3.7	4.2	5.0
C8	Highly problematic situation with short-term risk of default	0.5	0.4	0.7
		100	100	100

For a more detailed examination of the breakdown of this aggregate by business segment and by geographical area please refer to Parts "L" and "E" of the Explanatory notes to the consolidated financial statements.

As explained in more detail in the Explanatory notes to the consolidated financial statements, IFRS 9 requires financial assets to be classified in three stages, in order of increasing deterioration in creditworthiness; these categories are associated with progressively more severe measurements of impairment.

The following table shows the classification of loans to customers, which has been in force since 1 January 2018:

CLASSIFICATION OF LOANS BY STAGE		2020	2019	2018
Stage 1	€/mln	27,249	24,766	23,292
Stage 2	€/mln	1,629	1,427	1,646
Stage 3	€/mln	421	491	559
Stage 1	%	93.0	92.8	91.4
Stage 2	%	5.6	5.3	6.5
Stage 3	%	1.4	1.8	2.2

With regard to non-performing loans (stage 3), the following is noted:

NON-PERFORMING LOANS						Performing loans	TOTAL LOANS
€/mln		Bad loans	Unlikely to pay	"Past-due exposures"	Tot. Non-performing loans		
Nominal values	2020	445	378	53	876	28,985	29,861
	2019	578	399	49	1,025	26,242	27,267
Expected losses	2020	320	126	10	456	107	562
	2019	403	123	8	534	49	583
Estimated recoveries	2020	126	253	43	421	28,878	29,299
	2019	175	276	41	491	26,193	26,684
						Coverage - "extended" version*	
Coverage	2020	71.8	33.2	19.6	52.0	61.0	
	2019	69.8	30.8	15.9	52.1	62.9	

(*) The coverage in the "extended" version includes the equity shortfall, calculated as the difference between ELBE - Expected Loss Best Estimate (represents the best estimate of the expected loss for each exposure, given the current economic circumstances and the status of the exposure itself) and net adjustments to loans.

Overall, the excellent quality of the Group's assets is evident, supported by adequate levels of coverage.

The entire Industry has worked hard on accelerating de-risking through the assignment of non-performing loans, coverages have risen, and are now positioned at about 50%. During 2020, due to the support measures put in place, aimed at curbing the effects of the pandemic, the shift to non-performing was not particularly pronounced.

As regards the Credem Group, the risk profile has been maintained at very reassuring levels, the total percentage of total loans represented by non-performing loans has further decreased with respect to last year.

With regard to non-performing loans, the following is noted:

- An overall stock of bad loans down compared to December 2019, due in part to the decrease in inflows, and in part to the disposals, which took place in June and October 2020, for a nominal Gross Book Value of € 40 and € 70.5 million respectively of bad loans, but also to a careful ordinary management of the aggregate. In the same period, as in the previous year, the continuous decline in non-performing loans was confirmed. The cost of credit transferred to bad loans in 2020 that were performing in December 2019 is down sharply compared to the same period of the previous year, due to the aforementioned downward trend in incoming flows. The cost of positions that were already non-performing also decreased due to the reduction in stock. With regard to recovery of bad loans,

there was a limited decrease in collections, resulting from the forced suspension of activities for the courts.

- The cash exposure of defaults is down compared to the corresponding period of the previous year. As for bad loans, there was a decrease in inflows to performing loans, while inflows from past due positions increased, but in a less than proportional manner to the reduction of inflows from performing loans.
- In December 2020, the total stock of past due receivables showed an increase compared to December 2019, deriving in part from the application of the New Definition of Default, which involved only two months of 2019 and the whole of 2020, and in part from the Covid effect which, however, was almost sterilised by the measures put in place to deal with it. However, the cost of credit for positions that have been classified as past-due automatically (according to the new regulations) recorded a better trend, since the past-due loans generated as a result of the new definition of Default are less risky than the previous classification method and therefore the percentage provisions are lower than 2019.

The overall coverage ratio on Non-Performing Loans (NPLs) is substantially in line with the levels of the corresponding period of the previous year. On the individual default statuses we are witnessing an increase in coverage that cannot be seen looking at the overall coverage, due to the mix effect, which, in 2020, saw a lower incidence of bad loans - which are much more covered than defaults and past due - on the total stock of NPLs.

Note the positive trend of the NPL Ratio, which decreased to 2.93% year on year, due to the drop in NPLs and the growth in total loans. The result confirms the functioning of the leverage put in place to deal with the effects of the global pandemic.

Following the update of the AIRB models in 2019, the Group conducted similar update of the IFRS 9 risk parameters, instrumental in quantifying collective loan adjustments, configuring them so as to represent the current/expected economic situation in the short term, reflect the expected economic conditions in the short/medium term, and represent the envisaged long-term economic cycle. This configuration makes them suitable for calculating expected losses over the entire residual life of the financial instruments (lifetime estimates).

In consideration of the scenario of profound uncertainty that has emerged since the outbreak of the Covid-19 pandemic, the Credem Group had already submitted to the Board of Directors, with reference to the situation in March 2020, an initial update of the forecast risk parameters, taking into account the information available at the time. Subsequently, in line with the credit strategies adopted during the emergency, the Group performed a further review of risk parameters, in compliance with the guidelines issued by the European Central Bank, as well as the instructions from other regulators, aimed at mitigating an excessively pro-cyclical application of IFRS 9 models and providing a realistic and sustainable representation of the cost of credit, taking into account the extraordinary nature of the situation, but above all the uncertainty about the evolution of the macroeconomic context.

The cost of credit amounted to € 108 million, compared to € 62 million for the same period in the prior year, of which € 51.9 million related to collective adjustments on loans. The cost of credit deriving from analytical adjustments amounted to approximately € 47 million, down compared to € 72 million in December 2019. In relation to the bank's loans, the cost of credit was 0.17%, down from 0.20% in the previous year; also considering the impact of collective write-downs, the cost of credit in relation to loans was 0.39% compared to 0.23% in December 2019.

The cost of credit, thus determined, takes into account a review of the short and long-term historical series, the update of the effective interest rate on performing positions in the portfolio as at 31 December 2019, as well as the update of forward-looking forecast data, based on the scenarios provided by Moody's Analytics in October 2020 ("Calibration of Macroeconomic Scenarios IFRS 9 - 2020") and referring to the similar forecasts provided by the ECB in December 2020.

The IFRS 9 methodological framework is subject to continuous monitoring by the Group in order to assess its consistency with macroeconomic and portfolio developments on a quarterly basis.

The NPL management strategy will be directed towards a reduction of the vintage: in fact, regulatory changes in terms of NPL provisioning (SREP letter, Addendum, Calendar Provisioning) penalise the “oldest” non-performing exposures. Generally, the objective is to set up an early warning system, which will also exploit calculation algorithms and artificial intelligence, to avoid the position deteriorating (ex ante), without being limited to intervening only in the case of an overt anomaly (ex post). Once there is evidence that the threshold has been surpassed, the dedicated structures continue to intervene promptly to seek to rectify the positions and avoid their classification as NPL. From an organisational perspective, to pursue high synergic integration between Credit Management structures, *Credit Strategy* structures and the structure that manages NPL, a new organisational role has been created to manage Overdue and Non-Performing Loans of Group Companies with a view to harmonising the management and administration of non-performing loans. The table below shows the percentage change in non-performing loans compared to the banking system for the comparison periods:

BAD LOANS (%) TO NET LOANS	2020	2019
Credem	0.4	0.7
Industry	1.4	1.8

6. BROKERAGE ACTIVITIES: DEPOSITS

Moving on to the analysis of Deposits, according to ABI data, in Italy, in December 2020, the trend in total funding (deposits from resident customers and bonds) was up by 7.8% yoy, with a more marked change on deposits to the detriment of bonds, which fell in the last 12 months (-8.6% yoy). A lot of liquidity was prudently withheld in current accounts, thanks to a reference scenario that limited the propensity to spend.

In this context, customers continued to show confidence in the Group's ability to protect and enhance their savings, confirming a positive evolution in deposits. The trend of direct deposits in particular is higher than the average of Italian banks, as per the comparison table with the system data provided by Banca d'Italia:

CUSTOMER AND INSTITUTIONAL DEPOSITS	€/million		% change	
	2020	2019	Group	Industry
- current accounts and savings accounts (*)	30,321	25,825	17.4	
- others	495	482	2.7	
Deposits	30,815	26,307	17.1	10.1
Bonds and subordinated debt	2,609	3,080	-15.3	-9.3
Banking direct deposits (**)	33,425	29,387	13.7	5.2
Insurance Reserves (**)	7,807	7,360	6.1	
Indirect deposits at countervalue	50,830	47,812	6.3	
Total deposits	92,062	84,560	8.9	
Direct customer deposits (***)	30,819	26,356	16.9	
Indirect customer deposits (***)	40,405	37,875	6.7	
Total Customer Deposits (***)	79,031	71,591	10.4	

(*) this item does not include loans stipulated, in the form of repurchase agreements, with the Clearing House and Guarantee Fund; it includes certificates of deposit (less than € 1 million in both years);

(**) "banking direct deposits" include the contribution of the companies belonging to the banking group, while "insurance reserves" include Credemvita insurance reserves and financial liabilities measured at fair value;

(***) for all reference periods, debt securities issued on institutional markets and indirect deposits of a financial nature have been deducted. "Total customer deposits" also includes Insurance Reserves.

As shown in the table, direct deposits amounted to more than € 33 billion, up by 13.7% compared to the previous year, while the inflows are particularly significant: deposits recorded a 17.1% increase compared to 2019.

Customer deposits continue to represent the Credem Group's preferred overall funding channel, both through the contribution of ordinary retail customers and through corporate customers.

With regard to deposits with a set term, note the early repayment of the "Tier 2" bond for € 200 million on 13 March 2020, following the exercise of the repayment option by Credem. Subsequently, on 9 September, an issue of € 200 million of a "Tier 2" bond was finalised by Credemholding, placed mainly with asset management companies and banks. This transaction allowed the Group to optimise its capital position. In fact, the issue was followed by a "mirror" transaction of Credito Emiliano, which issued the same instrument, with the same currency, fully

subscribed by Credemholding. The placement of the Credemholding issue was led by Goldman Sachs International (lead manager only) and, as co-manager, by Credito Emiliano S.p.A. and Banca Euromobiliare S.p.A. The maturity of the issue is December 2030, with the possibility for the issuer to recall the security between September and December 2025. It will pay a 3.5% coupon until December 2025. The coupon will be recalculated in December 2025 on the basis of the 5-year swap rate plus a spread of 3.897%. No new medium/long-term Covered Bond issues addressed to institutional investors were made in 2020. The total nominal value of the Covered Bonds outstanding as at 31 December 2020, issued under the programme guaranteed by Credem CB S.r.l., stood at € 1.6 billion compared to € 2.1 billion in 2019.

With regard to the institutional component, the use of the refinancing channel through the European Central Bank (ECB) at the end of 2020 was entirely represented by participation in the TLTRO3 transactions for a total amount of € 7.1 billion. During the first quarter of the year, the TLTRO2 transactions still in place were repaid, for a total value of € 1.5 billion. The early repayment took place at the same time as the second participation in the TLTRO3 transactions for the amount of € 1.4 billion, which was followed, in June, by an additional investment of € 4.9 billion. Starting from the first quarter of 2020, the Bank also started financing operations in foreign currency with the Central Bank, carrying out weekly funding operations in US dollars during the year.

To focus the attention more effectively on the trend of direct deposits, we provide the following information:

- The contribution of individual companies to the consolidated results (€/million):

DEPOSITS BY COMPANY	2020		2019		change
	amount	% impact	amount	% impact	%
Credito Emiliano-customers	29,589	94.8	25,196	93.2	17.4
Credemleasing	37	0.1	27	0.1	38.9
Credemfactor	46	0.1	42	0.2	9.6
Banca Euromobiliare	1,504	4.8	1,674	6.2	-10.1
Other companies	39	0.1	102	0.4	-62.1
Aggregate	31,215	100	27,042	100	15.4
Consolidation adjustments	-397		-686		
Direct customer deposits	30,819		26,356		16.9
Banking direct deposits	33,425		29,387		13.7

(*) figures only relate to "customers"

- Breakdown by maturity (in %):

BREAKDOWN BY MATURITY (%)	2020	2019	2018
On demand	91.4	87.9	89.8
Up to 1 year	3.4	3.7	4.9
Over	5.3	8.4	5.3
	100	100	100

- Breakdown by type (in %):

BREAKDOWN BY TYPE (%)	2020	2019	2018
Current accounts and deposits	92.2	87.9	88.1
Savings deposits	1.5	3.7	1.3
Bonds and subordinated debt	7.8	8.4	10.6
	100	100	100

With regard to indirect deposits, and in particular assets under management, the data of the Credem Group compare with an Industry that sees assets under management at an all-time high: according to Assogestioni data, assets at the end of 2020 amounted to € 2,392 billion, € 85 more than at the end of 2019.

The volumes were concentrated on collective management and open-end funds. Savers favoured equity products, followed by balanced products, bonds and to a lesser extent, monetary products. Italian funds were down, more than offset by the growth in foreign funds.

Volumes under management benefited from the positive deposit results and the effect of the growth of the financial markets, which recovered after the significant negative impacts recorded in the first quarter following the setback caused by the outbreak of the pandemic.

The Credem Group also closed 2020 with a 6.6% growth in assets under management: in a context of highly volatile markets, the management of the wealth business was characterised by great dynamism, both in terms of networks and factories.

The trend in assets under management was initially affected by the collapse of share prices, recording significant outflows in the first part of the year, then it recovered in the following months, allowing for a positive year-end.

Overall, production was very good, focused on in-house fund management and mutual funds and, to a lesser extent, assets management by third-parties. The trend in assets under custody was also positive.

During the year, factories changed the risk profile of the management and products in line with developments in the scenario.

The breakdown of indirect deposits by Group company is shown below (the aggregate value is stated in €/million, data reported at market value).

It is worth highlighting that both breakdowns of the assets under management, illustrated below, do not show insurance deposits which, following the line-by-line consolidation of Credemvita, are recorded in these financial statements as a source of funding for the Group. For this reason, this component is represented separately in the introductory table of this chapter.

BREAKDOWN OF INDIRECT DEPOSITS BY COMPANY	ASSETS UNDER MANAGEMENT		ASSETS UNDER CUSTODY		TOTAL	
	amount	% chg. last year	amount	% chg. last year	amount	% chg. last year
Credito Emiliano - customers	29,161	6.0	7,318	4.3	36,479	5.7
Euromobiliare A.M. SGR	8,838	16.7			8,838	16.7
Banca Euromobiliare	8,201	9.2	3,161	13.3	11,362	10.3
Euromobiliare International Fund SICAV (*)	4,649	-12.1			4,649	-12.1
Euromobiliare Advisory SIM	13	23.0			13	23.0
Credem Private Equity	34	5.8			34	5.8
Total indirect aggregate	50,896	6.2	10,479	6.9	61,375	6.4
Consolidation adjustments	-20,953		-16		-20,969	
Total indirect customer deposits	29,943	6.6	10,463	8.7	40,405	6.7
Total indirect deposits at countervalue	29,943	6.6	20,887	5.9	50,830	6.3

(*) company for which Credem International (Lux) carries out administrative and management support services

The same aggregate, broken down by product type, shows the following trend (€/million):

BREAKDOWN BY TYPE OF PRODUCT OF THE INDIRECT DEPOSITS	2020	2019	% '20-'19
Portfolio management	6,169	5,659	9.0
Mutual investment funds	8,870	7,600	16.7
SICAV	4,649	5,289	-12.1
Other and third party products	10,255	9,543	7.5
Indirect customer deposits - assets under management	29,943	28,090	6.6
Indirect customer deposits - assets under custody	10,463	9,785	6.9
Indirect customer deposits	40,405	37,875	6.7
Indirect deposits at countervalue	50,830	47,812	6.3

The best performance is attributable to mutual funds, which recorded a growth of 16.7%, followed by asset management, which recorded growth of 9% compared to the previous year. The contribution of third-party products was also positive, while SICAVs recorded a decrease of -12.1% year on year.

Lastly, it should be noted that the Group's products performed on average in line with or above the benchmarks, contributing to an increase in the Group's market share.

For the purposes of a more correct evaluation of the above-mentioned shares, it should also be noted that, in order to meet the requirements of its customers to the widest extent possible, the Group significantly also developed the placement of third party products, and that the indications of the companies in this regard do not include these products.

The national market shares relative to the Italian banks of the Group show the following evolution (in %):

DEPOSITS MARKET SHARE (%)	2020	2019	2018
Direct deposits (*)	1.630	1.475	1.358
Indirect deposits	1.425	1.308	1.256
Overall customer deposits (*)	1.505	1.370	1.294
<i>of which:</i>			
<i>Direct deposits of consumer and income generating households</i>	<i>1.322</i>	<i>1.307</i>	<i>1.231</i>
<i>Indirect deposits of consumer and income-generating households</i>	<i>3.926</i>	<i>3.816</i>	<i>3.719</i>
<i>Total deposits of consumer and income generating households</i>	<i>2.285</i>	<i>2.251</i>	<i>2.155</i>

(*) Includes institutional counterparties

With regard to the Group's positioning, the market share of open UCITS recorded by Assogestioni at the end of December, with regard to the Gross Assets under Management, stood at 1.21%, in line with the value for 2019.

Considering the macroeconomic scenario and market conditions, these results were significantly impacted by communication and information activities to the networks. Communication was further strengthened and expanded, combining the traditional focus on the performance of the economy and markets with topics such as behavioural finance and financial planning concepts extended to the world of pensions and protection. These new contents were also successfully conveyed to end customers.

With the aim of offering highly professional consulting services consistent with the needs of customers, the companies in the Wealth Area are further evolving their range of products and services, specialising and differentiating according to the various customer segments. There are further developments in the services for securities administration and a further consolidation and expansion of the of asset services is underway, including the development of private insurances.

In 2020, the range continued to be developed with thematic products, both in-house and delegated, in order to capture market trends and stock-accumulating Target Maturity products continuously. The companies have expanded the set of tools available to managers to implement and make management strategies increasingly efficient.

In the first few months of 2020, a partnership with Raiffeisen Capital Management was activated in order to coordinate and guide the "ESG Transition" project of the companies in the Wealth Area. The project envisages the review of the investment process with a view to ESG factors and an evolution in this sense in the area of products and services already started in 2019. It will also have significant impacts on corporate governance with a view to sustainability.

The entire Wealth Area worked to build a suitable offer for private markets, a particularly important investment area given the current economic and financial context. The objective is to contribute to the real economy through private savings. These initiatives will materialise with an expansion, in 2021, of the range of products and services focused on strategies dedicated to this segment.

With regard to the insurance sector, the evolution of the service model in the protection area also is geared towards advanced networks with a focus on health and protection for SMEs, and leverages the consolidation of the partnership with Reale Mutua.

For a more detailed examination of the breakdown of direct and indirect deposits by business segment please refer to Part "L" of the Explanatory notes to the consolidated financial statements.

7. FINANCE AREA ACTIVITIES

Customer deposits continue to represent the Credem Group's preferred overall funding channel.

As noted above in the paragraph on deposits, the use of the refinancing channel through the European Central Bank (ECB) at the end of 2020 was entirely represented by participation in the TLTRO3 transactions for a total amount of € 7.1 billion. During the first quarter of the year, the TLTRO2 transactions still in place were repaid, for a total value of € 1.5 billion. The early repayment took place at the same time as the second participation in the TLTRO3 transactions for the amount of € 1.4 billion, which was followed, in June, by an additional investment of € 4.9 billion. Starting from the first quarter of 2020, the Bank also started financing operations in foreign currency with the Central Bank, carrying out weekly funding operations in US dollars during the year.

No new medium/long-term Covered Bond issues addressed to institutional investors were made in 2020. The total nominal value of the Covered Bonds outstanding as at 31 December 2020, issued under the programme guaranteed by Credem CB S.r.l., is confirmed at € 1.6 billion.

On 13 March 2020, Credem exercised the early repayment envisaged in the “Tier 2” subordinated bond issued in 2015 for € 200 million. With a value date of 16 September 2020, Credemholding S.p.A. issued a subordinated Tier 2 bond loan for a nominal amount of € 200 million, intended for institutional and professional investors. At the same time, Credem issued a “Tier 2” subordinated bond loan with the same characteristics, fully subscribed by Credemholding S.p.A. In 2020, no bonds were issued for the Group's customers.

The management of the bond portfolio, at Banking Group level, favoured the investment in securities of Italian and European issuers. The percentage of the total portfolio represented by Italian issuers was about 64% at the end of 2020.

During 2020, the position in Government bonds issued by the US Treasury, denominated in USD, was fully liquidated.

The portfolio is therefore mainly comprised by Government bonds, denominated in euro, issued by European countries, as well as bonds issued by banks and other corporate issuers and a part of the securities issued under securitisation transactions.

In 2020, refinancing of the securities portfolio by means of repurchase agreements continued, both in euro and in currencies other than the euro.

The Banking Group maintained a surplus of liquidity deposited in the accounts held with the ECB for the whole of 2020, also in consideration of the use of repurchase agreements carried out mainly on government securities in euro.

FINANCIAL ASSETS - SECURITIES (€/mln)	2020	2019	2018
Held for trading	22	121	124
HTCs	3,516	6,143	5,336
HTC (**)	5,055	2,956	2,276
	8,593	9,220	7,737
Hedging derivatives	639	587	323
Loans to banks	8,309	2,033	862
Bank deposits	8,010	5,429	5,124

(**) Assets held to collect contractual cash flows, measured at amortised cost

8. COMPLIANCE, ANTI-MONEY LAUNDERING and PRIVACY ACTIVITIES

The Compliance Function continued its work as usual within a Group scope that includes banks, asset management companies, Euromobiliare Advisory SIM, Credemleasing, Credemfactor, Avvera and Credemvita.

In 2020 also, the Function was significantly involved in and committed to various projects, mainly of a legislative or regulatory nature, set in place by the Group.

In this regard, it is sufficient to recall the activities carried out in the governance area (e.g. Shareholders' Rights), provision of investment services (MiFID II and Product Governance), with a particular impact on the operations of various Group companies, those relating to the supervision of banking regulations (e.g. transparency) and, more generally, to support the implementation of emergency measures related to Covid-19.

During the year, the Parent Company's Anti-Money Laundering Function carried out institutional monitoring activities for Credembanca and for all Group companies to which the anti-money laundering regulations apply, such as: analysis of regulatory changes, contribution to business projects and to the activation of new products, personnel training, monitoring of risky situations (including sanctions), assistance, system and operating controls, self-assessment and reporting. The commitment to specific projects aimed at completing the adaptation of the processes, as required by the IV Directive on the matter and the related implementing measures, also continued. Of note, among other things, is the updating of the Policy and the related regulation, the implementation of an IT tool to support the self-assessment of money laundering risks, specific activities aimed at detecting anomalous situations falling within the cases indicated by the FIU as worthy of attention as a result of the pandemic situation (Covid-19) that characterised the previous year. The consolidation of the monitoring systems that oversee operations also continued, including through robotic process automation and the application of advanced analytics techniques.

The Data Protection Officer verified the overall adequacy of the personal data protection system. In 2020, it continued its activities, assisted by the dedicated support office, of overseeing the reference legislation within the scope of a Group that includes all companies (except Magazzini Generali delle Tagliate). The main activities include: consultancy to the Data Controller and to the various Managers and internal offices of the Bank and of the Group companies, participation in project activities, first and foremost the regulatory project dedicated to the adjustment to the General Data Protection Regulation (GDPR), the constant updating of internal regulations, the promotion of the culture on data protection with various training tools (e.g. privacy seminar with external teacher for directors, statutory auditors and internal managers) and information tools (e.g. maintenance of the Privacy Portal on the company intranet).

9. RISK MANAGEMENT

The Credem Group has always strived to achieve a high level of quality in risk management, considered it fundamental and as a strategic objective in order to:

- Guarantee the safeguarding of company capital and ensure the utmost effectiveness and efficiency in the value creation process;
- Integrate the risk/return dimension into the decisional and operational processes of the different business areas;
- Ensure the consistency of operational processes with internal strategies, policies and regulations.

The Group adopted a structured reference framework some time back, through the implementation of a process disciplined by a specific internal Group Risk Appetite Framework (RAF) Regulation.

The RAF is assessed by the Parent Company's Board of Directors in accordance with the business model and the Strategic Plan and envisages the approval of risk objectives and tolerance thresholds, in line with the ICAAP (Internal Capital Adequacy Assessment Process) and the internal control system.

The Board of Directors of the Parent Company assesses all types of risk at consolidated level and approves the taking of the risks broken down by company and business units identified as relevant to the Group's risk contribution in the RAF. The RAF identifies the risk appetite that the Bank intends to pursue at Group level and to maintain over time, both during the normal course of business and in particularly stressed market conditions.

The RAF is implemented through a list of indicators (RAF Indicators or Level I Indicators), which consider all relevant risks, separately and jointly, and which cover the following areas: Capital, Liquidity, Asset Quality (credit, market and interest rates, operations) and Profitability. For each of the RAF indicators, the following are defined:

- The Risk Appetite (risk objective or risk appetite), which represents the propensity to risk that the Group is willing to assume in the medium term to pursue its strategic objectives;
- The Risk Tolerance (tolerance threshold), which represents the maximum permitted change in risk appetite; the tolerance threshold is set so as to assure that the bank makes sufficient profit margins to operate even in stressed conditions, within the maximum permitted risk.
- The Risk Capacity (maximum permitted level), which represents the maximum level of risk that the bank is technically able to assume without violating regulatory requirements or other constraints imposed by the Supervisory Authority.

As part of the monitoring activities, defined in accordance with the prudential supervisory rules established by the European Central Bank (known as the SREP process - Supervisory Review and Evaluation Process), the RAF Indicators are flanked by Level II indicators or "SREP indicators", namely operational indicators for which the RAF does not provide a definition of appetite and tolerance, but whose purpose is to strengthen monitoring and control activities. Similar to the RAF indicators, they cover the following areas: Liquidity, Asset Quality (credit, market and interest rate, operations) and Profitability. For several of the Level II indicators, warning thresholds are defined in any event, consistent with the RAF process and with the processes related to the same (budget, NPL plan, Risk Self-Assessment).

At the beginning of 2020, a monthly monitoring of a significant subset of the RAF indicators was established in order to allow the Executive Committee and the Board of Directors to be updated in a timely and frequent manner on the impacts of the external Covid-19 situation.

In accordance with the RAF process, the trend of the risks assumed on average in 2020 is illustrated, distinguishing between the following risk families: market and interest rate, credit and operations:

- With regard to the market risk of the trading book and the interest rate risk of the banking book, no substantial changes in the overall risk profile were recorded. The management of financial risks takes place through the definition of a structure of limits, which represents a direct expression of the acceptable level of risk with reference to the individual business areas/lines, and in accordance with the provisions of the RAF. The specific or issuer risk is monitored by means of concentration limits per sector and rating class, also in terms of credit spread sensitivity. All limits are monitored on a daily basis by the Risk Management department. Credembanca's average VaR on the trading book (confidence interval of 99%, 10-day holding period, multiplication ratio of 3) is down on the previous year; the trading book operations remained at very modest levels. The main positions in debt securities (Government bonds and the securities of financial issuers/covered bonds) were placed in the HTCS and HTC portfolios. With regard to Banca Euromobiliare, the capital requirement for market risk is substantially insignificant.
- The Group has adopted a Policy for the interest rate risk of the banking book which, on a consistent basis with European legislation, uses the measurement metrics of the Economic Value (EV) sensitivity and of the Interest Margin sensitivity within the RAF. The interest rate risk of the banking book of Credem, measured through EV sensitivity, was down in 2020 compared to 2019, with an average below 2% of its own funds; the figure is within the defined Risk Appetite Framework. As regards the other companies, the most significant contribution to the interest rate risk of the Group's banking book is generated by Credemleasing, which recorded an average sensitivity of economic value of 1.2%, below the risk appetite of the company.

The following table illustrates the situation of the above-cited company risks:

CORPORATE RISKS	2020		2019	
	average	max	average	max
Banking Book interest rate risk vs. Own Funds (EV sensitivity method 200 bps) - Banking Group	1.9%	4.1%	3.9%	6.1%
Generic market risk of the Trading Book € mln - Credem (VaR method)	2.9	7.6	3.8	9.7
Issuer risk (standard Supervisory approach) € mln - Credem	0.1	0.1	0.1	0.1

- As regards credit and counterparty risks, within the RAF and ICAAP management processes, the Group adopts a management model to estimate credit risk, aligned with AIRB metrics (internal parameters, PD, LGD and EAD), but which considers all of the guarantees in Credembanca and Credemleasing's loan portfolio as eligible.

CREDIT RISK	2020	2019
- Credembanca	947	828
- Credemleasing	78	78
- Other Companies	105	92
	1,130	998

The comparison with the previous year discloses an increase in the risk linked to exposures to corporate and retail customers. The trend is mainly due to an

increase in the volumes of retail customers and secondarily to a slight deterioration in credit quality. The quality of the portfolio reflects the risk factors of 2020 (the deterioration of LGD was greater than the improvement of PD), accompanied by a worsening of rating class distribution.

- With regard to operational risk, the consolidated supervisory requirement, calculated using the TSA method, is around € 135.6 million.

10. INTERNAL AUDITING

The following table summarises the audits conducted, showing the percentage of measures generated by type of control*:

AUDITING ACTIVITIES PROVIDED	2020	2019	2018
a) BY COMPANY			
Banks:	87.0%	86.6%	91.6%
. Branches and corporate centres	36.0%	32.0%	36.9%
. Promoters	27.4%	28.7%	27.9%
. Others	23.6%	25.9%	26.8%
Other companies	13.0%	13.4%	8.4%
b) BY AREA OF INTERVENTION			
. “Customer” finance, executive and fraud management	56.1%	46.0%	50.3%
. Governance, support and “property” finance	11.1%	11.4%	11.4%
. Loans, legislation, collections and payments	24.4%	31.6%	29.8%
. <i>Information technology</i>	6.1%	8.3%	5.8%
. Co-ordination and methodology	2.4%	2.7%	2.7%

* Until 2018, auditing activities were portrayed by taking into account the overall effort dedicated to the various types of control. Starting from 2019, the number of reports concluded for the various types of control is considered

Activities relating to the networks (branches, business centres and financial advisors) were focused on the compliance of the processes adopted by the network in the disbursement of loans and the provision of investment services to customers, as well as compliance with legislative provisions, internal and safety regulations. Particular attention was given to the monitoring of the risks related to the Covid-19 emergency, which led to the adoption of a new operating model characterised mainly by a greater use of remote customer relations and by the application of government measures issued in support of households and businesses.

The commitment to risk management of the network of Financial Advisors and the channel dedicated to Private Banking was confirmed, through the use of automated monitoring systems which, by analysing transactional data and behaviour, identify potentially irregular situations to be checked with targeted control measures.

The supervision of the Corporate Centre is carried out using risk-based criteria, and seeks to assess the regularity and effectiveness of the production and management processes and the consistency of internal controls with respect to the level of risk of the underlying businesses. Specific attention was paid to emerging and important areas such as Cyber Security, Data Governance, Monitoring of the outsourcers, as well as topics relating to the SREP Pillars, particularly governance, risk management and liquidity.

In 2020, the Function continued to invest in the automation of compliance controls, to increase the level of efficiency and to guarantee wider coverage for analysis activities. The use of Advanced Analytics was further extended for the preventive identification of irregular behaviour.

The activities performed by the Function in question are periodically illustrated to the management bodies, as described in more detail (with particular reference to the duties of the Group Risk Committee) in the Annual Report on Corporate Governance to which the separate Report on Operations of Credembanca refers.

11. MANAGER RESPONSIBLE FOR PREPARING THE COMPANY'S FINANCIAL REPORTS

Credem's Manager responsible for preparing the company's financial reports sets in place adequate administrative and accounting procedures for the preparation of the statutory financial statements and the consolidated financial statements, as well as of any other financial document.

The internal control model is based on internationally-recognised frameworks, specifically:

- *The Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO - ERM), to define and assess the adequacy of the administrative and accounting procedures used to draw up the financial statements;*
- *The Control Objective for Information and related Technologies (COBIT) framework developed by the Information System Audit and Control Association (ISACA) to assess IT governance procedures.*

With regard to the 2020 statutory and consolidated financial statements, the main activities performed by the office of the Manager in question regarded:

- identifying and assessing, at Group level, Company Level Controls to verify the existence of a company scenario able to reduce the risk of error and of incorrect conduct as regards financial information;
- for companies that make a significant quantitative contribution at consolidated level and for any companies that are considered significant from a quality perspective, tests are conducted on a sample of controls that are part of administrative-accounting processes;
- identifying and performing IT-General Controls through the AIT Audit department.

For further information on Credem's Manager responsible for preparing the company's financial reports and on the risk management and internal control system associated to the process of consolidated financial information, please refer to the Report on corporate governance and ownership structures drawn up pursuant to Article 123 bis of the Consolidated Financial Act, contained in a separate document, available at the registered office and published on the company website.

12. PERSONNEL

In 2020, the workforce remained essentially stable, rising from 6,201 people as at 31 December 2019 to 6,219 as at 31 December 2020, with an overall increase of 18 units. The main areas of intervention regarded:

- The equilibrium of Credembanca's sales network to maintain adequate levels of service offered to customers and to extend the territorial scope, including through raising the effectiveness of the network of sales outlets;
- The strengthening of IT structures with a view to developing new procedures for the business, make the changes to processes envisaged by legislation/regulations and better manage so-called "ICT risk";
- Extending the sales network of Banca Euromobiliare, to sustain the Company's development plans;
- Increasing the workforce of the majority of the other Group companies, and especially Avvera, to sustain their respective development plans;
- The measure, which has already been in place for several years, seek to reach a voluntary agreement for early retirement, and has enabled the Group to then hire young high school and university graduates.

NUMBER OF EMPLOYEES PER COMPANY	2020		2019		changes
	number	% impact	number	% impact	
Credito Emiliano	5,375	86.4	5,425	87.5	-50
Credemleasing	104	1.7	103	1.7	1
Credemfactor	75	1.2	66	1.1	9
Banca Euromobiliare	228	3.7	227	3.7	1
Euromobiliare A.M. SGR	61	1.0	60	1.0	1
Euromobiliare Advisory SIM	54	0.9	52	0.8	2
Credem Private Equity	3	0.0	2	0.0	1
CredemVita	64	1.0	57	0.9	7
Credemassicurazioni	21	0.3	23	0.4	-2
Magazzini Generali delle Tagliate	28	0.5	28	0.5	0
Credemtel	99	1.6	87	1.4	12
Euromobiliare Fiduciaria	8	0.1	8	0.1	0
Avvera	99	1.6	63	1.0	36
Consolidated	6,219	100	6,201	100	18

Investment in training continued, thanks especially to the use of a "remote training" approach, also to deal with the healthcare emergency caused by Covid-19. The main topic of courses was behavioural skills, technical expertise, legislation relating in particular to MiFID, leadership and personal well-being in the workplace. More specifically, the sales network continued to receive training related to acquiring the know-how/expertise fundamental to each position, and entailed a final assessment.

Investments continued on the Group identity. The focus was on providing support to management in achieving the company's mission and values. In this regard, the use of the "multidegree" assessment was confirmed, in which all Group staff make a self-assessment on certain behavioural aspects considered key to the company and they are assessed on the same topics by their managers, their peers and for the managers, by their direct reports. Based on the result obtained by this comparison

of opinions, measures have been envisaged to improve areas in which behavioural aspects are lacking (such as training, coaching by line managers). The aim of both of these projects is to make the principles of the Group's identity a daily reality, and increasingly part of the company's legacy.

In addition to this, as regards management training, we have continued to invest in leadership, coaching, feedback, on error management and mentoring, considered important levers to enable a boss to adopt the company's leadership model and increase staff performance. The investment in training courses on lean management was also confirmed, with a view to making internal processes increasingly efficient.

The services covered by the company welfare plan, structured to meet purchasing power, health and well-being, protection, personal support and work-life balance needs, were consolidated, and new initiatives have been developed, which have involved an increasing number of people. The focus areas have been prevention in terms of health care, parenthood, physical fitness, smart working, mobility, sociality, legal and tax advice, caregivers and solutions to "save time". The corporate volunteering initiative was confirmed, with the participation of more than 300 people who volunteered during working hours and days on the web.

We also invested in "environmental sustainability" through employee awareness and a series of specific initiatives.

In order to deal with the healthcare emergency linked to Covid-19, significant use was made of smart working, which benefited over 85% of the Group's staff. This new way of working was accompanied by an important training course on behavioural skills, psychological and physical health support, as highlighted in the introduction in the chapter on the pandemic.

A strong focus was on Diversity & Inclusion initiatives, an area in which the Group obtained the gender salary equity certification, the first Banking Group in Italy to have obtained this recognition.

13. ORGANISATION & IT

For the whole of 2020, planning, organisational and technological development activities were very intense, especially following the outbreak of the pandemic, which strongly affected the deployment methods (definition of user requirements, IT developments and User Acceptance Testing carried out entirely in smart working). The main areas of intervention are highlighted below.

STRATEGIC PROGRAMS

Main interventions carried out, broken down by Strategic Area:

- WEALTH
 - Digitalisation of the sales and post-sales processes of the Network of Private Bankers and Financial Advisors (Credem and Banca Euromobiliare);
 - Creation of a Business Unit dedicated to Private Banking with a specific service model.

For 2021, further developments are expected on this front (we mention, for example, the Robo-4-Advisor investment platform).

- BANKASSURANCE
 - Development of a new Bancassurance platform, that allows a consultancy approach on insurance protection and a modular offer of products, supported by end-to-end digitalisation of the sales processes of stand-alone protection products.

- CREDIT
 - Continuation of the investments necessary to strengthen the strategy of “centralisation” with the company Avvera of the offer of consumer credit products for households and private individuals (for example, the creation of the “Targeted” product), favouring the integration of a Business model shared with the Parent Company;
 - Strengthening of the algorithms to enable the automation of credit facilities and trend monitoring of existing loans to corporate and private customers with a view towards instant lending and in open banking ecosystems.

- DIGITALISATION
 - Companies: launch of a digitalisation program, with the aim of establishing a single ecosystem for customers (Supply Chain, ERP, Leasing), exploiting as much as possible the opportunities offered by PSD2;
 - Private customers: the development of the new Mobile APP of Credem started, as the first step in the renewal of digital touch points with customers. For 2021, further investments are expected (e.g. the introduction of Personal Financial Management and advanced CRM platforms).

- NEW DISTRIBUTION MODEL

Launch of the project to revise the branch distribution model, aimed at optimising the cost/income ratio of the retail distribution network, through various levers:

- Migration of customer transactions to digital (for example, the installation of Advanced ATMs and CSAs (Self Assisted Cash Points), creation of the “Remote Operator”;
- Increased commercial effectiveness through the revision of the segmentation and portfolio reallocation model, aimed at concentrating the Network on activities with greater added value

EXTRAORDINARY TRANSACTION

The activities for the acquisition by Credem Banca of Cassa di Risparmio di Cento, which will take place in 2021, have started. In particular, as a result of the due diligence and the signing of contractual agreements, analyses were carried out to define the methods of integration into the Group.

“EMERGENCY” LINES

- Implementation of the new products and processes as required by the various decrees issued following the pandemic emergency (guaranteed loans, SACE, Redundancy Fund, etc.);
- Implementation of a new digital signature platform to allow customers to sign contracts remotely;
- Definition of new organisational and collaboration methods, to support a full smart-working context;
- Participation in the “Ecobonus 110” initiative.

REGULATORY PROJECTS

Closure of the project activities aimed at the implementation and adaptation of the regulations issued by national and European regulators (the main ones include PSD2, MIFID2, PRIIPS and Insurance Distribution Directive, USURA, Transparency, New rules for the Remuneration of Loans, T2T2S2 and IRRBB).

TECHNOLOGICAL EVOLUTION

- Process automation through the use of robotic solutions, work flow management and OCR (Optical Character Recognition), with the aim of streamlining operations, improving efficiency and lowering operational risks;
- Implementation of the new Information Governance Model that places data at the centre and encourages the sharing of knowledge and skills to extract greater value and enable the business structures to use the data independently;
- Cyber Security: investments continued to strengthen the protection of the Group and customers in the face of growing cyber threats through the adoption of dedicated methods and tools, the updating of systems and hardware equipment, the inclusion of specialised professionals;
- Investments for the renovation of core banking systems continue.

14. COMMERCIAL BANKING PERFORMANCE

TERRITORIAL PRESENCE	2020	2019	2018
Credembanca	410	440	469
Banca Euromobiliare	20	18	18
TOTAL BRANCHES	430	458	487
Regions	19	19	19
Provinces	90	90	89
“Credempoint”	62	54	52
Banca Euromobiliare Financial Outlets	14	16	16
TOTAL FINANCIAL OUTLETS	76	70	68
Financial advisors with Credembanca mandate	512	506	497
Financial advisors with Banca Euromobiliare mandate	321	325	315
TOTAL EXTERNAL FINANCIAL ADVISORS WITH MANDATE	833	831	812
CORPORATE CENTRES	37	37	37
SMALL BUSINESS CENTRES	57	57	62
FINANCIAL AGENTS RESIDENTIAL MORTGAGES	209	193	196
FINANCIAL AGENTS “SALARY-BACKED LOANS” and SPECIAL PURPOSE AGENTS (WITH COLLABORATORS)	253	202	183

Firstly, the commercial banking business has several projects underway to develop, strengthen, and improve the consultation process, including the study and implementation of new products, in particular, from January 2021, the new Private Business Unit will be operational and, together with the Banca Euromobiliare Private Advisors and Promoters, will be governed on a unified basis within the Group's Private Banking Hub. This new structure focuses on an increasingly personalised and qualified service, also through the development of the service model and dedicated technologies.

Further project initiatives, more fully detailed in a specific dedicated paragraph, are underway mainly on the following topics: evolution of the service model with a view to Omnichannel, program of renewal/digitalisation of processes and procedures (Credit and support of commercial networks), expansion of the platform dedicated to businesses with a view to Open Banking.

As regards digital services, an increasing number of customers are using virtual channels to access the bank, from their PCs or mobile phones, through their Internet Banking contract.

Confirming this, the Internet Banking services for private customers, and for Business On and Telemaco 32 for corporate customers, exceeded 760,000 contracts, representing a 10.9% rise yoy (+75,000 contracts). With regard to mobile, there were 424,000 customers with an Internet Banking contract who downloaded the CredemBanca APP and made at least one log-in, up 11% on the previous year.

With a view to paper-based dematerialisation, Mybox, i.e. the service for the distribution and archiving of bank-customer communications, absorbs 71.3% of communications (+1.9% on the previous year). For the same purpose, the “Fircon” remote digital signature service, launched at the end of 2015, is active on approximately 760,000 customers, with a growth of 10% on an annual basis.

The good growth of the customer base also favoured the development of all services and in particular of credit/debit cards, which grew by more than 5% on an annual basis, and contracts for accessing banking services through the Internet. However, there was a 4.5% decrease in transactions as a result of the prolonged period of forced closure of activities.

Retail Market

With regard to the Sales Outlets, optimisation of the branch network continued: 31 branches were closed in areas where other branches are present or in areas with low development prospects. In the course of 2020, the number of Credem Points grew to increase customer service levels.

In terms of Financial Advisory, 2020 saw the network grow further, with 512 agents operating; in 2021, recruitment activities will continue.

The Branch Network acquired approximately 82,600 new customers, with an acquisition rate of 7%. There was a marked decrease in lost customers, with customer retention that is recovering for the third consecutive year, reaching 95.6%.

The main aggregates summarising the activities of the Retail Market, based on management accounting figures, and related to Credembanca only, are provided below:

RETAIL (millions of euro)	2020	2019	2018	% ‘20-‘19
Gross loans	15,350	14,106	13,558	8.8
Direct deposits	21,916	19,333	17,660	13.4
Indirect deposits	37,427	35,870	33,044	4.3
Total deposits	59,343	55,203	50,704	7.5
Assets under management	29,042	27,745	24,785	4.7
Assets under custody	8,385	8,126	8,258	3.2

Despite zero yields, Direct deposits recorded a faster growth rate, also due to a wider customer base.

The development of Loans saw a significant acceleration both in the Households and in the Small Businesses and Small Economic Operators segment. The short-term loan applications were shifted to the medium term, a type on which State guarantees were concentrated, the use of which was facilitated by the simplifications introduced starting from the Cura Italia decree, then subsequently extended by the following regulatory interventions, to help businesses and households to cope with the coronavirus emergency (e.g. Guarantee Fund for SMEs). Disbursements were driven by the Business segment and the home mortgage segment. In terms of consumer credit, the disbursement of personal loans was stable; the transfer of the salary-backed loan area saw the complete transfer of the loan granting activity to Avvera.

The net production of assets under management is excellent, not far from that of 2019, especially considering the context of great uncertainty on the financial markets and the significant losses recorded in the first part of the year. Stocks recorded an increase of € 1.3 billion (+ 4.7% on the previous year).

Despite the complicated scenario, in 2020 bancassurance activity recorded a 1.6% growth in the number of contracts, while net premiums grew by 6.1%, thanks to the continuous updating of the product range and a greater focus on the placement of stand-alone policies, in particular on personal protection.

Corporate market

In 2020, the number of Corporate Centres remained stable, with excellent coverage of the main industrial areas; the number of resources dedicated to attracting new Corporate customers was sustained, with several new hires replacing resources that have moved to managing existing customers.

The main aggregates summarising the activities of the Corporate Market, based on management accounting figures, and related to Credembanca only, are provided below:

CORPORATE (mln)	2020	2019	2018	% '20-'19
Gross loans	8,748	8,234	7,944	6.2
- of which Middle customers	8,013	7,632	7,356	5.0
Direct deposits	6,746	4,359	4,007	54.8
Indirect deposits	812	757	508	7.2
Total deposits	7,557	5,115	4,516	47.7

In the Corporate segment, there was a significant shift in credit demand from the short-term to the medium-term, with an overall significant increase in total loans and a significant increase in loans to MID Corporate.

The Corporate portfolio continued to be characterised by credit quality, sectoral diversification and the distribution of risk. Undoubtedly, the moratoriums extended until June 2020 and the measures to support the economy have not yet clearly shown the negative effects of the pandemic on the financial situation of companies. In 2020, there was an exponential growth in Direct Deposits, sustained by the collapse in investments, the reduction in purchases, the postponement of tax deadlines and easier access to credit, which did not lead to commercial dynamics.

15. PERFORMANCE OF GROUP COMPANIES

The following tables show key data relating to Group companies. We would like to point out that the income statement and balance sheet figures provided herein have been obtained from the accounts drawn up in accordance with IAS/IFRS for all companies analysed. Please refer to the individual report for comments on the results of the Parent Company.

15.1. Banca Euromobiliare

RELEVANT INFORMATION		2020	2019	2018
Assets under management	€/million	8,290	7,710	6,773
Total assets	€/million	12,951	12,053	10,311
Financial advisors	no.	321	325	315
Market share in terms of:				
- Number of financial advisors	%	1.66	1.67	1.62
- Total assets	%	1.65	1.64	1.66
Employees	no.	228	227	219
Branches	no.	20	19	18
Shareholders' equity not including profit	€/million	118.8	113.1	100.3
Profit before tax	€/thousand	10,180	7,199	13,227
Net profit	€/thousand	6,816	4,785	9,274

Customer assets at the end of December amounted to € 12,951 million, up by 7.4% compared to 2019. This trend is attributable both to the very positive net inflows, equal to approximately € 709 million, and to a market effect, which returned to a positive level during the entire year (approximately +1.5%), after an extraordinarily negative first quarter following the circulation on global scale of the Covid-19 epidemic.

The assets under management recorded an increase in absolute value (€ +580 million, equal to +7.5%), while the inflows were concentrated in Asset Management, Group/third-party UCITS and Group insurance products, against negative net deposits on third-party insurance products.

Assets under custody increased (€ +375 million, equal to +13.1%), more than offsetting the decrease in direct deposits (€ -58 million, equal to -3.9%). Direct loans amounted to € 369 million, compared to € 319 million in December 2019.

The result for the year 2020 amounted to € 6.8 million, the result of a growing net interest and other banking income, driven by the non-interest margin, which benefited from an overall increase in net commissions accrued on asset management products, on the multi-brand advisory service and on UCITS/securities placements, only partially offset by the lower contribution of corporate finance activities.

The trading result was positive, but lower than the same period of 2019, due to the limited presence of profits from disposals of Government bonds in the owned portfolio.

Overall, administrative expenses were down compared to the previous year, with savings on both personnel expenses and overheads.

Due to the Covid-19 emergency, there was a significant commitment to review the processes to encourage remote activities, with the aim of simplifying and

dematerialising certain processes, in agreement with the Parent Company. In 2020, the Bank undertook to revise the organisational model, adapt processes and procedures to the regulations, improve the efficiency of business strategies and experiment with innovative automations to support business and reporting. Routine regulatory compliance activities were carried out to support the business to define a new service model of advanced wealth consultation.

During the year, preparatory activities were also launched for the creation at Group level of a new service model for all private customers, through the development of a private banking “Hub”, which sees the creation of unique support structures between the Credem’s Private Banking Channel and the Bank’s two networks.

15.2. Gestimlux

The company carries out the typical activities of real estate asset management deriving from CredemLux and is committed to ensuring its optimal economic use.

The analysis, in order to identify any need for maintenance, was carried out in several phases during the year and was completed in December. Based on the initial indications that emerged, some restoration works were carried out, which will be followed by others in 2021.

The marketing of the spaces still vacant in the two buildings resulted in the leasing of a portion of the main property in January.

The onset of the Covid-19 pandemic negatively affected the activity of the real estate sector. The parties potentially interested in occupying available premises suspended their research due to the uncertainty that characterised the entire year 2020. As a result, the marketing of the remaining available spaces also came to a halt. Although the effects of the pandemic are expected to continue in 2021, the improvement in health conditions expected from the deployment of the vaccination campaign and the measures to support the economic recovery prepared in the EU suggest some signs of a possible recovery of the real estate market in Luxembourg.

15.3. Credemleasing

RELEVANT INFORMATION		2020	2019	2018
Number of contracts stipulated				
- Movables		3,439	4,327	4,077
- Real estate		311	320	363
	no.	3,750	4,647	4,440
Amount of contracts stipulated				
- Movables		545.3	557.4	537.5
- Real estate		255.5	323.0	283.0
	€/million	800.8	880.4	820.5
Domestic market share	%	5.20	3.15	2.76
Leasing receivables	€/million	2,838	2,681	2,538
Sales outlets	no.	17	17	17
Employees	no.	104	103	98
Shareholders’ equity not including profit	€/million	210.3	190.4	173.3
Profit before tax	€/thousand	24,059	27,735	23,929
Net profit	€/thousand	15,979	18,901	15,960

The healthcare emergency that negatively influenced 2020 led to strong contractions in production activity and investment dynamics, generating a considerable slowdown in the market for long-term financial leases and rentals that amounted to a reduction of 23.2% of new contracts during the year, for a financed value of down 18% compared to 2019).

2020 closed with different trends between the various segments:

- Labelled, a total decrease of -23.8% in the number of contracts signed and -16.6% in the volumes financed;
- Instrumental, characterised by the strong predominance of finance leases, recorded a contraction in terms of both new contracts (-21.8%) and volumes (-17.6%);
- Real estate, down by 25.6% in the number of contracts signed (-28.5% in value). The slowdown regarded both finished properties and properties to be built;
- The air, sea and railway sector is the only one to show growth both in the number of contracts signed (+20.7%) and in the value of the volumes financed (+9.1%), driven by the upsurge of new contracts that involved the “sportscraft” segment following the change in the calculation of VAT.

Credemleasing has an commercial performance that is overall better than the sector, showing a slowdown in the total value of financed investments of -9% (-19.3% the number of new contracts signed).

The weight of the movables segment on the total was in line with the market, with a prevalence of capital goods.

- Motor vehicles recorded a fall compared to 2019 of 15.9% in the number of new agreements made and a drop of 11.5% in the amount financed.
- Nautical leases recorded an increase in the value of new agreements (+159%).
- The real estate sector saw total volumes down by -20.9% and numbers down by -2.8%. In contrast to the market trend, the “built” property segment recorded +10.2% in volumes and +7.8% in number.

Overall, the market share relating solely to financial leasing was 5.20% in June.

Despite the difficulties related to the pandemic suffered by the lease and long-term rental market, starting from the first half of 2020, the Company strengthened its closeness to its customers, in compliance with what was implemented by the Group, with initiatives aimed at supporting businesses that had to face the serious situation created by the spread of the epidemic, on the one hand, responding to the requests for suspension of leases resulting from the measures envisaged by the “Cura Italia” Law Decree of 17 March 2020, and on the other hand, implementing a series of commercial initiatives for customers following the issue of the “Liquidity” Law Decree of 8 April 2020. In addition, the Company promptly carried out the actions necessary to manage the first extension, scheduled until 31 January 2021 (measure contained within the so-called “August Decree”), of the deadlines for expiry of the support measures, already granted on lease contracts pursuant to the “Cura Italia” Decree (net of the waivers received, the measure concerned over 5,000 contracts, equal to 25% of total existing contracts). Given the context, also for the future, the Company will maintain its objective of supporting the network and customers also in application of the additional support measures that, following the approval of the “Budget Law”, on 30 December 2020, were extended until 30 June 2021.

During the year, business continuity was guaranteed by safeguarding customer services, also thanks to the implementation of the digital signature process for leases of moveable assets and the greater use of electronic remote connection channels.

The main trends relating to ordinary operations show:

- The increase in net interest and other banking income, influenced positively by the increase in average production capital (+5.5% compared to 31/12/2019) and market interest rate trends that affected the margins of the lease transactions, and by more capital gains for early terminations;
- The reduction in net commissions, the performance of which was affected by the contraction in new production and the slowdowns in operations during the lockdown period;
- The increase in net value adjustments applied to loans, influenced by trends in the performing portfolio, which incorporates the effects of the update made to the IFRS 9 models used to calculate the impairment, also impacted by the methodological updates introduced in order to achieve the most realistic and

robust representation of the cost of credit in relation to the macroeconomic effects consequent to the global health emergency;

- The decrease in administrative expenses.

Lastly, for a like-for-like comparison with the previous year, it should be noted that 2019 had benefited from recoveries due to the closure of tax disputes.

15.4. Credemfactor

RELEVANT INFORMATION		2020	2019	2018
Receivables sold (flows)	€/million	3,822	3,730	3,345
Outstanding	€/million	1,233	1,228	1,110
Loans	€/million	1,107	1,084	992.5
Employees	no.	75	66	66
Shareholders' equity not including profit	€/million	79.8	74.5	69.0
Profit before tax	€/thousand	6,667	7,843	8,255
Net profit	€/thousand	4,574	5,300	5,534

After a rapid growth recorded in recent years, the Italian factoring market has suffered heavy repercussions, especially starting from the second half of 2020, penalised by the explosion of the Covid-19 pandemic and the consequent collapse in business turnover. In fact, at the end of the year, the turnover of the Industry showed a decrease of 11.2%, the outstanding amounts a decrease of 6.2%, and loans a decrease of 7.8%.

This sudden evolution of the external scenario immediately led Credemfactor, in line with the instructions issued by the Parent Company, to the implementation of measures aimed at ensuring the normal continuation of the business activities with a view to business continuity. The remote connection procedures that the Group had already introduced into its move towards both technological and cultural innovation, proved to be extraordinarily useful. In accordance with the contingency measures taken, the process of digitalisation of sales processes was launched, also with regard to prospective corporate customers. The Company also participated in the financial support measures to the companies affected by the epidemic: "Cura Italia" Decree and the ABI Credit Agreement.

The prompt reaction of Credemfactor made it possible to reach a turnover of € 3.8 billion, up by 2.5% compared to the previous year, a slight increase in outstanding amounts of 0.4%, an increase of 2.1% of specific loans, without prejudice to asset quality: non-performing loans recorded a decrease, due to a reduction in unlikely to pay.

Ordinary business activities generated net interest and other banking income of € 20.2 million, up by 4.5% compared to the same period of the previous year. The figure was essentially influenced by an increase in the non-interest margin (generated by higher *turnover*), while the interest margin remained stable.

With regard to costs: personnel expenses were up by 4.3% due to the structural development of the Company, other administrative expenses were down by 1.9%.

Net value adjustments to loans amounted to € 2.9 million, heavily impacted by the write-down of performing loans, which reflect the worsening of the post-Covid-19 macroeconomic scenario and substantially determined the decrease in net profit compared to the previous year.

The prospects for growth of the factoring market for 2021 are still affected by exceptional uncertainty, but at the System level a 2.08% increase in turnover, 1.40% in outstanding amounts and 1.84% in average loans is expected.

15.5. Credem Private Equity

RELEVANT INFORMATION		2020	2019	2018
Shareholders' equity not including profit	€/million	6.8	6.4	5.0
Employees	no.	3	2	2
Profit before tax	€/thousand	317	542	2013
Net profit	€/thousand	219	372	1,388

The search for possible targets of future equity investments by the SGR has certainly been made more difficult in the unusual context of 2020 and extended the time in which these transactions are usually concluded. During the year, the Company worked on finalising due diligence on two companies for managed closed-end funds, which were finalised in the acquisition of non-controlling interests in the last few months of the year: BrandOn S.r.l. and Vista Vision S.r.l.

Recall that the Company manages two closed-end alternative investment funds, placed on 10 January 2019 for a total of € 98.7 million, of which € 72.85 million relates to the Élite Fund and € 25.85 million to the Credem Venture Capital II Fund. For the Élite Fund, a call-back fund, after an initial 10%, at the time of placement, the company made a further call of 10% on the nominal amount subscribed, to which all subscribers subscribed.

In accordance with the provisions of IAS 1 and also following the recommendations of the ESMA of 11 March 2020, the Company has undertaken measures to ensure the normal continuation of company activities. Lastly, it should be emphasised that the “smart working” procedures that the Credem Group introduced into its move towards both technological and cultural innovation, proved to be extraordinarily useful. This has enabled the Company's people to work in a safe manner.

In 2020, the SGR dedicated considerable efforts to the authorisation process for the registration on the Roll of ELTIF (European Long-Term Investments Fund) managers, and to the establishment of a Regulation for the new fund called “Eltifplus”. The Relaunch Decree of May 2020, with respect to the strengthening of the capacity of long-term savings plans (PIR), further opened options to bring private savings to the business world and the Company has attempted to take advantage of these opportunities by also applying them to the ELTIF undergoing preliminary investigation. The Company also focused on analysing and developing disclosures to provide to its subscribers, in collaboration with the placement banks, representing greater analytical reporting on the charges and costs of the products purchased. Additional efforts and investments were made in regulatory areas, including privacy and anti-money laundering, to make collaboration within the Group as synergistic as possible.

The SGR closed the period with a profit of € 218,628, down against the same period of 2019, due to project costs, above all for consultancy, for the establishment of the new ELTIF Fund.

15.6. Euromobiliare Asset Management SGR

RELEVANT INFORMATION		2020	2019	2018
Total assets under management in Mutual Funds	million €	8,838	7,570	6,352
Assets managed by E. International Fund	€/million	4,649	5,289	4,863
SICAVs managed directly	€/million	2,965	3,287	2,203
Employees	no.	61	60	60
Shareholders' equity not including profit	€/million	165.8	113.3	89.8
Profit before tax	€/thousand	44,375	73,225	30,998
Net profit	€/thousand	31,237	51,726	22,953

Net deposits at December 2020, as regards Italian funds, SICAVs and speculative funds, recorded a positive overall figure of € 604 million, led by funds (€ +1,197 million), in line with the trend of the Industry as a whole, which recorded positive inflows.

Total assets relating to UCITS were up compared to the end of the previous year, with a decrease in the weight of bond/life cycle products and equity products in favour of flexible and balanced products, with the hedging products continuing to have a marginal weight.

The Company's market share, in terms of asset management (including Italian funds and SICAVs), is 1.21%, in line with the figure recorded at the end of 2019 (source: Assogestioni).

The net result amounted to € 31.2 million, a decrease of -39.6% compared to 2019, due to the lower contribution of performance fees. Overheads amounted to € 17.2 million, down compared to 2019 (-5.2%) mainly due to the decrease in personnel expenses.

15.7. Euromobiliare Advisory SIM

RELEVANT INFORMATION		2020	2019	2018
Individual portfolios managed under delegation	€/million	6,400	6,345	6,067
Direct management	€/million	13,064	10,619	n.a.
Employees	no.	54	52	51
Shareholders' equity not including profit	€/million	20.5	14.2	12.6
Profit before tax	€/thousand	6,320	9,226	2,271
Net profit	€/thousand	4,646	6,350	1,580

The result for the year 2020 closed with a profit of € 4.6 million, down compared to 2019. Despite the effects of the Covid-19 pandemic, which caused a sharp reduction in the first quarter in the market value of assets for the direct and delegated portfolio management service (known as AUM), lent to the banks of the Credem Group and Banca del Piemonte, the Company confirmed its ability to create value for customers and to actively manage allocations and markets, seizing the opportunities generated in the rest of the year. The sharp contraction in the market values of stocks in the first quarter was reabsorbed during the year, with assets under management returning to market values substantially in line with the closing values of the previous year. All this also allowed the realisation of performance commissions as part of the portfolio management service. This overall positive dynamics of the

financial markets also supported the value of the assets for which EA SIM provides investment advisory services to the Group's banks (known as AUA) and as independent consultancy.

Good asset management was also recognised this year by the German Institute of Quality and Finance.

15.8 Magazzini Generali delle Tagliate

RELEVANT INFORMATION		2020	2019	2018
Property, plant and equipment	€/million	27	27	27
Storage revenues	€/million	5.3	5.1	5.1
Employees	no.	28	28	29
Shareholders' equity not including profit	€/million	20.9	20.1	19.5
Profit before tax	€/thousand	840	832	836
Net profit	€/thousand	4,146	777	646

The production of Parmigiano Reggiano and Grana Padano was significant, prices fell, approaching the level of average production costs and then rose again around December, during the positive trend of the food markets.

The stocks of the warehouses participating in the survey remain close to 2 million cheeses deposited and exports of the Parmigiano/Grana aggregate in 2020 confirm a slight increase at global level.

With regard to the company, the developments in both spot and average inventory levels confirm the full use of the two facilities and an increase in the accessory services requested.

There is a high level of attention to the strong technological developments and warehouse automation that some agro-industrial companies are developing with very large investments in experimentation.

The standard economic result is positive and higher than expected, with a net profit that benefits from the realignment of the tax values of the fixed assets with the statutory values.

15.9 Credemtel

RELEVANT INFORMATION		2020	2019	2018
Revenues from services and sale of software	€/million	26.3	27.2	23.8
Employees	no.	99	87	85
Shareholders' equity not including profit	€/million	24.8	19.7	15.9
Profit before tax	€/thousand	6,157	7,181	5,258
Net profit	€/thousand	4,830	5,209	3,697

The particular context in which the company operated in 2020 affected the sales and post-sales activities with new customers and the volume of documents conveyed on behalf of active client companies. In agreement with the Parent Company, constant monthly analysis activities were carried out on both the economic performance and the scenario, in order to ensure constant monitoring of future projections of economic and financial results, activating all preparatory work from the beginning

of the pandemic, with a view to business continuity, managing to operate in smart working, safeguarding and guaranteeing both the health of employees and the availability and supervision of services to all customers.

The performance in 2020 was characterised by the consolidation of the project concerning the Electronic Document Management, the creation of the platform for the digital management of the Supply Chain Finance and the support to the Open Banking plan of the Parent Company.

The Company completed the acquisition of 75% of SATA Srl, a company specialised in developing advanced software solutions for businesses, such as electronic invoicing and data extraction from documents, and 20% of Andxor Srl, a company that has attained considerable expertise in solutions that provide an absolute guarantee of the authenticity and immutability of the original document (encryption, digital signature, time stamp and identity).

EDM (Electronic Document Management) services increasingly constitute the company's core business, representing 77% of total turnover, and have proven useful in supporting the Group also during the emergency through the digitisation of various processes, enabling the activation of remote working.

Interbank Corporate Banking (CBI) services represent 21% of total turnover. In addition to Credem, at the reporting date, three banks are served directly by Credemtel in the capacity of Struttura Tecnica Delegata (STD - Delegated Technical Structure), with the addition of a fourth bank under a specific partnership agreement with SIA (Società Interbancaria Automazione). Other services represent the remaining 2% of turnover.

The gross operating profit and the operating margin for the year show a decrease compared to the previous year, consistent with the general economic trend of the period but amplified by the presence last year of extraordinary revenues, not repeatable, generated by the entry into force, at the beginning of 2019, of the obligation of electronic invoicing.

15.10 Avvera*

RELEVANT INFORMATION		2020	2019	2018
Brokered mortgages and loans	€/million	515	520	430
Loans given	€/million	294	42	
Financial agents residential mortgages	no.	209	193	196
Financial agents "salary-backed loans" and special purpose agents (with collaborators)	no.	253	202	183
Employees	no.	99	63	24
Shareholders' equity not including profit	€/million	27.5	25.9	22.8
Profit before tax	€/thousand	4,611	2,461	3,960
Net profit	€/thousand	3,007	1,661	2,853

(*) At the end of April 2019, Creacasa was authorised to carry out activities related to disbursing loans to the public pursuant to Articles 106 et seq. of the Consolidated Banking Law (TUB) and changed its company name to Avvera.

The Assofin data show a 3.4% increase in disbursements for the purchase of the first home for the year 2020 compared to 2019 at the Industry level. On the other hand, more significant growth was registered for other mortgages, including subrogations, which rose by +37.1% compared to the previous year, stimulated by the rates applied, which in recent months reached new minimums, and by competitive pressure among market players, which led to competitive offer policies. The Consumer Credit segment recorded a setback in 2020 with the emergence of the economic-health emergency linked to Covid-19 (a drop of up to 80% for Personal Loans and up to 45% for the Salary-Backed Loans). As regards market prospects, there are numerous elements of macroeconomic uncertainty that affect growth potential.

In 2020, the results obtained by Avvera in the brokerage of mortgages to private customers proved to be excellent, with brokered volumes of € 515.3 million, in line with the 2019 figure (+0.3%). The slowdown in disbursements during the lockdown period was followed by a strong recovery, particularly from August onwards. Early redemptions increased by around 22% in terms of volumes compared to 2019. Transfers to bad loans were numerically very limited and in line with the previous year. The Avvera mortgages market share stood at 1.02%, in line with the average figure in 2019.

With regard to the salary-backed loans, the volumes financed in 2020 amounted to € 276.7 million, up by 17.3% compared to 2019, in addition to the volumes of Personal Loans (€ 17.1 million of loans, also thanks to the partnership with Banca del Piemonte and CR Cento).

The Avvera agency network is composed of 209 agents specialized in Mortgages and 253 agents focused on Salary-Backed loans and special-purpose loans. The new Special-Purpose Loan business was launched at the end of December 2020; in recent months, specialised agents have become part of the agency network, with additional new hires expected in the first few months of 2021.

The result for the period was driven by the increase in Net interest and other banking income (+44% compared to 2019), thanks to the contribution of the new Salary-Backed Loan and Personal Loan products and the confirmation of the excellent performance of Mortgages, which offset the significant weight of costs and of the

project investments, including the strengthening of the structure and the impact of adjustments on loans.

15.11 Euromobiliare Fiduciaria

RELEVANT INFORMATION		2020	2019	2018
securities under custody	€/million	1,040	1,228	1,013
fiduciary mandates	no.	633	625	617
employees	no.	8	8	8
shareholders' equity not including profit	€/million	3.8	3.7	3.5
profit before tax	€/thousand	145	123	240
net profit	€/thousand	116	145	176

Euromobiliare Fiduciaria continued its high value-added specialist business in 2020, despite the difficulties of the particular operating context in which it found itself operating in 2020.

During the year, the number of total mandates then rose, passing from 625 at the beginning of the year to 633 at the end. This growth in the number of mandates was accompanied by a decrease in the amount of trust assets which, at the end of the year, reached € 1,040 million compared to € 1,228 million as at 31/12/2019.

The year 2020 closed with a pre-tax profit of € 145 thousand.

15.12 Credemvita

RELEVANT INFORMATION		2020	2019	2018
Premiums collection (gross flows)	€/million	993	890	1,139
Insurance reserves*	€/million	7,807	7,360	6,889
Active policies	no.	127,625	125,207	124,924
Employees	no.	64	58	53
Shareholders' equity not including profit	€/million	296.1	261.1	180.7
Profit before tax	€/million	40,354	42,961	46,720
Net profit	€/thousand	27,648	30,238	32,005

(*) "Insurance reserves" include insurance reserves and financial liabilities measured at fair value.

In 2020, Credemvita recorded growth in commercial results, in particular due to:

- Total gross premiums collected amounted to € 992.6 million, up 12% compared to the same period of last year (of which, € 456.1 million attributable to Segment I and V policies subject to Revaluation; € 468.7 million to Unit-Linked products; € 23.7 million to life insurance and credit protection policies; € 44.0 million to the Pension Fund).
- Services rendered amounted to approximately € 656.1 million, down 11% compared to the same period of last year.
- Net inflows of € 336.5 million, a strong increase compared to the previous year, thanks to the performance of traditional products subject to revaluation (+ 174%) and Unit-Linked products (+ 175%), which accelerated considerably in the second half of the year.

Net profit of € 27.6 million was recorded for 2020, down compared to 2019 by 9%. The change is mainly due to:

- Lower over-performance commissions on the portfolio of Class III policies.
- Lower revenues from the portfolio of temporary life insurance policies and credit protection.
- Higher operating expenses for the projects envisaged during the year and for the entry of new professionals.

In November 2020, Credemvita issued € 107.5 million of Tier 2 bonds on the market, maturing in February 2031 and exercised, subject to the authorisation of the regulator, the call option on the previous issue of a nominal amount of € 50 million.

Shareholders' equity increased and incorporates the profit from the previous year and the change in the valuation reserves of financial assets, net of components allocated to insured parties.

15.13 Credemassicurazioni

RELEVANT INFORMATION		2020	2019	2018
Premiums issued	€/thousand	49,834	47,065	40,393
Active policies	no.	271,376	269,805	259,731
Employees	no.	21	23	21
Shareholders' equity not including profit	€/million	54.6	44.7	33.9
Profit before tax	€/thousand	18,631	12,245	11,502
Net profit	€/thousand	12,937	8,532	7,831

As at 31 December 2020, Credemassicurazioni collected premiums of around € 49.8 million, up 6% compared to the same period in 2019.

- Individual Protection Products recorded a 13% increase in premiums, reaching € 40.7 million. The best performance within this segment was recorded on products protecting income and buildings, which together represent more than 50% of the premiums collected and recorded a 23% growth compared to the previous year. Personal protection products follow with € 10.8 million in premiums collected, up 5% thanks to the contribution of the Health Protection product. The contribution of home guarantee policies and other individual policies was also positive.
- The CPI products, with premiums of € 7.0 million, were down by 23% compared to 31 December 2019 and almost one third are attributable to the Avvera product family.
- Leasing products recorded premiums of € 2.1 million (+3% compared to 31 December 2019).

Credemassicurazioni recorded a net IAS profit of € 12.9 million, a considerable increase compared to the result of 2019 due to:

- Growth in turnover both in terms of premiums issued and premiums pertaining to the period;
- Confirmation of a very favourable technical profitability, characterised during the year by low current claims;
- Accounting for higher revenues due to positive changes in the stock of provisions for claims of previous years (including motor run-off);
- Decrease in operating expenses.

Commissions paid to networks were up, in line with the acceleration in the sales performance (+3% compared to 2019).

Th shareholders' equity as at 31 December 2020 increased to € 54.6 million, due to the combined effect of the profits of previous years and to changes in valuation reserves of financial assets after tax (€ +1.4 million).

To conclude our illustration of Group companies, note that due to its limited contribution to the balance sheet and income statement, the wholly consolidated company, special purpose vehicle Credem CB, established for the covered bonds programme, is not analysed separately; it is also necessary to emphasise that the separate credit assets related to these bonds are not derecognised.

16. FINANCIAL RESULTS

INCOME STATEMENT €/million	2020	2019	% %
- Interest margin	493.0	484.7	1.7
- Non-interest margin (*) (****)	709.4	719.7	-1.4
Net interest and other banking income (*)	1,202.5	1,204.4	-0.2
- Personnel expenses	-513.1	-510.3	0.6
- Other administrative expenses (*)	-192.4	-209.3	-8.1
Operating expenses (*)	-705.5	-719.6	-2.0
Gross operating profit	497.0	484.8	2.5
- Amortisation/depreciation	-86.4	-81.9	5.4
Operating profit	410.6	402.9	1.9
- Provisions for risks and charges (***)	-7.1	-13.0	-45.4
- Extraordinary income/charges (*) (***)	-42.7	-29.4	45.3
- Net value adjustments to equity investments and goodwill	-0.1	-0.6	-87.4
- Net value adjustments to loans (**) (****)	-108.2	-63.5	70.5
Profit before tax	252.5	296.4	-14.8
- Profit/loss of non-controlling interests	-0.1	0.0	n.s.
- Income taxes for the year	-50.8	-95.1	-46.6
Net profit	201.6	201.3	0.1

This reclassification was performed considering management accounting data that could not be directly deduced from the financial statements' schedules and the Explanatory notes.

(*) costs and the non-interest margin are shown net of indirect taxes and taxes recovered from customers (€ 101.0 million at December 2020; € 99.6 million at December 2019); contributions to national funds of € 38.4 million were written off against expenses (€ 29.0 million at December 2019);

(**) the profit resulting from the sale of bad loans was reclassified under extraordinary charges (€ -2.6 million in 2020; 0.4 million in 2019);

(***) the component relating to the contribution to the Resolution Fund (€ 2.1 million in 2020, € 1.8 million in 2019) allocated to Provisions for Risks and Charges was reclassified to extraordinary charges;

(****) value adjustments to (recoveries on) loans included in financial assets measured at amortised cost relating to securities (€ -1.1 million; € 0 in December 2019) and those included in financial assets measured at fair value through other comprehensive income (€ +1.1 million; € +0.9 million in December 2019) were recognised in the non-interest margin.

KEY:**Interest margin**

- + Item 30 Net Interest Income
- + Item 70 Dividends and similar income (solely for the portion relating to dividends of equity securities in financial assets classified in HTC's)
- + Item 250 Gains/(losses) on equity investments excluding gains/losses on disposals/valuations
- Credemvita Net Interest Income

Non-interest margin

- + Item 60 Net fee and commission income
- + Item 80 Net profit (loss) from trading
- + Item 90 Net profit (loss) from hedging
- + Item 100 Gains/(losses) on disposal or re-purchase
- + Item 110 Net profit (loss) from financial assets and liabilities measured at fair value
- + Item 115 Net profit (loss) from financial assets and liabilities pertaining to insurance companies pursuant to IAS 39
- + Item 130 a) Net value adjustments for credit risk from financial assets measured at amortised cost (for the part relating to securities included under this category of financial assets)
- + Item 130 b) Net value adjustments for credit risk from financial assets measured at fair value through other comprehensive income
- + Item 160 Net premiums earned
- + Item 170 Net other operating expenses/income from insurance activities
- + Item 230 Other operating income/charges (net of extraordinary items)
- + Item 70 Dividends and similar income (net of the portion relating to dividends of equity securities classified in HTC's)
- + Credemvita Net Interest Income

Operating profit

- + Net interest and other banking income
- + Item 190 Administrative costs (personnel expenses and other administrative expenses)
- + Item 200 Net value adjustments to (recoveries on) property, plant and equipment
- + Item 210 Net value adjustments to (recoveries on) intangible assets

Profit before tax

- + Operating profit
- + Item 130 Net value adjustments/recoveries for credit risk (net of those included in the non-interest margin)
- + Item 140 Profits/losses from contractual changes without derecognitions
- + Item 200 Net provisions for risks and charges
- + Extraordinary income/charges:
- + Item 230 Other operating income/charges (only extraordinary items – imbalance of extraordinary items)
- + Item 270 Net value adjustments/recoveries on goodwill
- + Item 280 Gains/(losses) on disposal of investments
- + Item 320 Profit/(loss) after tax from discontinued operations

INDICES	2020	2019
Non-interest margin / operating income	59.0	59.6
Operating expenses / operating income	58.7	61.9
Personnel expenses / operating income	42.7	42.2
ROA*	0.4	0.4
ROE**	6.9	7.5

(*) ROA year X = item 310 Profit (loss) for the year/total assets

(**) ROE year X = $\frac{\text{Net profit for the year} / (\text{shareholders' equity at year x-1} + \text{shareholders' equity at year x})}{2}$

Shareholders' equity: algebraic sum of
 120 Valuation reserve
 125 Valuation reserves pertaining to insurance companies
 150 Reserves
 160 Share Premium Reserve
 170 Share capital
 180 Treasury shares (-)
 200 Consolidated profit (loss) for the year net of dividends distributed (or resolved) by the Parent Company or by the consolidating company

The Group's economic results are undoubtedly affected in various ways by the impacts of the pandemic, but the main element that testifies to the Credem Group's

resilience in this scenario is the ability to keep revenues overall at the levels of the previous year.

More specifically, the interest margin benefited from a very sustained trend in lending volumes, despite the competitive tensions on prices and the impact of loans backed by state guarantees, which recorded particularly low rates on average. The problem is common to the entire Industry: in December 2020, ABI recorded, on lending transactions, interest rates at all-time lows.

This trend in interest rates also made it possible to keep the cost of direct customers under control, which, on the Credem Group's networks, grew at a much faster rate than the Industry.

The following table illustrates the trend in interest rates (in %) relating to customer accounts:

RATES	2020	2019
Average interest rate on loans	1.67	1.82
Average interest rate on deposits	0.03	0.05
Customer "spread"	1.64	1.78

The contribution deriving from the TLTRO3 financing transactions was positive and general. For the Group, its impact produced a trend reversal in the dynamics of the interest margin starting from the second half of 2020.

Lastly, on the interest margin, we report a more limited contribution of the securities portfolio, which shows lower returns than in the past, mainly due to the particularly low renewal rates of Government bonds.

The combination of these elements allowed a 1.7% increase in the interest margin compared to the previous year, offset by a 1.4% reduction in the non-interest margin, essentially attributable to a decrease in the contribution from commissions, recorded especially after the first lockdown. Compared to the previous year, both commissions from banking services, which were affected by the reduction in the number of payment transactions in the period of generalised closure, and management and brokerage fees, which were also affected by a reduction in performance fees, were impacted. Overall, the commissions component suffered the fluctuating trends of the markets, starting from the second half of the year to recover from the sharp negative effect that had been recorded in the first quarter.

The table below (in €/million) shows the changes that occurred in the main commission categories:

COMMISSIONS	2020	2019	% change
Individual portfolio management	91.2	103.9	-12.2
Collective portfolio management	198.5	215.5	-7.9
Placement of insurance products	42.5	50.2	-15.3
Total products under management	332.2	369.6	-10.1
Orders collected	7.4	4.7	57.4
Securities trading	8.8	6.3	39.7
Total orders collected for third parties	16.2	11.0	47.3
Financial advisors and agents	-96.4	-95.9	0.5
Securities custody and administration	0.7	0	n.a.
Placement of securities and third-party products	119.5	101.9	17.3
Other net commissions	16.4	22.3	-26.5
Total management, brokerage and advisory	388.6	408.9	-5.0
Collection and payment services	49.2	55.4	-11.2
Current accounts	108.7	104.6	3.9
Other services (*)	30.1	32.9	-8.5
Total “traditional banking” (*)	188.0	192.9	-2.5
Net fee and commission income (*)	576.6	601.8	-4.2

(*) includes revenues from fast track applications, recognised in statutory terms under other operating income

A drop of 3.7% was also found in insurance contributions: the life business, especially in the first half of the year, was jointly affected by a reduction in premiums, an increase in redemption requests determined by increased liquidity requirements and a significant negative market effect.

Trading made a positive contribution to the overall stability of revenues, with a contribution of over € 54 million to the non-interest margin compared to € 36.5 million in 2019, thanks to the profits realised in the first half of the year mainly on some government securities in dollars.

A breakdown of the non-interest margin by area of contribution is provided below (€/million):

BREAKDOWN BY AREA OF CONTRIBUTION	2020	2019	% change
- Management and brokerage	388.6	408.9	-5.0
- Banking services (**)	188.0	192.9	-2.5
NET FEE AND COMMISSION INCOME	576.6	601.8	-4.2
Securities trading, exchange rates and derivatives	54.4	36.5	49.0
Life segment insurance management (*)	54.6	56.7	-3.7
Reclassified balance of other operating income/charges (**)	23.8	24.7	-3.6
NON-INTEREST MARGIN	709.4	719.7	-1.4

(*) the items illustrated in the above table are net of the corresponding items for Credemvita, which are summarised in “life segment insurance management”.

(**) revenues resulting from fast track applications have been reclassified under net fee and commission income, after deducting operating profit.

The Group was able to combine these results on revenues with particularly flexible cost management, as demonstrated by the decrease of more than 8% in administrative expenses, without affecting the investment policy that continued throughout 2020; in fact, there was an increase in depreciation/amortisation of 5.4% compared to the previous year.

Investments are underway to sustain projects and to develop the service model towards a bank that is increasingly an omni-channel one. In addition to the investments addressed to the development of the IT system's infrastructure, the digitalisation of processes and legislative compliance, a wide number of projects have been undertaken, particularly as regards wealth management, consumer finance, payment systems, as well as monitoring the credit quality of private and corporate customers.

The reduction in costs did not concern personnel expenses, which remained substantially in line with the 2019 figure, but was rather facilitated by the Group's ability to respond to the new pandemic context in a proactive manner. Of particular importance, as mentioned in the introductory chapters, was the use of smart working as an immediate response to the spread of the pandemic, which contributed, together with careful monitoring of costs, to an efficient use of resources.

These results translated into an annual growth of close to 2% in the operating result. Provisions made on performing loans to take into account the probable deterioration of the macroeconomic scenario pushed loan adjustments to € 108.2 million, up compared to € 63.5 million in the previous year. The increase in the cost of credit did not concern the analytical component, which remains in line with the traditional risk profile of the Group.

Extraordinary charges include the contribution to systemic funds, which amounted to € 40.5 million compared to € 30.8 million paid in 2019.

The above-illustrated reclassified income statement includes charges of € 38.4 million in "extraordinary income/charges" corresponding to the contribution due to the National Resolution Fund (€ 29.0 million in September 2019); € 2.1 million is the contribution component to the Resolution Fund allocated to the Provision for Risks and Charges (€ 1.8 million in 2019).

The higher cost of non-operating items is more than offset by the good result of ordinary operations and by a lower increase in taxes due to tax exemptions.

Italian Law Decree no. 104/2020 granted the right to adjust the tax values to the statutory values for the fixed assets recorded in the financial statements as at 31 December 2020 and already present in the financial statements for the previous year, against payment of a substitute tax of 3%. The subsequent Italian Law no. 178/2020 (Article 1, paragraph 83) granted the right to pay a substitute tax of 3% to release goodwill recorded and not deducted for tax purposes. The group therefore exercised both options to realign for tax purposes the higher values that emerged in 2005 at the time of the first-time application of the IAS on some properties and to release the goodwill recorded.

The group has taken steps to align the tax values to the higher statutory values of the business assets recorded in the financial statements as at 31 December 2020 and already present in the financial statements as at 31 December 2019 and the realignment concerned the properties entirely owned, so-called floor/ceiling, which, on first-time adoption of IAS international accounting standards, were measured at fair value in order to separate the value of the land from the value of the buildings. The external appraisal was divided between the value of the land and the value of the buildings above. For tax purposes, these higher carrying amounts could not be taken into account, continuing with the depreciation plan based on the tax rates already recognised in the past.

As a result of this realignment, the substitute tax of 3%, amounting to € 2.8 million, was accounted for and the related deferred taxes allocated as a result of the revaluation carried out upon first-time application of the international accounting standards were reversed. The net positive effect was € 22.8 million.

In addition, the 2021 Budget Law, Article 1, paragraph 83, Italian Law no. 178/2020 extended this possibility also to the goodwill resulting from the current financial statements as at 31 December 2020 with the payment of a substitute tax of 3% that allows, also for tax purposes, the higher statutory values recorded in the financial statements to be recognised instead of the lower tax values. The financial statements include goodwill, which never had tax relevance, referring to the mergers carried out in previous years for € 23.5 million. As a result of this realignment, the substitute tax of 3%, amounting to € 0.8 million, was accounted for, and the related deferred tax assets were recognised, in accordance with application no. 1 of February 2009 of the Italian Accounting Body. The net positive effect was € 4.5 million.

The Group closed the 2020 financial year with profits of € 201.6 million, in line with the result achieved the previous year.

17. Main aggregates of the individual companies

The following section provides an analysis of the main aggregates and the contribution of the individual companies (€/million):

NET INTEREST AND OTHER BANKING INCOME	2020		2019		% change
	amount	% impact	amount	% impact	
Credito Emiliano	923.6	74.1	899.5	72.2	2.7
Credemleasing	51.6	4.1	49.0	3.9	5.3
Credemfactor	20.4	1.6	19.5	1.6	4.7
Banca Euromobiliare	60.6	4.9	58.9	4.7	3.0
Euromobiliare A.M. SGR	60.3	4.8	91.9	7.4	-34.5
Euromobiliare Advisory SIM	17.3	1.4	20.1	1.6	-14.1
Magazzini Generali delle Tagliate	5.3	0.4	5.1	0.4	3.3
Credemtel	26.3	2.1	27.2	2.2	-3.4
Avvera	21.2	1.7	14.7	1.2	43.7
Credemvita	54.6	4.4	56.7	4.5	-3.5
Other companies	3.5	0.3	4.0	0.3	-12.4
Aggregate	1,246.5	100	1,246.6	100	0.0
Consolidation adjustments	-44.3		-42.2		5.0
Net interest and other banking income	1,202.2		1,204.4		-0.2

OPERATING EXPENSES	2020		2019		% change
	amount	% impact	amount	% impact	
Credito Emiliano	-596.4	80.0	-610.6	80.7	-2.3
Credemleasing	-14.6	2.0	-15.7	2.1	-6.6
Credemfactor	-10.3	1.4	-10.1	1.3	2.2
Banca Euromobiliare	-42.9	5.7	-44.8	5.9	-4.4
Euromobiliare A.M. SGR	-17.2	2.3	-18.1	2.4	-5.2
Euromobiliare Advisory SIM	-10.5	1.4	-10.6	1.4	-1.2
Magazzini Generali delle Tagliate	-3.3	0.4	-3.2	0.4	4.3
Credemtel	-18.3	2.5	-18.4	2.4	-0.3
Creacasa	-15.4	2.1	-11.0	1.5	39.4
Credemvita	-13.1	1.8	-12.0	1.6	8.7
Other companies	-2.9	0.4	-2.5	0.3	14.4
Aggregate	-745.9	100	-757.0	100	-1.5
Consolidation adjustments	40.4		37.5		7.8
Operating expenses	-705.5		-719.6		-2.0

OPERATING PROFIT	2020		2019		% change
	amount	% impact	amount	% impact	
Credito Emiliano	252.5	61.2	217.4	53.5	16.2
Credemleasing	36.0	8.7	32.5	8.0	10.7
Credemfactor	9.5	2.3	8.8	2.2	7.8
Banca Euromobiliare	13.8	3.4	9.8	2.4	40.7
Euromobiliare A.M. SGR	42.6	10.3	73.2	18.0	-41.8
Euromobiliare Advisory SIM	6.3	1.5	9.2	2.3	-32.0
Magazzini Generali delle Tagliate	0.8	0.2	0.8	0.2	1.3
Credemtel	6.1	1.5	7.2	1.8	-15.1
Creacasa	4.0	1.0	2.8	0.7	41.3
Credemvita	40.1	9.7	43.3	10.7	-7.3
Other companies	0.1	0.0	0.9	0.2	-90.0
Aggregate	412.5	100	406.0	100	1.6
Consolidation adjustments	-2.2		-3.1		
Operating profit	410.3		402.9		1.8

PROFIT FOR THE YEAR	2020				2019			
	Profit	Adjustments	Contribution to consol.	inc. %	Profit	Adjustments	Contribution to consol.	inc. %
Credito Emiliano	97.2	0.1	97.3	48.3	76.9	-0.2	76.7	38.1
Credem International (Lux)	-0.3	0.2	-0.1	0.0	0.2	0.2	0.4	0.2
Credemleasing	16	0.0	16	7.9	18.9	0.0	18.9	9.4
Credemfactor	4.6	0.0	4.6	2.3	5.3	0.0	5.3	2.6
Banca Euromobiliare	6.8	0.2	7	3.5	4.8	0.0	4.8	2.4
Euromobiliare A.M. SGR	31.2	0.0	31.2	15.5	51.7	0.0	51.7	25.7
Euromobiliare Advisory SIM	4.6	0.0	4.6	2.3	6.3	0.0	6.3	3.1
Credem Private Equity SGR	0.2	0.0	0.2	0.1	0.4	0.0	0.4	0.2
Magazzini Generali delle Tagliate	4.1	0.0	4.1	2.0	0.8	0.0	0.8	0.4
Avvera	3.0	0.0	3.0	1.5	1.7	0.0	1.7	0.8
Credemtel	4.8	-0.1	4.7	2.3	5.2	0.0	5.2	2.6
Credemvita	27.6	0.0	27.6	13.7	30.2	0.0	30.2	15.0
Credemassicurazioni	12.9	-6.5	6.5	3.2	8.5	-4.3	4.2	2.1
Euromobiliare Fiduciaria	0.1	0.0	0.1	0.0	0.1	0.0	0.1	0.0
Other and non-attributable adjustments	1.2	-6.4	-5.2	-2.6	0.3	-5.7	-5.4	-2.7
Consolidated profit	214.0	-12.5	201.6	100	211.3	-10.0	201.3	100

For a more detailed examination of the breakdown of these aggregates by business segment and by geographical area please refer to Part L of the Explanatory notes to the consolidated financial statements.

We provide here (in €/thousand) the reconciliation between the shareholders' equity and the profit for the year of the Parent Company with the results of the Consolidated Financial Statements.

	SHAREHOLDERS' EQUITY	of which: PROFIT FOR THE YEAR
Balances as at 31 December 2020 of Credembanca	2,394,433	97,183
Surpluses compared with book values:		
Companies consolidated line-by-line	740,159	103,329
Companies measured under the equity method	23,141	6,533
Dividends collected during the year		-55
Goodwill	10,964	
Elimination of intercompany profits and other adjustments	-35,109	-5,395
Balances as at 31 December 2020 of the Group	3,133,588	201,595

18. OWN FUNDS, REGULATORY RATIOS AND LIQUIDITY RATIO

OWN FUNDS AND REGULATORY RATIOS		2020	2019	2018
"Statutory" shareholders' equity	€/million	3,133.6	2,883.8	2,506.6

The change in statutory shareholders' equity, compared to 31 December 2019, is mainly due to:

- the assumed capitalisation of the profit for the year (€ 135.3 million);
- the result of the valuation of "assets held to collect cash flows and for sale" (€ 32.6 million);
- the positive balance of the fair value measurement of cash flow hedging derivatives (€ 12.8 million);
- the negative balance of the actuarial valuation of staff termination indemnity (€ -1.4 million);
- the capitalisation of personnel expenses relating to payment plans based on financial instruments (€ 3.4 million);
- the change in Credemassicurazioni's shareholders' equity not incorporated in profit/loss for the year (€ 0.7 million).

The following table illustrates the capital adequacy of the banking group in accordance with Supervisory regulations (€/million):

BANKING GROUP		2020	2019	2018
Total own funds		2,932.0	2,567.0	2,267.0
- of which Common Equity Tier 1	€/million	2,580.1	2,219.6	1,919.6
- of which Tier 1 Capital	€/million	2,580.1	2,219.6	1,919.6
Capital absorption relative to the following risks:				
. credit and counterparty		1,184.2	1,048.1	972.7
. market		4.6	27.1	28.1
. operational		135.6	130.7	124.9
Total capital requirement		1,324.4	1,205.9	1,125.7
CET1 capital ratio (**)	%	15.6	14.8	13.6
Tier 1 capital ratio		15.6	14.8	13.6
Total capital ratio		17.7	17.2	16.1
Minimum supervisory requirement (***)				
CET1 capital ratio		7.0	7.0	6.375
Tier 1 capital ratio		8.5	8.5	7.875
Total capital ratio		10.5	10.5	9.875

(**) if CET1 < Tier1; CET1 = T1

(***) including the so-called "capital conservation buffer", it does not include the additional requirement as per the "SREP decision".

The following table illustrates the capital adequacy of the reference scope for prudential supervisory purposes, namely the scope of consolidation of Credemholding (€/million):

CREDEM HOLDING SCOPE	2020	2019	2018
Total own funds	2,745.6	2,339.5	2,092.8
- of which Common Equity Tier 1 €/million	2,339.8	2,038.8	1,782.4
- of which Tier 1 Capital €/million	2,393.0	2,088.8	1,829.8
Capital absorption relative to the following risks:			
. credit and counterparty	1,183.7	1,048.1	972.7
. market	17.7	27.1	28.1
. operational	135.6	130.7	124.9
Total capital requirement	1,337.0	1,205.9	1,125.7
CET1 capital ratio (**) %	14.0	13.5	12.7
Tier 1 capital ratio	14.3	13.9	13.0
Total capital ratio	16.4	15.5	14.9
Minimum supervisory requirement (***)			
CET1 capital ratio	7.0	7.0	6.375
Tier 1 capital ratio	8.5	8.5	7.875
Total capital ratio	10.5	10.5	9.875

(**) if CET1 < Tier1; CET1 = T1

(***) including the so-called “capital conservation buffer”, it does not include the additional requirement as per the “SREP decision”.

More specifically, the change in the capital situation (compared to 31/12/2019) reflects:

- in positive terms:
 - the capitalisation of the profit for the year;
 - the decrease of the deduction relating to credit shortfalls regarding the retail and corporate portfolios;
 - the change in reserves relating to securities classified under “assets held to collect cash flows and for sale”;
- in negative terms:
 - the increase of risk, with specific regard to credit risk, in relation to the similar rise in loans to customers.

The additional requirement assigned by the supervisory body (the Pillar 2 Requirement), with respect to the regulatory capital levels in force in 2020, would be equal to 1%, however, as illustrated in more detail in the introduction, the Governing Council of the European Central Bank (ECB) announced, on 8 April 2020, the decision to change the prudential requirement to be held originally entirely in the form of Common Equity Tier 1 capital (CET1), with the aim of supporting the supervised banks given the extraordinary circumstances determined by the spread of Covid-19. The requirement may, by virtue of this decision, be met with a minimum of 56.25% of CET1 capital and with 75% of Tier 1 capital. This decision had retroactive effect as from 12 March 2020 and translated into the following minimum ratios for 2020: 7.56%, 9.25% and 11.5% at the level of CET1 ratio, Tier 1 ratio and Total Capital Ratio, respectively.

Note that on 1 March 2018, the European Central Bank had authorised the Group not to deduct the entire equity investment held in the insurance company Credemvita from the calculation of the regulatory own funds.

This authorisation, deriving from the application of Article 49 of the (EU) Regulation no. 575/2103 (the “CRR”) is applicable if the Group forms part of the list of those which, on the basis of the supervisory parameters, carry out significant activities both in the banking sector and investment services sector, and the insurance sector (financial conglomerates). In this regard, reference is made to the decision of the Supervisory Authority, which included the Credem Group among the above parties as from October 2017.

On this issue, please note that on 8 January 2021, the European Central Bank revoked the use of the standardised approach for the so-called Equity Exposure. The impacts of the revocation were brought forward and already fully incorporated in the capital ratios as at 31 December 2020. Following this revocation, the equity investment in Credemvita is weighted at 370%.

Specific reporting with regard to the capital adequacy of the financial conglomerate (also headed up by Credemholding) is shown (in €/million):

CONGLOMERATE MARGIN	2020	2019	2018
A. Total shareholders' equity of the conglomerate	2,840	2,444	2,143
B. Capital requirements of the banking components	1,775	1,668	1,496
C. Required solvency margin of the insurance components	226	231	203
D. Total capital requirements of the conglomerate (B+C)	2,001	1,899	1,699
E. Surplus (deficit) of the conglomerate (A - D)	839	546	444

The shareholders' equity of the financial conglomerate Credem exceeds the total of the capital requirements by € 839 million. In the calculation of the capital requirements of the financial conglomerate, for 2020, a Total Capital Ratio of 11.5% was adopted, as communicated by the European Central Bank in January 2020 following the outcome of the Supervisory Review and Evaluation Process (SREP), in force for 2020.

The profit margin of the conglomerate was also impacted considerably by the banking Group's capital situation, as illustrated above.

To fulfil regulatory provisions, we report that the Group holds treasury shares, with relation to the above-mentioned remuneration plans, as indicated in Part B “Information on the consolidated balance sheet” in Section 12 of the Explanatory notes to the consolidated financial statements.

As part of the disclosure required for CRR/CRD IV, in addition to the already-mentioned regulatory ratios, the following are illustrated below (again with reference to the scope of consolidation of Credemholding): the regulatory indicators aimed at ascertaining the adequacy of the short-term liquidity situation (level of immediate liquidity for covering requirements at 30 days), the medium/long-term liquidity situation (stability of the funding profile in relation to the composition of the assets) and the ratio between equity and banking assets.

REGULATORY INDICATORS%	2020	2019	2018
Liquidity coverage ratio (LCR)	210	199	172
Net stable funding ratio (NSFR) (*)	128.0	125.0	121.1
Leverage ratio (**)	5.8	5.1	4.9
Minimum supervisory requirements			
Liquidity coverage ratio (LCR)	100	100	100
Net stable funding ratio (NSFR) (*)	100	100	100
Leverage ratio (**)	3	3	3

(**) mandatory reporting according to the “CRR”.

With regard to the Leverage ratio, note that the indicator is subject to the so-called temporary relief measures granted by the Supervisory Authorities to banks to deal with the pandemic: it essentially benefits from the possibility of excluding the excess liquidity held at the European Central Bank from the calculation of the ratio.

As regards the Group, as shown in the table, the indicator is well above the regulatory limits.

The same is confirmed for the indicators envisaged by the CRR in terms of liquidity: LCR and NSFR are improving, compared to an already optimal situation in 2019.

At the end of April 2020, as set forth in Circular 285 of 17 December 2013, in the part regarding “supervisory review process” (Pillar II), the ICAAP (“Internal Capital Adequacy Assessment Process”) report, together with the various specific documents requested, was sent to the Supervisory Authority. The purpose of this report is to assess capital adequacy in relation to the total risks assumed in current and ordinary operations, it concerns the situation at the end of 2019 with a forward-looking assessment of the situation, on a three-year basis.

Again at the end of April, based on the provisions of Directive 2013/36 (CRD IV), the ILAAP Report was submitted to the Supervisory Authority.

Both documents were drafted on the basis of the indications of the Supervisory Authorities, specifically addressed to financial institutions in the particularly uncertain scenario that had emerged following the Covid-19 pandemic and include an overview:

- of the capital margins available to address risks that are difficult to measure and the effects of the stress tests, as well as to maintain the standing pre-established by the financial markets and by the national and European authorities;
- of the Group’s liquidity profile, both under expected and stressed conditions.

19. PROPERTY

The Group's property and buildings are analysed below (€/million):

PROPERTY		2020	2019
Land	€/million	136.5	133.9
Owned properties:			
- operational use	€/million	111.2	118.7
- investment purposes	€/million	1.0	1.1
Total owned properties	€/million	112.2	119.8
Works on third-party property	€/million	19.6	18.7

With regard to the alignment between statutory and tax values for fixed assets recognised in the financial statements as at 31 December 2020 and already present in the financial statements for the previous year, as per Italian Law Decree no. 104/2020, please refer to the paragraph commenting on the economic results.

Lastly, please note that transactions with related parties are discussed in Part H of the Explanatory notes to the consolidated financial statements.

20. SHAREHOLDERS, SHARES AND RATINGS

No share capital transactions were recorded in the year:

Date	Share capital in €	no. shares	Situation
Dec-19	332,392,107	332,392,107	at year end
Dec-20	332,392,107	332,392,107	at year end

The breakdown of shareholdings as at 31 December 20 was the following:

	% of ordinary share
Credito Emiliano Holding S.p.A.	78.6
Other shareholders	21.4

The following table provides a comparison between the Credem share and several stock market indicators for the past three years:

Comparison with market	31/12/2020	31/12/2019	31/12/2018	% Change 20-19
Credem Share Price (€)	4.41	5.19	5.03	-15.0
FTSE Italia Banche (Index)	7,388	9,364	7,613	-21.1
FTSE Italia All-Share (Index)	24,203	25,629	20,148	-5.6

The table below illustrates the main figures and stock market indicators relative to the Credem share:

Share data		2020	2019	2018
Ordinary shares	no.	332,392,107	332,392,107	332,392,107
Shareholders' equity per share	€	9.43	8.46	7.54
Net profit per share	€	0.61	0.61	0.56
Dividend per share	€	0.20	-	0.20
Share prices				
- low	€	3.24	4.16	4.78
- high	€	5.42	5.48	7.85
- official year-end	€	4.41	5.19	5.03
Stock market indexes				
DIVIDEND/SHARE PRICE (DIV/P)				
- low	%	3.7	-	2.5
- high	%	6.2	-	4.2
SHARE PRICE/EARNINGS PER SHARE (P/E)				
- low	no.	5.3	6.9	8.5
- high	no.	8.9	9.0	14.0
- official year-end	no.	7.9	9.2	9.0

With regard to the periodic reviews, and in particular to measures relating to reviews of Italian debt (incidentally illustrated in more detail in the introduction), the current situation of the opinions of the rating agencies is shown below:

Agency	Latest review	Short-term debt	Medium/long-term debt	Outlook	Other	Rating
FITCH Ratings	15/05/20	F3	BBB-	Stable	Support Support Rating Floor	5 No floor
Moody's	26/03/20	P-3	Bank Deposits: Baa3 Counterparty Risk Rating: Baa1	Negative		

21. NON-FINANCIAL STATEMENT

The non-financial consolidated declaration of Credito Emiliano S.p.A., drawn up in accordance with Italian Legislative Decree no. 254/16, is a separate report (Non-financial declaration) with respect to this Report on Operations, as envisaged by Art. 5.3, letter b) of Italian Legislative Decree no. 254/16, and is available on the website at www.credem.it in the “Sustainability” section.

22. BUSINESS OUTLOOK AND SIGNIFICANT EVENTS AFTER THE END OF THE YEAR

According to the data of the European Centre for Disease Prevention and Control, as at 29 January 2021, more than 99.7 million people in the world have contracted the Covid-19 virus and more than 2,1 million people died. The number of infections has exceeded 44 million in the Americas, 32 million in Europe and 19 million in Asia. The pandemic containment measures have heavily impacted economic activity and global trade. Almost everywhere, measures remain in place aimed at curbing the spread of the virus.

In particular, the resurgence of the virus between the end of 2020 and the beginning of 2021 is leading to a progressive downward revision of the GDP expected for 2021 for most countries. It is expected that we will have to continue to live with the virus, limiting the damage in terms of human lives, also in the coming months. Only with the exit from the winter and the progressive vaccine coverage of the public will it be possible to gradually return to normality and emerge from the economic emergency. The experience of last summer indicates that the achievement of health security could result in a strong rebound in economic activity.

The macroeconomic data projections for 2021 available (Prometeia Forecast Report from December 2020, update January 2021) assume annual global GDP at +5.1%, with the US at +3.7% and the EMU at 3.9%.

With regard to the Italian economy, the main dynamics for the full year 2021 are as follows:

- The gross domestic product should increase by 4.8% on an annual basis, also benefiting from the first economic and structural effects linked to the arrival of funds from the Next Generation EU program.
- Household consumption is expected to rise 4.3% by the end of the year. In the first part of the year, it will still be affected by the “closures” in progress, while a more interesting trend is expected in the second part of 2021 when the epidemiological framework will improve, positively influencing the consumption of services.
- Investments should show strong growth overall, with +10.3% yoy. Investments in machinery and means of transport should close the year with +9.1%, while the construction component with +11.7%. In a nutshell, investment trends should benefit from the arrival of European funds aimed at improving digital technologies and the renovation of the building stock. The latter would also benefit from improved energy efficiency linked to the “eco-bonus” measures.
- Exports are expected to reach +8.4% this year, in line with the trend in global trade (forecast at +7.6% in 2021).
- Inflation is expected to be slightly positive (+0.2%).

As regards the main banking aggregates, the following is forecasted:

- After the strong accumulation of deposits recorded in 2020, the improvement in the economic situation should lead to a decrease in current account deposits in the second half of the year due to a greater propensity towards consumption and a lower risk aversion of households who will tend towards more profitable forms of investment. A 2.3% of total deposits and a +2.8% of current account deposits are assumed. For the stock of bonds, a decline of -1.3% is assumed, as the high liquidity made available by the ECB will postpone part of the bond issues by banks to 2022.
- After a very positive trend in the demand for loans by businesses for 2020, the new year should experience a setback (-0.2% on an annual basis), due to the bringing forward of financing decisions last year and therefore the availability of internal resources to finance any investments.
- A positive trend in loans to households is expected (+3.0% in 2021, again on an annual basis).

In a scenario still affected by the effects of the pandemic, banking management may be influenced by certain factors:

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- Extension of the duration of the measures implemented by the Government, the European authorities and the monetary and supervisory institutions.
- Development of financial and stock markets (very sensitive to news on infections and vaccines).
- Evolution of the BTP-Bund spread.
- Dynamics of the Italian political scenario.
- Performance of the banking spread.
- Evolution of credit risk and the weaknesses of individual banks, with effects especially from 2021, when the support measures adopted will be gradually removed.
- Impacts of numerous rules and regulatory measures that are affecting the European financial system.
- Changes in purchasing habits and the use of banking services tried during the lockdown that are accelerating the digital transformation of the institutions, but also, at the same time, that could increase competition from non-banking operators.

Within this challenging general framework, the main medium-term management guidelines are confirmed for the Credem Group, represented by:

- Maintenance of significant rates of commercial development of deposits and, in particular, of the assets under management segment.
- Further strengthening of the insurance sector.
- Selective progress of credit.
- Review of the service model (focusing on a multi-channel approach and digitalisation).
- Distribution and production enhancement of the Wealth Management business (which led, among other things, to the establishment of a Private Banking Hub).
- Confirmation of significant investments in regulatory compliance and development of the information system, as well as significant marketing investments.
- Activation of systematic initiatives aimed at improving the efficiency of processes and structures (also stabilising the processes “tested” during the pandemic).
- Confirmation of a solid risk profile and capital level.
- Further diversification of the securities portfolio to monitor capital volatility.
- Diversification and stabilisation of revenues (assessments are underway to expand the product range, sales channels, additional business lines and integration with the development of ESG products).

In an external context in which a return to economic development is assumed for 2021, especially in the second half of the year, the Group can expect a linear trend as a whole as regards the stable component of revenues, with a growing incidence of the commissions component on the financial component penalised by the downward profitability of the securities portfolio and the effects of competition on the pricing of loans.

With regard to credit risk, this is subject to frequent monitoring and the implementation of early warning systems to promptly detect any deterioration in the scenario. A worsening of creditworthiness, upon expiry of the public support measures, may determine an increase in analytical write-downs, offset by a stabilisation of the component relating to performing loans.

In 2021, the Group will be involved in the process of integrating Caricento, following the completion of the authorisation process. With the merger of the two entities, higher returns are expected for the shareholders thanks to the synergies that will be created, both in terms of higher revenues, related to the broader offer of customer services, and lower costs, favoured by the adoption of a single IT platform owned by Credito Emiliano.

Lastly, it should be emphasised that the operating procedures for performing centralised and commercial activities will continue in compliance with the

prevention measures taken as necessary, both in reference to the personnel of the Group and to customers.



CONSOLIDATED
FINANCIAL
STATEMENTS
AS AT
31/12/2020



STRUCTURE AND CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Group's consolidated financial statements comprise the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in equity, the cash flow statement, the Explanatory notes to the consolidated financial statements and are accompanied by the Report on Operations, as envisaged by international accounting standards IAS/IFRS and by Banca d'Italia Circular no. 262 dated 22 December 2005, and subsequent updates and supplements, which have regulated the annual and consolidated accounts of credit entities and financial institutions.

The Group's consolidated financial statements are drawn up clearly and represent the capital situation, the financial situation and the economic result for the year in a truthful and correct manner.

The purpose of the Explanatory notes to the consolidated financial statements is to illustrate, analyse and in some cases supplement the information contained in the financial statements. They contain the information required by Banca d'Italia Circular no. 262 of 22 December 2005 and subsequent amendments and supplements. Furthermore, all additional information retained necessary to give a truthful and correct representation is also provided.

The figures shown in the tables of the Financial Statements and the Explanatory notes to the consolidated financial statements are in thousands of euro, with the exception of Part L, which is drawn up in millions of euro.

With regard to the structure and content of the financial statements, reference should also be made to Part A1 "General criteria" below.



BALANCE SHEET INCOME STATEMENT

CONSOLIDATED BALANCE SHEET

Assets	31/12/2020	31/12/2019
10. Cash and cash equivalents	145,984	156,020
20. Financial assets measured at fair value through profit or loss	41,764	132,076
a) Financial assets held for trading	21,616	120,933
c) Other financial assets measured at fair value, as per mandatory requirements	20,148	11,143
30. Financial assets measured at fair value through other comprehensive income	3,516,442	6,143,042
35. Financial assets pertaining to insurance companies measured at FV pursuant to IAS 39	6,703,061	6,210,769
40. Financial assets measured at amortised cost	42,662,841	31,672,592
a) Loans to banks	8,309,252	2,032,634
b) Loans to customers	34,353,589	29,639,958
45. Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	1,243,142	1,071,964
50. Hedging derivatives	273,385	260,521
60. Change in value of macro-hedged financial assets (+/-)	130,215	107,754
70. Equity investments	45,690	39,169
80. Reinsurance technical reserves	17,298	16,859
90. Property, plant and equipment	442,225	455,592
100. Intangible assets	444,605	435,669
of which:		
- Goodwill	289,786	288,130
110. Tax assets	403,673	377,549
a) Current	198,126	157,506
b) Deferred	205,547	220,043
130. Other assets	579,920	550,410
Total Assets	56,650,245	47,629,986

continued: CONSOLIDATED BALANCE SHEET

Liabilities and shareholders' equity	31/12/2020	31/12/2019
10. Financial liabilities measured at amortised cost	43,591,800	35,336,715
a) Deposits from banks	8,009,508	5,428,923
b) Deposits from customers	33,081,710	26,877,908
c) Debt securities issued	2,500,582	3,029,884
15. Financial liabilities pertaining to the insurance companies measured at amortised cost pursuant to IAS 39	108,872	53,121
20. Financial liabilities held for trading	18,263	96,486
35. Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	3,698,395	3,450,625
40. Hedging derivatives	365,281	326,808
50. Change in value of macro-hedged financial liabilities (+/-)	200,515	155,168
60. Tax liabilities	196,154	219,631
a) current	61,604	73,196
b) deferred	134,550	146,435
80. Other liabilities	1,002,286	970,544
90. Provision for staff termination indemnity	72,739	77,745
100. Provisions for risks and charges:	153,146	149,939
a) Assets pledged and received as collateral	7,219	4,544
b) Post-retirement benefit obligations	1,714	1,729
c) Other provisions for risks and charges	144,213	143,666
110. Technical reserves	4,108,760	3,909,406
120. Valuation reserves	135,687	96,217
125. Valuation reserves pertaining to insurance companies pursuant to IAS 39	(14,509)	(19,194)
150. Reserves	2,202,834	1,999,600
160. Share premium reserve	283,052	283,052
170. Share capital	332,392	332,392
180. Treasury shares (-)	(7,463)	(9,583)
190. Non-controlling interests (+/-)	446	4
200. Profit (loss) for the year (+/-)	201,595	201,310
Total liabilities and shareholders' equity	56,650,245	47,629,986

CONSOLIDATED INCOME STATEMENT

Item	31/12/2020	31/12/2019
10. Interest income and similar revenues	552,239	586,920
of which: interest income calculated using the effective interest rate method	525,578	534,872
20. Interest expense and similar charges	(66,177)	(106,745)
30. Net interest income	486,062	480,175
40. Fee and commission income	695,881	718,606
50. Fee and commission expenses	(178,536)	(181,713)
60. Net fee and commission income	517,345	536,893
70. Dividends and similar income	473	258
80. Net profit (loss) from trading	25,495	20,256
90. Net profit (loss) from hedging	2,641	(11,519)
100. Gains (Losses) on disposal or repurchase of:	22,707	23,770
a) Financial assets measured at amortised cost	16,656	11,633
b) Financial assets measured at fair value through other comprehensive income	6,048	12,044
c) Financial liabilities	3	93
110. Net result of other financial assets and liabilities measured at fair value through profit or loss	(317)	(157)
b) Other financial assets measured at fair value, as per mandatory requirements	(317)	(157)
115. Net profit (loss) from financial assets and liabilities pertaining to insurance companies pursuant to IAS 39	128,431	142,726
120. Net interest and other banking income	1,182,837	1,192,402
130. Net value adjustments/recoveries for credit risk of:	(102,819)	(61,959)
a) Financial assets measured at amortised cost	(103,944)	(62,835)
b) Financial assets measured at fair value through other comprehensive income	1,125	876
135. Net value adjustments (recoveries) pertaining to insurance companies pursuant to IAS 39	(411)	(1,203)
140. Profits/losses from contractual changes without derecognitions	(741)	(266)
150. Net profit from financial activities	1,078,866	1,128,974
160. Net premiums earned	474,760	392,479
170. Net other operating income/charges from insurance activities	(489,075)	(408,857)
180. Net profit from financial and insurance activities	1,064,551	1,112,596
190. Administrative costs	(844,864)	(848,147)
a) Personnel expenses	(513,117)	(510,265)
b) Other administrative expenses	(331,747)	(337,882)
200. Net provisions for risks and charges	(13,476)	(15,282)
a) For credit risk relating to commitments undertaken and guarantees given	(4,761)	(500)
b) Other net provisions	(8,715)	(14,782)
210. Net value adjustments to (recoveries on) property, plant and equipment	(41,157)	(42,532)
220. Net value adjustments to (recoveries on) intangible assets	(45,247)	(39,409)
230. Other operating income/charges	124,179	123,479
240. Operating expenses	(820,565)	(821,891)
250. Gains (Losses) on equity investments	6,453	3,689
280. Gains (Losses) on disposals of investments	2,087	1,993
290. Profit (Loss) before tax from continuing operations	252,526	296,387
300. Tax expense (recovery) on income from continuing operations	(50,797)	(95,077)
310. Profit (Loss) after tax from continuing operations	201,729	201,310
330. Profit (Loss) for the year	201,729	201,310
340. Profit (Loss) for the year attributable to non-controlling interests	(134)	-
350. Parent Company's profit (loss) for the year	201,595	201,310

Item	31/12/2020	31/12/2019
Basic Earnings per Share (basic EPS)	0.61	0.61
Diluted Earnings per Share (diluted EPS)	0.61	0.61

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Item	31/12/2020	31/12/2019
10. Profit (Loss) for the year	201,729	201,310
Other income after tax without reversal to Income Statement	(1,244)	(2,073)
20. Equity securities measured at fair value through other comprehensive income	139	1,704
30. Financial liabilities measured at fair value through profit or loss (changes to own credit rating)	-	-
40. Coverage of equity securities measured at fair value through other comprehensive income	-	-
50. Property, plant and equipment	-	-
60. Intangible assets	-	-
70. Defined benefit plans	(1,383)	(3,777)
80. Non-current assets and groups of assets held for sale and discontinued operations	-	-
90. Share of valuation reserves of equity investments valued at equity	-	-
Other income after tax with reversal to Income Statement	46,056	181,529
100. Hedge of foreign investments	-	-
110. Exchange differences	-	-
120. Cash flow hedges	12,760	34,855
130. Hedging instruments (elements not designated)	-	-
140. Financial assets (other than equity securities) measured at fair value through other comprehensive income	27,949	96,728
145. Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	4,685	48,463
150. Non-current assets and groups of assets held for sale and discontinued operations	-	-
160. Share of valuation reserves of equity investments valued at equity	662	1,483
170. Total other income after tax	44,812	179,456
180. Comprehensive income (Item 10+170)	246,541	380,766
190. Consolidated comprehensive income attributable to non-controlling interests	129	-
200. Consolidated comprehensive income attributable to Parent Company	246,412	380,766

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Balance sheet as at 31/12/2019	Initial balance changes	Balance sheet as at 01/01/2020	Allocation of previous year's results		Changes during the year										Group shareholders' equity as at 31/12/2020	Shareholders' equity of non- controlling interests as at 31/12/2020
						Changes in reserves	Transactions on shareholders' equity								Comprehensive income for the year 31/12/2020		
				Reserves	Dividends and other allocations		Issue of new shares	Purchase of treasury shares	Extraordinary dividend distribution	Changes in equity instruments	Derivatives on treasury shares	Stock options	Changes in shareholdings				
Share capital	332,394	X	332,394	-	X	X	-	-	X	X	X	X	33	X	332,392	35	
- ordinary shares	332,394	X	332,394	-	X	X	-	-	X	X	X	X	33	X	332,392	35	
- other shares	-	X	-	-	X	X	-	-	X	X	X	X	-	X	-	-	
Share premium reserve	283,053	X	283,053	-	X	-	-	X	X	X	X	X	-	X	283,052	1	
Reserves	1,999,601	-	1,999,601	201,310	X	3,391	-	(2,120)	-	X	X	X	283	662	2,202,834	293	
- profit	1,999,601	-	1,999,601	201,310	X	3,391	-	(2,120)	-	X	X	X	283	662	2,202,834	293	
- other	-	-	-	-	X	-	-	X	-	X	X	X	-	X	-	-	
Valuation reserves	77,023	-	77,023	X	X	-	X	X	X		-	-	(12)	44,150	121,178	(17)	
Equity instruments	-	X	-	X	X	X	X	X	X	-	X	X	-	X	-	-	
Treasury shares	(9,583)	X	(9,583)	X	X	X	-	2,120	X	X	X	X	X	X	(7,463)	-	
Profit (Loss) for the year	201,310	-	201,310	(201,310)	-	X	X	X	X	X	X	X	X	201,729	201,595	134	
Group shareholders' equity	2,883,794	-	2,883,794	-	-	3,391	-	-	-	-	-	-	(9)	246,412	3,133,588	-	
Shareholders' equity of non-controlling interests	4	-	4	-	-	-	-	-	-	-	-	-	313	129	-	446	

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Balance as at 31/12/2018	Initial balance changes	Balance as at 01/01/2019	Allocation of previous year's results		Changes during the year									Shareholders' equity as at 31/12/2019	Shareholders' equity of non- controlling interests as at 31/12/2019
						Changes in reserves	Transactions on shareholders' equity							Comprehensive income for the year		
				Reserves	dividends and other allocations		Issue of new shares	Purchase of treasury shares	Extraordinary dividend distribution	Changes in equity instruments	Derivative s on treasury shares	Stock options	Changes in shareholdings			
Share capital:	332,394	X	332,394	-	X	X	-	-	X	X	X	-	-	-	332,392	2
a) Ordinary shares	332,394	X	332,394	-	X	X	-	-	X	X	X	-	-	-	332,392	2
b) other shares	-	X	-	-	X	X	-	-	X	X	X	-	-	-	-	-
Share premium reserve	283,053	X	283,053	-	X	-	-	X	X	X	X	-	-	-	283,052	1
Reserves:	1,876,868	-	1,876,868	120,341	X	2,629	-	(1,720)	-	X	X	-	-	1,483	1,999,600	1
a) profit	1,876,868	-	1,876,868	120,341	X	2,629	-	(1,720)	-	X	X	-	-	1,483	1,999,600	1
b) other	-	-	-	-	X	-	-	X	-	X	X	-	-	-	-	-
Valuation reserves	(100,950)	-	(100,950)	X	X	-	X	X	X	-	-	-	-	177,973	77,023	-
Equity instruments	-	X	-	X	X	X	X	X	X	-	X	-	-	-	-	-
Treasury shares	(5,103)	X	(5,103)	X	X	X	-	(4,480)	X	X	X	X	X	-	(9,583)	-
Profit (Loss) for the year	186,660	-	186,660	(120,341)	(66,319)	X	X	X	-	X	X	X	X	201,310	201,310	-
Group shareholders' equity	2,572,918	-	2,572,918	-	(66,319)	2,629	-	(6,200)	-	-	-	-	-	380,766	2,883,794	-
Shareholders' equity of non- controlling interests	4	-	4	-	-	-	-	-	-	-	-	-	-	-	-	4

CONSOLIDATED CASH FLOW STATEMENT (Indirect method)

A. OPERATING ACTIVITIES	Amount	
	31/12/2020	31/12/2019
1. Cash flow from operations	120,728	263,488
- profit (loss) for the year (+/-)	201,595	201,310
- capital gains/losses on financial assets held for trading and on other assets/liabilities measured at fair value through profit or loss (-/+)	(47,541)	24,303
- capital gains/losses on hedging operations (-/+)	(2,641)	11,519
- net value adjustments/recoveries for credit risk (+/-)	128,531	91,097
- net value adjustments to (recoveries on) property, plants and equipment and intangible assets (+/-)	86,404	81,941
- net provisions for risks and charges and other expenses/income (+/-)	13,476	15,282
- not cashed net premiums (-)	(551)	(989)
- other insurance income/charges not collected (-/+)	(2,389)	(2,477)
- taxes, duties and tax credit not paid or collected (+/-)	-	35,862
- other adjustments (+/-)	(256,156)	(194,360)
2. Cash flow from (used in) financial assets	(8,705,914)	(3,819,500)
- financial assets held for trading	147,191	(20,435)
- other assets measured at fair value, as per mandatory requirements	(9,327)	7,883
- financial assets measured at fair value through other comprehensive income	2,717,051	(525,638)
- financial assets measured at amortised cost	(11,153,509)	(3,025,590)
- other assets	(407,320)	(255,720)
3. Cash flow from (used in) financial liabilities	8,642,559	3,690,554
- financial liabilities measured at amortised cost	8,287,857	3,427,359
- financial liabilities held for trading	(78,223)	(3,311)
- other liabilities	432,925	266,506
Net cash flow from (used in) operating activities	57,373	134,542
B. INVESTMENT ACTIVITIES		
1. Cash flow from:	16,686	1,699
- sales of property, plant and equipment	16,686	1,699
2. Cash flow used in:	(86,215)	-64,239
- purchases of equity investments	(370)	(357)
- purchases of property, plant and equipment	(39,033)	(23,713)
- purchases of intangible assets	(46,812)	(40,169)
Net cash flow from (used in) investment activities	(69,529)	(62,540)
C. FUNDING ACTIVITIES		
- issue/purchase of treasury shares	2,120	(4,480)
- dividend distribution and other	-	(66,319)
Net cash flow from (used in) funding activities	2,120	(70,799)
NET CASH FLOW FROM (USED IN) FUNDING ACTIVITIES IN THE YEAR	(10,036)	1,203

RECONCILIATION

<i>Item</i>	Amount	
	31/12/2020	31/12/2019
Cash and cash equivalents at the beginning of the year	156,020	154,817
Net increase (decrease) in cash and cash equivalents	(10,036)	1,203
Cash and cash equivalents at the end of the year	145,984	156,020

EXPLANATORY NOTES

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Part A – Accounting policies

Part B – Information on the consolidated balance sheet

Part C – Information on the consolidated income statement

Part D – Consolidated statement of comprehensive income

Part E – Information on risks and hedging policies

Part F – Information on consolidated shareholders' equity

Part G – Business combinations

Part H – Related party transactions

Part I – Share-based payments

Part L – Segment reporting

Part M – Leases

The Explanatory notes to the consolidated financial statements are drawn up in thousands of euro, with the exception of Part L, which is drawn up in millions of euro.



PART A

ACCOUNTING POLICIES

A.1- GENERAL CRITERIA

Section 1 - Statement of compliance with international accounting standards

The Consolidated Financial Statements have been drawn up in full compliance with all International Accounting Standards (IAS/IFRS) issued by the International Accounting Standard Board and the related interpretations from the International Financial Reporting Interpretation Committee in force as at 31 December 2015 and approved by the European Commission under the procedure established in the EU regulation no. 1606/2002 of 19 July 2002, as well as the provisions issued pursuant to Art. 9 of Italian Legislative Decree no. 38/2005 and of Art. 43 of Italian Legislative Decree of 18 August 2015, no. 136.

It should also be noted that Banca d'Italia, having the powers to define the financial statements and the Explanatory notes to the consolidated financial statements, issued the 6th update of Circular 262/2005 "Bank financial statements: schedules and rules for completion" on 30 November 2018, which provides for the introduction of new items, detailed later.

Banca d'Italia, with its communication of 15 December 2020, ordered additions to the provisions of Circular no. 262 concerning the impacts of Covid-19 and measures to support the economy and amendments to IAS/IFRS.

In relation to the temporary nature of the Covid-19 emergency and the support measures, the additions to the related financial statements remain in force until otherwise communicated by Banca d'Italia; those referring to the reform of the reference indices will be incorporated in Circular 262 at future updates.

The accounting standards adopted for the preparation of these financial statements, with reference to the phases of classification, recognition, measurement and derecognition of financial assets and liabilities, as well as for the methods of recognition of revenues and costs, have not changed with respect to those adopted for the preparation of the 2019 Financial Statements of the Credem Group.

Section 2 - General criteria for the preparation of the Consolidated Financial Statements

The consolidated financial statements have been drawn up on the basis of the "Instructions for the drawing up of the separate financial statements and the consolidated financial statements of banks and financial companies parent company of banking groups" issued by Banca d'Italia by means of Provision dated 22 December 2005 and subsequent updates.

The Consolidated Financial Statements comprise the Balance Sheet, the Income statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Cash Flows Statement and the Explanatory notes to the financial statements and the related comparative information as at 31 December 2020. The report is also accompanied by a Report on Operations, on the economic results achieved and on the Credem Group's capital and financial position.

The Financial Statements have been drawn up under the general standards established by IAS 1 and the specific accounting standards approved by the European Commission and described in Part A.2 of these Explanatory notes to the consolidated financial statements, and also in compliance with the general principles established by the Systematic Framework for the drafting and presentation of accounts produced by the IASB.

No exemptions have been made from the application of IAS/IFRS.

In compliance with the provisions of Art. 5, paragraph 2 of Italian Legislative Decree no. 38 of 28 February 2005, the Financial Statements have been drawn up using the euro as the reporting currency, and are based on the adoption of the following general standards for the preparation of Financial Statements established by IAS 1:

- Going concern. Directors consider the assumption of a going concern to be appropriate, as, in their opinion, there are no uncertainties relating to events or circumstances which, considered individually or as a whole, could cast doubts over the continuation of the

business. As a result, assets, liabilities and “off-balance sheet” transactions are valued in accordance with the operational features, since they are expected to continue in operation for the foreseeable future.

- Accrual basis of accounting. Costs and revenues are recognised, irrespective of the time of their monetary settlement, according to the principles of economic accrual and correlation.
- Consistency of presentation. The presentation and classification of the items are maintained constant over time in order to guarantee the comparability of the information, unless their change is required by an international accounting standard or an interpretation, or it renders the presentation of their values more appropriate, in terms of significance and reliability. If the presentation or classification criteria are changed, the new criterion, where possible, applies retroactively; in this case, the nature and reason for the change is indicated, as well as the pertinent items. The formats established by Banca d'Italia for the financial statements of banks, outlined in Circular no. 262 of 22 December 2005 and subsequent amendment and integrations, have been used for the presentation and classification of the items.
- Materiality and aggregation. All the significant groups of items with a similar nature or function are reported separately. Items with a different nature or function, if significant, are presented individually.
- No offsetting. Financial assets and liabilities, and costs and revenues are not offset against each other, unless required or permitted by an international accounting standard or an interpretation or by the schedules produced by Banca d'Italia for the financial statements of banks.
- Comparative information. The comparative information from the previous period is presented for all figures included in the comparative Financial Statements. The amendments to the comparative data are made only when considered to be of a significant amount.

Where applicable, the interpretative documents supporting the application of the accounting standards in relation to the impacts of Covid-19, issued by the European regulatory and supervisory bodies and by the standard setters, were taken into account. They refer to the following, among others:

- the EBA communication of 25 March 2020 “Statement on the application of the prudential framework regarding Default, Forbearance and IFRS 9 in light of Covid-19 measures”;
- the communication of the ESMA of 25 March 2020 “Public Statement. Accounting implications of the Covid-19 outbreak on the calculation of expected credit losses in accordance with IFRS 9”;
- the IFRS Foundation document of 27 March 2020 “IFRS 9 and Covid-19 - Accounting for expected credit losses applying IFRS 9 Financial Instruments in the light of current uncertainty resulting from the Covid-19 pandemic”;
- the letter of the ECB of 1 April 2020 “IFRS 9 in the context of the coronavirus (Covid-19) pandemic” addressed to all significant institutions;
- the EBA guidelines of 2 April 2020 “Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the Covid-19 crisis”;
- the communication of the ESMA of 20 May 2020 “Implications of the Covid-19 outbreak on the half-yearly financial reports”;
- the EBA guidelines of 2 June 2020 “Guidelines on reporting and disclosure of exposures subject to measures applied in response to the Covid-19 crisis”;
- the communication of the ESMA of 28 May 2020 “European common enforcement priorities for 2020 annual financial reports”;
- the EBA guidelines of 2 December 2020 “Guidelines amending Guidelines EBA/GL/2020/02 on legislative and non-legislative moratoria on loan repayments applied in the light of the Covid-19 crisis”;
- the letter of the ECB of 4 December 2020 “Identification and measurement of credit risk in the context of the coronavirus (Covid-19) pandemic” addressed to all significant institutions.

Accounting standards

Main accounting standards and interpretations approved by the European Union whose application has become mandatory from 2020

On 28 May 2020, the IASB issued the document Amendment to IFRS 16 Leases Covid-19 Related Rent Concessions, in order to provide for optional and temporary operational support related to Covid-19 for lessees who benefit from suspension of payments due for their leases. The amendment clarifies the circumstance for which the lessee, as a practical expedient, can consider that the specific reductions in lease instalments (as a direct consequence of Covid-19) may not be considered as changes in the plan, and therefore account for them accordingly. The amendment entered into force on 1 June 2020, however, the option to apply it early as from 1 January 2020 was exercised.

On 22 October 2018, the IASB published the Definition of a Business (Amendments to IFRS 3), with the objective of helping to determine whether a transaction is an acquisition of a business or of a group of assets that does not meet IFRS 3's definition of business.

On 26 September 2019, the IASB published the Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7), which amends the provisions on hedge accounting of IFRS 9 and IAS 39 aimed at providing temporary exemptions from the application of certain provisions on hedge accounting for all hedging relationships directly impacted by the reform on benchmark interest rates. The amendments represent the IASB's response to the reform of the IBOR.

On 31 October 2018, the IASB published the Definition of Material document (Amendments to IAS 1 and IAS 8), the objective of which is to clarify the definition of "material" to help companies to assess whether information is to be included in the financial statements. In particular, information must be considered material if it can reasonably be presumed that the relative omission, incorrect presentation or concealment affects the main users of the financial statements when making decisions on the basis of the same.

On 29 March 2018, the IASB published the revised version of the Conceptual Framework for Financial Reporting. The main changes concern:

- a new chapter on measurement and reporting rules for financial results;
- better definitions and guidance, in particular with regard to the definition of liabilities;
- clarification of important concepts, such as stewardship, prudence and uncertainty in valuations.
- A document that updates the references contained in the IFRS to the previous Conceptual Framework has also been published.

Main accounting standards and interpretations approved by the European Union but that do not apply as at 31 December 2020 and for which the Bank and the Group have not opted for early application, where such is envisaged

On 27 August 2020, the IASB published the Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform - Phase 2 document to take into account of the consequences of the actual replacement of reference indices on financial disclosures in the period preceding the replacement of a reference index for the determination of existing interest rates with alternative reference interest rates. These amendments provide for a specific accounting treatment to spread the changes in the value of financial instruments or lease contracts due to the replacement of the reference index for the determination of interest rates over time, thus avoiding immediate repercussions on the profit (loss) of the year and unnecessary terminations of hedging relationships following the replacement of the reference index for the determination of interest rates.

The date of entry into effect is 1 January 2021.

On 25 June 2020, the IASB published the Amendments to IFRS 4 Insurance Contracts - deferral of IFRS 9 document.

Currently, pursuant to IFRS 4 Insurance Contracts, the effective date for applying IFRS 9, due to the temporary exemption, is 1 January 2021.

The Exposure Draft on the amendments to IFRS 17, published in May 2019, proposed extending the temporary exemption from IFRS 9 by one year. Subsequently, on the basis of reconsiderations by the IASB, the date of entry into force of IFRS 9 was further extended to 1 January 2023 to align with the effective date of IFRS 17 Insurance Contracts. In this regard, on 25 June 2020, the IASB issued the Extension of the Temporary Exemption from Applying IFRS 9 document (Amendments to IFRS 4). The date of entry into effect is 1 January 2021.

IFRS accounting standards, amendments and interpretations not yet approved by the European Union

On 18 May 2017, the IASB published IFRS 17 - Insurance Contracts, a new comprehensive standard relating to insurance contracts that covers recognition and measurement, presentation and disclosure. When it comes into force, IFRS 17 will replace IFRS 4 - Insurance Contracts, which was issued in 2005. IFRS 17 applies to all types of insurance contracts regardless of the type of entity that issues them, as well as to some guarantees and financial instruments with discretionary participation characteristics. IFRS 17 will be in force for the years beginning on 1 January 2023 (as amended on 25 June 2020), and will require the presentation of comparative balances.

Furthermore, on 25 June 2020, the IASB published the document Amendments to IFRS 17 Insurance Contracts to:

- reduce costs by simplifying some requirements of the Standard;
- make financial performance easier to explain;
- facilitate the transition by postponing the date of entry into effect of the Standard to 2023 and providing additional support to reduce the effort required by the first application of IFRS 17.

On 23 January 2020 and 15 July 2020, the IASB published the documents Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current - deferral of effective date. There was no introduction of amendments to existing rules, but clarification is provided on the classification of payables and other liabilities as current (due or potentially due within the year) and non-current. The amendments also provide clarification on the classification of the payables that a company may settle through conversion into equity. The envisaged date of application of the amendments has been set at 1 January 2023.

On 14 May 2020, the IASB published some amendments to the following IFRSs, applicable from 1 January 2022:

- Amendments to IFRS 3 Business Combinations: updates the reference in IFRS 3 to the revised Conceptual Framework, without resulting in changes to the provisions of the standard.
- Amendments to IAS 16 Property, Plant and Equipment: the changes do not allow the amount received from the sale of goods produced before the asset was ready for use to be deducted from the cost of the fixed asset. These sales revenues and the related costs will be recognised in the income statement.
- Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets: clarifies which cost items must be considered to assess whether a contract will be loss-making.
- 2018 - 2020 Annual Improvements: changes were made to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples provided with IFRS 16 Leases.

IFRS 14 Regulatory Deferral Accounts. The European Community decided not to launch the endorsement process for the provisional version of the standard IFRS 14 Regulatory Deferral Accounts, issued on 30 January 2014, and decided to await the final version of the accounting standard.

Consob notice no. 1/21 of 16 February 2021 concerning: Covid-19 - measures to support the economy - Notice of the disclosure to be provided to the 2020 financial statements drawn up in compliance with international accounting standards

All the information required by the aforementioned communication is provided in the Report on Operations and in the Explanatory notes to these consolidated financial statements.

Contents of the Financial Statements

Balance Sheet, Income Statement and Statement of Comprehensive Income

The balance sheet and income statement are made up of items, sub-items and additional information (the “of which” in the items and sub-items). In the income statement, revenues are presented as positive numbers without signs and costs as negative numbers in brackets. Positive and negative income components included in the statement of comprehensive income are presented in the same way.

The financial statements provide corresponding comparative figures of the balance sheet of the previous year, while the income statement figures and the statement of comprehensive income figures refer to the same period of the previous year.

Statement of Changes in Equity

The statement of changes in equity has been drawn up in accordance with the provisions of Circular no. 262/2005 of Banca d'Italia, as amended. The statement presents the breakdown and movements for the shareholders' equity accounts for the period covered by the financial statements and the previous period, split between share capital, capital reserves, profit reserves, asset and liability valuation reserves and net profit or loss. Treasury shares in the portfolio, if present, are deducted from shareholders' equity. Equity instruments other than ordinary shares have not been issued.

Cash Flow Statement

The cash flows statement provides information that enables users to assess changes in the company's assets, its financial structure (including liquidity and solvency) and its ability to influence the size and the timing of cash flows with a view to adapting the same to circumstances and opportunities.

IAS 7 establishes that the cash flow statement may be drawn up using either the “direct” or “indirect” method.

As envisaged by the instructions of Circular no. 262/05, Banca d'Italia therefore proposes two alternative cash flow statement schedules, in which the cash flows related to operating activities are shown with the direct and indirect method, without indicating a preference for either, leaving the decision to the party preparing the financial statements.

The cash flow statement for the reference period of the financial statements and for that of the previous year was prepared using the indirect method, according to which cash flows from operating activities are represented by the result for the year, adjusted for the effects of non-monetary transactions.

Cash flows are broken down into those deriving from operating activities, those generated from investing activities and those generated from funding activities.

The cash inflows generated during the period are presented in the statement as positive numbers without signs, and the cash outflows as negative numbers in brackets.

Contents of the Explanatory notes to the financial statements

The Explanatory notes to the financial statements contain the information required by Circular no. 262/2005 of Banca d'Italia, as amended and supplemented, and the additional information required by international accounting standards.

In compliance with the provisions of Art. 5 of Italian Legislative Decree no. 38 of 28 February 2005, the Financial Statements have been drawn up using the euro as the reporting currency: the financial statement schedules are drawn up in units of euro while the Explanatory notes are in thousands of euro.

Section 3 - Scope and methods of consolidation

The Consolidated Financial Statements of the Credem Group include the Financial Statements of Credito Emiliano S.p.A. and the companies it directly controls. Companies operating in different business segments than that of the Parent Company have also been included within the scope of consolidation. Similarly, the special purpose entities or vehicles (SPE/SPV) have also been included when an effective controlling interest exists, irrespective of whether equity investments are held.

Companies are considered subsidiaries when the Parent Company, directly or indirectly, holds more than half of the voting rights or when it has a lower portion of voting rights, but has the power to appoint the majority of directors of the investee company or determine its financial or operating policies. The assessment of the number of voting rights also takes into account “potential” rights if they are currently exercisable or convertible into effective voting rights at any time.

Companies are considered to be subject to joint control if their voting rights and the control of their economic activities are equally shared by Credem, directly or indirectly, and another party. An equity investment is classed as being under joint control when, even though voting rights are not equally shared, control over the investee company’s economic activities or business policies is shared with other parties by virtue of contractual agreements.

Companies are considered as associated, that is, subject to significant influence, when the Parent Company, directly or indirectly, holds at least 20% of the voting rights (including “potential” voting rights as defined above) or when – even with a lower amount of voting rights – it has the power to determine the financial and management policies of the investee company by virtue of specific legal relationships such as participation in shareholders’ agreements.

Subsidiaries are consolidated on a line-by-line basis, whereas minority interests and joint ventures are consolidated using the equity method.

Criteria and principles of consolidation

The following criteria were adopted in the preparation of the consolidated financial statements:

- upon first consolidation, the book value of equity investments in line-by-line or proportionally consolidated companies is offset against the shareholders’ equity of said companies (or rather the portion of shareholders’ equity that said equity investments represent). Accounting for purchases in companies takes place according to the “purchase method”, as defined by IFRS 3, with recognition of the assets, liabilities and contingent liabilities of companies acquired at fair value as at the acquisition date, which is the moment in which effective control of the acquired company is achieved. Hence, the financial results of a subsidiary acquired during the reference period are included in the consolidated financial statements starting from the acquisition date. Similarly, the financial results of a subsidiary that has been sold are included in the consolidated financial statements until the date in which control ceases;
- any surpluses in the book value of equity investments, as per the previous point, compared to the corresponding portion of shareholders’ equity, adjusted to the fair value of assets or liabilities, are recorded as goodwill under “Intangible assets” if positive and to the income statement if negative;
- any purchases of additional equity investments subsequent to the acquisition of control are specifically regulated by IAS 27; any positive or negative differences, as defined above, that arise following said acquisition are recorded directly to equity;
- the adequacy of the goodwill value (impairment testing) is assessed on the date of the financial statements (or each time there is evidence of impairment). To this end, the cash-generating unit that produces the cash flow and to which goodwill is attributed is identified. The amount of the impairment is calculated as the negative difference, if any, between the goodwill value recorded and its recoverable amount, equal to the greater of fair value of the cash-generating unit, net of any sales costs, and the asset’s relative value in use. The subsequent value adjustments are recorded in the income statement;
- asset, liability and income statement items are acquired on a “line-by-line basis”;

- debit and credit positions, off-balance sheet transactions and income, charges, profits and losses arising from relations between companies consolidated on a line-by-line basis cancel each other out;
- portions of shareholders' equity and profits for the year belonging to minority shareholders of the consolidated companies are included in the relative sections under liabilities in the balance sheet and in the income statement, respectively;
- the approved separate financial statements of the single companies were used for consolidation of the companies on a line-by-line basis, adjusted, if necessary, to comply with international accounting standards used in the preparation of the consolidated financial statements;
- the book value of significant equity investments held by the Parent Company, or by other Group companies, regarding companies consolidated with the equity method is compared to the relative portion of shareholders' equity of the investee companies. Any excess in the book value – resulting from first-time adoption in the consolidated financial statements – is included in the book value of the investee company. The changes in equity value that took place in the years subsequent to the year of first time adoption are recorded under item 250 of the consolidated income statement ("gains (losses) on equity investments"), to the extent in which said changes refer to profits or losses of the investee companies;
- if there is evidence that the value of a significant equity investment may have fallen, the recoverable amount of the equity investment is estimated, taking into account the present value of future cash flows that the equity investment may generate, including the final disposal value of the investment. If the recovery amount is lower than the book value, the difference is recorded in the income statement;
- for the consolidation of equity investments in associated companies, where available, the draft financial statements as at 31 December 2020, approved by the respective Board of Directors, were used; alternatively the figures from the last approved financial statements (usually those as at 31 December 2019) were used.

Equity investments in subsidiaries and associated companies (consolidated under the equity method)

Company Name	Registered Office	Type of relationship	Shareholding Relationship		Voting Rights %
			Investing Company	%	
A. Companies					
A. 1 Consolidated line-by-line					
1. Credemleasing spa	Reggio Emilia	1	Credito Emiliano	99.90%	
			Magazzini Generali delle Tagliate	0.10%	
2. Credemfactor spa	Reggio Emilia	1	Credito Emiliano	99.00%	
			Credemleasing	1.00%	
3. Credem Private Equity SGR spa	Reggio Emilia	1	Credito Emiliano	87.50%	
			Banca Euromobiliare	12.50%	
4. Euromobiliare Asset Management SGR spa	Milan	1	Credito Emiliano	100.00%	
5. Euromobiliare Advisory SIM spa	Milan	1	Credito Emiliano	100.00%	
6. Credemtel spa	Reggio Emilia	1	Credito Emiliano	100.00%	
7. Avvera spa	Reggio Emilia	1	Credito Emiliano	100.00%	
8. Magazzini Generali delle Tagliate spa	Reggio Emilia	1	Credito Emiliano	100.00%	
9. Banca Euromobiliare spa	Milan	1	Credito Emiliano	100.00%	
10. Euromobiliare Fiduciaria spa	Milan	1	Credito Emiliano	100.00%	
11. Credemvita spa	Reggio Emilia	1	Credito Emiliano	100.00%	
12. Gestimlux sarl	Luxembourg	1	Credito Emiliano	100.00%	
13. Sata srl	Modena	1	Credemtel	75.00%	
14. Credem CB srl	Conegliano	1	Credito Emiliano	70.00%	
A. 2 Consolidated using the equity method					
1. Credemassicurazioni spa	Reggio Emilia	2	Credito Emiliano	50.00%	
2. Andxor srl	Cinisello Balsamo	3	Credemtel	20.00%	
3. Blue Eye Solutions srl	Montechiarugolo	3	Credemtel	20.00%	
4. Gruppo Santamaria spa	Catania	3	Avvera	10.00%	

Key

Type of relationship:

1 = majority of the voting rights of ordinary Shareholders' Meeting

2 = joint control

3 = associated companies

Avvera spa holds 10% of Gruppo Santamaria spa "GSM". The share capital of GSM is held by Avvera through special "B Shares", which in addition to the rights attributed by Law to ordinary shares, also have the following rights:

- the right to designate, for appointment, a member of the Board of Directors;
- the right to designate, for appointment, as a member of the Board of Statutory Auditors, a Standing Auditor, who will act as Chairman, and an Alternate Auditor;
- presentation to the Shareholders' Meeting of a proposal to revoke the independent auditor engaged to audit the accounts of GSM,
- the right to condition a series of resolutions of the shareholders' meeting to its favourable vote, such as amendments to the Articles of Association, the increase or decrease of share capital, mergers and spin-offs, the determination of change of the remuneration of directors and statutory auditors, the approval of incentive plans for directors, executives and employees.

Since within GSM, there are no director votes which prevail over those of other directors, the appointment of company representatives does not give any shareholder the predominance over company decisions.

In this context, for GSM:

- Avvera does not hold the majority of voting rights, and is not able to take corporate decisions alone, as it does not have the practical ability to unilaterally direct the relevant activity of the investee, for which the agreement of the other shareholders is always necessary;
- With regard to specific topics, Avvera has the power to veto the decisions of the other shareholders, meaning that without the favourable vote of Avvera, also the other shareholders in possession of the remaining 90% of the share capital cannot influence the company.

With regard to GSM, Avvera's position is therefore that of:

- of a party which is exposed to variable returns and which in any event has rights to said possible returns;
- which has the ability to influence said returns only by exercising its power to veto the decisions of the other shareholders.

Section 4 - Significant events subsequent to the reporting period

See the detailed description in the Report on Operations, in the chapter "Forecast on operations and significant events subsequent to year end".

Pursuant to IAS 10, the Financial Statements were authorised for publication by the Board of Directors of the Bank on 11 March 2021.

In particular, with reference to the shares of the company Cedacri, classified under item 30 "Financial assets measured at fair value through other comprehensive income", on 5 March 2021 an agreement was signed for the sale of 100% of the share capital of Cedacri to ION Investment Group Limited. In this context, Credito Emiliano will sell its share corresponding to 3.9% of the share capital, which will give rise to a total gross capital gain of approximately € 39.3 million which is expected to be realised in 2021 based on the timing expected by the agreement.

In accordance with IAS 10, the elements referred to in the previous point do not entail adjustments to the financial statements as at 31 December 2020 and will be taken into consideration, on the basis of both the policy in force and the clauses set forth in the final contractual documentation, in the measurement of the financial capital instruments measured at fair value not listed on an active market, therefore allocated in the level 3 fair value hierarchy.

Section 5 - Other matters

Risks, uncertainties and impacts of the Covid-19 epidemic

The severe crisis brought about by the Covid-19 pandemic that affected the country, and then the rest of the world, had an impact on all banking groups: the government decrees and support measures put in place by both the Italian government and the European Authorities to manage the resulting economic and financial emergency involved the banks, which became one of the key players in implementing support measures for households and businesses. This role has had substantial repercussions, both in reference to lending strategies and to operations and processes that banks, and therefore also Credem, have had to set up under emergency conditions. At the same time, reporting to Supervisory Authorities has also intensified, as there have been and will be repercussions also with regard to valuation aspects and methods for applying accounting standards.

The situation that, during the summer months, had appeared calmer, saw a resurgence of the epidemic starting from autumn. Fears of a new increase in viral spread led to both an increase in the attention threshold with regard to security measures, and a greater effort of the structure to maintain suitable levels of service to customers.

The task force that reports to the Board of Directors, comprising the management of some key functions (Security, Human Resources, Sales Management), aimed at monitoring the epidemiological developments within the Group on a daily basis, met periodically to implement the necessary organisational measures in situ to ensure continuing operations.

In all branches, access to advisory services is by appointment, while access to cash services is free, maintaining the necessary distance.

Security measures and rules of conduct are in force in all Group offices, while remote working, now widespread, remains, for all compatible roles, the priority to maintain operational continuity and at the same time preserve the safety of employees and safeguarding the health of customers.

The functions in charge have been constantly and proactively committed to assessing the prospective impacts of the pandemic, albeit in a context that is still characterised by high degrees of uncertainty and accompanied by a constantly evolving regulatory framework.

One of the primary objectives was also to support the networks and customers in the application of additional support measures which, following the approval of the budget law, on 30 December 2020, were extended, albeit with some changes compared to the original provisions.

The primary activities that the Group has implemented as part of the reaction to the phase of uncertainty that has emerged since the end of February are described below in more detail.

"PANDEMIC MANAGEMENT" SCHEME				
INTERVENTION AREA	BUSINESS CONTINUITY	MONITORING, PLANNING AND CONTROL	SUPPORT TO STAKEHOLDERS	GOVERNANCE AND COMMUNICATION
ACTIVITIES	Activation of the Crisis Committee on business continuity issues, safety in the workplace, staff organization, cyber risk, monitoring of supplier service levels	Increase of monitoring activities (indicators of risk appetite framework, liquidity, commercial trends)	Adherence to state projects on customer support (eg: Moratoria and Guarantees)	Dedicated information on the company website and on corporate social networks
	Remote Working as an approach of preference for all "eligible Workers" Customer support activities (e.g. advisory via hangouts, digitalization of commercial processes)	Monthly adjustment of the forecast for 2020, with impact analyses taking into account different scenarios	Support to employees (psychological, insurance policy extension)	A "Covid19 Bulletin" created in favor of employees, containing information regarding the prevention and safety rules governing working methods
	Workplace safety and cyber risk	"Covid-19 Reporting" institutionalized with the European Central Bank, structured on different templates: detailed information on monthly final figures on the income statement, balance sheet, capital ratios, and information on business continuity, update on credit situation and concessions granted to customers, information on market risk, moratoria and state guarantees	Charitable initiatives: fundraising in favor of civil protection, with a company contribution that joined that of employees	Customer awareness with dedicated information to support both access to the branches and how to use remote channels

BUSINESS CONTINUITY

Activation of the Crisis Committee

The Crisis Committee met periodically beginning from the earliest stages of the pandemic in order to monitor the situation, ensure business continuity, evaluate preventive measures, establish intervention strategies and take the resulting decisions regarding management of the emergency. In addition to the development of the pandemic, the Committee monitored the needs and responses of the organisational structure, guiding solutions in order to ensure the safety of employees and protect the health of customers, including the manner of entering bank offices, its branches and Group companies.

Smart Working

Remote working from home, which had already been adopted as a strategic option in non-critical times for some time now, was progressively applied to all Group companies and extended, where possible, also to the commercial network functions. The accelerated implementation of smart working for the structure involved a considerable effort in relation

to IT systems, which immediately strengthened the system's structural capacity, to ensure functionality for the user base, which exceeded 85% of the Group's workforce as the pandemic continued. In a short time, laptops were supplied to functions that did not yet have sufficient equipment to support their staff's needs, allowing the structures to operate in full-digital mode, five days a week.

The extension of the state of emergency further strengthened the desire to maintain smart working as a measure of choice to limit the spread of infections, at least until 31 March 2021. The CEO of Alphabet and Google cited Credem as an example of smart-working best practices, thanks to its use of technology.

Business continuity

Business continuity was guaranteed by safeguarding customer service (services were provided continuously), in compliance with all the measures necessary for protecting public health. During the pandemic, only 11 branches were closed, of which 7 due to regional ordinances and 4 due to organisational decisions, redirecting operations to neighbouring branches. By mid-May, all branches were reopened. Branch operations were initially limited to morning hours by appointment, as per the ABI-trade union agreement. Instead, one closing day a week was introduced to further facilitate the use of smart working for the greatest possible number of employees. Starting only in mid-June, customer access was extended to afternoon hours, restoring the opening hours to the "pre-Covid emergency" schedule. The branches in the "red areas" identified by the Government continued to close in the afternoon. Safety rules have been defined to ensure access to facilities while maintaining social distancing and the use of individual protection systems, both by employees and customers, who, for this purpose, were appropriately informed regarding the behavioural rules that must be followed. During the lockdown phase, sanitation activities were carried out on the premises (at the same time providing for extraordinary interventions in the event of infection), frequent cleaning cycles were ensured, carried out in accordance with the instructions issued by the Ministry of Health. Protective screens, gel dispenser units and floor markings were provided to the branches and private customer hubs, to facilitate the correct positioning of customers to maintain the necessary distance.

Activation of new digital processes

Commercial relationship management was facilitated by the activation of new digital processes and the acceleration of ongoing activities that would have entailed longer release times. The digitisation of commercial procedures has reached the stage of releasing advanced digital systems for customer contact, an intense project supported by the use of video calls, digital signature and certified email systems (PEC). A new APP was also released dedicated to home mortgage underwriters to track the progress of their application from the time of submission.

Cyber risk

The pandemic and the restrictive measures imposed have led to a massive increase in remote working. As envisaged by the ECB and evidenced in the CERTFin threat intelligence bulletins, criminal organisations operating on the web immediately attempted to exploit the new scenario by intensifying both infrastructure and client/employee cyber-attacks in the financial industry.

Credem Group was essentially prepared, both from an infrastructure/technology and organisational perspective, for remote working. In fact, remote working has been an established practice within the company for years and was designed from the outset by focusing on the main aspects of IT security, including strong authentication for access and the use of VPN.

The IT Security functions addressed certain specific issues in order to maintain an appropriate level of cyber security protection and monitoring for this new scenario and promptly manage any indications or reports, in particular: review of the client-patching process and technologies to adapt them to VPN connectivity and ensure that they are performed in a timely manner as well as reference to the company safety regulations and best practices to reduce the risks inherent in the new context.

MONITORING, PLANNING AND CONTROL

The situation that has arisen with the pandemic has created a dynamic and rapidly evolving context, and for this reason, it was necessary to also manage the monitoring, planning and control phases on a “point in time” basis.

The Group has established monitoring by the risk management function of all risk appetite framework (RAF) indicators on a monthly basis, as indicated by Supervisory Authorities, monitoring of the liquidity profile and classification of funding needs, as well as monitoring of production trends for the main commercial aggregates: Deposits, Loans, Assets Under Custody and Assets under Management.

The data that emerged also led to a periodic forecast of financial figures that may reflect the continuous updating of the reference macroeconomic scenario, the trend in actual data and the implementation of compensatory actions. The reference scenario was, at certain points, also compared with a more severe scenario, developed centrally by the Planning and Risk Management functions, re-using the ICAAP stress methodologies to verify the stability of economic targets and capital ratios. The monitoring was and is ongoing and also entailed the finalisation of IFRS 9 effects on the cost of credit. The analyses also assessed all the impact variables on the IFRS 9 model for determining expected credit losses and are providing support in guiding strategic decisions and reinforcing the conviction that the Group may be in a condition of economic and financial sustainability even in the delicate context of the pandemic.

The outputs of the monitoring, planning and control activities were shared with the Supervisory Authorities. The “Covid-19 Reporting”, structured on different templates and detailed information, was promptly forwarded to the European Central Bank. A similar dialogue was developed with Banca d’Italia.

Focus on the main items subject to estimate in the context of Covid-19

Other financial assets

To assess financial assets measured at fair value through profit or loss (FVTPL) and through other comprehensive income (FVOCI), the latest available information provided by the counterparties was used, also evaluating its adequacy with respect to the current reference context.

The amount of fair value Level 3 assets is limited compared to the total of the item (these are UCITS units for FVTPL assets, and debt and equity securities for FVOCI assets), however, with the portfolio showing a limited exposure to the sectors affected by the negative effects of Covid-19.

The Level 1 equity securities include the equity investment in Aeroporto Guglielmo Marconi di Bologna S.p.A., a company significantly impacted by the economic crisis of the past few months for which a decrease in fair value (FVOCI) was recorded in application of the market value recorded at the end of the year.

In conclusion, from the analyses conducted on the impacts of Covid-19, there are no elements that would require write-downs to this item.

For the Credemassicurazioni, Blue Eye, Andxor¹ and Gruppo Santamaria² equity investments, companies active in sectors not impacted by the Covid-19 epidemic, the carrying amount (recognised at cost) is higher than the share of shareholders’ equity, but it was deemed that the negative difference between the carrying amount and the share of shareholders’ equity of these investments is not attributable to impairment and, therefore, the carrying amounts have not been adjusted.

Non-financial assets - Property, plant and equipment owned

IAS 16 and IAS 40, which govern properties for business use and investment properties respectively establish that it is necessary to periodically check whether these elements have been impaired, in application of IAS 36 “Impairment of assets”.

At each reporting date, the Group verifies if there are any elements that indicate that an asset may be impaired, by comparing the book value with the recoverable amount, in order to make the appropriate accounting entries.

¹ Active in the technology sector.

² Credit intermediary specialised in loans to households.

There are currently no situations that may lead to a write-down of the Group's real estate portfolio, as there is no systemic crisis in the real estate market at this time: this market operates according to a medium- and long-term approach, while the Covid-19 effect can be considered of a short-term and temporary nature.

In general, in fact, the Covid epidemic will be remembered as one of those crises that had a very evident immediate impact as it was such a strong simultaneous shock to supply and demand that it had probably never occurred since the war; however, sector experts point out that due to its nature, generated by aspects external to the system, which had actually been on a growth path, it is expected that there may be a recovery in a fairly rapid time; the development of a generalised climate of uncertainty is not currently supported by objective data in the real estate field.

To date, no certain and measurable elements are recorded that could confirm a reduction or contraction of prices/values despite the fact that we must remain alert, pending, if necessary, developments in the Covid-19 phenomenon.

This can also be confirmed by the absence of an evident significant reduction in the average price per square meter, both in new sales and leases in the real estate market as a whole.

In conclusion, from the analyses conducted on the impacts of Covid-19, there are no elements that would require write-downs to this item.

Non-financial assets - Impairment test

In the context of uncertainty related to the economic crisis induced by Covid-19, the national and supranational authorities issued recommendations to listed companies, asking them to act responsibly in correctly representing the effects of the crisis in the financial statements. The heavy losses in stock market indices recorded during the first phase have gradually stabilised, also thanks to the massive fiscal and monetary manoeuvres implemented to counter them.

In fact, to date, there are no reasons why most companies cannot restore normal operating conditions in the medium term.

For further disclosure, please refer to Section 10 of the Explanatory notes to the consolidated financial statements.

Non-financial assets - Probability test

The measurement process of the tax assets is based on income prospects: more specifically, deferred tax assets are recorded in the financial statements to the extent that reasonable certainty of their recovery exists, on the basis of the capacity of the Bank and the Group companies, due to the exercise of the "tax consolidation" option, to generate constant, positive taxable income, in future years, taking into account tax legislation in force (known as the probability test).

The assessments made on the stability of the probability test as at 31 December 2020 are based on qualitative analyses conducted through the in-depth analysis of three main profiles:

- the capacity determined in the latest probability test as at 31 December 2020;
- the bank's short-term exposure to the crisis;
- the bank's vulnerability to the crisis, verifying its ability to maintain financial and equity stability.

With regard to exposure and vulnerability to the crisis and therefore the Bank and Group's income prospects, reference is made to the considerations reported in the previous paragraph on impairment testing of the goodwill, completed by what is reported in the section "Business outlook".

In conclusion, from the analyses conducted on the impacts of Covid-19, there are no elements that would require write-downs to this item.

Loans to customers

With regard to credit monitoring in particular, the following should be noted:

- The impact of the Covid emergency on asset quality and credit strategy is constantly monitored through the Group's periodic Credit Strategy Committee (since the beginning, with the first extraordinary committee held in May 2020), in particular with a focus on 4 areas: observatory (macroeconomic, sectorial, regulatory and asset quality); risk monitoring (with the introduction of an extensive set of indicators in order to proactively

identify positions with fragility or possible future difficulties once the government measures come to an end, evaluating the correct actions and classifications); forward-looking assessment (fine-tuning of the criteria and the parameters of the measurement methodology from a Covid standpoint that combines the sector view with an assessment of the resilience of the individual company); strategies and initiatives dedicated to each segment (Companies, Private, Group companies).

- Since the beginning of the emergency situation in March 2020, the Credem Group has been structured to adapt its granting and oversight processes, so as to guarantee a correct approach that allows it to offer adequate and timely support measures to debtors in difficulty (often temporary) and, at the same time, maintain an accurate identification and classification of the measures. In this regard, specific processes were structured for each individual granting measure, governmental and non-governmental, in line with the criteria defined by the EBA in April 2020 (“Guidelines on legislative and non-legislative moratoria on loan repayments applied in light of the Covid-19 crisis” - EBA/GL/2020/02), and subsequent clarifications by the Supervisory Authorities.
- The ad hoc processes structured on each individual measure, described above, are accompanied by the monitoring and control of credit risk, extended and strengthened since the beginning of the pandemic, and subject to continuous updates, with which, with a proactive approach, the potentially problematic positions in the emergency context are promptly identified, including those subject to suspension or beneficiaries of the Covid government measures, even in the absence of past due.
- It should be noted that the Group has adopted a rigorous quarterly monitoring process of the aforementioned specific Covid-19 structure, updating the estimates every quarter on the basis of the most recent data.
- The changed economic and financial context and the consequent prospective view are also taken into account in determining the provisions for Stage 3. Provisions on positions classified as unlikely to pay and bad loans are always made “single-name”, periodically assessing the most likely estimate of the future recoveries in terms of timing and amounts (considering the realisable value of the associated guarantees) and therefore incorporating elements of the changed context (difficulty/lengthening of normal recovery processes, auction postponement, etc.).
- In this context, as part of the Covid-19 emergency, the Group activated a dedicated monthly monitoring process to verify any progressive deterioration of the distribution of counterparties along the rating scale in order to promptly deal with potential significant trends of deterioration in the quality of credit assets.

With regard to the adjustments made to the models for the determination of expected losses pursuant to IFRS 9, more detailed information was provided in Part E - Information on risks and hedging policies, in the Section relating to Credit risk.

Contractual changes resulting from Covid-19

1) Contractual amendments and derecognition (IFRS 9)

The Group has also taken action through initiatives to support the various stakeholders with the aim of alleviating the inconveniences of households and helping businesses to deal with the serious situation created by the spread of the epidemic. As it was impossible to make full use of the physical channels (always open but by appointment), the Group worked to make lending procedures linear and straightforward. This has made it possible to respond to the considerable number of customer assistance requests and develop better process automation.

In this regard, we would like to remind you that, on the basis of the survey carried out by the task force set up to promote the implementation of the measures in support of liquidity adopted by the Government to deal with the Covid-19 emergency, at the Industry level, the requests to adhere to the moratoriums on loans amounted to over € 2.7 million, for a value of around 300 billion, and requests for guarantees for new bank loans for micro, small and medium-sized enterprises submitted to the Guarantee Fund for the SMEs exceed 129.5 billion. Through SACE’s “Garanzia Italia”, guarantees of € 20.8 billion were granted, for a total of 1,410 transactions. More specifically, applications from non-financial companies

account for 43% of the total, against loans of € 192 billion. With regard to SMEs, the requests pursuant to Art. 56 of the “Cura Italia” Law Decree (almost 1.3 million) concerned loans and credit lines for € 153 billion. The 62 thousand subscriptions to the moratorium promoted by the Italian Banking Association involved 18 billion in loans to businesses. Applications from households concerned loans of € 96 billion. The banks received more than 206 thousand applications for the suspension of the mortgage instalment payments on first homes (access to the so-called Gasparrini Fund), for an average amount of approximately € 94 thousand. The moratoriums of ABI and Assofin for households collected 571 thousand subscriptions, for around 27 billion in loans.

In this context, the Credito Emiliano Group has allocated substantial upper spending limits to support households and businesses since the beginning. The amount of initiatives implemented since the beginning of the Covid-19 pandemic for the Group, limited to the moratoriums that fall within the scope of the “Guidelines on legislative and non-legislative moratoria on loan repayments applied in light of the Covid-19 crisis” published by the EBA (EBA/GL/2020/02) and subsequent amendments and additions, exceeds € 6.5 billion.

Details of the measures that were granted from the beginning of the pandemic to 31/12/2020* are provided below, referring to the Explanatory notes for more detailed information on the existing moratoriums.

	Gross Exposure
a) Loans subject to forbearance compliant with GLs	- 4,136,944,204.00
b) Loans subject to other forbearance measures	- 81,359,978.00
c) New Loans	- 2,392,923,778.00
TOTAL	- 6,611,227,960.00

(*) The line “Loans subject to forbearance compliant with GLs” shows information on financial assets subject to moratoriums that fall within the scope of the “Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the Covid-19 crisis” published by the EBA (EBA/GL/2020/02) and subsequent amendments and additions. The line “Loans subject to other forbearance measures” contains information relating to loans subject to Covid-19 support measures that meet the conditions of “exposure subject to forbearance measures” as defined by current supervisory reports and which are not included in the category “Loans subject to forbearance compliant with the GLs”. The line “New loans” includes, inter alia, the financial assets recognised as a result of forbearance measures that led to a refinancing with derecognition of the original asset and the recognition of a new loan, or a restructuring of several debts with the recognition of a new loan in the financial statements.

2) Amendment to the accounting standard IFRS 16

³According to the IASB’s publication on 10 April 2020, all entities must disclose in financial statements useful information for assessing the effect of Covid-19 on leased properties and consequent potential impacts on the financial position and on the economic result of the entity resulting from any modifications to lease agreements or any impairment of the rights of use recorded in financial statements.

In the current negative scenario deriving from the spread of the Covid-19 epidemic, there are no elements that have caused an extraordinary impact on the financial statements as at 31 December 2020.

In particular, in fact, the bank does not recognise any impacts in terms of:

- lease modifications: no lease concessions were requested to deal with the difficulties of the emergency in progress: all renegotiations effective in 2020 are the result of a campaign that was carried out in previous years;
- impairment of rights of use: during 2020, there were no early terminations of lease contracts in order to achieve potential cost savings to handle the Covid-19 emergency, nor were there any office/branch closures that could have revealed indicators of impairment of the rights of use recognised as at 31 December 2020.

After adopting the new remote working approach, the bank is implementing a rationalisation and optimisation plan for central office spaces; this plan, however, will be implemented following the approval of an investment plan related to the sectioning of

³ “Accounting for Covid-19-related rent concessions applying IFRS 16 Leases”.

systems; therefore, the accounting effects deriving from this corporate strategy should become evident in 2021.

Other information

Option for domestic tax consolidation

From 2004, Credem and the Group's Italian companies adopted the "domestic tax consolidation", governed by Articles 117-129 of the TUIR (Comprehensive Regulation on Income Taxes), introduced into tax legislation by Italian Legislative Decree no. 344/2003. This is an optional system through which the overall net income or tax loss of each subsidiary participating in the tax consolidation – together with withholdings, deductions and tax credits – is transferred to the Parent Company (Credemholding), producing a single taxable income or single taxable loss carried forward for the latter (resulting from the algebraic sum of its own income/losses and those of the subsidiaries taking part and, consequently, in a single tax debit or credit).

In exercising this option, the companies of the Group that applied the "domestic tax consolidation" calculated their own tax liability, and the corresponding taxable income was transferred to Credemholding. Should one or more of the investee companies have a negative taxable income, where there is consolidated income for the period or a high probability of future taxable income, the tax losses are transferred to Credemholding. As a consequence of the above, provisions for IRES (corporate income tax) are recorded under "other liabilities". The Group has also applied domestic tax consolidation for the three-year period 2019-2021.

Auditing services

Pursuant to Italian Legislative Decree no. 39/2010 and EU Regulation 537/2014, the consolidated financial statements are audited by Ernst & Young S.p.A., entrusted with this mandate, in implementation of the resolution adopted by the Shareholders' Meeting of 30 April 2013, until the year ending 2022.

Use of estimates and assumptions in the preparation of the financial statements

In compliance with the IFRS, company management must formulate valuations, estimates and assumptions that influence the application of the accounting standards and the amounts of assets, liabilities, costs and revenues recorded in the financial statements, as well as on disclosures regarding potential assets and liabilities. The estimates and related assumptions are based on past experience and other factors considered reasonable in the specific cases, and have been adopted to estimate the book value of assets and liabilities that cannot be easily inferred from other sources.

Specifically, estimation processes have been adopted to support the recorded value of some of the most significant value items recorded in the consolidated financial statements as at 31 December 2020, as provided by the accounting standards and the specific regulations described above. These processes are primarily based on the estimated future recoverability of the values recorded in the financial statements according to the current regulations in force, and were implemented with a view to business continuity, therefore, not considering assumptions of forced settlement of the items being measured.

The processes adopted compare the values recorded as at 31 December 2020. The measurement process proved to be particularly complex given the continuing uncertainty evident in the macroeconomic scenario and in the markets, which has led to both high levels of volatility in the financial parameters used for measurement purposes, and to an indication of continuing significant deterioration of credit quality.

Therefore, the parameters and information used to verify the aforementioned values are highly influenced by these factors that could change rapidly and are not currently predictable, hence consequent effects on future book values cannot be excluded.

The estimates and assumptions are regularly revised. Any changes resulting from said revisions are recognised in the period in which the revision is made if the same relates to that period only. In the event in which the revision relates to both current and future periods, the change is recognised in the period in which the revision is made and in relative future periods.

The main specific cases in which the use of subjective estimates is required by management regard:

- quantifying the impairment of receivables and, in general, of other financial assets and equity investments;
- using valuation models to measure the fair value of financial instruments not listed on active markets;
- estimating the recoverable value of goodwill;
- quantifying the staff termination indemnity, personnel provisions and provisions for risks and charges.

These valuations are mainly linked to both developments in the domestic and international socio-economic spheres, and to financial market trends, which in turn influence interest rates, price fluctuations, actuarial bases and, more generally, the creditworthiness of counterparties.

A.2 - MAIN ITEMS OF THE FINANCIAL STATEMENTS

The criteria for recognising, classifying, measuring and derecognising the income components of financial assets and liabilities set out below relate to the banking group, while the criteria adopted by the subsidiary insurance companies are examined in a specific chapter at the end of this section.

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

Recognition criteria

Financial assets are initially recognised at the settlement date for debt and equity securities at the date of disbursement for loans and at the subscription date for derivative contracts. On initial recognition, financial assets measured at fair value through profit or loss are recorded at fair value, without considering the transaction costs or revenues directly attributable to the instrument itself.

Classification criteria

This category includes financial assets other than those classified under financial assets measured at fair value through other comprehensive income and under financial assets measured at amortised cost. The item, in particular, includes:

- financial assets held for trading, consisting mainly of debt and equity securities and the positive value of derivative contracts held for trading;
- financial assets that must be measured at fair value, represented by financial assets that do not meet the requirements for valuation at amortised cost or fair value through other comprehensive income. These are financial assets whose contractual terms do not exclusively provide for repayment of principal and interest on the amount of capital to be repaid (so-called SPPI test that has not been passed) or that are not held within the framework of a business model whose objective is the possession of assets aimed at collecting contractual cash flows (“Hold to Collect” business model) or whose objective is achieved through the collection of contractual cash flows and through the sale of financial assets (“Hold to Collect and Sell” business model);
- financial assets measured at fair value, i.e. financial assets thus defined at the time of initial recognition and where the conditions exist. In relation to such cases, an entity may irrevocably designate a financial asset as measured at fair value through profit or loss if, and only if, it eliminates or significantly reduces a measurement inconsistency.

This item therefore contains:

- debt securities and loans that are included in the trading business model (i.e. not covered by the “Hold to Collect” or “Hold to Collect and Sell” business models) or that do not pass the SPPI test;
- equity instruments - not classifiable as controlling, associated or of joint control - held for trading purposes or for which it was not decided, at the time of initial recognition, to designate them at fair value through other comprehensive income;
- units of UCITS.

The item also includes derivative contracts, recorded among financial assets held for trading, which are represented as assets if the fair value is positive and as liabilities if the fair value

is negative. It is possible to offset positive and negative present values arising from operations in place with the same counterparty only if the legal right to offset the amounts recognised in the accounts currently exists and if the intention is to settle the positions being offset on a net basis.

Derivatives also include those embedded in complex financial contracts - in which the primary contract is a financial liability - which have been recognised separately because:

- their economic characteristics and risks are not closely related to the characteristics of the underlying contract;
- the embedded instruments, even if separate, meet the definition of a derivative;
- the hybrid instruments to which they belong are not measured at fair value with the relative changes recorded in the income statement.

Reclassifications

According to the general rules established by IFRS 9 on the reclassification of financial assets (with the exception of equity securities, for which no reclassification is allowed), reclassifications to other categories of financial assets are not allowed unless the entity changes its business model for managing financial assets. In such cases, which are expected to be highly infrequent, financial assets may be reclassified from the category measured at fair value through profit or loss to one of the other two categories provided for by IFRS 9 (financial assets measured at amortised cost or financial assets measured at fair value through other comprehensive income). The transfer value is represented by the fair value at the time of reclassification and the effects of reclassification operate on a forward-looking basis from the date of reclassification. In this case, the effective interest rate of the reclassified financial asset is determined on the basis of its fair value on the date of reclassification and this date is considered as the date of initial recognition for the allocation to the various stages of credit risk (stage assignment) for the purposes of impairment.

Measurement criteria

Subsequent to initial recognition, financial assets measured at fair value through profit or loss are measured at fair value. The effects of applying this measurement approach are recorded in the Income Statement.

Market quotations are used to determine the fair value of financial instruments listed in an active market. In the absence of an active market, commonly adopted estimation methods and valuation models are used, which take into account all risk factors related to the instruments and are based on market data such as: valuation of listed instruments with similar characteristics, discounted cash flow calculations, option pricing models, values recorded in recent comparable transactions, etc. For equity securities and derivative instruments relating to equity securities that are not listed on an active market, the cost criterion is used as the estimate of fair value only in a residual manner and in limited circumstances, i.e. in the event that all valuation methods previously mentioned are not applicable, or in the presence of a wide range of possible fair value valuations, in which the cost represents the most significant estimate.

Derecognition criteria

Financial assets are derecognised from the financial statements only if the sale involved the transfer of all risks and benefits related to them. Conversely, whenever a significant part of the risks and benefits related to the financial assets sold has been maintained, these continue to be recognised in the financial statements, even if legal ownership of the assets has effectively been transferred.

If it is not possible to ascertain the essential transfer of risks and benefits, the financial assets will be derecognised from the financial statements if no type of control has been maintained over them. Conversely, the maintenance of even partial control will result in keeping the assets in the financial statements at an amount equal to the residual involvement, measured by the exposure to changes in value of the assets sold and to variations in the cash flows of the same. Lastly, sold financial assets are derecognised from the financial statements if the contractual right to receive the relative cash flows has been retained, with the simultaneous assumption of an obligation to pay said flows, and only said flows, without significant delay to other third parties.

Criteria for the recognition of income

Interest income on securities and the spreads and margins on derivatives classified under this category, but operationally linked to financial assets or liabilities measured at fair value, are recorded on an accruals basis in the profit and loss items relating to interest.

The differentials and margins of the other contracts are recognised in the “Net profit (loss) from trading”.

Dividends are recognised on an accruals basis as of the date of adoption of the distribution resolution by the shareholders’ meeting and are stated in the item “Dividends and similar income”.

The profits and losses realised on sales or redemptions or capital gains/losses deriving from changes in fair value are recorded in the income statement for the period in which they manifest and are classified in the item “Net profit (loss) from trading”, except for the portion relating to derivative contracts operationally linked to financial assets or liabilities measured at fair value, which is recorded under “Net profit (loss) from financial assets and liabilities measured at fair value”.

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

Recognition criteria

Financial assets are initially recognised at the settlement date for debt and equity securities and at the date of disbursement for loans. Financial assets are initially recognised at fair value, considering the transaction costs and revenues directly attributable to the instrument itself.

Classification criteria

This category includes financial assets that meet both of the following conditions:

- the financial asset is held according to a business model whose objective is achieved through the collection of contractually envisaged cash flows and through selling (“Hold to Collect and Sell” business model), and
- the contractual terms of the financial asset envisage, on specific dates, cash flows represented solely by payments of principal and interest on the amount of capital to be repaid (so-called “SPPI test” passed).

This item also includes equity instruments, not held for trading purposes, for which the option to measure at fair value through other comprehensive income was exercised at the time of initial recognition.

In particular, this item includes:

- debt securities that are part of a Hold to Collect and Sell business model and that have passed the SPPI test;
- equity investments, not classified as controlling, associated or of joint control, which are not held for trading purposes, for which the option to measure at fair value through other comprehensive income has been exercised;
- loans that are part of a Hold to Collect and Sell business model and that have passed the SPPI test.

Reclassifications

According to the general rules established by IFRS 9 on the reclassification of financial assets (with the exception of equity securities, for which no reclassification is allowed), reclassifications to other categories of financial assets are not allowed unless the entity changes its business model for managing financial assets.

In such cases, which are expected to be highly infrequent, financial assets may be reclassified from the category measured at fair value through other comprehensive income to one of the other two categories provided for by IFRS 9 (Financial assets measured at amortised cost or Financial assets measured at fair value through profit or loss). The transfer value is

represented by the fair value at the time of reclassification and the effects of reclassification operate on a forward-looking basis from the date of reclassification. In the event of reclassification from the category in question to that of amortised cost, the accrued profit (loss) recognised in the valuation reserve is recognised as an adjustment to the fair value of the financial asset at the reclassification date. In the case of reclassification in the category of fair value through profit or loss, the accrued profit (loss) previously recorded in the valuation reserve is reclassified from shareholders' equity to profit (loss) for the year.

Measurement criteria

Subsequent to initial recognition, assets classified at fair value through other comprehensive income, other than equity securities, are measured at fair value, with the recognition through profit or loss of impacts derived from the application of amortised cost, the effects of impairment and any exchange rate, while other profits or losses deriving from a change in fair value are recognised in a specific shareholders' equity reserve until the financial asset is derecognised. On disposal, in whole or in part, the accrued profit or loss in the valuation reserve is transferred, in full or in part, to the income statement.

The capital instruments chosen for classification in this category are measured at fair value and the amounts recorded as a contra entry to shareholders' equity (Statement of comprehensive income) must not be subsequently transferred to the income statement, even in the event of disposal. The only component relating to the equity securities in question that is recorded in the income statement is represented by the relative dividends.

Fair value is determined on the basis of the criteria already illustrated for Financial assets measured at fair value through profit or loss.

For equity securities included in this category that are not listed in an active market, the cost criterion is used as the estimate of fair value only in a residual manner and in limited circumstances, i.e. in the event that all valuation methods previously mentioned are not applicable, or in the presence of a wide range of possible fair value valuations, in which the cost represents the most significant estimate.

Financial assets measured at fair value through other comprehensive income - whether in the form of debt securities or loans - are subject to the impairment test required by IFRS 9, in the same way as assets measured at amortised cost, with the consequent recognition in the income statement of an adjustment to cover expected losses. More specifically, on instruments classified in stage 1 (i.e. on financial assets at origination, unless impaired, and on instruments for which there has not been a significant increase in credit risk since the date of initial recognition), a one year expected loss is recognised at the date of initial recognition and at each subsequent reporting date. On the other hand, for instruments classified in stage 2 (performing instruments for which there has been a significant increase in credit risk since the date of initial recognition) and in stage 3 (non-performing exposures), an expected loss is recognised for the entire residual life of the financial instrument.

Equity securities, on the other hand, are not subject to impairment.

Derecognition criteria

Financial assets are derecognised from the financial statements only if the sale involved the transfer of all risks and benefits related to them. Conversely, whenever a significant part of the risks and benefits related to the financial assets sold has been maintained, these continue to be recognised in the financial statements, even if legal ownership of the assets has effectively been transferred.

If it is not possible to ascertain the essential transfer of risks and benefits, the financial assets will be derecognised from the financial statements if no type of control has been maintained over them. Conversely, the maintenance of even partial control will result in keeping the assets in the financial statements at an amount equal to the residual involvement, measured by the exposure to changes in value of the assets sold and to variations in the cash flows of the same. Lastly, sold financial assets are derecognised from the financial statements if the contractual right to receive the relative cash flows has been retained, with the simultaneous assumption of an obligation to pay said flows, and only said flows, without significant delay to other third parties.

Financial assets measured at fair value through other comprehensive income

(FVOCI without recycling)

Recognition criteria

Financial assets are initially recognised at the settlement date for debt and equity securities and at the date of disbursement for loans. Financial assets are initially recognised at fair value, considering the transaction costs and revenues directly attributable to the instrument itself.

Classification criteria

This item includes equity instruments, not held for trading purposes, for which the option to measure at fair value through other comprehensive income was exercised at the time of initial recognition.

More specifically, this item includes the equity investments, not classified as controlling, associated or of joint control, which are not held for trading purposes, for which the option to measure at fair value through other comprehensive income has been exercised.

Reclassifications

In accordance with the general rules set out by IFRS 9 on the reclassification of financial assets, no reclassification is permitted for equity securities.

Measurement criteria

Subsequent to initial recognition, capital instruments chosen for classification in this category are measured at fair value and the amounts recorded as a contra entry to shareholders' equity (Statement of comprehensive income) must not be subsequently transferred to the income statement, even in the event of disposal. The only component relating to the equity securities in question that is recorded in the income statement is represented by the relative dividends.

Fair value is determined on the basis of the criteria already illustrated for Financial assets measured at fair value through profit or loss.

For equity securities included in this category that are not listed in an active market, the cost criterion is used as the estimate of fair value only in a residual manner and in limited circumstances, i.e. in the event that all valuation methods previously mentioned are not applicable, or in the presence of a wide range of possible fair value valuations, in which the cost represents the most significant estimate.

Derecognition criteria

Financial assets are derecognised from the financial statements only if the sale involved the transfer of all risks and benefits related to them. Conversely, whenever a significant part of the risks and benefits related to the financial assets sold has been maintained, these continue to be recognised in the financial statements, even if legal ownership of the assets has effectively been transferred.

If it is not possible to ascertain the essential transfer of risks and benefits, the financial assets will be derecognised from the financial statements if no type of control has been maintained over them. Conversely, the maintenance of even partial control will result in keeping the assets in the financial statements at an amount equal to the residual involvement, measured by the exposure to changes in value of the assets sold and to variations in the cash flows of the same. Lastly, sold financial assets are derecognised from the financial statements if the contractual right to receive the relative cash flows has been retained, with the simultaneous assumption of an obligation to pay said flows, and only said flows, without significant delay to other third parties.

Criteria for the recognition of income

Interest income, calculated on the basis of the I.R.R. method, is recorded on an accrual basis under the item "Interest income and similar revenues", dividends are recorded under the item "Dividends and similar income" when the right to receive payment occurs, while profits and losses arising from a change in fair value are recognised in a specific shareholders' equity reserve until the financial asset is written off or an impairment is recognised. For debt securities, upon disposal or realisation of impairment, the accrued profit or loss is

transferred into the income statement, while equity securities are not transferred to the income statement.

Should the reasons for the impairment cease to exist following an event that occurred subsequent to the recognition of the impairment, write-backs are carried out and posted to the income statement, in the case of debt securities. In any event, the total write-back cannot exceed the difference between the book value and the amortised cost of the instrument had there been no prior adjustments.

3 - Financial assets measured at amortised cost

Recognition criteria

Financial assets are initially recognised at the settlement date for debt securities and at the date of disbursement for loans. Financial assets are initially recognised at fair value, considering the transaction costs and revenues directly attributable to the instrument itself. In particular, with regard to loans, the date of disbursement normally coincides with the date of signing of the contract. If such coincidence does not occur, at the time of signing the contract, a commitment to disburse funds is recorded, which expires on the date of disbursement of the loan. Loans are recognised on the basis of their fair value, equal to the amount disbursed, or subscription price, including costs/revenues directly attributable to the individual loan and definable from the beginning of the transaction, even if paid successively. Costs that have the aforementioned characteristics, but are reimbursed by the debtor counterparty or are classifiable as normal internal administrative costs, are excluded.

Classification criteria

This category includes financial assets (particularly loans and debt securities) that meet both of the following conditions:

- the financial asset is held according to a business model whose objective is achieved through the collection of contractually envisaged cash flows ("Hold to Collect" business model), and
- the contractual terms of the financial asset envisage, on specific dates, cash flows represented solely by payments of principal and interest on the amount of capital to be repaid (so-called "SPPI test" passed).

More particularly, the following are covered by this item:

- loans to banks in the various technical forms that meet the requirements set out in the previous paragraph;
- loans to customers in the various technical forms that meet the requirements set out in the previous paragraph;
- debt securities fulfilling the conditions set out in the previous paragraph.

This category also includes operating loans connected with the provision of financial services and activities, as defined by the Consolidated Banking Law (TUB) and Consolidated Financial Act (TUF) (e.g. for distribution of financial products and servicing activities).

Reclassifications

According to the general rules established by IFRS 9 on the reclassification of financial assets, reclassifications of financial assets to other categories are not allowed unless the entity changes its business model for managing financial assets. In such cases, which are expected to be highly infrequent, financial assets may be reclassified from the category measured at amortised cost to one of the other two categories provided for by IFRS 9 (Financial assets measured at fair value through other comprehensive income or Financial assets measured at fair value through profit or loss). The transfer value is represented by the fair value at the time of reclassification and the effects of reclassification operate on a forward-looking basis from the date of reclassification. Profits and losses resulting from the difference between the amortised cost of a financial asset and its fair value are recognised in the income statement in the event of reclassification under Financial assets measured at fair value through profit or loss and in Shareholders' equity, in the specific valuation reserve, in the event of reclassification under Financial assets measured at fair value through other comprehensive income.

Measurement criteria

Subsequent to their initial recognition, financial assets under examination are measured at amortised cost, using the effective interest rate method. In these terms, the asset is recognised in the financial statements at an amount equal to its originally recognised value less capital repayments, plus or minus the accrued amortisation (calculated using the aforementioned effective interest rate method) of the difference between this initial amount and the amount at maturity (typically attributable to the costs/revenues directly attributable to the individual asset) and adjusted by any provision to cover losses. The effective interest rate is determined by calculating the rate that equates the present value of future flows of the asset, in terms of capital and interest, to the amount disbursed, including costs/revenues related to the same financial asset. This accounting method, which uses a financial approach, makes it possible to distribute the economic effect of costs/revenues directly attributable to a financial asset over its expected residual life.

The amortised cost method is not used for assets - measured at historical cost - whose short duration makes the effect of the discounting principle negligible, for those without a set maturity and for revocable loans.

The valuation criteria are closely linked to the inclusion of the instruments in question in one of the three stages (credit risk stages) envisaged by IFRS 9, the last of which (stage 3) includes impaired financial assets and the remaining (stages 1 and 2) include performing financial assets.

With reference to the accounting representation of the aforementioned valuation effects, the value adjustments relating to this type of asset are recorded in the Income Statement:

- on initial recognition, for an amount equal to the expected loss at twelve months;
- on subsequent measurement of the asset, where the credit risk is not significantly greater than that initially recognised, in relation to changes in the amount of adjustments for expected losses over the following twelve months;
- on subsequent measurement of the asset, where the credit risk is significantly greater than that initially recognised, in relation to the recognition of value adjustments for expected losses relating to the entire envisaged residual life of the asset as contractually required;
- on subsequent measurement of the asset, where - after a significant increase in the credit risk has occurred with respect to the initial recognition - the “significance” of such an increase has subsequently ceased to exist, in relation to the adjustment of the accrued value adjustments to take account of the change from an expected loss over the entire residual life of the instrument (lifetime) to a loss over twelve months.

If the financial assets in question are performing, they are subjected to an assessment, aimed at defining the value adjustments to be recorded in the financial statements, at the level of individual credit relationships (or “securities tranches”), on the basis of the risk parameters represented by probability of default (PD), loss given default (LGD) and exposure at default (EAD), derived from AIRB models and suitably adjusted to take account of the provisions of IFRS 9.

If, in addition to a significant increase in credit risk, there is also objective evidence of a loss in value, the amount of the loss is measured as the difference between the book value of the asset - classified as “impaired”, similar to all other transactions with the same counterparty - and the current value of estimated future cash flows, discounted at the original effective interest rate. Within this context, a specific method was developed for the accounting treatment to be applied to a portfolio of bad loans that, having matured to a significant vintage, are also measured with a view to disposal. This methodology considers different scenarios and estimates the recoverable amount of the exposures based on the combination and probability of occurrence of these scenarios, as well as their estimated cash flows. Impaired assets include financial instruments with an assigned status of bad loan, unlikely to pay or past due/over drawn for more than ninety days, in accordance with the current regulations of Banca d'Italia, consistent with the IAS/IFRS regulations and European supervisory provisions.

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

The original effective rate of each asset is unvaried over time, even if there has been a

restructuring of the agreement which has led to a change in the contractual rate and even if the loan becomes, in practice, contractually non-interest-bearing.

Should the reasons for the impairment cease to exist following an event that occurred subsequent to the recognition of the impairment, write-backs are carried out and posted to the income statement. The write-back may not exceed the amortised cost of the financial instrument had there been no prior adjustments. Reversals of impairments related to the passing of time are recognised in the net interest income.

In some cases, during the lifetime of the financial assets in question and, in particular, of the loans, the original contractual conditions are subsequently modified by the parties to the contract. When, during the lifetime of an instrument, the contractual clauses are subject to modification, it is necessary to verify whether the original asset should continue to be recorded in the financial statements or whether, on the contrary, the original instrument should be derecognised and a new financial instrument recorded.

In general, changes in a financial asset lead to its derecognition and recognition of a new asset when they are “substantial”. The assessment of the “substantiality” of the change must be made by considering both qualitative and quantitative elements. In fact, in some cases, it may become clear, without resorting to complex analysis, that the changes introduced substantially modify the characteristics and/or contractual flows of a given asset while, in other cases, further analysis (including quantitative) will have to be carried out to assess the effects of the changes and to verify the need to proceed or not with the derecognition of the asset and the recognition of a new financial instrument.

Qualitative-quantitative analyses aimed at defining the “substantiality” of contractual changes made to a financial asset must therefore consider:

- the purposes for which the changes were made: e.g. renegotiations for commercial reasons and concessions for counterparty financial difficulties;
- the former, aimed at “keeping” the customer, involve a debtor who is not in financial difficulty. This category includes all renegotiations aimed at adjusting the cost of the debt to market conditions. These operations involve a change in the original conditions of the contract, usually required by the debtor, which relates to aspects connected to the cost of the debt, with a consequent economic benefit for the debtor. It is generally accepted that, whenever the bank renegotiates in order to avoid losing its customer, such renegotiation should be considered as substantial since, if it were not carried out, the customer could borrow from another intermediary and the bank would experience a decrease in expected future revenues;
- the latter, carried out for “credit risk reasons” (forbearance measures), are attributable to the bank’s attempt to maximise the recovery of the cash flows of the original loan. The underlying risks and benefits, subsequent to the changes, are not normally substantially transferred and, consequently, the accounting representation that provides the most relevant information for the reader of the financial statements (except for that explained later on the subject of objective elements) is that created by “modification accounting” - which implies the recognition in the income statement of the difference between the book value and the present value of the modified cash flows discounted at the original interest rate - and not through derecognition;
- the presence of specific objective elements (“triggers”) that affect the characteristics and/or contractual flows of the financial instrument (such as, for example, a change in currency or a change in the type of risk to which it is exposed, when correlated to equity and commodity parameters), which are expected to result in derecognition considering their impact (expected to be significant) on the original contractual flows.

Criteria for the recognition of income

Income is allocated to the relevant items of the income statement as follows:

- Interest income from loans and securities is allocated to the item “Interest income and similar revenues” on an accrual basis, based on the effective interest rate;
- The gains and losses from the disposal of loans and of securities are allocated to the item “Gains/(losses) on disposal/repurchase of financial assets measured at amortised cost”;
- Impairment losses, losses due to derecognition and reversals of loans and securities are allocated to the item “Net value adjustments/recoveries for credit risk relating to

financial assets measured at amortised cost”.

The interest due to the passing of time is recorded under “Interest income and similar revenues”.

4 - Hedging transactions

The Group avails itself of the option, provided for at the time of the introduction of IFRS 9, to continue to fully apply the provisions of IAS 39 on hedge accounting (in the carved out version approved by the European Commission) for each type of hedge (both for specific hedges and macro-hedges).

Recognition criteria

Hedging derivatives, like all derivatives, are initially recorded and subsequently measured at fair value.

Classification criteria: types of hedging

Risk hedging transactions are aimed at neutralising potential changes in fair value or cash flows attributable to a specific risk and identifiable on a specific item or group of items should that particular risk occur.

The following types of hedging are used:

- fair value hedging: the objective is to hedge exposure to changes in the fair value (attributable to different types of risk) of assets and liabilities recorded in the financial statements or portions thereof, of groups of assets/liabilities, of irrevocable commitments and of portfolios of financial assets and liabilities, including core deposits, as permitted by IAS 39 approved by the European Commission. Macro-hedges are designed to reduce fluctuations in the fair value, attributable to interest rate risk, of a monetary amount deriving from a portfolio of financial assets or liabilities. Net amounts deriving from the imbalance of assets and liabilities may not be subject to macro-hedging;
- cash flow hedging: aims to hedge exposure to variations in future cash flows attributable to specific risks associated with financial statement items. This type of hedge is essentially used to stabilise the interest flow from floating-rate deposits to the extent that the latter finances fixed-rate loans. In certain circumstances, similar transactions are carried out in relation to certain types of floating-rate loans.

Only instruments involving a counterparty external to the Group may be measured as hedging instruments. Given the Group's decision to continue to apply IAS 39 in full for hedging transactions, it is not possible to designate equity securities classified as financial assets measured at fair value through other comprehensive income (FVOCI) as hedged for price or exchange rate risk, since such instruments do not impact the income statement, even in the event of sale (except for dividends that are recognised in the income statement).

Measurement criteria

Hedging derivatives are measured at fair value. More specifically:

- in the case of fair value hedging, the variation in fair value of the item hedged is offset with the variation in fair value of the hedging instrument. This offsetting is recognised by recording the value variations in the income statement, for both the item hedged (as regards variations produced by the underlying risk factor) as well as the hedging instrument. Any differences, which represent the partial ineffectiveness of the hedge, constitute the net economic result. In the case of macro-hedges, changes in the fair value with reference to the risk coverage of hedged assets and liabilities respectively, are recognised in the balance sheet under item 60. “Change in value of macro-hedged financial assets” or 50. “Change in value of macro-hedged financial liabilities”;
- in the case of cash flow hedging, changes in the fair value of the derivative are booked to shareholders' equity, to the extent that the hedge is effective, and are recognised in the income statement only when, with regard to the hedged item, there is a change in the cash flows to be offset or when the hedge is ineffective;
- hedges of a foreign currency investment are accounted for in the same way as cash flow hedges.

The derivative instrument is designated as a hedging instrument if there is official documentation regarding the connection between the instrument hedged and said hedging instrument, and if it is effective at the moment in which the hedging begins and throughout the life of the same.

Hedging effectiveness depends on the extent to which fair value variations of the hedged instrument or the relative expected cash flows are offset by those of the hedging instrument. Consequently, effectiveness is higher if the variations are higher, taking into account the intended goal of the company at the time in which the hedge was established. A hedge is effective when the variations in fair value (or cash flow) of the financial hedging instrument almost entirely neutralise, i.e. within the limits established by the range 80-125%, variations in the hedged instrument resulting from the risk component being hedged.

The valuation of the effectiveness is carried out at the end of each year or interim period, by using:

- prospective tests, which justify the application of hedge accounting, demonstrating its expected effectiveness;
- retrospective tests, which highlight the degree of hedge effectiveness achieved during the related period, i.e. they measure the extent to which expected results have deviated from a perfect hedge.

If the verifications do not confirm hedge effectiveness, as from that moment, accounting for the hedging transactions, in accordance with the above, is suspended and the derivative contract is reclassified among trading instruments and the financial instrument hedged re-acquires the measurement approach corresponding to its financial statement classification. In the event of the termination of a macro-hedging relationship, the cumulative revaluations/write-downs recognised in item 60. "Change in value of macro-hedged financial assets" or 50. "Change in value of macro-hedged financial liabilities" are recorded in the income statement under interest income or expense for the remaining duration of the original hedging relationships, without prejudice to verification of the prerequisites for such adjustments.

Derecognition criteria

If the aforementioned verifications do not confirm hedging effectiveness, as from that moment accounting for the hedging transactions, in accordance with the above, is suspended and the derivative contract is reclassified among trading instruments and the financial instrument hedged re-acquires the measurement approach corresponding to its financial statement classification.

Only the instruments involving a counterparty external to the Group may be measured as hedging instruments. Therefore, any results involving internal transactions carried out between different entities of the bank are eliminated from the Financial Statements.

Furthermore, the hedging transactions are derecognised when the hedging instrument reaches maturity, is sold, disposed of or exercised, or the bank revoked the designation.

Criteria for the recognition of income

Income is allocated to the relevant items of the income statement as follows:

- the differentials accrued on derivative instruments used to hedge interest rate risks (in addition to the interest income on the positions being hedged) are allocated to the item "Interest income and similar revenues" or "Interest expenses and similar charges";
- gains and losses arising from the valuation of hedging derivatives and the positions hedged by fair value hedges are allocated to the item "Net profit (loss) from hedging";
- gains and losses arising from the valuation of cash flow hedge derivatives (the effective portion) are allocated to a specific shareholders' equity valuation reserve "Cash flow hedging", net of deferred taxes. The ineffective portion of these gains and losses is recorded in the income statement under the item "Net profit (loss) from hedging". If the hedged instrument is cancelled, matures or is extinguished then the reserve is immediately reversed to the income statement at the same time as the cancellation of the hedged element.

5 - Equity investments

Recognition criteria

Equity investments are recognised as of the settlement date. Interest holdings are initially recognised at cost, inclusive of the costs and revenues directly attributable to the transaction.

Classification criteria

This item includes stakes held in jointly-controlled and associated companies.

Companies are considered to be subject to joint control if their voting rights and the control of their economic activities are equally shared by Credem, directly or indirectly, and another party. An equity investment is classed as being under joint control when, even though voting rights are not equally shared, control over the investee company's economic activities or business policies is shared with other parties by virtue of contractual agreements.

Companies are considered as associated, that is subject to significant influence, when the Parent Company, directly or indirectly, owns at least 20% of the voting rights (including "potential" voting rights) or when - even with a lower amount of voting rights - it has the power to determine the financial and management policies of the investee company by virtue of legal relationships such as participation in shareholders' agreement.

Certain equity stakes exceeding 20% are considered as not being subject to significant influence when the Group, directly or indirectly, only holds rights over a portion of the returns on investment, does not have influence over management policies and may only exercise limited governance rights to safeguard its economic interests.

Measurement criteria

Equity investments in associated companies or jointly-controlled companies are measured using the equity method.

If there is evidence that the value of an investment may have undergone impairment, the recoverable amount of the investment is estimated, taking into account the present value of future cash flows that the investment may generate, including the final disposal value of the investment.

If the recoverable amount is lower than the book value, the difference is recognised in the income statement.

Should the reasons for the impairment cease to exist following an event that occurred subsequent to the recognition of the impairment, write-backs are carried out and posted to the income statement; these cannot exceed the amount of the impairment losses previously recognised.

Derecognition criteria

Equity investments are derecognised when the contractual rights on the cash flows from the assets themselves expire or when the financial asset is sold, essentially transferring all the risks and benefits related to it.

Criteria for the recognition of income

Negative initial recording differences, realised gains and losses on equity investments, impairment losses and write-backs are allocated to the income statement item "Gains (losses) on investments", while dividends collected are allocated to the item "Dividends and similar income" at the time the right to receive the related payment arises.

6 - Property, plant and equipment

Recognition criteria

Property, plant and equipment are initially recognised at cost, which includes, in addition to the purchase price, all additional charges directly attributable to the purchase and start-up of the asset.

Extraordinary maintenance expenses, which lead to an increase in the future economic benefits, are recognised as an increase in the value of the assets, while other ordinary maintenance costs are recognised in the income statement.

Classification criteria

Property, plant and equipment includes land, instrumental property, real estate investments, valuable art and antiquities, technical plants, fixtures and furnishings and equipment of any kind expected to be in use for more than one period. Property, plant and equipment held for use in the production or supply of goods and services are classified as “assets for business use” in accordance with IAS 16. Property held for investment purposes (to earn rentals or for capital appreciation) is classified as “assets held for investment purposes” in accordance with IAS 40.

This item also includes tangible assets classified in accordance with IAS 2 - Inventories, which refers to assets deriving from calling in guarantees or from purchases in auctions that the company intends to sell in the near future, without carrying out major restructuring works, and which do not qualify for classification in the previous categories, and to the real estate portfolio of the Group's real estate companies, including building sites, properties under construction, properties completed for sale and real estate development initiatives, held with a view to disposal.

Property, plant and equipment also includes goods used as part of financial lease contracts, even if legal ownership of the same belongs to the leasing company.

Measurement criteria

Property, plant and equipment are measured at cost, subtracting any depreciation and impairment.

Property, plant and equipment are systematically depreciated on a straight-line basis over their useful lives. Depreciable value is represented by the cost of the assets net of their residual value at the end of the depreciation process, if significant. Property is depreciated to an extent considered appropriate to represent the deterioration of assets over time following their use, taking into account extraordinary maintenance costs, which are added to the value of the assets.

The following are not depreciated:

- land, when acquired separately or incorporated into the value of the buildings, since it has an indefinite life;
- valuable art and antiquities and other historical, artistic and decorative assets, since their useful life cannot be estimated and their value normally increases over time.

If there is any indication that an asset measured at cost may be impaired, its book value is compared with its recoverable amount. Any adjustments are recognised in the income statement.

Should the reasons for the impairment cease to exist, a write-back is recognised, which cannot exceed the value of the asset, net of depreciation, had the impairment not occurred. Property, plant and equipment recognised in accordance with IAS 2 are measured at the lower between cost and net realisable value, without prejudice to the comparison between the book value of the asset and its recoverable amount, where there is any indication that the asset may be impaired. Any adjustments are recognised in the income statement.

Derecognition criteria

Property, plant and equipment is derecognised from the balance sheet upon disposal, or when the asset is permanently removed from use, and no future economic benefits are expected from its disposal.

Criteria for the recognition of income

Income is allocated to the relevant items of the income statement as follows:

- periodic depreciation, impairment and reversals are allocated to the item “Net value adjustments to (recoveries on) property, plant and equipment”;
- the gains and losses from disposals are allocated to the item “Gains/(losses) on disposal of investments”.

7 - Intangible assets

Recognition criteria

Intangible assets are recognised as such if they may be identified and arise from legal or contractual rights.

The above-mentioned assets are recognised at purchase cost, inclusive of related charges. Subsequent expenses incurred to raise their value or their initial productive capacity are added to this cost. Goodwill represents the positive difference between the charges incurred upon acquisition of the underlying corporate assets and the relevant share of the fair value of the assets and liabilities acquired. If the difference proves to be negative (badwill) or in the event that the goodwill is not justified by the equity investment's future income capacity, said difference is recognised directly in the income statement.

Classification criteria

The intangible assets portfolio includes long-term intangible factors of production represented, in particular, by software, benefits associated to customer relationships and goodwill.

Measurement criteria

Short-term intangible assets are measured on the basis of cost net of amortisation and of impairment losses. Amortisation lasts for the useful life of the goods to be amortised and is based on the straight line method. If there is significant evidence of the existence of impairment the intangible assets undergo an impairment test, with any impairment recorded. Subsequent write-backs cannot exceed the amount of the previously recorded impairment losses.

Goodwill is not amortised but is periodically subjected to an impairment test. Any negative differences between the recoverable amount of each cash-generating unit (CGU) that a particular goodwill belongs to and the book value of its shareholders' equity constitutes impairment. The recoverable amount of a CGU – which represents an estimate of its economic value – refers to the greater of its value in use (the present value of expected cash flows) and its exchange value (estimated disposal value net of transaction costs). Any subsequent write-backs cannot be recognised.

Derecognition criteria

Intangible assets are derecognised from the Financial Statements when their economic life has been fully exhausted, or at the time of disposal or when future economic benefits are no longer expected.

Criteria for the recognition of income

Income is allocated to the relevant items of the income statement as follows:

- periodic amortisation, impairment and reversals are allocated to the item "Net value adjustments to (recoveries on) intangible assets";
- goodwill impairment is allocated to the item "Net value adjustments/recoveries on goodwill". The recognition of any subsequent write-backs is not permitted.

8 - Non-current assets and groups of assets held for sale and discontinued operations

Non-current assets or groups of assets/liabilities for which a disposal process has been initiated and their disposal is considered highly probable are classified under the asset item "Non-current assets and groups of assets held for sale and discontinued operations" and in the liability item "Liabilities included in disposal group classified as HFS". These assets/liabilities are measured at the lower of their book value and their fair value net of disposal costs, with the exception of certain types of assets (e.g. financial assets falling within the scope of IFRS 9), for which IFRS 5 specifically requires that the relevant accounting standard's valuation criteria be applied.

Income and expenses (net of taxes), attributable to groups of assets held for sale and discontinued operations or recognised as such during the year, are shown in the income statement as a separate item.

9 - Current and deferred taxes

Recognition, measurement and derecognition criteria

Income taxes, calculated in compliance with national tax legislation, are recorded as costs on an accruals basis, in line with the method of recording of costs and revenues that generated them in the financial statements. Therefore, they represent the balance of current

and deferred taxes relating to the income for the year. In particular, these items include the net balance between current tax liabilities for the year, calculated on the basis of a prudent forecast of the tax charge due for the year, determined on the basis of current tax regulations, and current tax assets, represented by advances and other tax receivables for withholding taxes incurred or other tax receivables from previous years for which Group companies have requested offsetting with taxes from subsequent years.

Current tax assets also include tax receivables for which Group companies have requested reimbursement from the relevant tax authorities, as well as amounts paid provisionally during litigation with the tax authorities. The risk inherent in these proceedings, in the same way as the risks inherent in proceedings that did not require provisional payments, is assessed according to the criteria of IAS 37 in relation to the probability of the employment of economic resources to fulfil them.

In view of the Group's adoption of the domestic tax consolidation system, the tax positions of Group companies are managed separately from each other from an administrative perspective.

Deferred taxation is determined according to the balance sheet liability method, taking into account the tax effect of temporary differences between the book value of assets and liabilities and their tax value that will determine taxable or deductible amounts in future periods. For these purposes, "taxable temporary differences" are those that will give rise to taxable amounts in future periods and "deductible temporary differences" are those that will give rise to deductible amounts in future periods.

Deferred taxation is calculated by applying the tax rates established by current legislation to taxable temporary differences for which there is a probability of effective incurrence of taxes and to deductible temporary differences for which there is a reasonable certainty that there will be future taxable amounts at the time the relative tax deductibility arises (the so-called probability test).

If the deferred tax assets and liabilities relate to items that have affected the income statement, the contra entry is represented by income taxes.

Where prepaid and deferred taxes relate to transactions that directly affect shareholders' equity without affecting the income statement (such as adjustments made on first-time adoption of IAS/IFRS, valuations of financial instruments recorded at fair value through other comprehensive income or cash flow hedging derivatives), they are recorded as a contra entry to shareholders' equity, affecting specific reserves where required (e.g. valuation reserves).

Latent taxes on balance sheet items eligible for tax relief that are "taxable in all cases of use" are recorded in the financial statements as a reduction of shareholders' equity. Latent taxes relating to balance sheet items eligible for tax relief that are "taxable only for distribution" are not recorded in the financial statements, since the size of the available reserves already subject to taxation makes it likely that no transactions will be carried out that may entail taxation.

Deferred taxes relating to companies included in the tax consolidation are recorded in their financial statements on an accruals basis and in consideration of the value of the tax consolidation limited to the liquidation requirements of current tax positions.

Criteria for the recognition of income

Tax assets and liabilities are allocated to the income statement (item "Tax expense (recovery) on income from continuing operations"), except for those arising from transactions where their effect is directly attributable to shareholders' equity (in which case they are allocated to equity) or from business combination transactions (in which case they form part of the calculation of the value of goodwill).

10 - Provisions for risks and charges

Recognition, classification and derecognition criteria

Provisions for risks and charges are liabilities of uncertain amounts or expiry recognised in the Financial Statements when the following simultaneous conditions occur:

- there is a current obligation at the balance sheet date which derives from a past event; said obligation must be of a legal nature (contained within a contract, regulation or other

legal provision) or implicit (arises at the moment in which the company generates the expectation by third parties that it will meet its commitments, even if these do not fall under legal obligations);

- a financial disbursement is likely in order to produce economic benefits to fulfil the obligation;
- a reliable estimate of the amount of the obligation can be determined.

“Provisions for risks and charges” include provisions relative to long-term benefits and employee benefits following termination of the employment contract as described by IAS 19, in addition to the provisions for risks and charges described by IAS 37.

Measurement criteria

Where the time factor is significant, the allocations are discounted using current “risk-free” market rates. The allocation is recognised in the income statement.

Criteria for the recognition of income

Allocations/reversals of provisions for risks and charges, as well as the effects of the passage of time, are allocated to the item “Net provisions for risks and charges”.

Pension funds and other post-retirement benefit obligations

Pension funds are set up to implement company agreements and qualify as defined benefit plans. The liability relating to these plans and the related current service cost are determined on the basis of actuarial assumptions by applying the projected unit credit method, which provides for the projection of future disbursements on the basis of historical statistical analyses, the demographic curve and the financial discounting of these flows on the basis of a market interest rate. The contributions paid during each period are considered as separate units, recognised and measured individually for the purposes of determination of the final obligation. The rate used for discounting is determined on the basis of the market yields recorded on the assessment dates of high-quality corporate bonds, taking into account the average residual life of the liability. The present value of the obligation at the balance sheet date is also adjusted by the fair value of any assets of the plan.

Actuarial profits and losses (i.e. changes in the present value of the obligation arising from changes in actuarial assumptions and experience adjustments) are recognised in the statement of comprehensive income.

Provisions for risks and charges against commitments undertaken and guarantees given

The sub-item of provisions for risks and charges in question includes provisions for credit risk recognised against commitments to disburse funds and guarantees given that fall within the scope of application of the rules on impairment pursuant to IFRS 9. For these cases, in principle, the same methods are adopted for allocating to the three stages (credit risk stages) and calculating the expected loss reported with reference to financial assets measured at amortised cost or at fair value through other comprehensive income.

The aggregate also includes provisions for risks and charges set up in view of other types of commitments undertaken and guarantees given which, by virtue of their specific characteristics, do not fall within the scope of application of impairment pursuant to IFRS 9.

Other provisions

Other provisions for risks and charges include provisions made for legal or employment obligations or for disputes, including those tax-related, arising from a past event for which it is probable that economic resources will be required to fulfil the obligations, provided that a reliable estimate can be made of the amount involved.

Consequently, a provision is recognised if, and only if:

- there is a current obligation (legal or implicit) as a result of a past event;
- it is probable that resources capable of providing economic benefits will be required to fulfil the obligation; and
- a reliable estimate of the amount resulting from fulfilment of the obligation can be made.

The amount recognised as a provision represents the best estimate of the expenditure required to fulfil the obligation existing at the balance sheet date and reflects risks and uncertainties that inevitably characterise a plurality of facts and circumstances. To take

account of the time element, provisions are discounted using current market rates. Provisions and increases due to time factors are recorded in the income statement. The provision is removed when it becomes unlikely that the use of resources embodying economic benefits will be required to fulfil the obligation or when the obligation is fulfilled. The item also includes long-term employee benefits, charges for which are calculated using the same actuarial criteria as those described for pension funds. Actuarial profits and losses are all immediately recognised in the income statement.

11 - Financial liabilities measured at amortised cost

Recognition criteria

The initial recognition of said financial liabilities occurs on the date the contract is signed, which normally coincides with the collection of the amounts or issue of the debt securities. The initial recognition is carried out on the basis of fair value of the liabilities, normally equal to the amount collected or issue price, increased by any costs/revenues directly attributable to the single collection or issue transaction. Internal administrative costs are excluded.

Classification criteria

“Deposits from banks”, “Deposits from customers” and “Debt securities issued” include the various forms of inter-bank and customer funding, repurchase agreements with the obligation to repurchase at maturity, provisions collected via certificates of deposit and bonds and other outstanding funding instruments, net of any amounts repurchased. Also included are payables entered by the company as lessee in the context of financial lease transactions.

Measurement criteria

After the initial recording, financial liabilities are measured at amortised cost using the effective interest rate method.

Short-term liabilities, for which the time factor is negligible, are an exception to this, and they remain recognised at the value collected.

Derecognition criteria

Financial liabilities are derecognised from the financial statements when they expire or are paid off. Derecognition occurs even upon repurchase of previously issued bonds. The difference between the book value of the liability and the amount paid to purchase it is recognised in the income statement.

The re-placement of own securities on the market following their repurchase is considered a new issue, with recognition of a new issue price.

12 - Financial liabilities held for trading

Recognition criteria

Financial instruments in question are recorded at the date of subscription or issue at a value equal to the fair value of the instrument, without considering any transaction costs or income directly attributable to the instruments themselves.

This category of liability specifically includes derivative trading contracts with a negative fair value, as well as implicit derivatives with a negative fair value in complex contracts - where the primary contract is a financial liability - but not strictly correlated to the same. Furthermore, liabilities originating from technical overdrafts generated by securities trading are also included.

Measurement criteria

All trading liabilities are measured at fair value and any resulting profits or losses are recognised in the income statement.

Derecognition criteria

Financial liabilities held for trading are derecognised from the financial statements when the contractual rights to the related cash flows expire or when the financial liability is sold, substantially transferring all the risks and benefits of ownership.

13 - Financial liabilities measured at fair value

Recognition criteria

These liabilities are recorded on the issue date to the extent of their fair value, including the value of any embedded derivative and net of placement commission paid.

Classification criteria

This item reports financial liabilities measured at fair value with offsetting entry in the income statement, based on the options made available to companies (so-called “fair value option”) by IFRS 9 and in compliance with the cases provided for by the relevant legislation.

Measurement criteria

These liabilities are measured at fair value with the result recorded in accordance with the following rules provided for by IFRS 9:

- changes in fair value that are attributable to changes in creditworthiness must be recognised in the statement of comprehensive income (Shareholders' equity);
- the remaining changes in fair value must be recorded in the income statement.

The amounts reported in the statement of comprehensive income are not subsequently reclassified in the income statement. This method of accounting must not be applied when recognition of the effects of creditworthiness on shareholders' equity results in or accentuates an accounting mismatch in the income statement. In this case, profits and losses associated with the liability, including those resulting from changes in its creditworthiness, must be recognised in the income statement.

Derecognition criteria

Financial liabilities measured at fair value are derecognised from the financial statements when the contractual rights to the related cash flows expire or when the financial liability is sold, substantially transferring all the risks and benefits of ownership.

14 - Foreign currency transactions

Recognition criteria

Foreign currency transactions are initially recognised, in the account currency, by applying to the foreign currency amount the exchange rate as at the transaction date.

Classification criteria

Foreign currency transactions consist of all the assets and liabilities denominated in a currency other than the euro.

Derecognition criteria

The criteria indicated for the corresponding financial statement items are applied. The exchange rate used is the rate at the settlement date.

Measurement criteria

At the end of every year or interim period, financial statement items in foreign currency are measured as follows:

- monetary items are converted at the exchange rate as at the closing date;
- non-monetary items measured at historical cost are converted at the exchange rate as at the transaction date;
- non-monetary items measured at fair value are converted by using the exchange rates as at the closing date.

The exchange rate differences resulting from settlement of monetary items or from the conversion of monetary items at rates other than the initial conversion rates, or than the conversion rates of the prior financial statements, are recorded in the income statement during the period in which they are incurred.

When a profit or loss relative to a non-monetary item is recognised under shareholders' equity, the relative exchange rate difference is also recognised under equity. Conversely,

when a profit or loss is recognised in the income statement, the relative exchange rate difference is also recognised there.

Criteria for the recognition of income

The exchange rate differences resulting from settlement of monetary items or from the conversion of monetary items at rates other than the initial conversion rates, or at the conversion rates of the prior Financial Statements, are recorded in the income statement during the period in which they are incurred under the item "Net profit (loss) from trading". When a profit or loss relative to a non-monetary item is recognised under shareholders' equity, the relative exchange rate difference is also recognised under equity. Conversely, when a profit or loss is recognised in the income statement, the relative exchange rate difference is also recognised there.

15 - Insurance assets and liabilities

Products with insurance content

Products for which insurance risk is considered significant include: first segment temporary life insurance policies, annuity and mixed policies with an option to elect at maturity a life contingent annuity at rates granted at inception, certain types of Unit-Linked policies and non-life policies. For these products, the IAS/IFRS substantially confirm the provisions of Italian accounting standards on insurance.

IFRS 4, in brief, provides for:

- the recording of gross premiums in the income statement among income; these include all amounts matured during the financial year following the stipulation of insurance contracts net of cancellations; similarly, premiums ceded to reinsurers are recorded as costs for the financial year;
- against the income for gross premiums, the volume of commitments towards policyholders, calculated analytically for each contract in accordance with the relevant local accounting standards, is allocated to the insurance reserves. In accordance with IFRS 4, the Group tests the adequacy of the value of the liabilities recorded through the Liability Adequacy Test (LAT);
- products with an insurance content included within separate management products are measured by applying shadow accounting, that is, by allocating the differences between the book value and the market value, relating to securities classified as available for sale, for the policyholders share of insurance reserves, and for the amount attributable to the insurance companies to shareholders' equity. However, if securities are measured at fair value through profit or loss, the difference between the book value and the market value is recognised through profit or loss, causing the policyholders' share of the insurance reserves to change;
- in calculating shadow accounting, the Group uses, for each business activity, the average retrocession rate and the minimum guaranteed rate defined on the basis of the contractual conditions of the various products linked to the management;
- liabilities for products with discretionary participation features are represented overall without distinction between the guaranteed and discretionary components.

Financial products included in separate management products

Financial products that do not have significant insurance risk but are included in separate management products, and therefore provide for discretionary participation features, include the majority of life insurance policies and first class mixed policies, as well as fifth class capitalisation policies. They are accounted for in accordance with IFRS 4 or, in short:

- products are shown in the financial statements in essentially the same way as provided for by local accounting standards, with premiums, payments and changes in insurance reserves shown in the income statement;
- shadow accounting is applied to products with an insurance content included within the separate management products, and which therefore provide for discretionary participation features, as already described in the previous paragraph;
- in calculating shadow accounting, the Group uses, for each business activity, the average retrocession rate and the minimum guaranteed rate defined on the basis of the

- contractual conditions of the various products linked to the management;
- liabilities for products with discretionary participation features are represented on an overall basis without distinction between the guaranteed and discretionary components.

Financial products not included in separate management products

Financial products that do not present a significant insurance risk and are not included in separate management products, and therefore do not include discretionary participation features, are recognised as financial liabilities and are measured at fair value, based on the fair value option, or at amortised cost. These financial products essentially comprise index-linked policies as well as some Unit-Linked policies, and policies with specific funding of assets not included in separate management products. These products are accounted for according to the principles set out in IAS 39, as summarised below:

- index and Unit-Linked policies classified as investment contracts are measured at fair value, while products with specific funding of assets not included in separate management products are measured at amortised cost;
- the income statement does not reflect premiums relating to these products, but only the revenue components, represented by charging and commissions, and the cost components, consisting of fees and other charges; it also reflects the costs and revenues represented by changes in the fair value of the liabilities arising from these contracts. More specifically, the international accounting standards contained in IAS 39 and IFRS 15 require that, for liabilities measured at fair value, revenues and costs relating to the products in question are identified and separated into two components of (i) origination, to be charged to the income statement at the time of issue of the product, and (ii) investment management service, to be allocated over the life of the product, depending on how the service is provided. In addition, in the case of products with specific funding of assets not included in separate management products, the incremental revenues and costs are included in the calculation of the amortised cost;
- any insurance component inherent in index and Unit-Linked products, if separable, is subject to independent valuation and accounting.

16 - Other information

Treasury shares

Any treasury shares held are recorded as a reduction of shareholders' equity. Similarly, their original cost and the profits or losses deriving from their subsequent sale are recorded as movements in shareholders' equity.

Accruals and deferrals

Accruals and deferrals relating to accrued costs and income on assets and liabilities are accounted for as adjustments to the assets and liabilities to which they refer.

Expenses for improvements to third-party assets

Costs for renovating properties that are not company-owned are capitalised in view of the fact that for the duration of the lease contract the utilising company has control of the assets and may draw future economic benefits from them. These costs, classified under "Other assets" in accordance with Banca d'Italia instructions, are depreciated for a period not exceeding the duration of the lease.

Provision for staff termination indemnity

The provision for staff termination indemnity is a "post-employment benefit" classified as:

- a "defined contribution plan" for portions of staff termination indemnity accrued from 1 January 2007 (date of entry into force of the supplementary pension reform pursuant to Italian Legislative Decree no. 252 of 5 December 2005), in the case of an option taken by the employee for the supplementary pension, and in the case of allocation to the treasury fund at the INPS (National Social Security Institution). For these portions, the amount recorded under personnel expenses is determined on the basis of the contributions due without the application of actuarial calculation methods;
- "defined benefit plan" and is therefore recorded on the basis of its actuarial value

determined using the projected unit credit method, for the portion of the provision for staff termination indemnity accrued up to 31 December 2006.

- These portions are recorded on the basis of their actuarial value determined using the projected unit credit method, without application of the rendered service pro-rata, since the current service cost of the staff termination indemnity has almost entirely accrued and its revaluation, for the years to come, is not considered to give rise to significant employee benefits.

For discounting purposes, the rate used is determined with reference to the market yield of high-quality corporate bonds, taking into account the average residual duration of the liability, weighted on the basis of the percentage of the amount paid and advanced, for each maturity, compared to the total to be paid and advanced until the final settlement of the entire bond.

The costs of servicing the plan are recognised under personnel expenses, while actuarial profits and losses are recognised in the statement of comprehensive income.

Share-based payments

Share-based compensation plans for employees are recorded in the income statement, with a corresponding increase in shareholders' equity, on the basis of the fair value of the financial instruments attributed at the assignment date, dividing the expense over the period envisaged by the plan.

In the presence of options, their fair value is calculated using a model that takes into account not only information such as the strike price and the life of the option, the current price of the shares and their expected volatility, the expected dividends and the risk-free interest rate, but also the specific characteristics of the existing plan. The valuation model makes a separate assessment of the option and the probability that the conditions under which the options were assigned will be met.

The combination of the two values provides the fair value of the instrument assigned.

Any reduction in the number of financial instruments assigned is accounted for as a derecognition of part of the same.

Employee benefits

Employee benefits refer to all types of remuneration paid by the company in exchange for the work carried out by employees. Employee benefits are divided into:

- short-term benefits (not including benefits due to employees upon termination of employment and remuneration benefits in the form of share capital) that are expected to be settled in full within twelve months of the end of the period in which employees render the service and are recognised entirely in the income statement upon maturity (this category includes, for example, wages, salaries and “extraordinary” services);
- post-employment benefits payable after the termination of employment that obligate a company to make future payments to its employees. These include the provision for staff termination indemnity and pension funds, which in turn are divided into defined contribution plans, defined benefit plans and company pension funds;
- long-term benefits, other than those mentioned above, that are not expected to be settled in full within twelve months after the end of the financial year in which the employees render their services.

Impairment testing on goodwill

Goodwill recorded following acquisitions must be tested for impairment at least once a year and in any event, if there are signs of impairment. For the purposes of the test, once the goodwill has been allocated to a cash-generating unit (CGU), the book value and the recoverable amount of said units is compared, represented by the higher of fair value, net of any sale costs, and value in use. The disclosure in Section 10 of the assets in the Explanatory notes to the consolidated financial statements provides further information.

Recognition of revenues and costs

For the purpose of this determination, an asset is transferred when, or during, the period in which, the customer acquires control of it.

The price of the transaction is the amount of the consideration at which the entity deems to

have a right to in exchange for transferring the assets or services promised to the customer, excluding the amounts collected on behalf of third parties. To determine the price of the transaction, the Group takes the terms of the contract into account as well as its usual commercial practices, including all of the following elements, where applicable:

- variable consideration, if it is highly likely that the amount will not be adjusted in the future;
- limitation of the estimates of the variable consideration;
- existence in the contract of a significant funding component;
- non-monetary consideration;
- consideration to pay to the customer.

The other types of income (e.g. interest and dividends) are recognised by applying the criteria of the reference standards:

- dividends are recognised in the income statement at the moment in which the right to receive payment arises;
- overdue interest, if contractually included, is recognised in the income statement only when it is actually collected;
- interest is recognised on a pro rata accruals basis with reference to the contractual interest rate or the effective one in the event of application of the amortised cost;
- revenues from brokerage of financial trading instruments, calculated from the difference between the transaction price and the fair value of the instrument, are recognised in the income statement when the transaction is recognised if the fair value can be determined by using observable parameters in the same market in which the instrument is traded. Revenues related to financial instruments for which the above measurement is not possible are recognised in the income statement throughout the duration of the transaction.

Costs incurred to obtain the contract

The costs incurred to obtain the contract are the costs that the entity incurs to obtain the contract with the customer, and that it would not have incurred if it had not obtained the contract. The Group recognises the costs incurred to fulfil the contract as assets only if these meet all of the following conditions:

- they are incremental - the Group incurs them to obtain the contract with the customer, and would not have incurred them if it had not obtained the contract;
- they are expected to be recovered.

Costs are recognised in the income statement on an accruals basis; costs relating to the receipt and fulfilment of contracts with customers are recognised in the income statement in the periods in which the related revenues are recorded.

Determining the fair value of financial assets and liabilities

General aspects

Financial instruments measured at fair value include financial assets and liabilities held for trading, financial instruments measured at fair value, derivative instruments and, lastly, instruments classified as HTCS.

The IFRS 13 standard defines fair value as the price that would be received for selling an asset or paid for transferring a liability in an orderly transaction in the main (or more advantageous) market at the measurement date under current market conditions (namely closing price), regardless of that fact that said price can be directly observed or that it is estimated using a different measurement technique.

The departments involved in the process of determining the fair value include administrative departments, the Finance front office and the Risk Management departments.

The administrative departments, which are directly in charge of drawing up financial disclosures, are responsible for monitoring the rules used to determine fair value in compliance with the accounting standards used.

The Finance department offices, in turn, have expertise regarding the valuation techniques applied and oversee the IT systems used in the process of determining fair value.

Lastly, the Risk Management department offices are required to validate the valuation techniques used, including the related models and the parameters used. These offices verify

the potential presence of an active market and analyse the possible available sources. In general, the Group determines the fair value of financial assets and liabilities using valuation techniques chosen on the basis of the type of instruments held and of the information available at the time of valuation.

On the basis of the information available at the time of the valuation, financial instruments are divided into those whose price is listed on an active market and those for which an active market does not exist at the time of valuation.

The fair value hierarchy attributes maximum priority to the prices listed (non-adjusted) on active markets for identical assets or liabilities (Level 1 data) and minimum priority to non-observable inputs (Level 3 data).

Level 1 inputs are the prices listed (non-adjusted) on active markets for assets and liabilities identical to those to which the entity may access on the valuation date. A listed price on an active market provides the most reliable proof of the fair value and, when available, must be used to measure the fair value without any adjustment.

Level 2 inputs are inputs other than the listed prices included in Level 1, directly or indirectly observable for the asset or liability.

Similarly, all other variables used in valuation techniques that cannot be corroborated on the basis of observable market data are not considered observable.

The presence of active markets and the use of listed prices (Mark to Market)

In general terms, the process for applying Mark to Market valuation is highly automated. The main sources used to acquire prices for accounting purposes are:

- CED Borsa, data distribution service of Borsa Italiana to date provided by the company (Xchanging Italy) in the case of prices recorded in regulated markets (Italy);
- Refinitiv, as regards market parameters and the valuation of instruments in real time;
- Bloomberg, for values not deriving from regulated markets, using prices recorded in organised and non-organised markets, also in real time.

If the information from Refinitiv and Bloomberg is unavailable, other independent Information Providers are used.

If an asset or a liability measured at fair value has a monetary price and a letter price (for example, a figure originating from a market with direct and assisted exchanges), to measure the fair value, the price that falls within the bid-ask spread must be used, which is more representative of the fair value in these specific circumstances, regardless of how said datum is classified in the fair value hierarchy (Level 1, 2 or 3). The use of the monetary price is permitted for asset positions and the letter price for liability positions, although this is not compulsory. The Group mainly uses the monetary price for its asset positions and the letter price for its liability positions.

Generally, listed prices are acquired automatically, on a daily basis, by downloading the information from leading independent Information Providers.

Use of valuation techniques (Mark to Model)

In determining the fair value of financial instruments, the Mark to Model technique is used if the analysis shows that there are no listed prices for the instruments held on the main (or more advantageous) market.

The valuation techniques used to measure the fair value must maximise the use of relevant observable inputs and minimise the use of non-observable inputs.

Level 2 inputs are inputs other than the listed prices included in Level 1, directly or indirectly observable for the asset or liability.

Level 2 inputs include:

- the prices listed on active markets for similar financial assets and liabilities;
- the prices listed on non-active markets for identical or similar financial assets and liabilities;
- data other than the listed prices observable for the asset or liability (for example, interest rates and yield curves observable at commonly quoted intervals, implicit volatility and credit spreads);
- inputs corroborated by the market.

Non-observable inputs, Level 3, must be used to measure fair value when the relevant observable inputs are not available, therefore permitting situations of poor market activity for the asset or liability on the measurement date. Nevertheless, the purpose of the fair value

measurement remains the same, namely a closing price on the measurement date from the perspective of a market operator who holds the asset or the liability. Therefore, non-observable inputs must reflect the assumptions that market operators would use to establish the price of the asset or the liability, including assumptions about risk.

Adjustments to Level 2 inputs change according to specific aspects of the asset or liability. These aspects include the following:

- the condition or location of the asset;
- the extent to which the inputs refer to elements that are comparable to the asset or liability; and
- the volume or level of activity in the markets in which the inputs are observed.

The use of significant non-observable inputs or adjustments of a Level 2 input that is significant for the entire measurement of the instrument could mean that the fair value measurement will be classified as Level 3 in the fair value hierarchy.

The objective of the use of a valuation technique is to estimate the price at which a regular sale of an asset or transfer of a liability would take place between market operators on the valuation date, under current market conditions. Three valuation techniques that are widely used are the market valuation method, the cost method and the income method. An entity must use valuation techniques that are consistent with one or more of these methods to measure fair value.

The following are examples of the main parameters observable on the market that are used for the most common valuation techniques applied:

- risk-free yield curve. Based on records historicised in the Front Office application (Murex) a so-called risk-free euro yield curve is obtained, by bootstrapping the implicit rates in deposits, swaps and Forward Rate Agreements;
- exchange rates. The Murex system automatically acquires, on a daily basis, the spot fixing ECB exchange rates from the infoproducer Reuters;
- volatility curves. Volatility curves obtained from external sources previously identified (ICE) are mapped and historicised in the Front Office application (Murex); it should be noted that own transactions by the Group predominantly focus on interest rate instruments.

Otherwise, when valuation techniques are based primarily on parameters that cannot be observed on the market, internal estimation processes are carried out. This applies in a limited way only to cases where market data is not available or is not considered reliable.

The use of valuation techniques that apply data observable on the market or data estimated internally involves the use of valuation models employing these parameters.

The income method converts future amounts (for example, cash flows or revenues or costs) into a single present amount (namely discounted). When the income method is used, the fair value measurement reflects the present expectations of the market relating to said future amounts.

By way of example, these valuation techniques include:

- net present value techniques;
- option pricing models, such as the Black-Scholes-Merton formula, which incorporate techniques to calculate the present value and reflect both the temporal and the intrinsic value of an option;

However, when proprietary models are used, the reliability of such models is tested by comparing the valuations of similar listed instruments provided using these techniques with the related listed prices (back testing). The reliability of these techniques is also verified ex post by monitoring the results obtained over time.

Liabilities issued by the company

To determine the fair value of liabilities issued by the company, the company's issuer risk must be taken into account.

The creation of one or more credit spread curves is necessary, as part of the fair value option, in order to value instruments not traded on active markets with a full fair value.⁴ Compared to simple discounting on the risk-free curve of cash flows generated by the instrument, the concept of full fair value includes an ulterior adjustment that takes into account issuer risk: the adjustment, or credit spread, takes the form of an additional spread on the risk-free

⁴ Instruments traded in active markets are attributed the market price.

curve and varies in size depending on the different maturities. Furthermore, given that the credit spread relative to an issuer expresses an indication of the probability and extent of repayment of the issue, it differs based on the issue's seniority: a senior issue will have a lower credit spread than a subordinated issue.

Application of the fair value option to financial liabilities requires that the amount of fair value changes attributable to changes in the credit risk of the instrument be highlighted.

The risk factors due to creditworthiness are incorporated into the discounting curve (used to calculate the fair value), applying a spread to the risk-free curve that takes into account issuer risk.

Using this valuation method makes it possible to separate the various components of risk: interest rate risk and credit risk. Regarding creditworthiness, credit risk was broken down into risk due to variations in creditworthiness over the last year and variations since the issue of the security (or FTA of the IAS).

The factors considered in the calculation are:

- the risk-free market rate recorded as at the valuation date;
- the credit spread recorded as at the initial issue date of the security;
- the credit spread recorded during the year prior to the current valuation date;
- the credit spread recorded at the valuation date.

By comparing the market fair value as at the valuation date with the fair value calculated using the credit risk recorded upon issue (or the previous year), it is possible to determine the variations in fair value attributable solely to the variations in credit risk over the last year and from the moment of issue.

The curves adjusted for the creditworthiness of the issuer are obtained by adding a credit spread that reflects the creditworthiness of said issuer to zero-coupon rates (or risk-free rates). Said curves are used to measure the value of bonds that are not listed on active markets.

By measuring all of the instruments relating to a single issuer (as well as those issued by the Group) at fair value, three curves can be constructed:

- a senior curve;
- a subordinate curve;
- a covered curve.

To calculate senior credit spreads, if there are senior liquid issues on the market, the credit spreads implicit in the listed prices of the issues in question are used.

More specifically, for Credem, the securities belonging to the EMTN programme of our issues and of comparable issuers with similar characteristics such as sector and ratings are used as reference to trace the maturity structure of the curve.

More specifically, the calculation of the credit spread is made starting from a benchmark curve of an Italian bank (obtained from the issuer Intesa S.Paolo) on which an average restriction is applied for senior and subordinated liquid issues of comparable issuers. The covered curve is calculated using a spline-fitting method of prices of comparable issues, which meet the defined liquidity criteria.

Criteria for determining the fair value of financial assets and liabilities not measured at fair value on a recurring basis

The disclosures required by IFRS 13 are shown below.

For asset and liability credit transactions not measured at fair value on a recurring basis, the fair value, shown in the tables contained in the Explanatory notes, has been calculated according to the following criteria:

- for financial assets and liabilities on demand, with short-term maturities (within 12 months) or undetermined maturities, the book value is considered; the same reasoning is applied to non-performing loans;
- for floating-rate securities and fixed-rate, short-term securities (within 12 months), the book value was considered an approximation of the fair value;
- for medium to long-term financial assets and liabilities, the valuation was carried out by discounting the future cash flows. This operation was carried out using risk-free rates and, for assets, by correcting the future cash flows, taking into account the counterparty risk through PD (Probability of Default) and LGD (Loss Given Default) parameters;
- for medium- to long-term, fixed-rate securities, the valuation was carried out by discounting the future cash flows adjusted for the issuer risk associated with Credem.

For these instruments, calculating the fair value is also based on the use of internal parameters that cannot be directly observed on the market, and is calculated only for the purpose of meeting disclosure requirements, and has no impact on the balance sheet or income statement.

Financial assets and liabilities related to insurance activities

The Group has decided to avail itself of the option to apply the “Deferral Approach”, by virtue of which the financial assets and liabilities of the subsidiary insurance companies continue to be recorded in the financial statements in accordance with the provisions of IAS 39, pending the entry into force of the new international accounting standard on insurance contracts (IFRS 17), expected in 2023.

For the sake of completeness, the criteria for the recognition, classification, measurement and derecognition of the financial assets and liabilities used by the Group’s insurance companies are indicated below, while the income components are reclassified in the income statement in “Item 115. Net profit (loss) from financial assets and liabilities pertaining to insurance companies pursuant to IAS 39” and in “Item 135. Net value adjustments (recoveries) pertaining to insurance companies pursuant to IAS 39”.

With regard to the treatment of items in the financial statements of insurance companies other than those of a financial nature, reference should be made to the above, given that the companies of the banking group and those of the insurance sector share the same accounting policies.

Financial assets held for trading

Recognition criteria

Financial assets are initially recognised at the settlement date for debt and equity instruments and at the subscription date for derivative contracts.

More specifically, when accounting at the settlement date, an entity records any variation in the fair value of an asset to be received in the period from the trade date to the settlement date in the same way in which it would record an asset purchased.

Financial assets held for trading are initially recognised at cost, meaning the fair value of the instrument, without considering the transaction costs or revenues directly attributable to the instrument itself, which are recorded in the income statement.

Any implicit derivatives present in hybrid financial instruments, classified in different categories than assets or liabilities measured at fair value, not strictly correlated to the same and having the characteristics to satisfy the definition of derivative are separated from the host contract, classified in the present category and measured at fair value, while the relevant accounting criterion for the category in which it is classified is applied to the host contract.

Classification criteria

Financial instruments held with the aim of generating profit, in the short-term, from variations in the prices of said instruments have been classified under financial assets held for trading.

Derivatives not held for hedging purposes are included in this category; the derivatives are represented as assets if the fair value is positive and as liabilities if the fair value is negative. Reclassifications towards other categories of financial assets are not permitted except in the case that there is the presence of unusual events which it is unlikely will present themselves again over the short term. In such cases, it is possible to reclassify debt and equity instruments no longer held for trading purposes in other categories envisaged by IAS 39 if the conditions for recognition apply.

Measurement criteria

Subsequent to their initial recognition, financial assets held for trading are measured at fair value and the effects of the application of this measurement approach are booked to the income statement. Should the fair value of a financial asset become negative, said asset is accounted for as a financial liability.

The methods used for determining the fair value are outlined in Section 18 “Other information” of these Explanatory notes to the consolidated financial statements.

Equity securities and the related derivative instruments, for which it is not possible to determine the fair value in a reliable manner according to the guidelines indicated in Section 16 “Other Information” of these Explanatory notes to the consolidated financial statements, are maintained at cost.

Derecognition criteria

Financial assets are derecognised only when the contractual rights on the cash flows from the assets themselves expire or when the financial asset is sold, essentially transferring all the risk/benefits related to it. Whenever a significant part of the risks and benefits related to the financial assets sold have been maintained, these continue to be recognised in the Financial Statements, even if legal ownership of the assets has effectively been transferred. If it is not possible to ascertain the essential transfer of risks and benefits, the financial assets will be derecognised from the financial statements if no type of control has been maintained over them. Conversely, the maintenance of even partial control will result in keeping the assets in the financial statements at an amount equal to the residual involvement, measured by the exposure to changes in value of the assets sold and to variations in the cash flows of the same.

If the bank sells a financial asset classified under its trading portfolio, the asset is derecognised as at the date of its transfer (settlement date).

Securities received as part of a transaction that contractually envisages their subsequent sale and securities delivered as part of a transaction that contractually envisages their repurchase are not recorded in or written off the financial statements.

Lastly, transferred financial assets will be derecognised from the financial statements if the contractual right to receive the relative cash flows has been retained, with the simultaneous assumption of an obligation to pay said flows, and only said flows, to other third parties (see paragraph 19 IAS 39).

Criteria for the recognition of income

Interest income on securities and the spreads and margins on derivatives classified under this category, but operationally linked to financial assets or liabilities measured at fair value, are recorded on an accruals basis in the profit and loss items relating to interest.

The differentials and margins of the other contracts are recognised in the “Net profit (loss) from trading”.

Dividends are recognised on an accruals basis as of the date of adoption of the distribution resolution by the shareholders’ meeting and are stated in the item “Dividends and similar income”.

The profits and losses realised on sales or redemptions or capital gains/losses deriving from changes in fair value are recorded in the income statement for the period in which they manifest and are classified in the item “Net profit (loss) from trading”, except for the portion relating to derivative contracts operationally linked to financial assets or liabilities measured at fair value, which is recorded under “Net profit (loss) from financial assets and liabilities measured at fair value”.

Financial assets available for sale

Recognition criteria

For debt and equity instruments, initial recognition of the financial asset occurs on the settlement date.

Apart from the exceptions provided for by IAS 39, available for sale securities in portfolio cannot be transferred to other portfolios and neither can securities from other portfolios be transferred to the available for sale portfolio.

Financial assets are initially recognised at cost, meaning the fair value of the instrument, considering the transaction costs and revenues directly attributable to the instrument itself. If, in the cases permitted by the accounting standards, the recognition occurs following reclassification, the book value is the fair value at the moment of transfer.

The available for sale securities that are the subject of forward trades, which have not yet been settled (regular way) are recognised (if purchased) or derecognised (if sold) in accordance with the “settlement date” principle.

Classification criteria

This category includes non-derivative financial assets not otherwise classified as “Loans”, “Financial assets held for trading”, “Financial assets measured at fair value” or “Financial assets held to maturity”.

In particular, this item includes equity investments not managed for trading purposes and not qualified as controlling investments, associated investments and joint control stakes and the instruments investing in capital relating to the contributions paid over to the voluntary scheme by the FITD for measures relating to the adoption of investments.

In the cases permitted by the accounting standards, only reclassifications to the Financial assets held to maturity category are permitted. Furthermore, it is possible to reclassify the debt securities not only in the Financial assets held to maturity category, but also under Loans and receivables, in the presence of the intention to hold them for the foreseeable future and if the conditions for recognition are met. The transfer value is represented by the fair value at the time of reclassification.

Measurement criteria

After initial recognition, the “Financial assets available for sale” are measured at fair value, with recognition in the income statement of the value corresponding to the amortised costs, while profits and losses arising from a change in fair value are recognised in a specific shareholders’ equity reserve until the financial asset is written off or an impairment is recognised.

The methods used to determine the fair value and the main criteria to recognise the impairment of “Financial assets available for sale” are outlined in Section 16 “Other information” of these Explanatory notes to the consolidated financial statements.

Equity securities for which it is not possible to determine the fair value in a reliable manner according to the aforementioned guidelines are maintained at cost.

Verification of the existence of objective evidence of impairment is carried out upon closing of the Financial Statements or interim period.

Derecognition criteria

Financial assets are derecognised when the contractual rights on the cash flows from the assets themselves expire or when the financial asset is sold, essentially transferring all the risks and benefits of the financial asset. Conversely, whenever a significant part of the risks and benefits related to the financial assets sold has been maintained, these continue to be recognised in the financial statements, even if legal ownership of the assets has effectively been transferred.

If it is not possible to ascertain the essential transfer of risks and benefits, the financial assets will be derecognised from the financial statements if no type of control has been maintained over them. Conversely, the maintenance of even partial control will result in keeping the assets in the financial statements at an amount equal to the residual involvement, measured by the exposure to changes in value of the assets sold and to variations in the cash flows of the same.

If the bank sells a financial asset classified in the above portfolio, the asset is derecognised as at the date of its transfer (settlement date).

Securities received as part of a transaction that contractually envisages their subsequent sale and securities delivered as part of a transaction that contractually envisages their repurchase are not recorded in or written off the financial statements.

Lastly, transferred financial assets will be derecognised from the financial statements if the contractual right to receive the relative cash flows has been retained, with the simultaneous assumption of an obligation to pay said flows, and only said flows, to other third parties (see paragraph 19 IAS 39).

Criteria for the recognition of income

Interest income, calculated on the basis of the I.R.R. method, is recorded on an accrual basis under the item “Interest income and similar revenues”, dividends are recorded under the item “Dividends and similar income” when the right to receive payment occurs, while profits

and losses arising from a change in fair value are recognised in a specific shareholders' equity reserve until the financial asset is written off or an impairment is recognised. Upon disposal or realisation of impairment, the accrued profit or loss is transferred into the income statement.

Should the reasons for the impairment cease to exist following an event that occurred subsequent to the recognition of the impairment, write-backs are recorded and posted to the income statement, in the case of debt securities, and to shareholders' equity in the case of equity securities. In any event, the total write-back cannot exceed the difference between the book value and the amortised cost of the instrument had there been no prior adjustments.

Financial assets held to maturity

Recognition criteria

Initial recognition of the financial asset occurs on the settlement date.

The financial assets classified under this category are initially recognised at fair value, including any directly attributable transaction costs and revenues. If an item is recorded in this category due to reclassification from another category, the fair value of the asset at the reclassification date is adopted as the new amortised cost of the asset.

Classification criteria

This category includes debt securities with payments that are fixed or definable and which are intended to be held to maturity. Should it no longer be deemed feasible to hold an investment to maturity, following a change in willingness or capability, only reclassifications under "Financial assets available for sale" are permitted.

Measurement criteria

Subsequent to their initial recognition, "Financial assets held to maturity" are measured at amortised cost, using the effective interest rate method.

Verification of the existence of objective evidence of impairment is carried out upon closing of the Financial Statements or interim period.

Derecognition criteria

Financial assets are derecognised when the contractual rights on the cash flows from the assets themselves expire or when the financial asset is sold, essentially transferring all the risks and benefits related to it. Conversely, whenever a significant part of the risks and benefits related to the financial assets sold has been maintained, these continue to be recognised in the financial statements, even if legal ownership of the assets has effectively been transferred.

If it is not possible to ascertain the essential transfer of risks and benefits, the financial assets will be derecognised from the financial statements if no type of control has been maintained over them. Conversely, the maintenance of even partial control will result in keeping the assets in the financial statements at an amount equal to the residual involvement, measured by the exposure to changes in value of the assets sold and to variations in the cash flows of the same.

Lastly, transferred financial assets will be derecognised from the financial statements if the contractual right to receive the relative cash flows has been retained, with the simultaneous assumption of an obligation to pay said flows, and only said flows, to other third parties (see paragraph 19 IAS 39).

Criteria for the recognition of income

Interest income on securities is recorded on an accrual basis in the income statement items relating to interest.

Profits or losses relative to "Financial assets held to maturity" are recognised in the income statement when said assets are derecognised or have undergone impairment, as well as via the amortisation process.

Verification of the existence of objective evidence of impairment is carried out upon closing of the Financial Statements and interim periods.

Should said evidence exist, the amount of the impairment is measured as the difference between the asset's book value and the present value of the estimated future cash flows, discounted at the effective original interest rate. The impairment amount is recorded in the income statement.

Should the reasons for the impairment cease to exist following an event that occurred subsequent to the recognition of the impairment, write-backs are carried out and posted to the income statement.

Reversals of impairment cannot have a book value higher than their amortised cost if no impairment had been carried out.

Loans

Recognition criteria

The initial recognition of a loan occurs at the date of subscription, which usually corresponds to the date of disbursement or, in the case of a debt security, at the settlement date, based on the fair value of the financial instrument, which is equal to the amount disbursed, or subscription price, including costs/revenues directly attributable to the individual loan and definable from the beginning of the transaction, even if paid successively. Costs that have the aforementioned characteristics, but are reimbursed by the debtor counterparty or are classifiable as normal internal administrative costs, are excluded.

Receivables from lease transactions are recognised at a value corresponding to the net investment in the lease, including initial direct costs.

Loans and securities are allocated to the portfolio at the time of disbursement or purchase and cannot be subsequently transferred to other portfolios.

Contango contracts and repurchase agreements with the obligation to repurchase or resell at maturity are recognised in the Financial Statements as loans and deposits. In particular, spot sale and forward repurchase transactions are recognised in the Financial Statements as debts for the spot amount, while spot purchase and forward resale transactions are recognised as loans for the spot amount.

For credit transactions completed at conditions lower than market, the initial recognition is carried out for an amount equal to the future cash flows discounted at a market rate. Any difference between the initial amount recognised and the actual amount disbursed is recorded in the income statement upon initial recognition.

Classification criteria

This category includes loans to customers and banks, provided both directly as well as acquired from third parties, involving fixed or definable payments, not listed on an active market and not originally classified as Financial assets available for sale.

Loans also comprise trade receivables, repurchase agreements, receivables from finance lease transactions and securities acquired through private subscription or placement, with fixed or definable payments and not listed on active markets.

Loans also include loans originating from factoring operations in relation to portfolio advances received with recourse, which continue to be recorded in the financial statements of the assignor. As for loans without recourse, these are included in the item loans, subject to prior verification of the absence of contractual clauses that significantly alter the assignee company's risk exposure.

Reclassifications to other categories of financial assets envisaged by IAS 39 are not permitted.

Measurement criteria

After their initial recognition, loans are measured at amortised cost, equal to the originally recognised value decreased/increased by capital repayments, impairment (losses)/reversals and amortisation - calculated with the effective interest rate method - of the difference between the amount disbursed and the amount repayable at maturity, typically attributable to the costs/revenues directly related to the individual loan. The effective interest rate is determined by calculating the rate that equates the present value of future flows of the loan, in terms of capital and interest, to the amount disbursed, including costs/revenues related to the loan. This accounting method, which uses financial logic, distributes the economic effect of the costs/revenues throughout the expected residual life of the loan.

The amortised cost method is not used for loans whose short duration (within 12 months) makes the effect of the discounting principle negligible. Such loans are measured at historical cost. A similar measurement criterion is adopted for loans with undefined maturity date or which are valid until cancelled, whose costs/revenues are recorded in the income statement. Loan recognition is carried out in order to identify loans which, following events that occurred after they were recorded, show objective evidence of a plausible impairment. Included in this scenario are loans with assigned status of bad loan, unlikely to pay or past due/over drawn, in accordance with the current regulations of Banca d'Italia, consistent with the IAS/IFRS regulations and European supervisory provisions.

With reference to the general concept of restructuring of loan exposures, three different types are identified:

- the renegotiations due to “commercial” reasons/practices, therefore other than the economic-financial difficulties of the debtor and granted at a market interest rate as of the negotiation date;
- the exposures subject to “concession” (as defined by the Banca d'Italia Circular 272, which correspond to the definitions contemplated by the TS – Implementing Technical Standards of the EBA - “forborne”) or those contracts in relation to which tolerance measures (forbearance) have been applied, such as concessions, change of the contract terms and/or refinancing of an existing debt for the debtor who is in financial difficulty. The “forborne” exposures may be found among the non-performing loan (non-performing exposures with forbearance measures) and performing loan (forborne performing exposures) categories. The forborne exposures are those in relation to which objective evidence of impairment losses exists;
- the discharge of the debt by means of the replacement of the debtor or swap of the debt with equity instruments. These events lead to an essential change in the contractual terms and from an accounting standpoint lead to the discharge of the pre-existing relationship and the consequent recognition at fair value of the new relationship, recognising a profit or loss to the income statement equal to the difference between the book value of the old loan and the fair value of the assets received.

The non-performing loans are the subject of an analytical measurement process and the value adjustment for each loan is equal to the difference between the book value of the same at the moment of measurement (amortised cost) and the present value of expected future cash flows, calculated by applying the original effective interest rate. The non-performing past due exposures are subject to an analytical assessment applying a forfeit percentage to each individual position determined on historical/statistical bases.

The expected cash flows take into account the expected recovery times, the presumable realisable value of any guarantees as well as the costs that will likely be sustained for recovery of the credit exposure. Cash flows relative to loans that are expected to be repaid in the short term (within 12 months) are not discounted.

The original effective rate of each loan is unvaried over time, even if there has been a restructuring of the agreement which has led to a change in the contractual rate and even if the loan becomes, in practice, contractually non-interest-bearing.

The value adjustment is recognised in the income statement.

The original value of the loans is restored in subsequent periods if the reasons that led to its adjustment cease to exist, as long as this measurement is objectively supported by an event that occurred subsequently to the actual adjustment. The write-back is recognised in the income statement, and may in no case exceed the amortised cost of the loan had there been no prior adjustments.

Performing loans are subject to a measurement of collective impairment. Said measurement occurs by categories of loans that are homogeneous in terms of credit risk, and the relative loss percentages are estimated by taking into consideration historical series, based on observable elements on the date of measurement, which enable the value of the latent impairment to be estimated for each category of loans. The measurement takes into account the level of risk associated with the counterparty's country of residence.

Collective write-downs envisage the use of the risk parameters deriving from internal models validated for the “Corporate” regulatory function and also replicated for the regulatory “Retail” function, for which work is being carried out for submission of the validation request.

For all customers in the portfolio, in order to take into consideration the incurred loss

concept, namely losses contained within the portfolio but which have not yet emerged, of the various parameters used, a Loss Confirmation Period was also considered; this parameter expresses the average delay between the deterioration of the financial situation of a debtor and the classification of the same under non-performing exposures.

For the “Corporate” regulatory function, a loss confirmation period of 180 days was adopted, while for the “Retail” regulatory function, a loss confirmation period of 12 months was adopted.

The specific measurements of the above-mentioned parameters in terms of the loss confirmation period for the different types of counterparty (retail and corporate) were identified mainly on the basis of results that were also obtained through organisational controls, established as part of the credit process, such as for example the frequency with which loans are reviewed and credit control activities.

More specifically, these segments are also characterised by different economic/financial information. More specifically, as regards the “Retail” regulatory function, the same has low equity and income and its type of indebtedness is biased towards medium/long term. The observation of the above elements attributable in particular to the retail segment, led to the fine-tuning of the LCP parameter for this segment, updating it to 12 months, while at the same time confirming the organisational and credit controls already in place.

It is believed that the time horizon used for the valuation of the probability of default can approximate the notion of incurred loss, meaning loss based on current events which have not yet been taken into consideration by the company in revising a specific customer’s risk level, which is required by the international accounting standards.

Collectively determined value adjustments are recorded in the income statement.

Derecognition criteria

Loans that are sold are derecognised from the assets in the Financial Statements only if the sale involved the transfer of all risks and benefits related to the loan. Conversely, if the risks and benefits related to the loans sold have been maintained, these continue to be recognised under the assets of the Financial Statements, even if legal ownership of the loan has effectively been transferred.

If it is not possible to ascertain the essential transfer of risks and benefits, the loans will be derecognised from the Financial Statements if no type of control has been maintained over them. Conversely, the maintenance of even partial control will result in keeping the loans in the Financial Statements in an amount equal to the residual involvement, measured by the exposure to changes in value of the loans sold and to variations in the cash flows of the same. Lastly, transferred loans will be derecognised from the Financial Statements if the contractual right to receive the relative cash flows has been retained, with the simultaneous assumption of an obligation to pay said flows, and only said flows, to other third parties.

Furthermore, the integral elimination of the loans takes place when the same are considered to be unrecoverable or are written off entirely. The derecognitions, with regard to the portion exceeding the related provision, are booked directly to the item 130 a) “Net losses/recoveries on impairment of loans” in the income statement and are recognised as reducing the principal portion of the loans. Recoveries of part or of full amounts previously cancelled are recorded in this item.

Criteria for the recognition of income

Income is allocated to the relevant items of the income statement as follows:

- Interest income from loans and securities is allocated to the item “Interest income and similar revenues” on an accrual basis, based on the effective interest rate;
- The gains and losses from the disposal of loans and of securities are allocated to the item “Gains (losses) on disposal/repurchase of loans”;
- Impairment losses, losses due to derecognition and reversals of loans and securities are allocated to the item “Net losses/recoveries on impairment of loans”.

Reversals of impairments related to the passing of time are recognised under reversals.

Financial assets measured at fair value

Recognition criteria

Financial instruments measured at fair value are initially recognised at cost, meaning the fair value of the instrument, without considering the transaction costs or revenues directly attributable to the instrument itself, that are recorded in the income statement.

Classification criteria

Financial assets to be measured at fair value through profit or loss are classified under this category when:

- the designation of fair value enables the elimination or removal of significant distortions in the accounting representation of financial instruments or between financial instruments and non-financial assets;
- or the management and/or valuation of a group of financial instruments at fair value through profit or loss is consistent with a risk management or investment strategy as reported to the company's management;
- or in the presence of an instrument containing an implicit derivative that significantly changes the cash flows of the host instrument and that must be separated.

Equity instruments that do not have a reliable fair value cannot be classified under this category.

Measurement criteria

Subsequent to their initial recognition, financial assets are measured at fair value.

The methods used for determining the fair value are outlined in Section 16 "Other information" of these Explanatory notes to the consolidated financial statements.

Derecognition criteria

Financial assets are derecognised when the contractual rights on the cash flows from the assets themselves expire or when the financial asset is sold, essentially transferring all the risk/benefits related to it. Conversely, whenever a significant part of the risks and benefits related to the financial assets sold has been maintained, these continue to be recognised in the financial statements, even if legal ownership of the assets has effectively been transferred. If it is not possible to ascertain the essential transfer of risks and benefits, the financial assets will be derecognised from the financial statements if no type of control has been maintained over them. Conversely, the maintenance of even partial control will result in keeping the assets in the financial statements at an amount equal to the residual involvement, measured by the exposure to changes in value of the assets sold and to variations in the cash flows of the same.

If the bank sells a financial asset classified in the above portfolio, the asset is derecognised as at the date of its transfer (settlement date).

Securities received as part of a transaction that contractually envisages their subsequent sale and securities delivered as part of a transaction that contractually envisages their repurchase are not recorded in or written off the financial statements.

Lastly, transferred financial assets will be derecognised from the financial statements if the contractual right to receive the relative cash flows has been retained, with the simultaneous assumption of an obligation to pay said flows, and only said flows, to other third parties (see paragraph 19 IAS 39).

Criteria for the recognition of income

Interest income on securities is recorded on an accrual basis in the income statement items relating to interest.

Profits and losses arising from changes in the fair values of financial assets and liabilities and from their sale and redemption are recognised under the item "Net profit (loss) from financial assets and liabilities measured at fair value".

Liabilities and debt securities issued

Recognition criteria

The initial recognition of said financial liabilities occurs upon collection of the amounts or issue of the debt securities.

The recognition is carried out on the basis of fair value of the liabilities, normally equal to the amount collected or issue price, adjusted by any costs/revenues directly attributable to the single collection or issue transaction and not reimbursed by the creditor counterparty. Internal administrative costs are excluded.

Classification criteria

“Deposits from banks”, “Deposits from customers” and “Debt securities issued” include the various forms of inter-bank and customer funding, repurchase agreements with the obligation to repurchase at maturity, provisions collected via outstanding certificates of deposit and bonds (net of any amounts repurchased) and other outstanding funding instruments not classified under financial liabilities measured at fair value.

Measurement criteria

After the initial recording, financial liabilities are measured at amortised cost using the effective interest rate method.

Short-term liabilities (within 12 months), for which the time factor is negligible, are an exception to this, and they remain recognised at the value collected, with any costs attributed to the income statement.

Derecognition criteria

Financial liabilities are derecognised from the financial statements when they expire or are paid off. Derecognition occurs even upon repurchase of previously issued securities. The difference between book value of the liability and the amount paid to purchase it is recognised in the income statement.

The re-placement of securities on the market following their repurchase is considered a new issue, with recognition of a new issue price, without any impact on the income statement.

Criteria for the recognition of income

Income is allocated to the relevant items of the income statement as follows:

- interest expenses are allocated to the item “Interest expenses and similar charges” based on the effective interest rate;
- the gains and losses from the repurchase of liabilities are allocated to the item “Gains/(losses) on disposal or repurchase of financial liabilities”.

Financial liabilities held for trading

Recognition and derecognition criteria

The same recognition and derecognition criteria used for financial assets held for trading (previous Section 1 - Financial assets held for trading) are applied with the suitable adjustments.

Classification criteria

This item includes the negative value of derivative trading contracts measured at fair value and liabilities, also measured at fair value, that arise from technical overdrafts generated by securities trading.

Measurement criteria

The same measurement criteria used for financial assets held for trading (previous Section 1 - Financial assets held for trading) are applied with the suitable adjustments.

Criteria for the recognition of income

The same recognition criteria of income are applied, with the appropriate adjustments, as those to the income for financial assets held for trading (Section 1 above - Financial assets held for trading).

Financial liabilities measured at fair value

Recognition criteria

Financial instruments measured at fair value are initially recognised at cost, meaning the fair value of the instrument, without considering the transaction costs or revenues directly attributable to the instrument itself, that are recorded in the income statement.

Classification criteria

Liabilities to be measured at fair value through profit or loss are classified under this category when:

- the measurement at fair value enables the elimination or removal of significant distortions in the accounting representation of the instruments;
- or the management and/or valuation of a group of financial instruments at fair value through profit or loss is consistent with a risk management or investment strategy as reported to the company's management;
- or in the presence of an instrument containing an implicit derivative that significantly changes the cash flows of the host instrument and that must be separated.

Measurement criteria

Subsequent to their initial recognition, financial liabilities are measured at fair value.

The methods used for determining the fair value are outlined in Section 16 "Other information" of these Explanatory notes to the consolidated financial statements.

Derecognition criteria

Financial liabilities are derecognised when they are extinguished or when the obligation specified in the contract is fulfilled, removed or has expired. Derecognition occurs even upon repurchase of previously issued securities. The difference between book value of the liability and the amount paid to purchase it is recognised in the income statement.

The re-placement of securities on the market following their repurchase is considered a new issue, with recognition of a new issue price, without any impact on the income statement.

Criteria for the recognition of income

Interest income on securities is recorded on an accrual basis in the income statement items relating to interest.

Profits and losses arising from changes in the fair values of financial liabilities and the profits and losses resulting from their sale and redemption are recognised under the item "Net profit (loss) from financial assets and liabilities measured at fair value" in the income statement.

In particular, if the fair value of the financial instruments issued initially corresponds to the sale price, the profit or loss generated following the subsequent revaluation is recognised in full in the income statement.

A.3 DISCLOSURE OF TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

Following the adoption of IFRS 9, the bank did not make any changes to the business model for the management of its financial assets and, therefore, no transfers between portfolios of financial assets were made. The general rules established by IFRS 9 on the reclassification of financial assets (with the exception of equity securities, for which no reclassification is allowed), do not allow reclassifications of financial assets to other categories, unless the company changes its business model for the management of these financial assets. These changes are expected to be extremely uncommon and must be decided by management following significant external or internal changes that are demonstrable to external parties.

A.4 FAIR VALUE DISCLOSURE

Qualitative information

A.4.1 – Fair value level 2 and 3: measurement techniques and inputs used

The measurement techniques used for Level 2 and 3 financial instruments are as follows:

- Financial assets: measurement of structured instruments using the discounted cash flow model for the bond component with a rate adjusted to reflect the appropriate credit risk, and the Black & Scholes model for the share component;
- Financial liabilities: measurement of plain vanilla instruments using the discounted cash flow model, considering a rate adjusted to reflect the credit risk of Credito Emiliano on maturity of the instrument.

The definition of the models used is briefly illustrated below:

Discounted Cash Flow

The discounted cash flow model is used to value an investment, based on the discounting process, which enables the present value of capital, which naturally matures at a future date, to be established today by applying a discount rate. The discount rate is adjusted for the credit risk of future cash flows expected from the asset in question. The algebraic sum of the discounted flows represents the net present value of the instrument.

The parameters used in the valuation technique are: rate curve and credit spread of each issue.

Black & Scholes model

The univariate Black & Scholes model (BS) is the most famous and recognised option pricing model on the market. The model is based on the possibility of creating a portfolio corresponding to the option, comprised in part by units of the underlying instrument and in part by risk-free bonds both influenced by the same source of uncertainty given by changes in the price of the stock. The assumptions underlying the Black & Scholes model are represented by the trend in prices for the underlying asset (approximated by a log-normal process), the presence of a perfectly efficient market, the interest rate and the volatility of the underlying constant for the entire duration of the option.

The parameters used in the valuation technique are the interest rate, the value and the volatility of the underlying asset.

As at 31 December 2020, all of the parameters used in the valuation techniques were observable, resulting in a fair value level of 2 for instruments measured using the Mark to Model technique.

More specifically:

- the interest rates were extrapolated from the zero curve obtained from market quotations of similar instruments;
- the credit spreads for the Credito Emiliano component were obtained from market quotations of comparable issues;
- the values of underlying assets were obtained from market quotations;
- the volatility of the underlying asset was obtained from market quotations, in the light of the short-term nature of the stock component.

The models and the parameters used in the valuation techniques are detailed and regulated in the Technical Appendix to the Group's Fair Value Policy: "Credem rules to apply to the Group Fair Value Policy" and "Manual of pricing models".

A.4.2 Measurement processes and sensitivity

The valuation of instruments not traded on active markets is conducted using a Mark to Model technique, which seeks to maximise the use of observable data on the market. If the parameters are not available or not directly observable, fair value Level 3 is allocated.

As at 31 December 2020, no financial derivative was measured using the Mark to Model technique by means of market parameters that were not directly observable.

A.4.3 Fair value hierarchy

Transfers between levels of the fair value hierarchy

The fair value hierarchy attributes maximum priority to the prices listed (non-adjusted) on active markets for identical assets or liabilities (Level 1 data) and minimum priority to non-observable inputs (Level 3 data).

The following levels are used for the classifications shown below in these Explanatory notes to the consolidated financial statements:

- “Level 1”: the fair value of financial instruments is calculated on the basis of listed prices observable on active markets (non-adjusted) that may be accessed on the valuation date;
- “Level 2”: the fair value of financial instruments is calculated on the basis of inputs other than the listed prices included in Level 1 directly or indirectly observable for the asset or liability, also using valuation techniques;
- “Level 3”: the fair value of financial instruments is calculated on the basis of non-observable inputs for the asset or liability, also using valuation techniques.

Allocating levels entails checking, for each instrument held in own portfolios, for a possible potential active market, in line with several valuation rules. More specifically, for a period of 6 working days prior to the valuation date, the analyses seek to assess whether contributions are steady, if they fall within the bid-ask spread deltas, if they indicate possible recent transactions, therefore with fluctuations, and that the issuer is solid and active.

Failure to comply with these rules will result in a lower level being allocated, which is more coherent and representative of the instrument’s fair value.

Similarly, the analysis is conducted also when verifying the potential resumption of an active market for the instruments for which, over time, a steady valuation on regulated or non-regulated markets has resumed.

A report is generated in line with legislative requirements in force, which shows:

- transfers between Level 1 and Level 2 for financial assets and liabilities held on the reporting date and measured at fair value on a recurring basis.
- This section illustrates the reasons for said transfers and the procedure adopted to establish the circumstances in which said transfers take place. Transfers to each level are indicated and discussed separately from transfers from each level;
- Level 3 transfers, detailing the reasons for said transfers and the principles adopted to establish when transfers between levels should take place. Level 3 transfers are indicated and discussed separately from transfers not concerning Level 3.

A.4.4 Other information

Fair value levels are allocated every quarter on the reference accounting dates based on the verification of the presence of a principal or more advantageous market in the period of time prior to the reference accounting date. Several principles are checked, needed to establish the presence of an active market for each financial instrument identified by the availability of continuous, executable valuations, with contained bid-ask spreads.

The fulfilment of these conditions determines the fair value of the instrument analysed. If market quotations are not present, the valuation techniques are used on each accounting date, maximising the use of relevant observable inputs and minimising the use of non-observable inputs. Checking these input parameters based on availability determines the fair value level of the instrument.

On each accounting date, a comparative analysis of the fair value levels is also conducted, with respect to the previous quarter and the beginning of the year in question, with a view to identifying fair value level transfers that took place during the course of the year in question and the circumstances that triggered such transfer.

Quantitative information

A.4.5 Fair value hierarchy

A.4.5.1 Financial assets and liabilities measured at fair value on a recurring basis: breakdown by fair value levels

Assets/liabilities measured at fair value	31/12/2020			31/12/2019		
	L1	L2	L3	L1	L2	L3
1. Financial assets measured at fair value through profit or loss	602	18,266	22,895	30,077	88,292	13,709
a) Financial assets held for trading	322	18,266	3,028	29,980	88,292	2,663
b) Financial assets measured at fair value	-	-	-	-	-	-
c) Other financial assets measured at fair value, as per mandatory requirements	280	-	19,867	97	-	11,046
2. Financial assets measured at fair value through other comprehensive income	3,466,251	33,955	16,236	6,121,257	5,869	15,916
3. Hedging derivatives	-	273,385	-	-	260,521	-
4. Property, plant and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	3,466,853	325,606	39,131	6,151,334	354,682	29,625
1. Financial liabilities held for trading	8	18,256	-	32	96,453	-
2. Financial liabilities measured at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	365,281	-	-	326,808	-
Total	8	383,537	-	32	423,261	-

With reference to assets measured at fair value on a recurring basis as at 31 December 2020, the instruments valued according to the most advantageous market (fair value level 1) and/or according to measurement techniques based on observable parameters (fair value level 2) represented 99.41% of total assets measured at fair value (a stable value with respect to the corresponding figure for 2019 of 99.56%).

The instruments measured using valuation techniques based mainly on non-observable parameters regarded a residual part of total assets measured at fair value (0.59%), in line with the figure for 2019 of 0.44%.

In 2020, no transfers between levels were made with respect to the classification of 2019.

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

	Financial assets measured at fair value through profit or loss				Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Property, plant and equipment	Intangible assets
	Total	of which: a) financial assets held for trading	of which: b) financial assets measured at fair value	of which: c) other financial assets measured at fair value, as per mandatory requirements				
1. Opening balances	13,709	2,663	-	11,046	15,916	-	-	-
2. Increases	22,959	8,288	-	14,671	320	-	-	-
2.1. Purchases	22,712	8,157	-	14,555	320	-	-	-
2.2. Profits recognised in:	243	127	-	116	-	-	-	-
2.2.1. Income Statement	243	127	-	116	-	-	-	-
- of which gains	215	127	-	88	-	-	-	-
2.2.2. Shareholders' equity	-	X	X	X	-	-	-	-
2.3. Transfers from other levels	-	-	-	-	-	-	-	-
2.4. Other increases	4	4	-	-	-	-	-	-
3. Decreases	13,773	7,923	-	5,850	-	-	-	-
3.1. Sales	7,751	7,751	-	-	-	-	-	-
3.2. Refunds	5,397	-	-	5,397	-	-	-	-
3.3. Losses recognised in:	472	19	-	453	-	-	-	-
3.3.1. Income Statement	472	19	-	453	-	-	-	-
- of which capital losses	458	16	-	442	-	-	-	-
3.3.2. Shareholders' equity	-	X	X	X	-	-	-	-
3.4. Transfers to other levels	-	-	-	-	-	-	-	-
3.5. Other decreases	153	153	-	-	-	-	-	-
4. Closing balance	22,895	3,028	-	19,867	16,236	-	-	-

Item 2.1 "Purchases" includes, for the financial Assets mandatorily measured at fair value, the purchase of the share of the Credem Private Equity fund.

Instruments attributed a fair value level of 3 are defined as illiquid, are not valued very often over time and the status of the instrument or more generally of the issuer on the valuation date means that the recovery of an active status on the market is not considered possible.

The annual changes between levels as at 31/12/2020 for financial assets measured at fair value through other comprehensive income and measured at fair value through profit or loss regarded changes relating to decreases/increases between the accounting date of 31/12/2019 and that of 31/12/2020.

In the decreases and increases section, there were no transfers from or to Level 3.

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

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	31/12/2020				31/12/2019			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets measured at amortised cost	42,662,841	4,747,826	371,480	38,830,853	31,672,592	2,501,820	423,554	29,855,761
2. Property, plant and equipment held for investment purposes	3,614	-	-	4,360	3,557	-	-	4,654
3. Non-current assets and groups of assets held for sale and discontinued operations	-	-	-	-	-	-	-	-
Total	42,666,455	4,747,826	371,480	38,835,213	31,676,149	2,501,820	423,554	29,860,415
1. Financial liabilities measured at amortised cost	43,591,800	2,065,269	3,422,637	38,165,877	35,336,715	2,071,431	3,707,638	29,467,758
2. Liabilities included in disposal group classified as HFS	-	-	-	-	-	-	-	-
Total	43,591,800	2,065,269	3,422,637	38,165,877	35,336,715	2,071,431	3,707,638	29,467,758

A.5 – Information on “day one profit/loss”

The profit related to the issue of bonds, determined by the difference between the amount received and the fair value of the instrument, is recorded in the income statement on the issue date in all cases in which said fair value is measured using valuation techniques that use market-observable parameters.

The IFRS 9 standard provides that the initial recognition of financial instruments should be made at fair value. Usually, the fair value of a financial instrument at the date of initial recognition in the financial statements corresponds to the “transaction price”; in other words, at the cost or the amount paid for the financial assets or the sum received for financial liabilities.

The statement that, at the time of initial recognition in the financial statements, the fair value of a financial instrument corresponds to the transaction price is intuitively always the case for transactions in “Level 1” of the fair value hierarchy.

Also in the case of “Level 2”, which is based on prices derived indirectly from the market (comparable approach), in the vast majority of cases, at the time of initial recognition, fair value and price substantially correspond. Any differences between price and fair value are usually attributed to so-called sales margins.

In the case of “Level 3”, however, the measurement of the instrument is partially at the discretion of the operator and, therefore, due to the higher degree of subjectivity in the calculation of the fair value, there is no clear term of reference to compare with the transaction price. For this reason, IFRS 9 prohibits that any initial difference between the transaction price and the internal estimate of fair value may immediately be booked to the income statement in a single amount. Therefore, in this case, the initial recognition must always be made at the transaction price. The subsequent valuation may not include the difference between the price and the fair value established at the time of initial valuation - namely the implicit Day-One-Profit (DOP) or Day-One-Loss (DOL), which instead must be booked to the income statement only if it results from changes of the factors on which market participants base their valuations to set prices (including the time effect). Where the instrument has a defined maturity and a model to monitor changes in the factors on which operators base their prices is not immediately available, the transit of the DOP/DOL to the income statement is permitted in a linear manner for the duration of the same financial instrument.

Therefore, the accounting policy followed provides that:

- any implicit DOP/DOL in “Level 2” instruments is immediately and entirely booked to the Income Statement;
- instead, any implicit DOP/DOL in “Level 3” instruments is sterilised and booked to the Income Statement on a “pro-rata temporis” basis (linearly) for the residual duration of said instruments;
- in the event in which an instrument classified as “Level 3” in the fair value hierarchy is reclassified as Level 2, the residual suspended DOP/DOL, are booked to the Income Statement in a single amount.

As at 31 December 2020, there were no amounts that were still to be recorded in the income

statement on a “pro-rata temporis” basis, or for the residual duration of the contract.



PART B

INFORMATION ON THE

CONSOLIDATED BALANCE SHEET

Assets

Section 1 – Cash and cash equivalents – Item 10

1.1 Cash and cash equivalents: breakdown

	Total 31/12/2020	Total 31/12/2019
a) Cash	145,984	156,020
b) Demand deposits with Central banks	-	-
Total	145,984	156,020

Section 2 – Financial assets measured at fair value through profit or loss – Item 20

2.1 Financial assets held for trading: breakdown

Items/Balances	Total 31/12/2020			Total 31/12/2019		
	L1	L2	L3	L1	L2	L3
A. Balance sheet assets						
1. Debt securities	320	16	-	29,971	39	-
1.1 Structured securities	27	6	-	2,817	-	-
1.2 Other debt securities	293	10	-	27,154	39	-
2. Equity securities	-	-	354	-	-	289
3. Units of UCITS	-	-	2,391	-	-	2,352
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total (A)	320	16	2,745	29,971	39	2,641
B. Derivatives	-	-	-	-	-	-
1. Financial derivatives	2	18,250	283	9	88,253	22
1.1 trading	2	18,250	283	9	88,253	22
1.2 related to fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 trading	-	-	-	-	-	-
2.2 related to fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total (B)	2	18,250	283	9	88,253	22
Total (A+B)	322	18,266	3,028	29,980	88,292	2,663

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

The breakdown of item 3 “Units of UCITS” is as follows:

	Total 31/12/2020	Total 31/12/2019
Hedge Fund	2,331	2,286
Equity	60	66
Total	2,391	2,352

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

Items/Balances	Total 31/12/2020	Total 31/12/2019
A. Balance sheet assets		
1. Debt securities	335	30,009
a) Central Banks	-	-
b) Public administrations	241	22,653
c) Banks	53	5,653
d) Other financial companies	17	1,037
of which: insurance companies	-	109
e) Non-financial companies	24	666
2. Equity securities	354	289
a) Banks	-	-
b) Other financial companies	-	2
of which: insurance companies	-	-
c) Non-financial companies	354	287
d) Other issuers	-	-
3. Units of UCITS	2,391	2,352
4. Loans	-	-
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total (A)	3,080	32,650
B. Derivatives		
a) Central Counterparties	-	-
b) Other	18,535	88,283
Total (B)	18,535	88,283
Total (A+B)	21,615	120,933

In compliance with the provisions of IFRS 7 and taking into account the indications contained in Consob Communication no. DEM/11070007 of 5 August 2011 (which refers to document ESMA no. 2011/266 of 28 July 2011) regarding disclosures to be made in financial reports regarding “sovereign debt”, note that as at 31 December 2020, there were Government bond exposures for € 0.2 million, exposures to other countries. These positions, classified as trading in the accounts, are traded on behalf of institutional customers. Reference should be made to Section 3 of these Explanatory notes for securities held in the “Financial assets measured at fair value through other comprehensive income” portfolio.

2.5 Other financial assets measured at fair value, as per mandatory requirements: breakdown

Items/Balances	Total 31/12/2020			Total 31/12/2019		
	L1	L2	L3	L1	L2	L3
1. Debt securities	-	-	-	-	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	-	-	-	-	-
2. Equity securities	-	-	-	-	-	-
3. Units of UCITS	280	-	2,026	97	-	1,462
4. Loans	-	-	17,841	-	-	9,584
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	17,841	-	-	9,584
Total	280	-	19,867	97	-	11,046

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

The breakdown of item 3 “Units of UCITS” is as follows:

	Total 31/12/2020	Total 31/12/2019
Closed-end funds	2,026	1,462
Equity	27	15
Bonds	77	47
Balanced	55	18
Flexible	121	17
Total	2,306	1,559

2.6 Other financial assets measured at fair value, as per mandatory requirements: breakdown by debtor/issuer

	Total 31/12/2020	Total 31/12/2019
1. Equity securities	-	-
of which: banks	-	-
of which: other financial companies	-	-
of which: non-financial companies	-	-
2. Debt securities	-	-
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
3. Units of UCITS	2,306	1,559
4. Loans	17,842	9,584
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	9,132	-
of which: insurance companies	9,132	-
e) Non-financial companies	7,383	8,305
f) Households	1,327	1,279
Total	20,148	11,143

The units of mutual funds (UCITS) and certain loans to customers were reclassified into this category as a result of failing the SPPI test.

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

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

Items/Balances	Total 31/12/2020			Total 31/12/2019		
	L1	L2	L3	L1	L2	L3
1. Debt securities	3,465,698	27,709	0	6,120,475	0	0
1.1 Structured securities	355,853	27,709	-	503,191	-	-
1.2 Other debt securities	3,109,845	-	-	5,617,284	-	-
2. Equity securities	553	6,246	16,236	782	5,869	15,916
3. Loans	-	-	-	-	-	-
Total	3,466,251	33,955	16,236	6,121,257	5,869	15,916

Key:

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

The fair value of the shares held in the share capital of Cedacri, equal to 3.9% of this, amounted to € 14,495,995.28. The fair value measurement model took into account the prices of the most recent transactions for a package traded in January 2018, already included in the 2017 financial statements. In particular, Credem does not have the business plans of Cedacri, nor does it have financial or income projections that make it possible to determine the fair value with a certain degree of reliability compared to the one implied in the last certain transactions (January 2018).

As indicated in “Section 4 - Significant events subsequent to the reporting period”, on 5 March 2021 an agreement was signed for the sale of 100% of the share capital of Cedacri to ION Investment Group Limited. In this context, Credito Emiliano will sell its share corresponding to 3.9% of the share capital, which will give rise to a total gross capital gain of approximately € 39.3 million which is expected to be realised in 2021 based on the timing expected by the agreement.

In accordance with IAS 10, the elements referred to in the previous point do not entail adjustments to the financial statements as at 31 December 2020 and will be taken into consideration, on the basis of both the policy in force and the clauses set forth in the final contractual documentation, in the measurement of the financial capital instruments measured at fair value not listed on an active market, therefore allocated in the level 3 fair value hierarchy.

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

Items/Balances	Total 31/12/2020	Total 31/12/2019
1. Debt securities	3,493,407	6,120,475
a) Central banks	-	-
b) Public administrations	2,110,275	4,420,969
c) Banks	840,991	1,099,145
d) Other financial companies	208,213	313,309
of which: insurance companies	-	-
e) Non-financial companies	333,928	287,052
2. Equity securities	23,036	22,568
a) Banks	692	692
b) Other issuers:	22,344	21,876
- other financial companies	6,571	5,874
of which: insurance companies	-	-
- non-financial companies	15,747	15,976
- other	26	26
3. Loans	-	-
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	3,516,443	6,143,043

In compliance with the provisions of the IFRS 7 accounting standard and taking into account the indications contained in Consob Communication no. DEM/11070007 of 5 August 2011 (which incorporates document ESMA no. 2011/266 of 28 July 2011) on the information to be provided in the financial reports on sovereign debt, it should be noted that the portfolio “Financial assets measured at fair value through other comprehensive income” includes foreign Government bonds (Spain) for € 916.8 million, and (Luxembourg) for € 46.9 million. As regards Government bonds issued by the Italian State, the exposure is around € 1,114.2 million of BTP and € 32.3 million of CCT.

There are fair value hedges on fixed-rate Italian Government bonds (BTP) and foreign Government bonds, as well as on fixed-rate bonds (senior unsecured and covered bonds) issued by leading European credit institutions. The latter are fair value hedges, carried out through the implementation of suitable hedging instruments (interest rate swaps) to specifically hedge the “interest rate risk” of said securities; the relationship created between Hedged Item and Hedging Instrument led to the preparation of a specific document that formalises the hedging relationship and also entailed the application of special Hedge Accounting rules. Note that tests of effectiveness were conducted (both prospective and retrospective) with a positive outcome.

3.3 Financial assets measured at fair value through other comprehensive income: gross value and overall value adjustments

	Gross value				Overall value adjustments			Total partial write-offs
	Stage 1	of which: Instruments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	3,495,668	27,828	-	-	2,260	-	-	-
Loans	-	-	-	-	-	-	-	-
Total 31/12/2020	3,495,668	27,828	-	-	2,260	-	-	-
Total 31/12/2019	6,123,861	6,123,861	-	-	3,387	-	-	-
of which: impaired, non-performing, acquired or originated financial assets	X	X	-	-	X	-	-	-

The gross value and the overall value adjustments of impaired financial assets include contractual interest accrued.

Section 4 – Financial assets measured at amortised cost – Item 40

4.1 Financial assets measured at amortised cost: breakdown of loans to banks

Type of transaction/Amounts	Total 31/12/2020						Total 31/12/2019					
	Book value			Fair value			Book value			Fair value		
	Stage 1 and 2	Stage 3	of which: impaired, acquired or originated	L1	L2	L3	Stage 1 and 2	Stage 3	of which: impaired, acquired or originated	L1	L2	L3
A. Loans to Central Banks	7,579,190	-	-	-	-	7,579,190	1,673,518	-	-	-	-	1,673,518
1. Deposits with a set term	411	-	-	-	-	-	411	-	-	-	-	-
2. Compulsory reserves	7,578,779	-	-	X	X	X	1,673,107	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	-	-	-	X	X	X	-	-	-	X	X	X
B. Loans to banks	730,061	-	-	354,558	-	382,239	359,116	-	-	-	-	359,123
1. Loans	382,238	-	-	-	-	382,239	359,116	-	-	-	-	359,123
1.1 Current accounts and demand deposits	91,236	-	-	-	-	-	62,213	-	-	-	-	-
1.2. Deposits with a set term	-	-	-	X	X	X	9,981	-	-	X	X	X
1.3. Other loans:	291,002	-	-	X	X	X	286,922	-	-	X	X	X
- Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
- Loans for leases	280	-	-	X	X	X	312	-	-	X	X	X
- Other	290,722	-	-	X	X	X	286,610	-	-	X	X	X
2. Debt securities	347,823	-	-	354,558	-	-	-	-	-	-	-	-
2.1 Structured securities	137,141	-	-	139,555	-	-	-	-	-	-	-	-
2.2 Other debt securities	210,682	-	-	215,003	-	-	-	-	-	-	-	-
Total	8,309,251	-	-	354,558	-	7,961,429	2,032,634	-	-	-	-	2,032,641

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

Operating loans associated with the provision of financial services have been included. The Group has liquid assets deposited with the Central Bank (including the compulsory reserve) amounting to around € 7.6 billion.

Loans are recognised at their nominal value, corresponding to their fair value and the fair value level attributed is 3.

The methods used for determining the fair value are outlined in Part A1 - General criteria - Section 16 “Other information”.

4.2 Financial assets measured at amortised cost: breakdown of loans to customer

Type of transaction/Amounts	Total 31/12/2020						Total 31/12/2019					
	Book value			Fair value			Book value			Fair value		
	Stage 1 and 2	Stage 3	of which: impaired, acquired or originated	L1	L2	L3	Stage 1 and 2	Stage 3	of which: impaired, acquired or originated	L1	L2	L3
1. Loans	28,877,918	420,850	-	-	-	30,836,953	26,193,105	490,797	-	-	-	27,789,095
1.1. Current accounts	1,519,394	42,784	-	-	-	-	2,007,152	49,688	-	-	-	-
1.2. Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
1.3. Mortgages	16,666,273	275,140	-	X	X	X	12,738,907	331,551	-	X	X	X
1.4. Credit cards and personal loans, incl. fifth-of-salary backed loans	1,822,688	36,688	-	X	X	X	1,719,280	30,536	-	X	X	X
1.5. Loans for leases	2,535,799	53,255	-	X	X	X	2,396,124	62,722	-	X	X	X
1.6. Factoring	1,122,808	7,593	-	X	X	X	1,097,240	9,211	-	X	X	X
1.7. Other loans	5,210,956	5,390	-	X	X	X	6,234,402	7,089	-	X	X	X
2. Debt securities	5,054,826	-	-	4,747,365	371,480	32,932	2,956,059	-	-	2,501,004	423,554	35,841
2.1. Structured securities	420,613	-	-	100,567	286,124	32,932	2,035,284	-	-	1,866,728	169,851	-
2.2. Other debt securities	4,634,213	-	-	4,646,798	85,356	-	920,775	-	-	634,276	253,703	35,841
Total	33,932,744	420,850	-	4,747,365	371,480	30,869,885	29,149,164	490,797	-	2,501,004	423,554	27,824,936

Loans to customers amounted to € 29,299 million.

The portfolio of “Financial assets measured at amortised cost” includes, under item 2.2, exposures in Government bonds for around € 4,453.0 million (€ 4,101.5 million in Italian bonds, € 144.5 million in Portuguese bonds and € 207.0 million in Spanish bonds). As regards Government bonds issued by the Italian State, the exposure in BTP is around € 3,290.0 million, € 2.9 million in CCT and € 808.6 million in BOT.

The Group did not purchase any non-performing loans.

There are fair value hedges on fixed-rate Italian Government bonds (BTP) and on foreign Government bonds. The hedging is carried out through the implementation of suitable hedging instruments (interest rate swaps) to specifically hedge the “interest rate risk” of said securities; the relationship created between Hedged Item and Hedging Instrument led to the preparation of a specific document that formalises the hedging relationship and also entailed the application of special Hedge Accounting rules. Note that tests of effectiveness were conducted (both prospective and retrospective) with a positive outcome.

As at 31 December 2020, the “Financial assets measured at amortised cost” category also includes € 406.5 million in ABS issued by third party special purpose entities linked to loans originated in Europe, with preponderance of the component of German origination (€ 146.8 million). The portfolio consists of different types of ABS with a prevalence of residential mortgage securitisations, which account for 45.6%.

Current exposure broken down by country risk is as follows:

Country	Amount (€/thousands)	Exposure %
GERMANY	146,810	36.1
NETHERLANDS	117,728	29.0
FRANCE	77,143	19.0
SPAIN	36,308	8.9
IRELAND	14,588	3.6
ITALY	11,215	2.8
UNITED KINGDOM	1,845	0.4
PORTUGAL	819	0.2
TOTAL	406,456	100.0

The securitisation portfolio is diversified over 31 issuers and 37 issues with maximum concentration of € 33.8 million per single issue, and € 55.5 million per single issuer. Operating loans associated with the provision of financial services have been included.

The Macro Fair Value Hedge accounting method was also adopted to hedge interest rate risk associated with the disbursement of fixed rate mortgages and of floating rate mortgages with Cap options.

There are also cash flow hedges on floating-rate mortgages.

4.3 Financial assets measured at amortised cost: breakdown by debtor/issuer of loans to customers

Type of transaction/Amounts	Total 31/12/2020			Total 31/12/2019		
	Stage 1 and 2	Stage 3	of which: impaired, acquired or originated assets	Stage 1 and 2	Stage 3	of which: impaired, acquired or originated assets
1. Debt securities	5,054,824	-	-	2,956,059	-	-
a) Public administrations	4,452,980	-	-	2,495,503	-	-
b) Other financial companies	583,366	-	-	427,170	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	18,478	-	-	33,386	-	-
2. Loans to:	28,877,917	420,848	-	26,193,103	490,796	-
a) Public administrations	299,169	4,403	-	314,825	4,411	-
b) Other financial companies	712,634	170	-	278,853	407	-
of which: insurance companies	5,619	-	-	7,285	-	-
c) Non-financial companies	14,998,337	135,212	-	14,019,245	169,399	-
d) Households	12,867,777	281,063	-	11,580,180	316,579	-
Total	33,932,741	420,848	-	29,149,162	490,796	-

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

	Gross value				Overall value adjustments			Total partial write-offs
	Stage 1	of which: Instruments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	5,405,642	111,655	-	-	2,993	-	-	-
Loans	35,258,975	1,021,517	1,686,984	876,447	59,074	47,541	455,598	1,050
Total 31/12/2020	40,664,617	1,133,172	1,686,984	876,447	62,067	47,541	455,598	1,050
Total 31/12/2019	29,739,423	26,712,043	1,493,475	1,024,518	23,787	27,311	533,721	4,213
of which: impaired, acquired or originated financial assets	X	X	-	-	X	-	-	-

IFRS 9 requires financial assets measured at amortised cost to be classified in three stages, in order of increasing deterioration in creditworthiness; these categories are associated with progressively more severe measurements of impairment.

The gross value and the overall value adjustments of impaired financial assets include contractual interest accrued.

4.4a Loans measured at amortised cost subject to Covid-19 support measures: gross value and total value adjustments

	Gross value				Overall value adjustments			Total partial write-offs*
	Stage 1	of which: Instruments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
1. Loans subject to forbearance compliant with the GLs	3,170,955	47,491	427,335	16,549	11,836	12,917	4,461	-
2. Loans subject to other forbearance measures	-	-	18,353	18,745	-	520	2,815	-
3. New loans	2,332,380	121	59,412	1,131	2,280	287	188	-
Total 31/12/2020	5,503,335	47,612	505,100	36,425	14,116	13,724	7,464	-
Total 31/12/2019	-	-	-	-	-	-	-	-

This table shows the details of the gross value and of the total value adjustments broken down by risk stage, as well as the disclosure on the total partial write-offs for the loans, subject to “moratoriums” or other forbearance measures in place at the date of reference of the financial statements, or that constitute new liquidity granted through public guarantee mechanisms.

The line “Loans subject to forbearance compliant with the GLs” shows information on financial assets subject to moratoriums that fall within the scope of the “Guidelines on legislative and non-legislative moratoria on loan repayments applied in light of the Covid-19 crisis” published by the EBA (EBA/GL/2020/02) and subsequent amendments and additions.

The line “Loans subject to other forbearance measures” contains information relating to loans subject to Covid-19 support measures that meet the conditions of “exposure subject to forbearance measures” as defined by current supervisory reports and which are not included in the category “Loans subject to forbearance compliant with the GLs”.

The line “New loans” includes, inter alia, the financial assets recognised as a result of forbearance measures that led to a refinancing with derecognition of the original asset and the recognition of a new loan, or a restructuring of several debts with the recognition of a new loan in the financial statements.

Section 5 – Hedging derivatives – Item 50

5.1 Hedging derivatives: breakdown by type of hedge and fair value hierarchy

	FV 31/12/2020			NV 31/12/2020	FV 31/12/2019			NV 31/12/2019
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives								
1. Fair value	-	197,420	-	4,503,671	-	202,222	-	5,790,770
2. Cash flows	-	75,965	-	1,576,978	-	58,299	-	1,777,148
3. Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives								
1. Fair value	-	-	-	-	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
Total	-	273,385	-	6,080,649	-	260,521	-	7,567,918

Key:

NV = notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

5.2 Hedging derivatives: breakdown by hedged portfolios and type of hedge

Transaction/Type of hedge	Fair value							Cash flow		Foreign investments
	Micro-hedge						Macro-hedge	Micro-hedge	Macro-hedge	
	debt securities and interest	equity securities and stock indices	currencies and gold	credit	commodities	other				
1. Financial assets measured at fair value through other comprehensive income	4,749	-	-	-	X	X	X	-	X	X
2. Financial assets measured at amortised cost	-	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	-	X	75,965	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	4,749	-	-	-	-	-	-	-	75,965	-
1. Financial liabilities	23,690	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	23,690	-	-	-	-	-	-	-	-	-
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	X	168,981	X	-	-

The Macro Fair Value Hedge accounting method was adopted to hedge interest rate risk associated with customers' demand deposits.

Customers' demand deposits represent an important source of funding for the bank. A part of these deposits, however, although contractually on demand, displays strong persistence over time and imperfect elasticity to changes in market interest rates, represented by the so-called "viscosity effect".

This effect was estimated using an analysis model consisting of two components:

- the estimate of the relationship between the interest rates of demand items and market interest rates on the basis of an econometric model;

- the estimate of the persistence of volumes, through which the amount of demand items is transformed into a portfolio of fixed rate maturity items.

Hedging derivatives of this type recorded a positive fair value of € 168,981 thousand.

There are micro fair value hedges on securities issued at a fixed-rate booked under “debt securities issued”.

Derivatives of this type recorded a positive fair value of € 23,690 thousand.

There are macro cash flow hedges on floating-rate mortgages. Hedging derivatives of this type recorded a positive fair value of € 75,965 thousand.

There are micro fair value hedges on fixed-rate securities held in the HTCS portfolio.

Derivatives of this type recorded a positive fair value of € 4,749 thousand.

Please refer to Section in Part E of the Explanatory notes to the consolidated financial statements for a description of hedging methods.

Section 6 – Change in value of macro-hedged financial assets – Item 60

6.1 Change in value of hedged assets: breakdown by hedged portfolios

Change in value of hedged assets / Group components	Total 31/12/2020	Total 31/12/2019
1. Positive fair value changes	130,215	107,754
1.1 of specific portfolios:	130,215	107,754
a) financial assets measured at amortised cost	130,215	107,754
b) financial assets measured at fair value through other comprehensive income	-	-
1.2 overall	-	-
2. Negative fair value changes	-	-
2.1 of specific portfolios:	-	-
a) financial assets measured at amortised cost	-	-
b) financial assets measured at fair value through other comprehensive income	-	-
2.2 overall	-	-
Total	130,215	107,754

The Macro Fair Value Hedge accounting method was adopted to hedge interest rate risk associated with the disbursement of fixed rate mortgages and of floating rate mortgages with Cap options. By applying hedge accounting, it is possible to symmetrically represent, in accounting terms, both the mortgage loans and the hedging derivatives.

The Macro Fair Value Hedge method requires that the hedging relationship be formally documented by a hedging card and that the effectiveness of the hedge is verified through tests of effectiveness, both prospective and retrospective; the tests are performed periodically during the life of the operation. The hedge is considered effective if the ratio between the change in fair value of the hedged item with respect to the hedging instrument is within the range of 80% - 125%. The test of prospective and retrospective effectiveness of the hedge is carried out on a quarterly basis.

Hedge accounting cannot be maintained when the hedge becomes ineffective (outside of the range of 80%-125%).

Section 7 – Equity investments – Item 70

The book value of “Equity investments” amounts to € 45.7 million.

7.1 Equity investments: information on shareholdings

Company Name	Registered Office	Type of relationship	Shareholding Relationship		Voting Rights %
			Investing Company	%	
A. Jointly controlled companies					
1. Credemassicurazioni spa	Reggio Emilia	7	Credito Emiliano	50.00%	
B. Companies subject to significant influence					
1. Andxor srl	Cinisello Balsamo (MI)	8	Credemtel	20.00%	
2. Blue Eye Solutions srl	Montechiarugolo (PR)	8	Credemtel	20.00%	
3. Gruppo Santamaria spa	Catania	8	Avvera	10.00%	

Key

Type of relationship:

1 - majority of the voting rights in ordinary Shareholders' Meeting

2 - dominating influence in ordinary Shareholders' Meeting

3 - agreements with other shareholders

4 - other forms of control

5 - unitary management pursuant to Art. 26, paragraph 1 of Italian Legislative Decree no. 87/92

6 - unitary management pursuant to Art. 26, paragraph 2 of Italian Legislative Decree no. 87/92

7 - joint control

8 - associated company

7.2 Significant equity investments: book value, fair value and dividends earned

Company Name	Book value	Fair value	Dividends earned

A. Jointly controlled companies

1. Credemassicurazioni spa	44,711		-

B. Companies subject to significant influence

1. Andxor srl	330		40
2. Blue Eye Solutions srl	258		15
3. Gruppo Santamaria spa	391		-
Total	45,690	-	55

The fair value column is blank because there are no listed companies classified as significant equity investments.

7.3 Significant equity investments: accounting information

Company Name	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues	Interest Margin	Net value adjustments to (recoveries on) property, plant and equipment and intangible assets	Profit (Loss) before tax from continuing operations	Profit (Loss) after tax from continuing operations	Profit (Loss) after tax from discontinued operations	Profit (Loss) for the year (1)	Other income after tax (2)	Total profitability (3) = (1) + (2)
1. Jointly controlled companies														
Credemassicurazioni	11,403	132,717	15,193	-	91,810	44,671	928	(562)	18,631	12,937	-	12,937	1,324	14,261
2. Companies subject to significant influence														
Andxor	536	180	36	296	60	1,040	-	(6)	358	253	-	253	-	253
Blue Eye Solutions	120	1,242	449	714	531	2,061	(4)	(67)	216	153	-	153	-	153
Gruppo Santamaria	1,609	295	54	538	21	1,373	(1)	(8)	482	331	-	331	-	331

The table shows the figures for the draft financial statements as at 31 December 2020 approved by the Board of Directors and provided by the companies or, where not available, by the most recent statements of financial position relating to total equity investments and not to the percentage held by the Group.

Reconciliation of accounting information with the book value of equity investments

Company Name	Shareholders' equity (*)	Shareholding (%)	Owned shareholders' equity	Goodwill	Other items	Book value
A. Jointly controlled companies						
Credemassicurazioni	67,503	50.00%	33,752	10,324	635	44,711
Andxor	196	20.00%	39	291	-	330
Blue Eye Solutions	490	20.00%	98	160		258
Gruppo Santamaria	1,398	10.00%	140	251		391
Total	69,587	-	34,029	11,026	635	45,690

(*) shareholders' equity is the sum of "Financial assets", "Non-financial assets", net of "Financial liabilities", and of the "Financial liabilities" contained in table 7.3.

The changes relating to the equity investments segment encompass the profits and the losses of companies consolidated under the equity method, while value adjustments relate to the amortisation of the VIF of Credemassicurazioni.

7.5 Equity investments: annual changes

	Total 31/12/2020	Total 31/12/2019
A. Opening balance	39,169	33,659
B. Increases	7,564	6,166
B.1 Purchases	370	357
- of which business combinations	-	-
B.2 Write-backs		-
B.3 Revaluations		-
B.4 Other changes	7,194	5,809
C. Decreases	1,043	656
C.1 Sales	-	-
- of which business combinations	-	-
C.2 Adjustments	636	636
C.3 Write-downs		-
C.4 Other changes	407	20
D. Closing balance	45,690	39,169
E. Total revaluations	-	-
F. Total adjustments	-	-

The changes relating to the equity investments segment encompass the profits and the losses of companies consolidated under the equity method and the dividends distributed, while value adjustments relate to the amortisation of the VIF of Credemassicurazioni, while the purchase of € 370 thousand refers to the investment in Andxor.

The changes relating to the equity investments segment encompass the profits and the losses of companies consolidated under the equity method, while value adjustments relate to the amortisation of the VIF of Credemassicurazioni.

In the first half of 2020, continuing its strategy of investing in technology and innovation, Credemtel increased its equity investment in SATA Srl, a company specialised in the development of advanced software solutions for businesses, such as electronic invoicing and data extraction from documents.

An additional 55% of the share capital was purchased that, combined with the 20% already owned, brought the equity investment to 75%. This transaction will allow the company to assume an increasingly important role in designing and developing advanced applications for Credem Group, and in particular in developing the Supply Chain Finance, as well as continuing to provide cloud services to its direct and indirect customers.

In June 2020, this equity investment was consolidated using the line-by-line method, rather than the equity method.

At the same time, and in accordance with IFRS 3, in the event of a business combination carried out in several phases, the shareholding previously owned in the acquired company was recalculated at the respective fair value on the acquisition date and, at the same time, the difference in the profit for the year was recognised, for a total of € 0.4 million.

The line-by-line consolidation of the company involved recording additional goodwill for € 1.4 million, along with the previously recorded goodwill of € 0.2 million.

7.6 Significant considerations and assumptions to determine the existence of joint control or significant influence

Credito Emiliano S.p.A. holds 50% of Credemassicurazioni S.p.A., whose remaining share capital (50%) is instead held by Reale Mutua Assicurazioni.

In this context:

- Credito Emiliano does not hold the majority of voting rights, and is not able to take corporate decisions alone, as it does not have the practical ability to unilaterally direct the relevant activity of the investee, for which the agreement of the other shareholder is always necessary;
- Credito Emiliano has the power to veto the decisions of the other shareholder, meaning that without the favourable vote of Credito Emiliano, the other shareholder holding the remaining 50% of the share capital cannot influence the company.

With regard to Credemassicurazioni, Credito Emiliano's position is therefore that:

- of a party which is exposed to variable returns and which in any event has rights to said possible returns;
- has the ability to influence said returns only by exercising its power to veto the decisions of the other shareholder.

The agreements in place between the shareholders with 50% of share capital respectively envisage:

- the right to exercise call and put options on their respective shares when shares are sold or purchased, restricted to specific time limits (every 5 years);
- the right established in a specific shareholder agreement to obtain company representatives (half of the directors and, upon renewal of the Board of Directors, alternatively, either the Chairman of the Board of Directors and Statutory Auditors or the Chairman of the Board of Statutory Auditors). Since within Credemassicurazioni, there are no director votes which prevail over those of other directors (for example, the vote of the Chairman of the Board of Directors does not prevail), the appointment of corporate representatives does not give either shareholder any predominance over company decisions;
- the obligation not to transfer the shares to third parties for the duration of the shareholder agreement.

In this context, the rights of Credito Emiliano are limited by the net assets of Credemassicurazioni.

Credito Emiliano S.p.A. holds 100% of Credemtel S.p.A., which in turn holds 20% of ANDXOR SOLUZIONI INFORMATICHE S.R.L. “ANDXOR” and BLUE EYE SOLUTIONS S.r.l. “BLUE EYE”.

In this context, for ANDXOR:

- Credemtel does not hold the majority of voting rights, and is not able to take corporate decisions alone, as it does not have the practical ability to unilaterally direct the relevant activity of the investee, for which the agreement of the other shareholders is always necessary;
- With regard to specific topics, Credemtel has the power to veto the decisions of the other shareholders, meaning that without the favourable vote of Credemtel, also the other shareholders in possession of the remaining 80% of the share capital cannot influence the company.

With regard to ANDXOR, Credemtel’s position is therefore that of:

- of a party which is exposed to variable returns and which in any event has rights to said possible returns;
- which has the ability to influence said returns only by exercising its power to veto the decisions of the other shareholders.

The agreements in place between the shareholders of ANDXOR envisage the following with regard to Credemtel:

- the right contemplated in a specific irrevocable proposal of an option agreement, to exercise a call option on a further 20% of ANDXOR’s share capital. The option can be exercised from 30 April 2021 until 31 July 2021;
- the right contemplated in a specific shareholders’ agreement to appoint company representatives (a board director and the sole statutory auditor). Since within ANDXOR, there are no director votes which prevail over those of other directors, the appointment of company representatives does not give any shareholder the predominance over company decisions;
- joint-sale right in favour of Credemtel if a share of at least 50% of ANDXOR’s share capital is transferred by a deed inter vivos, for the entire duration of the shareholders’ agreement currently in force.

In this context, for BLUE EYE:

- Credemtel does not hold the majority of voting rights, and is not able to take corporate decisions alone, as it does not have the practical ability to unilaterally direct the relevant activity of the investee, for which the agreement of the other shareholders is always necessary;
- With regard to specific topics, Credemtel has the power to veto the decisions of the other shareholders, meaning that without the favourable vote of Credemtel, also the other shareholders in possession of the remaining 80% of the share capital cannot influence the company.

With regard to BLUE EYE, Credemtel’s position is therefore that of:

- of a party which is exposed to variable returns and which in any event has rights to said possible returns;
- which has the ability to influence said returns only by exercising its power to veto the decisions of the other shareholders.

At the time of purchase of the equity investment, Credemtel was given, without any consideration, two option rights:

1. Call option on an additional 20% of the share capital;
2. Put option on the share already held by Credemtel.

The call option referred to in point 1 was exercised in early 2021.

Credito Emiliano S.p.A. holds 100% of Avvera S.p.A., which in turn holds 10% of Gruppo Santamaria S.p.A. “GSM”. The share capital of GSM is held by Avvera through special “B Shares”, which in addition to the rights attributed by law to ordinary shares, also have the following rights:

- the right to designate, for appointment, a member of the Board of Directors;

- the right to designate, for appointment, as a member of the Board of Statutory Auditors, a Standing Auditor, who will act as Chairman, and an Alternate Auditor;
- presentation to the Shareholders' Meeting of a proposal to revoke the independent auditor engaged to audit the accounts of GSM,
- the right to condition a series of resolutions of the shareholders' meeting to its favourable vote, such as amendments to the Articles of Association, the increase or decrease of share capital, mergers and spin-offs, the determination of change of the remuneration of directors and statutory auditors, the approval of incentive plans for directors, executives and employees.

Since within GSM, there are no director votes which prevail over those of other directors, the appointment of company representatives does not give any shareholder the predominance over company decisions.

In this context, for GSM:

- Avvera does not hold the majority of voting rights, and is not able to take corporate decisions alone, as it does not have the practical ability to unilaterally direct the relevant activity of the investee, for which the agreement of the other shareholders is always necessary;
- With regard to specific topics, Avvera has the power to veto the decisions of the other shareholders, meaning that without the favourable vote of Avvera, also the other shareholders in possession of the remaining 90% of the share capital cannot influence the company.

With regard to GSM, Avvera's position is therefore that of:

- of a party which is exposed to variable returns and which in any event has rights to said possible returns;
- which has the ability to influence said returns only by exercising its power to veto the decisions of the other shareholders.

7.7 Covenants on investments in jointly controlled companies

Credito Emiliano has signed contractual agreements with Reale Mutua di Assicurazioni to better regulate their partnership in Credemassicurazioni.

In this context, the clauses of the share sale/purchase agreement signed at the time by Credito Emiliano and Reale Mutua di Assicurazioni expressly envisage a put option for Reale Mutua di Assicurazioni and a call option for Credito Emiliano S.p.A. regarding the 50% equity investment held by Reale Mutua in the share capital of Credemassicurazioni. Both options can be exercised at the end of every five-year period from the purchase of the equity investment in Credemassicurazioni by Reale Mutua.

Ten years after the signing of the first collaboration agreement, Credito Emiliano and Reale Mutua di Assicurazioni renewed their equal partnership in the company in question. The renewal of the agreement will allow the Group to develop the range of non-life business products and to increase the level of service offered to its customers, thanks to the support of a leading player specialising in the protection sector.

The parties have signed a shareholder agreement, whose clauses establish:

- A prohibition to transfer the shares and the option rights to third parties, other than subsidiaries, for the entire duration of the shareholder agreement currently in force;
- The right of each party to appoint company representatives of its own choosing (half of the directors and, upon renewal of the Board of Directors, alternatively, either the Chairman of the Board of Directors and the Statutory Auditors or the Chairman of the Board of Statutory Auditors);
- The need for a qualified quorum for resolutions of the members of the Board of Directors regarding specific areas (such as, for example, the appointment of the General Manager, the Claims Manager, the Commercial Director, the auditing function, the approval of extraordinary financial transactions, distribution agreements etc.).

Avvera has signed contractual agreements with the shareholders of the Santamaria Group to better regulate their partnership in GSM.

In this context, the investment contract signed by the parties has expressly agreed that Avvera has: (i) a first call option on up to 20% of the share capital of GSM; (ii) a second call option on the entire residual amount of share capital of GSM; (iii) a put option on the entire investment in the share capital of GSM held by Avvera. The first call option may be exercised from the date of approval of the financial statements for 2020 until 31 December 2021, the second call option may be exercised from the date of approval of the financial statements for 2021 until 31 December 2022, as well as in the period between the date of approval of the financial statements for 2022 until 31 December 2023; the put option may be exercised from the date of approval of the financial statements for 2022 until 31 December 2023 and, in the event of the termination for whatever reason of the agency agreement between Avvera and GSM, within 6 months from the first of the following dates: (i) date of exercise of withdrawal from the agency agreement; (ii) date of receipt of the notification with which Avvera or GSM state their intention to invoke the express termination clause set forth in the agency agreement pursuant to Art. 1465 of the Italian Civil Code; (iii) on expiry of the term to fulfil the agency agreement on which Avvera or GSM has given notice pursuant to Art. 1454 of the Italian Civil Code;

The investment contract also envisages:

- a 5-year Lock-Up period during which the shareholders of GSM may not transfer their equity investments in GSM to parties other than Avvera for whatever reason;
- the need for a qualified quorum for resolutions of the members of the Board of Directors regarding specific issues (such as entering into lease agreements, the approval of or changes to the business plan and/or Budget, making investments and assuming financial debt or the granting of loans exceeding certain thresholds in terms of amount).

7.8 Covenants on investments in companies under significant influence

Credemtel has signed contractual agreements with the shareholders of ANDXOR to better regulate their partnership in SATA.

In this context, the attachments to the contract of sale of the equity investment in ANDXOR expressly envisage a call option in Credemtel's favour regarding a further equity investment of 20% of ANDXOR's share capital. The option can be exercised from 30 April 2021 until 31 July 2021.

The parties have signed a shareholder agreement, whose clauses establish:

- Credemtel's right to appoint company representatives of its own choosing (a director and the sole auditor);
- the joint-sale right in favour of Credemtel if a share of at least 50% of ANDXOR's share capital is transferred by a deed inter vivos, for the entire duration of the shareholders' agreement currently in force;
- the need for a qualified quorum for resolutions of the members of the Board of Directors regarding specific topics (such as amendments to the deed of incorporation, changing the corporate purpose, taking on loans of over € 150,000, the sale and purchase of real property rights, the issue of bonds, or the distribution of reserves).

Moreover, Credemtel has signed contractual agreements with the shareholders of BLUE EYE to better regulate the BLUE EYE partnership.

The parties have signed a shareholder agreement, whose clauses establish:

- Credemtel's right to appoint company representatives of its own choosing (a director, a standing statutory auditor and an alternate statutory auditor);
- joint-sale right in favour of Credemtel if a share of at least 50% of BLUE EYE's share capital is transferred by a deed inter vivos, for the entire duration of the shareholders' agreement currently in force;
- the need for a qualified quorum for resolutions of the members of the Board of Directors regarding specific topics (such as changing the articles of association, changing the remuneration of directors, transferring the ownership of software

in source format, transferring the business or business divisions, purchasing property or equity investments).

7.10 Other information

Credemassicurazioni, Andxor, Blue Eye and Gruppo Santamaria, equity investments whose book value is higher than the pertinent share of shareholders' equity, underwent impairment testing, which indicated a recovery value higher than the book value. It was therefore determined that the negative difference between the book value and the pertinent share of shareholders' equity of said equity investment is not due to impairment, and therefore, the book values were not adjusted.

With regard to Credemassicurazioni, the negative difference relates to the share of goodwill of € 10.3 million and to the share of VIF of € 0.6 million, while as regards Andxor, Blue Eye and Gruppo Santamaria, the negative difference relates to the share of goodwill of € 291 thousand, € 160 thousand and € 251 thousand, respectively.

Section 8 – Reinsurance technical reserves – Item 80

8.1 Reinsurance technical reserves: breakdown

	Total 31/12/2020	Total 31/12/2019
A. Non-life business	-	-
A1. provision for premiums reserves	-	-
A2. provision for claims reserves	-	-
A3. other reserves	-	-
B. Life business	17,298	16,859
B1. mathematical reserves	16,889	16,409
B2. provision for reserves for amounts to be disbursed	409	450
B3. other reserves	-	-
C. Technical reserves when investments risk is borne by the insured party	-	-
C1. reserves for contracts with disbursements connected to investment funds and market indices	-	-
C2. provision for pension funds	-	-
D. Total Reinsurance technical reserves	17,298	16,859

Section 9 – Property, plant and equipment – Item 90

9.1 Property, plant and equipment used in the business: breakdown of assets measured at cost

Asset/Amounts	Total 31/12/2020	Total 31/12/2019
1. Assets owned	302,163	300,634
a) land	133,928	131,416
b) buildings	111,156	118,704
c) furniture and furnishings	10,409	9,748
d) electronic equipment	15,555	12,435
e) other	31,115	28,331
2. Rights of use acquired through leases	136,444	151,401
a) land	-	-
b) buildings	132,936	147,620
c) furniture and furnishings	-	-
d) electronic equipment	-	-
e) other	3,508	3,781
Total	438,607	452,035
of which: obtained by enforcing guarantees received	-	-

Property, plant and equipment are measured at cost, net of depreciation and of any accumulated impairment.

Pursuant to the new IFRS 16, property, plant and equipment also includes the Right of Use of assets subject to operating leases.

9.2 Property, plant and equipment held for investment purposes: breakdown of assets measured at cost

Asset/Amounts	Total 31/12/2020				Total 31/12/2019			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
1. Assets owned	3,614	-	-	4,360	3,557	-	-	4,654
a) land	2,591	-	-	2,558	2,485	-	-	2,731
b) buildings	1,023	-	-	1,802	1,072	-	-	1,923
2. Rights of use acquired through leases	-	-	-	-	-	-	-	-
a) land	-	-	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-	-	-
Total	3,614	-	-	4,360	3,557	-	-	4,654
of which: obtained by enforcing guarantees received	-	-	-	-	-	-	-	-

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

Property, plant and equipment are measured at cost. The fair value of property, plant and equipment held for investment purposes amounts to € 4.4 million.

The fair value indicates the estimated amount at which an asset or a liability should be sold or purchased, at the valuation date, by a seller or a buyer without any particular relationship, both interested in the sale or purchase, at competitive conditions, after an adequate period of marketing, during which the parties both acted in an informed, aware manner without any coercion. (RICS Red Book VS 3.2, Italian edition, March 2012).

Sub-item “E – Valuation at cost” has been left blank, as per Banca d’Italia Instructions.

9.6 Property, plant and equipment used in the business: annual changes

	Land	Buildings	Furniture and furnishings	Electronic equipment	Other	Total
A. Gross opening balance	131,416	305,329	74,840	55,236	155,892	722,713
A.1 Total net decreases	-	186,625	65,092	42,801	127,561	422,079
A.2 Net opening balance	131,416	118,704	9,748	12,435	28,331	300,634
B. Increases:	2,756	4,385	2,731	6,257	10,208	26,337
B.1 Purchases	-	4,215	2,444	6,238	7,753	20,650
- of which business combinations	-	-	-	-	-	-
B.2 Capitalised expenditure on improvements	-	135	-	-	-	135
B.3 Recoveries	-	-	-	-	-	-
B.4 Increases in fair value booked to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Transfer from properties held for investment	-	-	X	X	X	-
B.7 Other changes	2,756	35	287	19	2,455	5,552
C. Decreases:	244	11,933	2,070	3,137	7,424	24,808
C.1 Sales	41	511	1	17	7	577
- of which business combinations	-	-	-	-	-	-
C.2 Depreciation	-	8,503	1,772	3,115	4,625	18,015
C.3 Impairment losses booked to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.4 Decreases in fair value booked to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) property, plant and equipment held for investment purposes	-	-	X	X	X	-
b) non-current assets and groups of assets held for sale and discontinued operations	-	-	-	-	-	-
C.7 Other changes	203	2,919	297	5	2,792	6,216
D. Net closing balance	133,928	111,156	10,409	15,555	31,115	302,163
D.1 Total net decreases	-	193,641	66,515	41,525	129,513	431,194
D.2 Gross closing balance	133,928	304,797	76,924	57,080	160,628	733,357
E. Carried at cost	-	-	-	-	-	-

9.6 bis Property, plant and equipment used in the business (rights of use acquired through leases): annual changes

	Land	Buildings	Furniture and furnishings	Electronic equipment	Other	Total
A. Gross opening balance	-	169,444	-	-	5,156	174,600
A.1 Total net decreases	-	21,826	-	-	1,375	23,201
A.2 Net opening balance	-	147,618	-	-	3,781	151,399
B. Increases:	-	21,604	-	-	2,148	23,752
B.1 Purchases	-	16,988	-	-	1,263	18,253
- of which business combinations	-	-	-	-	-	-
B.2 Capitalised expenditure on improvements	-	-	-	-	-	-
B.3 Recoveries	-	-	-	-	-	-
B.4 Increases in fair value booked to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Transfer from properties held for investment	-	-	X	X	X	-
B.7 Other changes	-	4,616	-	-	885	5,501
C. Decreases:	-	36,286	-	-	2,421	38,707
C.1 Sales	-	15,412	-	-	628	16,040
- of which business combinations	-	-	-	-	-	-
C.2 Depreciation	-	20,286	-	-	1,683	21,969
C.3 Impairment losses booked to	-	69	-	-	-	69
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	69	-	-	-	69
C.4 Decreases in fair value booked to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) property, plant and equipment held for investment purposes	-	-	X	X	X	-
b) non-current assets and groups of assets held for sale and discontinued operations	-	-	-	-	-	-
C.7 Other changes	-	519	-	-	110	629
D. Net closing balance	-	132,936	-	-	3,508	136,444
D.1 Total net decreases	-	42,200	-	-	2,377	44,577
D.2 Gross closing balance	-	175,136	-	-	5,885	181,021
E. Carried at cost	-	-	-	-	-	-

The table of changes in rights of use acquired through leases is also provided as said assets are considered relevant. The item “purchases” shows the values of first-time adoption of IFRS 16.

9.7 Property, plant and equipment held for investment purposes: annual changes

	Total	
	Land	Buildings
A. Opening balance	2,485	1,072
B. Increases	106	82
B.1 Purchases	-	-
- of which business combinations	-	-
B.2 Capitalised expenditure on improvements	-	-
B.3 Increases in fair value	-	-
B.4 Recoveries	-	-
B.5 Positive exchange differences	-	-
B.6 Transfer from properties used in the business	-	-
B.7 Other changes	106	82
C. Decreases	-	131
C.1 Sales	-	70
- of which business combinations	-	-
C.2 Depreciation	-	61
C.3 Reduction in fair value	-	-
C.4 Impairment losses	-	-
C.5 Negative exchange differences	-	-
C.6 Transfers to:	-	-
a) properties used in the business	-	-
b) non-current assets and groups of assets held for sale and discontinued operations	-	-
C.7 Other changes	-	-
D. Closing balance	2,591	1,023
E. Measured at fair value	2,558	1,802

Section 10 – Intangible assets – Item 100

10.1 Intangible assets: breakdown by type

Asset/Amounts	Total 31/12/2020		Total 31/12/2019	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	X	289,786	X	288,130
A.1.1 attributable to the Group	X	289,786	X	288,130
A.1.2 attributable to non-controlling interests	X	-	X	-
A.2 Other intangible assets	154,819	-	147,539	-
A.2.1 Assets measured at cost:	154,819	-	147,539	-
a) intangible assets generated internally	19,889	-	18,933	-
b) other assets	134,930	-	128,606	-
A.2.2 Assets measured at fair value:	-	-	-	-
a) intangible assets generated internally	-	-	-	-
b) other assets	-	-	-	-
Total	154,819	289,786	147,539	288,130

The item “Other assets” mainly comprises software and the “Client Relationship” relating to the acquisitions of the branches of business branches and to Credemvita.

10.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total
		DEF	INDEF	DEF	INDEF	
A. Opening balance	288,130	49,854	-	457,033	-	795,017
A.1 Total net decreases	-	(30,923)	-	(328,425)	-	(359,348)
A.2 Net opening balance	288,130	18,931	-	128,608	-	435,669
B. Increases	1,656	6,749	-	47,290	-	55,695
B.1 Purchases	1,017	6,749	-	45,794	-	53,560
- of which business combinations	1,017	-	-	-	-	1,017
B.2 Increases of internally generated intangible assets	X	-	-	-	-	-
B.3 Recoveries	X	-	-	-	-	-
B.4 Increases in fair value	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Other changes	639	-	-	1,496	-	2,135
C. Decreases	-	5,791	-	40,968	-	46,759
C.1 Sales	-	-	-	-	-	-
- of which business combinations	-	-	-	-	-	-
C.2 Adjustments	-	5,791	-	39,456	-	45,247
- Amortisation	X	5,791	-	39,456	-	45,247
- Write-downs	-	-	-	-	-	-
+ shareholders' equity	X	-	-	-	-	-
+ income statement	-	-	-	-	-	-
C.3 Reduction in fair value:	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
C.4 Transfers to non-current assets held for sale	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	-	-	-	-
C.6 Other changes	-	-	-	1,512	-	1,512
D. Net closing balance	289,786	19,889	-	134,930	-	444,605
D.1 Total net value adjustments	-	36,713	-	366,318	-	403,031
E. Gross closing balance	289,786	56,602	-	501,248	-	847,636
F. Valuation at cost	-	-	-	-	-	-

Key

DEF: finite life

INDEF: indefinite life

The line-by-line consolidation of the company Sata involved recording additional goodwill for € 1.4 million, along with the previously recorded goodwill of € 0.2 million.

Sub-item "F – Valuation at cost" has been left blank, insofar as, according to Banca d'Italia Instructions, it must be completed only for intangible assets measured at fair value in the financial statements.

The increases in intangible assets mainly refer to new applications developments.

Details of consolidated goodwill are provided with reference to the year of acquisition or merger of the related entity:

Groups branches/banks	Year of merger or acquisition	
Deutsche Bank branches	1998	2,695
B.C.C. Curinga	1998	917
B.C.C. San Giovanni Gemini	1998	452
Banca dei Comuni Nolani	1998	2,361
Banca della Provincia di Napoli	1998	58
B.C.C. Alto Crotonese	1999	161
B.C.C. Fortore Miscano	1999	1,377
Banca Popolare Andriese	2000	17,669
Banca di Latina	2003	3,028
Citibank International PLC branches	2008	36,307
Banco Popolare branches	2008	119,926
Unicredit branches	2008	94,433
TOTAL BANKS INCORPORATED		279,384
Euromobiliare A.M. Sgr (division sold by Credem International Lux)	2000	2,166
TOTAL BANK GOODWILL		281,550
So.em.ro (incorporated by MGT)	1998	294
Netium	2001	9
Credemvita	2008	4,092
C.S. Inform (incorporated by Credemtel)	2010	1,350
Topkey (incorporated by Credemtel)	2014	835
SATA	2020	1,656
TOTAL GOODWILL		289,786

Goodwill relating to Banco Popolare and Unicredit Group branches

For the final allocation of goodwill relating to the branches acquired in 2008, please refer to the 2009 financial statements.

Impairment testing on goodwill

Definition of CGU

IAS 36 establishes that, also with a view to testing for impairment, the goodwill acquired in business combinations must be allocated to relatively autonomous organisational units in terms of management that benefit from the synergies resulting from the acquisition. These organisational units, called cash-generating units ("CGU"), must have the following features:

- represent the lowest level within the entity at which the goodwill is monitored for internal management purposes;
- not be larger than an Operating Segment determined in accordance with IFRS 8.

Within Credem Group, the following CGUs have benefited and will continue to benefit from synergies resulting from the combination processes carried out over time:

- Commercial Banking;
- Insurance.

The reporting system used by Management is consistent with these CGU (see Section L - Segment Reporting) and, furthermore, the cash flows generated by the same are in line with the nature of the client and the type of products and services provided. These CGU therefore represent the smallest group of assets that generate independent cash inflows and the minimum level at which goodwill can be allocated

according to not arbitrary criteria. It is at this level that the dynamics of the value of goodwill come into play and are controlled in Credem Group management.

Definition of the book value of CGUs

In the case of banking and insurance companies and in general, of companies operating in the financial sector, financial assets and liabilities, in principle excluded from the scope of application of IAS 36, represent an integral part of the core business. In order to identify the cash flows of the CGUs, also the cash flows associated with financial assets and liabilities must be considered.

On this basis, the impairment testing of CGUs operating in the financial area can only be performed according to the so-called “equity side” approach. Accordingly, the book value of the CGUs must also be calculated in the same way.

More specifically, the book value of the CGUs was established as follows:

- For Insurance CGUs, wholly comprised of the legal entities Credemvita and Credemassicurazioni, the book value was calculated analytically, on the basis of the contribution of each company to the consolidated shareholders’ equity.
- For the Commercial Banking CGU, the analytical approach used for the Insurance CGU cannot be applied, insofar as the CGU in question contributes to the management of the Credem banking sector and that of other companies within the scope of consolidation. Therefore, with reference to said CGU, the relative book value was calculated:
 1. by analytically allocating the relevant goodwill;
 2. by allocating the “residual” consolidated shareholders’ equity in proportion to the regulatory capital required for the operations of the CGU. The use of this indicator is justified by the consideration that, with regard to financial sector, the risk factors and relative absorption of regulatory capital affect the generation of future cash flows, and therefore the determination of the recoverable value that must be coherent with the book value.

A summary schedule of the book values of the CGUs and the relative values of goodwill recorded in the balance sheet is shown below (in €/million):

	Commercial Banking CGU	Insurance CGU
Book value of the CGU	2,182.8	372.5
Goodwill allocated	285.7	14.4

The goodwill shown above refers to the consolidated financial statements; the share of said goodwill recorded in the separate financial statements amounts to € 240 million, and relates entirely to the Commercial Banking CGU, as indicated in Section 10 of the Explanatory notes to the financial statements as at 31 December 2020.

Goodwill allocated also includes goodwill relating to Credemassicurazioni, corresponding to € 10.3 million, to Andxor, amounting to € 0.3 million, to Blue Eye, amounting to € 0.2 million and to Gruppo Santamaria, amounting to € 0.3 million included in the item equity investments.

Establishing the recoverable value of CGUs

IAS 36 requires that, at least once a year, the amount of the goodwill recorded in the financial statements is subject to impairment testing.

The impairment testing is performed by comparing the book value of the CGUs to which it is allocated with the recoverable value of the same. If the latter value is lower than the book value, a value adjustment must be recognised.

The recoverable value of a CGU is the higher of its fair value less costs to sell and its value in use.

The standard adds that when performing impairment testing, the value in use and the fair value do not both have to be calculated, it is sufficient that at least one of the two exceeds the book value to confirm the absence of an impairment loss. To calculate the recoverable amount of each CGU, the value in use was identified.

Commercial Banking CGU

For the Commercial Banking CGU, the value in use was calculated using the Dividend Discount Model (DDM).

This method establishes the value on the basis of the potentially distributable expected dividend flows. In the case in question, the method used was the “Excess Capital” version of the DDM, commonly adopted in valuations in the banking industry, on the basis of which, the economic value is equal to the sum of the following elements:

- present value of future cash flows generated over an established specifically planned time horizon and distributable to shareholders, while maintaining a level of capitalisation in line with the instructions dictated by the Supervisory Authority and compatible with the nature and expected growth of the business;
- present value of a perpetual income calculated on the basis of a dividend sustainable for the years subsequent to the explicit planning period, coherent with the levels of capitalisation required by the Supervisory Authority.

Although the Dividend Discount Model contains the word dividend, the cash flows considered by the model are not the dividends that are expected to be distributed to shareholders, but the cash flows that a shareholder could potentially benefit from within the limits of the capital amounts required for the company's operations.

The cash flows for the application of the valuation method were taken from the Credem Group's Preliminary 2020 results and 2021 Budget, approved by the Parent Company's Board of Directors on 18 December 2020 and from forecasts drawn up for the sole purpose of impairment testing on goodwill, relating to 2022-2024, taking account also of the macroeconomic scenarios and the current Covid-19 context.

The level of capitalisation, for the purpose of calculating the flows of dividends that can be potentially distributed, was assumed to be 9.25% for Tier 1 and 11.5% for Total Tier as indicated in the ECB letter of 18 November 2020 (which in turn confirmed the contents of the SREP decision of 25 November 2019).

The discounting rate of the flows was estimated on the basis of the “Capital Asset Pricing Model”, which estimates the cost of capital as the sum of the return on risk-free investments and a risk premium correlated to the specific level of risk of the business. More specifically, the cost of capital was established to be 5.39%, on the basis of the following parameters:

- Risk-free rate: 0.84% corresponding to the simple average of the gross yield of 10-year BTPs issued in the past 6 months;
- Beta coefficient: 0.828 corresponding to the Credem coefficient (Beta 3Y Adjusted 31.12.2017/31.12.2020, measured weekly);
- Market risk premium: 5.50%, in line with valuation practice for the Italian market and with the common application in the insurance sector; “country risk” has been removed from this figure, insofar as implicitly included in the above-mentioned rate of return of risk-free assets.

The terminal value, at the end of the explicit planning period, was established on the basis of a long-term sustainable growth rate, assumed to be 1.4%, in line with long-term growth forecasts for the economy and with valuation practice (Prometeia, September and December 2020 Forecast Report, Italian Inflation to 2023).

The following table summarises the valuations made. In particular, the table compares the book value of the CGU with the respective value in use obtained (in €/million):

	Commercial Banking CGU
Value in use of the CGU	3,494
Book value of the CGU	2,183
Delta	1,311

The model to determine value in use also underwent a sensitivity analysis in order to understand the change in the results obtained if the valuation parameters adopted change. From the analyses conducted, no evidence of impairment to the

reference value of the CGU in question has emerged, up to consideration of a discounting rate of 8.56%.

Lastly, note that, jointly considering a long-term growth rate of zero (fall of 140 bps) and a discounting rate of 8.34%, no value adjustments would be made to the CGU.

Insurance CGU

For the Insurance CGU, the value in use was calculated specifically considering the “Non-Life” and the “Life” businesses, also by means of the support of an outside consultant.

Insurance CGU – Non-Life Business

For the “Non-Life” business, to estimate the value in use, the “Excess Capital” version of the Dividend Discount Model (DDM) was used, as described in the above paragraph, on the basis of the following basic elements.

The flows for the application of the valuation method extend over a time period of three years (2021-2023) and are based on the 2021 Budget approved by the Board of Directors on 14 December 2020, and on forecasts for 2022 and 2023 prepared by Credemassicurazioni’s technical unit, that also took account of the macroeconomic scenarios and the current Covid-19 context.

The minimum level of capitalisation, for the purpose of calculating the flow of potentially distributable dividends, was established in line with instructions of the Supervisory Authority and in line with valuation practice in the reference sector.

The cost of capital, estimated on the basis of the “Capital Asset Pricing Model” was established to be 5.06%, on the basis of the following parameters:

1. Risk-free rate: 0.84%, corresponding to the average return recorded over the past 6 months by BTPs with a residual maturity of ten years;
2. Beta coefficient: 0.77, corresponding to the average coefficient of listed Italian insurance companies;
3. Market risk premium: 5.50%, in line with valuation practice for the Italian market and with the common application in the insurance sector; “country risk” has been removed from this figure, insofar as implicitly included in the above-mentioned rate of return of risk-free assets.

The terminal value has been determined as equal to the value of the last explicit planning period.

Insurance CGU – Life Business

The value in use of “Life” business was estimated using the Appraisal Value approach, by summing the Business in-Force to the Shareholders’ Equity, according to IFRS accounting standards, where the former is calculated by discounting the future technical margins resulting from the existing portfolio, and the New Business Value, resulting from the portfolio of future forecast production.

The flows to determine the value resulting from the Business in-Force were estimated using a method based on Traditional Embedded Value, considering the composition of the policyholder portfolio and the technical characteristics of the product portfolio.

Future cash flows were calculated on the basis of historic data and performances relating to the existing portfolio, the economic figures resulting from the 2021 budget approved by the Board of Directors of the company on 11 December 2020, the provisional 2022 and 2023 budgets prepared by the management of Credemvita and those which can be associated with the portfolio of future estimable production that also take account of the macroeconomic scenarios and the current Covid-19 context.

The discounting rate was established to be 6.34%, on the basis of the following parameters:

- Risk-free rate: 0.84%, corresponding to the average return recorded over the past 6 months by BTPs with a residual maturity of ten years;
- Market risk premium: 5.5%, in line with valuation practice for the Italian market and with the common application in the insurance sector; “country

risk” has been removed from this figure, insofar as implicitly included in the above-mentioned rate of return of risk-free assets.

The table below shows a summary of the valuations performed for the Insurance CGU (in €/million):

	Non-Life Business	Life Business	Total Insurance CGU
Value in use of the CGU	249.3	402.2	651.5
Book value of the CGU	89.4	327.8	417.2
Delta	159.9	74.4	234.3

The model to determine value in use also underwent a sensitivity analysis in order to understand the change in the results obtained if the valuation parameters adopted change.

From the analyses conducted, no evidence of impairment to the reference value of the CGU in question has emerged, considering:

- for the Non-Life business, discounting rate “Ke” (+/-50 bps);
- for Life business:
- Business In-Force, discounting rate “Ke” (+/-50 bps); surrenders (+/-50 bps), expenses (+/-50 bps) and growth rate “g” (+/-50 bps);
- New Business, discounting rate “Ke” (+/-50 bps), growth rate “g” (+/-50 bps) and New Business Margin APE (+/-100 bps).

From an additional overall stress test perspective, note that, even jointly considering:

- for the Non-Life business, a discounting rate of 6.06% (increase of around 100 bps) and an increase of the Solvency Capital Requirement of 10% (increase of around 1000 bps);
- for the Life business, a discounting rate of 8.76% (increase of around 242 bps), the proportion of mathematical reserves represented by operating costs increased by 50 bps, the redemption rate increased by 50 bps, the growth rate “g” decreased by 50 bps and a lower New Business Margin by 100 bps;

no value adjustments would be made to the Insurance CGU.

Note on market valuations

In the last six months of 2020, Credem shares were traded at an average price of € 4.25 per share, corresponding to a multiple of the book value of the Bank’s shareholders’ equity as at 31 December 2020 of around 0.45x.

Analyst reports indicate an average target price for the Credem share of € 5.60 per share, corresponding to a multiple of the book value of the Bank’s shareholders’ equity as at 31 December 2020 of around 0.59x.

Looking at the price of Credem shares in January 2021 (closing price at 29 January of € 4.25), a stock market capitalisation corresponding to a multiple of the book value of the shareholders’ equity as at 31 December 2020 of around 0.45x emerged.

Test of overall reasonableness

As already indicated in the paragraphs above, the Commercial Banking CGU and the Insurance CGU (Bancassurance) have been identified and have undergone impairment testing. Furthermore, on a residual basis, a further two CGUs have been identified, called “Finance” and “Other”, which comprise all of the cost and income components, as well as the equity components, which are not included in the other two CGUs. No goodwill has been recorded in the accounts for the “Finance” and “Other” CGUs.

To complete the analyses illustrated above and in consideration of the fact that the impairment test on the value of goodwill of the Commercial Banking CGU was carried out on the basis of forecasts that envisage the partial allocation of corporate

assets and/or corporate costs, a “test of overall reasonableness” was also carried out, which envisages a comparison between the book value and the recoverable value of the Credem Banking Group.

The “Excess Capital” version of the DDM valuation method was used for this test and we used the same cost of capital, long-term growth rate and capital requirements requested by the Supervisory Authority as those used for the Commercial Banking CGU test.

The cash flows for the application of the valuation method were taken from the Credem Group’s Preliminary 2020 results and 2021 Budget, approved by the Parent Company’s Board of Directors on 18 December 2020 and from forecasts drawn up solely for impairment testing on goodwill, relating to 2022 - 2024.

The comparison of the overall book value of the banking group with its recoverable value did not indicate any impairment.

Also in this case, sensitivity analyses were conducted on changes in the values of the main parameters in order to establish the conditions under which the recoverable value of goodwill at Group level would equal its book value.

A test of overall reasonableness was conducted of the Credem Group as a whole. Given the fact that the banking business and the insurance business differ in terms of characteristics and risk profile, to carry out this test, the method of the “sum of the parts” was applied. In the light of the above-described results regarding the test of overall reasonableness made of the banking group and the impairment test conducted on the Insurance CGU, it can be concluded that no evidence of impairment emerged.

Section 11 – Tax assets and tax liabilities – Item 110 of assets and item 60 of liabilities

Current tax assets and liabilities include the net amount (payable or receivable) of IRAP, net of tax credits and advances, and the additional IRES introduced by Italian Law Decree no. 133/2013, Art. 2, paragraph 2. Following the adoption of the tax consolidation, the payable/receivable for IRES, with respect to Credemholding, was accounted for under “Other liabilities” and “Other assets”.

The risks resulting from the Group’s tax disputes are covered by adequate allocations to provisions for risks and charges. As regards the Parent Company, there are 29 disputes pending, in part related to local taxes as well as minor income taxes, while the rest regard direct and registration taxes, taking into account all proceedings pending at various levels of the courts. With regard to these disputes, no effective risks have emerged or at least the estimated risk appears remote. Therefore, no specific provisions have been made. Considering the uncertain outcomes of disputes, for one of the disputes pending in the Regional Tribunal Court, the company made use of the facilitated definition of disputes in which the Italian Internal Revenue Agency is a party, pursuant to and for the purposes of Art. 6 of Italian Legislative Decree no. 119/2018, converted, with amendments, by Italian Law no. 136/2018.

Credemleasing has 32 disputes pending at various levels of the courts, 21 of which relate to minor taxes (ICI, IMU, TA.RI., road taxes) and the remainder pertain to VAT, direct taxes and corporate taxes. Considering the uncertain outcomes of disputes, in certain cases, some of which are pending in the Court of Cassation, the company made use of the facilitated definition of disputes in which Italian Internal Revenue Agency is a party, pursuant to and for the purposes of Art. 6 of Italian Legislative Decree no. 119/2018, converted, with amendments, by Italian Law no. 136/2018.

Banca Euromobiliare has a proceeding pending before the CTRE on the referral decision handed down by the Supreme Court of Cassation, in January 2019, in relation to a registration tax assessment following the sale of a business division.

For the purposes of direct taxes, tax periods up to 31 December 2015 are definitively closed, due to expiry of the statute of limitation, pursuant to Art. 43 of Italian Presidential Decree no. 600 of 29 September 1973.

Recognition and measurement of deferred tax assets

Deferred tax assets (DTAs) are recorded under assets in the balance sheet, and mainly originate from temporary differences between the date of recognition of costs in the income statement and the date on which said costs can be deducted. These assets recognised in the financial statements refer to temporary differences that can be recovered over a fairly long time period. Deferred tax assets are written down to the extent by which the same are considered not to be recoverable in terms of future income and the consequent expected taxable income, also taking tax legislation into account, which permits their transformation into tax credit under certain conditions. The valuation process is based on expected future income.

Deferred tax assets are recorded in the financial statements to the extent that reasonable certainty of their recovery exists, measured using the “Probability test” envisaged by IAS 12 on the basis of the capacity of the bank and the Group companies, due to the exercise of the “tax consolidation” option, to generate constant, positive taxable income, in future years, taking into account tax legislation in force.

The amount of the deferred taxes recorded in the financial statements is subject to testing each year, so as to check whether reasonable probability exists or otherwise that the company concerned generates taxable income in the future such as to permit the reabsorption of the deferred taxes recorded in previous tax periods.

With reference to the recognition or otherwise of deferred tax assets and their maintenance in the financial statements, it is worth mentioning several important changes to tax legislation introduced in 2011 which, by envisaging the

transformation of deferred tax assets into tax credits under certain conditions, have introduced a way to recover deferred tax assets so as to ensure their re-absorption regardless of the ability to generate income.

The provisions set forth in Art. 2, paragraphs 55 to 58 of Italian Law Decree no. 225/2010, known as 2010 Milleproroghe Decree, introduced the regulation for the transformation of deferred tax assets into tax credit in the event a statutory loss is recorded in the financial statements. This regulation covers deferred tax assets recognised in the financial statements relating both to write-downs of loans not yet deducted pursuant to Art. 106, paragraph 3 of the TUIR (Comprehensive Regulation on Income Taxes), and the value of goodwill and other property, plant and equipment pursuant to Art. 103 of the TUIR, the negative components of which may be deducted in subsequent tax periods. Subsequently, Italian Law no. 214 of 22 December 2011, hereinafter 214/2011, with the conversion of the provisions contained in the Italian Law Decree no. 201/2011, made some important changes to the regulation for the transformation of deferred tax assets by extending the objective scope of application to the recording of a tax loss for IRES purposes.

The changes introduced by Italian Law no. 147/2013 extended the transformation of the deferred IRAP tax assets allocated both for shares of value adjustments on loans,

and for shares of goodwill amortisation and shares of depreciation of other property, plant and equipment deferred to subsequent years in the event that a statutory loss is recorded or a net negative value of production for IRAP purposes is recorded.

Therefore, in the event of a statutory loss or a tax loss or a net negative value of production for IRAP purposes, the deferred IRES/IRAP tax assets referring to value adjustments on loans not yet deducted from taxable income and the deferred tax assets relating to the value of goodwill and of other intangible assets, whose negative components may be deducted over a number of tax periods, are transformed into tax credits according to the provisions of Italian Law no. 214 of 22 December 2011 (unlimited offsetting with any type of tax, including withholding tax and contributions).

It is also important to note that Art. 11 of Italian Law Decree no. 59 of 3 May 2016, converted with amendments into Italian Law no. 119 of 30 June 2016, establishes that entities that wish to apply the provisions for the transformation of deferred tax assets into tax credits - set forth in Art. 2, paragraphs 55 to 57 of Italian Law Decree no. 225 of 29 December 2010 - may opt to maintain the application of said provisions by paying a fee.

The purpose of this option is to enable companies that have eligible DTAs as at 31 December 2015 to maintain the right to transform them into tax credits, if in the future circumstances such as statutory or tax losses or liquidation arise, as envisaged in Art. 2, paragraphs 55 to 56-ter of Italian Law Decree no. 225 of 2010. In addition to this, the system of deductibility for IRES and IRAP purposes of write-downs of loans and of losses on loans with regard to customers, banks and financial institutions and insurance companies was amended by Art. 16 of Italian Law Decree no. 83 of 27 June 2015, introducing, instead of an annual deductibility at the rate of one fifth each year, full deductibility, as from 2016, of these negative income components in the financial year in which they are recognised in the financial statements, whereas the write-downs related to the 2015 financial year were deductible by 75% in the pertaining year, and the remaining 25% will be deductible, together with the stock of write-downs and losses yet to be deducted as at 31 December 2014, in ten years, with different deduction percentages.

Italian Law no. 145 of 30 December 2018, known as the 2019 Budget Law, postponed the deductible percentage envisaged in 2018 to 2026.

The same law postponed the deductible percentage envisaged in 2019 to four annual amounts from 2022 to 2025.

Budget Law no. 160 of 27 December 2019, known as the 2020 Budget Law, established the postponement from 2019 and until 2029 of the deduction according to different percentages of the share of amortisation relating to goodwill and that of

other intangible assets, which gave rise to the recognition of deferred tax assets that had not yet been deducted in 2017, and in particular the values relating to goodwill and other intangible assets recognised in the consolidated financial statements and related to higher book values of controlling equity investments acquired and recorded in the financial statements due to extraordinary transactions.

The same law also envisaged, in paragraphs 1067-1068, that the income components resulting from the adoption of the model to include an allowance to cover expected credit losses set forth in paragraph 5.5 of IFRS 9, and recognised in the financial statements on first-time adoption of said accounting standard, are deductible from the taxable income for IRES and IRAP purposes to the extent of 10% of their amount in the tax period of first-time adoption, while the remaining 90% on a straight-line basis over the following nine tax years.

The same law postponed the deductible percentage envisaged in 2019 to five annual amounts from 2025 to 2029 and postponed the deductible percentage envisaged in 2019 to 2028.

Art. 110 of Italian Law Decree no. 104 of 14 August 2020 (the so-called “August” decree) reintroduced, as part of the provisions that provide for the remeasurement (even if only statutory) of the company assets in the 2020 financial statements, the option, for companies that prepare their financial statements according to the IAS/IFRS accounting standards, to realign the differences between tax and book values relating to property, plant and equipment and intangible assets (excluding commodities) and fixed investments.

A substitute IRES and IRAP tax of 3% is applied to the higher realigned values, to be paid in a maximum of three annual instalments within the deadline for the payment of the balance of income taxes; it is also necessary to “encumber” an equity reserve (in a deferred tax regime) for an amount equal to the realigned differences net of the substitute tax.

The values relating to “business assets and equity investments” resulting from the financial statements for the year ending as at 31 December 2019 and identified (as already occurred for previous similar regimes) according to the provisions relating to the revaluation/realignment regime of Italian Law no. 342/2000 can be realigned. In this sense, divergences that are ordinarily created as a result of the use of the fair value criterion in the measurement of assets (for example, for real estate) or those originating from fiscally neutral extraordinary transactions may be realigned.

The group has taken steps to align the tax values to the higher statutory values of the business assets recognised in the financial statements as at 31 December 2020, for an amount of approximately € 96 million, and already present in the financial statements for the year ended as at 31 December 2019, and the realignment concerned wholly-owned properties, known as floor/ceiling, which, upon first-time application of the IAS international accounting standards, were measured at fair value in order to allow the separation of the value of the land from the value of the buildings. The external appraisal was divided between the value of the land and the value of the buildings above. For tax purposes, these higher carrying amounts could not be taken into account, continuing with the depreciation plan based on the tax rates already recognised in the past.

As a result of this realignment, the substitute tax of 3%, amounting to € 2.8 million, was accounted for and the related deferred taxes allocated as a result of the revaluation carried out upon first-time application of the international accounting standards were reversed. The net positive effect on the income statement amounted to € 22.8 million.

In addition, the 2021 Budget Law, Article 1, paragraph 83, Italian Law no. 178/2020 extended this possibility also to the goodwill resulting from the current financial statements as at 31 December 2020 with the payment of a substitute tax of 3% that allows, also for tax purposes, the higher statutory values recorded in the financial statements to be recognised instead of the lower tax values. The financial statements include goodwill, which never had tax relevance, referring to the mergers carried out in previous years for € 23.5 million. As a result of this realignment, the substitute

tax of 3%, amounting to € 0.8 million, was accounted for, and the related deferred tax assets were recognised, in accordance with application no. 1 of February 2009 of the Italian Accounting Body. The net positive effect on the income statement amounted to € 4.5 million.

The deadline for the payment of the substitute tax set aside is that set for the balance of income taxes (30 June 2021), while the tax effectiveness of the realignment will take effect from 1 January 2021.

11.1 Deferred tax assets: breakdown

	IRES	IRAP	Total
Value adjustments to loans to customers	64,316	8,629	72,945
Write-down of financial instruments	20,295	3,678	23,973
Entertainment expenses and goodwill	10,606	2,148	12,754
Unsecured loans, bankruptcy petitions, and legal proceedings underway	4,629	-	4,629
Provisions for personnel expenses	19,825	3,852	23,677
Other	67,409	160	67,569
Total	187,080	18,467	205,547

11.2 Deferred tax liabilities: breakdown

	IRES	IRAP	Total
Revaluation of properties	-	-	-
Gains on financial instruments	47,685	11,414	59,099
Provisions performed exclusively for tax purposes	51,452	10,421	61,873
Other residual	12,045	1,533	13,578
Total	111,182	23,368	134,550

11.3 Changes in deferred tax assets (with offsetting entry in profit and loss)

	Total 31/12/2020	Total 31/12/2019
1. Opening balance	201,685	198,910
2. Increases	34,154	30,792
2.1 Deferred tax assets arising during the year	34,154	30,792
a) relating to previous years	-	-
b) due to change in accounting principles	-	-
c) write-backs	-	-
d) other	34,154	30,792
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	43,176	28,017
3.1 Deferred tax assets derecognised during the year	43,176	28,017
a) reversals	43,176	28,017
b) write-downs of non-recoverable items	-	-
c) changes in accounting principles	-	-
d) other	-	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases:	-	-
a) changes into tax credits pursuant to Italian Law no. 214/2011	-	-
b) other	-	-
4. Closing balance	192,663	201,685

Item 2. Increases, 2.1 d) “other” includes the recognition of deferred tax assets relating to goodwill subject to realignment pursuant to Art. 110 of Italian Law Decree no. 104 of 14 August 2020 (so-called “August” decree), equal to € 7.6 million, in accordance with the provisions of application no. 1 of February 2009 of the Italian Accounting Body.

11.3 bis Deferred tax assets: changes under Italian Law no. 214/2011

	Total 31/12/2020	Total 31/12/2019
1. Opening balance	87,425	87,430
2. Increases	-	-
3. Decreases	11,462	6
3.1 Reversals	11,462	6
3.2 Changes into tax credits	-	-
a) arising from loss for the year	-	-
b) arising from tax losses	-	-
3.3 Other decreases	-	-
4. Closing balance	75,963	87,424

For reasons of transparency, the changes in the deferred tax assets set forth in Italian Law no. 214/2011 are provided; these originate mainly from write-downs of loans, pursuant to Art. 106, paragraph 3 of Italian Presidential Decree no. 917/86 (€ 70.6 million) and from tax relief on goodwill (€ 5.4 million).

11.4 Changes in deferred tax liabilities (with offsetting entry in profit and loss)

	Total 31/12/2020	Total 31/12/2019
1. Opening balance	120,749	129,466
2. Increases	5,057	4,836
2.1 Deferred tax liabilities for the year	5,057	4,836
a) relating to previous years	-	-
b) due to change in accounting principles	-	-
c) other	5,057	4,836
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	33,034	13,553
3.1 Deferred tax liabilities derecognised during the year	33,034	13,553
a) reversals	33,034	13,553
b) due to change in accounting principles	-	-
c) other	-	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	92,772	120,749

In item 3. Decreases, 3.1 a) “reversals” also includes the deduction of deferred taxes relating to properties subject to realignment pursuant to Art. 110 of Italian Law Decree no. 104 of 14 August 2020 (so-called “August” decree), amounting to € 28.1 million.



11.5 Changes in deferred tax assets (with offsetting entry in shareholders' equity)

	Total 31/12/2020	Total 31/12/2019
1. Opening balance	18,358	85,444
2. Increases	665	1,394
2.1 Deferred tax assets arising during the year	665	1,394
a) relating to previous years	-	-
b) due to change in accounting principles	-	-
c) other	665	1,394
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	6,139	68,480
3.1 Deferred tax assets derecognised during the year	6,139	68,480
a) reversals	6,139	68,480
b) write-downs of non-recoverable items	-	-
c) changes in accounting principles	-	-
d) other	-	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	12,884	18,358

11.6 Changes in deferred tax liabilities (with offsetting entry in shareholders' equity)

	Total 31/12/2020	Total 31/12/2019
1. Opening balance	25,686	6,182
2. Increases	16,260	19,521
2.1 Deferred tax liabilities for the year	16,260	19,521
a) relating to previous years	-	-
b) due to change in accounting principles	-	-
c) other	16,260	19,521
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	168	17
3.1 Deferred tax liabilities derecognised during the year	168	17
a) reversals	168	17
b) due to change in accounting principles	-	-
c) other	-	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	41,778	25,686

Section 13 – Other assets – Item 130

13.1 Other assets: breakdown

	31/12/2020	31/12/2019
Negotiated cheques to be settled	67,837	82,869
Securities transactions being processed	9,666	5,479
Cheques being processed	2,888	1,756
Transactions relating to payment services being processed	44,705	47,187
Transactions relating to payment services accruing	48,910	69,732
Accrued income	46,702	1,818
Prepayments	28,909	30,331
Unpaid and protested cheques and bills drawn on the company and on third parties	3,049	3,649
Expenses for improvements to third-party assets	19,558	18,702
Security deposits	28	32
Sundry debtors for invoices issued	47,247	17,637
Sundry debtors	253,277	258,417
Items in transit between branches	7,144	12,801
Total	579,920	550,410

Transactions relating to payment services being processed/accruing regard debits received but not yet debited from customer accounts. The increase in the item “Accrued income” is due to the recognition of the interest pertaining to the TLTRO transaction.

There are no impairment losses (IFRS 9) on loans relating to contracts with customers and contract assets.

The item “Prepayments” also includes costs incurred to obtain contracts through financial advisers, relating to future years, corresponding to € 18.5 million. The changes in the item are as follows:

	Total 31/12/2020	Total 31/12/2019
1. Opening balance	21,485	23,933
2. Increases	8,113	9,545
2.1 Other increases	8,113	9,545
3. Decreases	11,086	11,993
3.1 amortisation	11,086	11,993
4. Closing balance	18,512	21,485

The following table contains the details of “Sundry debtors”:

	Total 31/12/2020	Total 31/12/2019
Tax receivables	149,081	180,173
Non-credit related disputes	4,897	8,280
Other sundry debtors	65,225	48,709
Advances to suppliers	34,074	21,255
Total	253,277	258,417

The item “tax receivables” also includes tax assets relating to withholding agent activities.

Following the power exercised by the insurance company Credemvita – belonging to the financial conglomerate of a predominantly banking nature – to postpone the first-time adoption of IFRS 9 (Deferral Approach) until 2023, the following new Balance Sheet - Assets items have been added to the consolidated financial statements as required by the update of Banca d’Italia Circular no. 262:

- Balance Sheet – Assets: “Item 35. Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39”, which includes financial assets held for trading, financial assets measured at fair value, financial assets available for sale, and any derivatives with a positive fair value, as defined in accordance with IAS 39;
- Balance Sheet – Assets: “Item 45. Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39”, which includes financial assets held to maturity, loans to banks, and loans to customers, as defined in accordance with IAS 39.

The details are provided below:

Item 35 of assets - Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39

Financial assets held for trading

Financial assets held for trading: breakdown

Items/Balances	31/12/2020			31/12/2019		
	L1	L2	L3	L1	L2	L3
A. Balance sheet assets						
1. Debt securities	-	-	-	-	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	-	-	-	-	-
2. Equity securities	-	-	-	-	-	-
3. Units of UCITS	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Reverse repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total A	-	-	-	-	-	-
B. Derivatives						
1. Financial derivatives:	695	-	-	-	-	-
1.1 trading	695	-	-	-	-	-
1.2 related to fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives:	-	-	-	-	-	-
2.1 trading	-	-	-	-	-	-
2.2 related to fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total B	695	-	-	-	-	-
Total (A+B)	695	-	-	-	-	-

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

Financial assets held for trading: breakdown by debtor/issuer

Items/Balances	31/12/2020	31/12/2019
A. Balance sheet assets		
1. Debt securities	-	-
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	-	-
2. Equity securities	-	-
a) Banks	-	-
b) Other issuers:	-	-
- insurance companies	-	-
- financial companies	-	-
- non-financial companies	-	-
- other	-	-
3. Units of UCITS	-	-
4. Loans	-	-
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other entities	-	-
Total A	-	-
B. Derivatives		
a) Banks	695	-
- Fair value	695	-
b) Customers	-	-
- Fair value	-	-
Total B	695	-
Total (A+B)	695	-

Financial assets measured at fair value

Financial assets measured at fair value: breakdown

Items/Balances	Total			Total		
	L1	L2	L3	L1	L2	L3
1. Debt securities	235,050	105	-	202,067	4,992	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	235,050	105	-	202,067	4,992	-
2. Equity securities	144,919	-	-	132,183	-	-
3. Units of UCITS	3,281,499	-	-	3,102,002	-	-
4. Loans	-	-	-	-	-	-
4.1 Structured	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total	3,661,468	105	-	3,436,252	4,992	-
Cost	3,330,725	100	-	3,221,467	4,950	-

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

The breakdown of item 3 “Units of UCITS” is as follows:

	Total 31/12/2020	Total 31/12/2019
Bonds	1,449,895	504,420
Equity	995,303	856,091
Monetary	201,925	623,435
Balanced	68,074	68,830
Other	566,302	1,054,226
Total	3,281,499	3,102,002

Financial assets measured at fair value: breakdown by debtor/issuer

Items/Balances	31/12/2020	31/12/2019
1. Debt securities	235,155	207,060
a) Governments and Central Banks	194,040	187,369
b) Other Public entities	-	-
c) Banks	28,317	13,189
d) Other issuers	12,798	6,502
2. Equity securities	144,919	132,181
a) Banks	12,553	13,347
b) Other issuers:	132,366	118,834
- insurance companies	7,213	7,333
- financial companies	4,051	3,204
- non-financial companies	116,414	104,543
- other	4,688	3,754
3. Units of UCITS	3,281,499	3,102,002
4. Loans	-	-
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other entities	-	-
Total	3,661,573	3,441,243

The portfolio of “Financial assets measured at fair value” contains exposures in Italian Government bonds of € 167 million, in United States Government bonds of € 12.5 million, in French Government bonds of € 4 million, in Spanish Government bonds of € 2.6 million, in Portuguese Government bonds of € 1.9 million, in UK Government bonds of € 1.9 million, in Irish Government bonds of € 1.7 million, in German Government bonds of € 1.3 million, in Belgian Government bonds of € 0.6 million, in Austrian Government bonds of € 0.3 million, and in Mexican Government bonds of € 0.2 million.

Financial assets available for sale

Financial assets available for sale: breakdown

Items/Balances	31/12/2020			31/12/2019		
	L1	L2	L3	L1	L2	L3
1. Debt securities	2,396,060	-	6,068	1,920,940	32,888	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	2,396,060	-	6,068	1,920,940	32,888	-
2. Equity securities	-	-	-	-	-	-
2.1 Measured at fair value	-	-	-	-	-	-
2.2 Carried at cost	-	-	-	-	-	-
3. Units of UCITS	422,324	107,289	109,051	599,667	130,728	85,303
4. Loans	-	-	-	-	-	-
Total	2,818,384	107,289	115,119	2,520,607	163,616	85,303

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

The breakdown of item 3 “Units of UCITS” is as follows:

	Total 31/12/2020	Total 31/12/2019
Bonds	418,800	582,330
Equity	190,810	179,253
Monetary	29,054	54,115
Total	638,664	815,698

Financial assets available for sale: breakdown by debtor/issuer

Items/Balances	31/12/2020	31/12/2019
1. Debt securities	2,402,128	1,953,827
a) Governments and Central Banks	1,939,645	1,437,014
b) Other public entities	-	-
c) Banks	280,013	269,324
d) Other issuers	182,470	247,489
2. Equity securities	-	-
a) Banks	-	-
b) Other issuers:	-	-
- insurance companies	-	-
- financial companies	-	-
- non-financial companies	-	-
- other	-	-
3. Units of UCITS	638,664	815,698
4. Loans	-	-
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other entities	-	-
Total	3,040,792	2,769,525

The portfolio of “Financial assets available for sale” contains exposures in Belgian Government bonds for € 499.8 million, Italian Government bonds of € 471.7 million, in French Government bonds of € 306.8 million, in Spanish Government bonds of € 291.8 million, in Dutch Government bonds of € 264.4 million, in Portuguese Government bonds of € 61.6 million, in German Government bonds of € 31.7 million, and in US Government bonds of € 11.9 million.

Impairment testing of financial assets available for sale

Financial assets available for sale undergo impairment testing as per the requirements of IFRS.

The process of detecting possible impairment involves the verification of the presence of impairment indicators and the determination of any write-downs.

The criteria applied to identify impairment distinguish between debt securities, equity securities and mutual investment funds.

As regards the first, the objective evidence that a debt security has suffered impairment is provided in the list of loss events set forth in IAS 39.59, and includes, by way of example, but not limited to such:

- significant financial difficulty of the issuer;
- contractual default, such as failure to pay interest or principal;
- likelihood that the issuer is subject to insolvency or financial restructuring procedures - disappearance of an active market for the financial instrument due to financial difficulties of the issuer.

Furthermore, in the case of rated bonds, the deterioration of the issuer’s creditworthiness is assessed. In this regard, a deterioration that results in debt securities falling to a rating class below “Investment grade” indicates the need to test for impairment. In other cases, a deterioration in creditworthiness should be evaluated together with the other factors available. The process of identifying situations of deterioration takes place through the “variable rating” trigger, and whether the same is above or below the “Investment grade” threshold (BBB- or equivalent). With regard to bonds, the availability of specialised sources (for

example, investment advice provided by financial institutions, rating reports, etc.) or information available from information providers (i.e. Bloomberg, Reuters, etc.) is considered, which is used to accurately determine the significance of the issuer's impairment.

For equity securities classified as AFS, it is reasonable to assume that shares in the portfolio are to be recognised as impaired before the bonds issued by the same issuer company. Therefore, indicators for write-downs of debt securities issued by a company, or the write-down of said debt securities, are strong indicators of impairment of the company's equity securities.

Moreover, in order to establish whether there is evidence of impairment for an equity instrument, in addition to the existence of the events indicated by IAS 39.59 and the considerations set forth above, where applicable, the following two events should also be considered (IAS 39.61):

- significant changes with adverse effects with relation to technologies, markets, the economic or legal framework of the issuer, which indicate that the cost of the investment can no longer be recovered;
- a significant or prolonged decline in the fair value of the investment to below the level of its cost.

Steps are taken to recognise impairment if the fair value of the security is 35% lower than the book value upon initial recording; or the fair value is lower than the book value for a period of at least 18 months.

Regarding investments in equity instruments, the need to determine impairment also considers, if the above conditions are not fulfilled, the following situations, individually or jointly:

- the fair value of the investment is significantly lower than the purchase cost or, in any event, significantly lower than that of similar companies in the same sector;
- the company management is not considered to have suitable standing and is not considered capable of ensuring a recovery in prices;
- the credit rating has been reduced since the purchase date;
- a significant decline in profits, cash flow or the net financial position of the issuer since the purchase date;
- there is a reduction or interruption in the distribution of dividends;
- an active market for the bonds issued disappears;
- there are changes in the regulatory, economic and technological framework of the issuer, which have a negative impact on the issuer's income, equity and financial position;
- there is a negative outlook for the market, sector or geographical area in which the issuer operates.

With regard to Mutual Investment Funds, note that the quotas in mutual investment funds represent equity instruments, according to the provisions of paragraph AG27 of IAS 39 and the above-illustrated criteria relating to equity securities applies to these instruments where classified as AFS, and in particular, the criteria to identify the significant or prolonged impairment envisaged therein are taken into account. However, said indicator does not per se result in the recognition of impairment for mutual investment funds that invest purely in bonds, if the following requirements are met:

- the funds in question envisage the systematic distribution of the vouchers cashed, the capital repaid, the income made from the sale to the holder of the quotas or in any event, the systematic transfer to the holder of the cash flows of the underlying bonds whenever paid or realised. In this situation, the mutual investment funds can be assumed to represent a pass-through agreement;
- the look-through of the fund can only be made in said situation and information about the individual financial bond instruments constituting the fund's assets must be available, to permit the systematic analysis of the underlying instruments and the financial and solvency situation of the issuers. In these

circumstances, the impairment test must also take into account the valuation criteria of the debt securities, with regard to each underlying bond investment.

Item 45 of assets - Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39

Financial assets held to maturity

Financial assets held to maturity: breakdown

	Total 31/12/2020				Total 31/12/2019			
	BV	FV			BV	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt securities	1,224,875	1,357,925	62,084	-	1,061,508	1,125,804	55,071	-
- structured	-	-	-	-	-	-	-	-
- other	1,224,875	1,357,925	62,084	-	1,061,508	1,125,804	55,071	-
2. Loans	-	-	-	-	-	-	-	-

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

Financial assets held to maturity: breakdown by debtor/issuer

Type of transaction/Amounts	31/12/2020	31/12/2019
1. Debt securities	1,224,875	1,061,508
a) Governments and Central Banks	1,200,761	1,061,508
b) Other public entities	-	-
c) Banks	24,114	-
d) Other issuers	-	-
2. Loans	-	-
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other entities	-	-
Total	1,224,875	1,061,508
Total FV	1,420,009	1,180,878

The portfolio of “Financial assets held to maturity” contains exposures in Italian Government bonds of € 1.200,8 million.

Loans to banks

Loans to banks: breakdown

Type of transaction/Amounts	Total 31/12/2020				Total 31/12/2019			
	BV	FV			BV	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Loans to Central Banks	-	-	-	-	-	-	-	-
1. Time deposits	-				-			
2. Compulsory reserves	-				-			
3. Reverse repurchase agreements	-				-			
4. Other	-				-			
B. Loans to banks	17,467	-	-	17,467	6,722	-	-	6,722
1. Loans	17,467	-	-	17,467	6,722	-	-	6,722
1.1 Current accounts and demand deposits	17,467				6,722			
1.2 Time deposits	-				-			
1.3 Other loans:	-				-			
- Reverse repurchase agreements	-				-			
- Finance leases	-				-			
- Other	-				-			
2. Debt securities	-	-	-	-	-	-	-	-
2.1 Structured securities	-				-			
2.2 Other debt securities	-				-			
Total	17,467	-	-	17,467	6,722	-	-	6,722

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

Loans to customers

Loans to customers: breakdown

Type of transaction/Amounts	Total 31/12/2020						Total 31/12/2019					
	Book value			Fair value			Book value			Fair value		
	Performing	Non-performing		L1	L2	L3	Performing	Non-performing		L1	L2	L3
		Purchased	Other					Purchased	Other			
Loans	800	-	-	-	-	800	3,735	-	-	-	-	3,735
1. Current accounts	-	-	-	-	-	-	-	-	-	-	-	-
2. Reverse repurchase agreements	-	-	-	-	-	-	-	-	-	-	-	-
3. Mortgages	-	-	-	-	-	-	-	-	-	-	-	-
4. Credit cards and personal loans, incl. fifth-	-	-	-	-	-	-	-	-	-	-	-	-
5. Financial leasing	-	-	-	-	-	-	-	-	-	-	-	-
6. Factoring	-	-	-	-	-	-	-	-	-	-	-	-
7. Other loans	800	-	-	-	-	-	3,735	-	-	-	-	-
Debt securities	-	-	-	-	-	-	-	-	-	-	-	-
8. Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
9. Other debt securities	-	-	-	-	-	-	-	-	-	-	-	-
Total	800	-	-	-	-	800	3,735	-	-	-	-	3,735

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

Loans to customers: breakdown by debtor/issuer

Type of transaction/Amounts	31/12/2020			31/12/2019		
	Performing	Non-performing		Performing	Non-performing	
		Purchased	Other		Purchased	Other
1. Debt securities	-	-	-	-	-	-
a) Governments	-	-	-	-	-	-
b) Other Public entities	-	-	-	-	-	-
c) Other issuers	-	-	-	-	-	-
- non-financial companies	-	-	-	-	-	-
- financial companies	-	-	-	-	-	-
- insurance companies	-	-	-	-	-	-
- other	-	-	-	-	-	-
2. Loans to:	800	-	-	3,735	-	-
a) Governments	-	-	-	-	-	-
b) Other Public entities	-	-	-	-	-	-
c) Other entities	800	-	-	3,735	-	-
- non-financial companies	-	-	-	-	-	-
- financial companies	249	-	-	269	-	-
- insurance companies	-	-	-	-	-	-
- other	551	-	-	3,466	-	-
Total	800	-	-	3,735	-	-

Liabilities

Section 1 – Financial liabilities measured at amortised cost – Item 10

1.1 Financial liabilities measured at amortised cost: breakdown of deposits from banks

Type of transaction/Amounts	Total 31/12/2020				Total 31/12/2019			
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
1. Deposits from central banks	7,100,000	X	X	X	2,882,128	X	X	X
2. Deposits from banks	909,508	X	X	X	2,546,795	X	X	X
2.1 Current accounts and demand deposits	77,162	X	X	X	104,335	X	X	X
2.2 Deposits with a set term	6,085	X	X	X	7,844	X	X	X
2.3 Loans	826,028	X	X	X	2,434,382	X	X	X
2.3.1 Repos	798,656	X	X	X	2,232,265	X	X	X
2.3.2 Other	27,372	X	X	X	202,117	X	X	X
2.4 Liabilities for 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 liabilities	233	X	X	X	234	X	X	X
Total	8,009,508	-	798,656	7,210,853	5,428,923	-	2,232,265	3,196,644

Key:

BV = Book value

L1 = Level 1

L2 = Level 2

L3 = Level 3

Payables are recognised at their nominal value, corresponding to their fair value. Deposits from banks mainly consist of floating-rate, on-demand payables, for which no hedging has been implemented.

Item “1. Deposits from central banks” includes the refinancing operations carried out with the European Central Bank.

With regard to the use of the refinancing channel through the European Central Bank (ECB) at the end of 2020, this was entirely represented by participation in the TLTRO2 transaction, for a total amount of € 7.1 billion.

During the first quarter of the year, the TLTRO2 transactions still in place were repaid, for a total value of € 1.5 billion. The early repayment took place at the same time as the second participation in the TLTRO3 transactions for the amount of € 1.4 billion.

1.2 Financial liabilities measured at amortised cost: breakdown of deposits from customers

Type of transaction/Amounts	Total 31/12/2020				Total 31/12/2019			
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	30,021,689	X	X	X	25,265,142	X	X	X
2. Deposits with a set term	302,585	X	X	X	565,484	X	X	X
3. Loans	2,337,017	X	X	X	649,356	X	X	X
3.1 Repos	2,126,842	X	X	X	417,981	X	X	X
3.2 Other	210,175	X	X	X	231,375	X	X	X
4. Liabilities for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Lease liabilities	138,626	X	X	X	151,703	X	X	X
6. Other liabilities	281,794	X	X	X	246,223	X	X	X
Total	33,081,711	-	2,126,842	30,954,869	26,877,908	-	417,981	26,459,928

Key:

BV = Book value

L1 = Level 1

L2 = Level 2

L3 = Level 3

Payables are recognised at their nominal value, corresponding to their fair value and the fair value level attributed is 3.

Lease liabilities include, pursuant to the standard IFRS 16, the lease liability corresponding to the present value of payments envisaged and not yet paid for the assets covered by an operating lease contract.

The main change introduced by the standard is represented by a change in how operating lease transactions are recognised in the financial statements of the lessee/user, through the introduction of a single accounting model for the recognition of lease contracts by the lessee, regardless of whether they are classified as operating or finance leases.

Deposits from customers are mainly represented by floating rate on demand payables, for which no hedging has been implemented, while macro fair value hedges of the on demand items have been implemented, as described in Part E, Section 2.2 of these Explanatory notes to the consolidated financial statements.

Note that, following changes made to the functioning of the collateralised interbank market, entailing the transfer of functions carried out to-date by Banca d'Italia to the Clearing House and Guarantee Fund and to Monte Titoli, item 3.1 "Repos" includes loans worth € 2,126.8 million received from said market.

As also noted at the industry level, in December 2020, the trend in total funding (deposits from resident customers and bonds) grew yoy, with a more marked change in deposits to the detriment of medium and long-term funding, through bonds, which has fallen over the last 12 months. A lot of liquidity was prudently withheld in current accounts, thanks to a reference scenario that limited the propensity to spend.

In this context, customers continued to show confidence in the group's ability to protect and enhance their savings, confirming a positive trend in deposits. The trend of direct deposits, in particular, is much higher than the average in Italian banks.

1.3 Financial liabilities measured at amortised cost: breakdown of debt securities issued

Type of security/Amounts	Total				Total			
	31/12/2020				31/12/2019			
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. bonds	2,500,412	2,065,269	497,139	-	3,029,580	2,071,431	1,057,392	-
1.1 structured	501,359	514,762	-	-	495,105	504,479	-	-
1.2 other	1,999,053	1,550,507	497,139	-	2,534,475	1,566,952	1,057,392	-
2. other securities	156	-	-	156	304	-	-	304
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	156	-	-	156	304	-	-	304
Total	2,500,568	2,065,269	497,139	156	3,029,884	2,071,431	1,057,392	304

Key:

BV = Book value

L1 = Level 1

L2 = Level 2

L3 = Level 3

The item "Other securities" includes certificates of deposit.

Note the early repayment of the "Tier 2" bond for € 200 million on 13 March 2020, following the exercise of the repayment option by Credem.

In September 2020, Credem issued a Tier 2 instrument for a total amount of € 200 million. The maturity of the issue is December 2030, with the possibility for the issuer to recall the security between September and December 2025. It will pay a 3.5% coupon until December 2025. The coupon will be recalculated in December 2025 on the basis of the 5-year swap rate plus a spread of 3.897%.

The loan was fully subscribed by Credemholding.

1.4 Breakdown of subordinated debts/securities

The main contractual characteristics of subordinated liabilities:

- "CREDITO EMILIANO SPA 4.191% VAR.RATE 21.10.2016/2026 €" (ISIN XS1506498200) for € 50,000,000.00 consisting of 50,000.00 bonds with a nominal value of € 1,000 each.

The bonds give entitlement to fixed annual coupons corresponding to a gross annual rate of 4.191% until 21 October 2021 then at the 6-month Euribor rate + 425 bps gross bi-yearly.

The loan expires on 21 October 2026 if the call option has not been exercised as at 21 October 2021, which will indicate early redemption.

As at 31 December 2020, the residual quantity was € 50,000,000.00 consisting of 50,000 bonds with a nominal value of € 1,000 each.

The bond was placed with banks.

- “CREDEM SPA 3.625% 10.7/2017/2027 SUBORDINATED” (ISIN XS1644438928) for € 100,000,000.00 consisting of 100,000.00 bonds with a nominal value of € 1,000 each.
The bonds give entitlement to fixed annual coupons corresponding to a gross annual rate of 3.625% until 10 July 2022 then at a gross annual rate of 5Y IRS +3.683%.
The loan expires on 10 July 2027 if the call option has not been exercised as at 10 July 2022, which will indicate early redemption.
As at 31 December 2020, the residual quantity was € 100,000,000.00 consisting of 100,000 bonds with a nominal value of € 1,000 each.
The bond was placed with banks.
- “CREDITO EMILIANO 20/30 SUBORDINATED 3.5% SUB” (ISIN IT0005421539) for € 200,000,000.00 consisting of 2,000,000.00 bonds with a nominal value of € 100 each.
The bonds give entitlement to fixed annual coupons corresponding to a gross annual rate of 3.5% until 16 December 2025 then at a gross annual rate of 5Y IRS +3.897%.
The loan expires on 16 December 2030 if the call option has not been exercised as at 16 December 2025, which will indicate early redemption.
As at 31 December 2020, the residual quantity was € 200,000,000.00 consisting of 2,000,000 bonds with a nominal value of € 100 each.
The bond was fully subscribed by Credemholding.

In the event of liquidation, all subordinated bonds will be redeemed only after accounts with all the other non-subordinated creditors have been settled.
The bonds are not covered by the guarantee of the Interbank Deposit Protection Fund.

1.5 Breakdown of structured debts

There were no structured debts to customers as at the date of the financial statements, nor as at 31 December 2019.

1.6 Lease liabilities

As at 31 December 2020, liabilities for lease payments under IFRS 16 amounted to € 139.7 million. The outgoing cash flows with an analysis of maturities are attached.

Up to 1 month	5,702
Beyond one and up to 3 months	207
Over 3 months to 1 year	14,872
Over 1 year to 5 years	65,203
Over 5 years	53,666
Total	139,650

Debt securities issued subject to micro-hedging

The Micro Fair Value Hedge accounting method was adopted to hedge the interest rate risk associated with the issue of fixed-rate bonds for an amount of around € 200 million.

Section 2 – Financial liabilities held for trading – Item 20

2.1 Financial liabilities held for trading: breakdown

Type of transaction/Amounts	Total 31/12/2020					Total 31/12/2019				
	NV	Fair value			Fair value *	NV	Fair value			Fair value *
		L1	L2	L3			L1	L2	L3	
A. Cash liabilities										
1. Deposits from banks	-	-	-	-	-	-	-	-	-	-
2. Deposits from customers	-	-	-	-	-	25	27	-	-	27
3. Debt securities	-	-	-	-	X	-	-	-	-	X
3.1 Bonds	-	-	-	-	X	-	-	-	-	X
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	X	-	-	-	-	X
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total (A)	-	-	-	-	-	25	27	-	-	27
B. Derivatives										
1. Financial derivatives	X	8	18,256	-	X	X	5	96,453	-	X
1.1 Trading	X	8	18,256	-	X	X	5	96,453	-	X
1.2 Related to fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	X	-	-	-	X	X	-	-	-	X
2.1 Trading	X	-	-	-	X	X	-	-	-	X
2.2 Related to fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	X	8	18,256	-	X	X	5	96,453	-	X
Total (A+B)	X	8	18,256	-	X	X	32	96,453	-	X

Key:

NV = nominal or notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

Fair value* = Fair value calculated by excluding the variations in value due to the change in the creditworthiness of the issuer with respect to the issue date.

Item “A. Cash liabilities” includes technical overdrafts, if present.

2.2 Details of “Financial liabilities held for trading”: subordinated liabilities

2.3 Breakdown of “Financial liabilities held for trading”: structured debts

There were no subordinated trading liabilities or structured trading debts as at the date of the financial statements, nor as at 31 December 2019.

Section 4 – Hedging derivatives – Item 40

4.1 Hedging derivatives: breakdown by hedging type and fair value hierarchy

	NV	Fair value 31/12/2020			NV	Fair value 31/12/2019		
	31/12/2020	L1	L2	L3	31/12/2019	L1	L2	L3
A. Financial derivatives	9,137,006	-	365,281	-	7,585,977	-	326,808	-
1) Fair value	9,137,006	-	365,281	-	7,585,977	-	326,808	-
2) Cash flows	-	-	-	-	-	-	-	-
3) Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-	-	-	-
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	9,137,006	-	365,281	-	7,585,977	-	326,808	-

Key:

NV= Nominal or notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

4.2 Hedging derivatives: breakdown by hedged portfolios and type of hedge

Transaction/Type of hedge	Fair value							Cash flow		Foreign investments
	Micro-hedge						Macro-hedge	Micro-hedge	Macro-hedge	
	debt securities and interest rates	equity securities and stock indices	currencies and gold	credit	commodities	other				
1. Financial assets measured at fair value through other comprehensive income	235,012	-	-	-	X	X	X	-	X	X
2. Financial assets measured at amortised cost	130,269	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	-	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	365,281	-	-	-	-	-	-	-	-	-
1. Financial liabilities	-	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	-	-	-	-	-	-	-	-	-	-
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	X	2	X	-	-

There are micro fair value hedges on fixed-rate securities held in the HTCS portfolio. Derivatives of this type have a negative fair value of € 235,012 thousand.

The Macro Fair Value Hedge accounting method was adopted to hedge interest rate risk associated with the disbursement of fixed rate mortgages and of floating rate mortgages with Cap option. By applying hedge accounting, it is possible to provide accounting evidence of the financial effects of the hedging strategies adopted. Hedging derivatives related to said strategy recorded a negative fair value of € 130,269 thousand.

Please refer to the relevant Section in Part E of the Explanatory Notes to the consolidated financial statements for a description of hedging methods.



Section 5 – Changes in value of macro-hedged financial liabilities – Item 50

5.1 Changes in value of hedged financial liabilities

Change in value of hedged liabilities / Group components	Total 31/12/2020	Total 31/12/2019
1. Increase in financial liabilities	200,515	155,168
2. Decrease in financial liabilities	-	-
Total	200,515	155,168

The Macro Fair Value Hedge accounting method was also adopted to hedge interest rate risk associated with customers' demand deposits.

Customers' demand deposits represent an important source of funding for the Group. A part of these deposits, corresponding to around € 3.2 billion, although contractually demand, displays strong persistence over time and imperfect elasticity to changes in market interest rates, represented by the so-called "viscosity effect".

This effect was estimated using an analysis model consisting of two components:

- the estimate of the relationship between the interest rates of demand items and market interest rates on the basis of an econometric model;
- the estimate of the persistence of volumes, through which the amount of demand items is transformed into a portfolio of fixed rate maturity items.

Reference is also made to Section 5 – Hedging derivatives of these Explanatory notes.

Section 6 – Tax liabilities – Item 60

See Section 10 under Assets.

Section 8 – Other liabilities – Item 80

8.1 Other liabilities: breakdown

	Total 31/12/2020	Total 31/12/2019
Tax payables	80,224	78,909
Currency spread on portfolio transactions	312,188	303,463
Amounts available to customers	8,666	12,563
Deferred income	5,979	6,807
Remuneration to be paid and related contributions	19,147	21,220
Accrued liabilities	4,149	10,395
Foreign items being processed	4,997	5,250
Suppliers	176,380	169,398
Items in transit between branches	5,081	7,689
Amounts to be credited to institutions	1,814	1,128
Securities items being processed	5,590	18,214
Other items	170,493	117,517
Amounts to be credited to banks	207,578	217,991
Total	1,002,286	970,544

The “Currency spread on portfolio transactions” relates to imbalances in the bank’s own portfolio and that of third parties.

Section 9 – Provision for staff termination indemnity – Item 90

9.1 Provision for staff termination indemnity: annual changes

	Total 31/12/2020	Total 31/12/2019
A. Opening balance	77,745	79,706
B. Increases	2,804	6,643
B.1 Provisions for the year	671	1,358
B.2 Other changes	2,133	5,285
- of which business combinations	-	-
C. Decreases	7,810	8,604
C.1 Severance payments	7,684	8,390
C.2 Other changes	126	214
- of which business combinations	-	-
D. Closing balance	72,739	77,745
Total	72,739	77,745

Other increases is comprised of actuarial losses.

As set forth in the provisions on the matter introduced by the Italian National Board of Actuaries jointly with the competent institutions – the Italian Accounting Committee (OIC), the Italian Association of Auditors (Assirevi) and the Associazione Bancaria Italiana (ABI) – for companies with more than 50 employees as at 31 December 2006, a calculation method was outlined, which can be broken down into the following stages:

- projection for each employee of the staff termination indemnity, until the random time of payment, already allocated as at 31 December 2006 and revalued on the valuation date;
- determination, for each employee, of the probable staff termination indemnity payments which will have to be made by the company in the event the employee leaves the company due to dismissal, resignation, inability, death or retirement, as well as due to requests for advances;
- discounting, at the valuation date, of each probable payment.

The above applies to the staff termination indemnity provisions accrued as at 1 January 2007 for employees who chose to keep their staff termination indemnity in the company and, as a result, assign it to the Treasury of INPS (National Social Security Institution), and, at the date of such decision in 2007, for employees who chose the supplementary pension.

Obviously, the staff termination indemnity provisions at said date were increased by the revaluation (net of substitute tax) and decreased by any advances and settlements paid.

For companies with fewer than 50 employees as at 31 December 2006, the actuarial valuation of staff termination indemnity is based on the “benefits earned” method using the Projected Unit Credit (PUC) criteria as set forth in paragraphs 64-66 of IAS 19.

Through this method, valuations are made which express the current average value of staff termination indemnities earned based on the employee’s period of service up to the time of the valuation is performed.

This calculation method can be broken down into the following phases:

- projection for each employee – by virtue of the valuation date – of the staff termination indemnity already allocated and of the future shares of staff termination indemnity which will be accrued up until the random time of payment, forecasting the employee’s remuneration;

- determination, for each employee, of the probable staff termination indemnity payments which will have to be made by the company in the event the employee leaves the company due to dismissal, resignation, inability, death or retirement, as well as due to requests for advances;
- discounting, at the valuation date, of each probable payment;
- recalculation, for each employee, of the assumed and discounted benefits, based on the seniority reached at the valuation date with relation to the total amount due at the random settlement date.

11.2 Other information

The actuarial model used for the valuation of staff termination indemnity is based on several demographic and economic assumptions.

For some of the assumptions used, where possible, explicit reference is made to the Group's direct experience. For others, sector best practice is taken into account.

The main assumptions of the model are set forth below.

Discount rate

The discount rate used to determine the current value of the obligation has been determined in accordance with paragraph 83 of IAS 19, with reference to the IBoxx Eurozone Corporate AA 7-10 index (in line with the duration of the mutual fund in question).

For the spot valuation as at 31 December 2020, the yield with a duration comparable to the duration of the group of employees subject to valuation was chosen, which resulted in a constant annual rate of -0.02%.

Inflation

The annual rate of inflation used was 0.80%.

Annual rate of increase in staff termination indemnity

As envisaged by Art. 2120 of the Italian Civil Code, the staff termination indemnity is revalued every year at a rate corresponding to 75% of inflation plus one and a half percentage points, therefore the revaluation assumption for actuarial valuations is determined on the basis of the above-indicated rate.

Real annual salary growth rate

The rate applied was 1.00%.

Mortality

In order to estimate mortality within the group of employees subject to valuation, survival table RG48, used by the State General Accounting Department to estimate the pension charges of the Italian population, was adopted.

Inability

In order to estimate inability within the group of employees subject to valuation, an INPS table was used, differentiated by age and gender.

Requirements for retirement

Reaching the minimum requirements indicated by the Compulsory General Insurance (AGO).

Frequency of advances on staff termination indemnity

The annual frequency of access to this option was assumed to be 1.50%, based on a historical series of advances on staff termination indemnity requested by employees of the bank.

Frequency of early termination of employment (turnover)

In calculating the probability of termination of employment due to resignations or dismissals, terminations of 1.80% were hypothesised, based on a statistical analysis of historical Group figures.

Additional information

Accounting standard IAS 19, for defined benefit post-employment plans, requires a series of additional information, such as:

- a sensitivity analysis for each significant actuarial assumption at year end, showing the impact that there would have been following changes in the actuarial assumption that are reasonably possible at said date, in absolute terms;
- an indication of the contribution for the following year;
- an indication of the average financial term of the obligation for the defined benefit plans;
- the disbursements envisaged by the plan.

The following paragraphs contain this information, highlighting the new value of the staff termination indemnity using a turnover rate of a further 100 bps, a change of +/- 25 bps for the rate of inflation and +/- 25 bps for the discounting rate.

Sensitivity analysis of main valuation parameters of the staff termination indemnity

change in assumptions				
frequency of turnover	inflation rate		discount rate	
+ 100 bps	+ 0.25 bps	- 0.25 bps	+ 0.25 bps	- 0.25 bps
72,087	73,339	73,592	71,788	71,260

The average financial term is around 10 years, the service cost for 2020 amounts to € 521 thousand and the disbursements estimated for the next five years amount to around € 26 million.

Section 10 – Provisions for risks and charges – Item 100

10.1 Provisions for risks and charges: breakdown

Items	Total 31/12/2020	Total 31/12/2019
1. Provisions for credit risk relating to commitments undertaken and financial guarantees given	7,219	4,544
2. Provisions on other commitments and other guarantees given	-	-
3. Pension funds and other post-retirement benefit obligations	1,714	1,729
4. Other provisions for risks and charges	144,213	143,667
4.1 legal and tax disputes	21,416	24,804
4.2 personnel charges	79,333	80,398
4.3 other	43,464	38,464
Total	153,146	149,939

10.2 Provisions for risks and charges: annual changes

	Provisions on other commitments and other guarantees given	Pension funds and other post-retirement benefit obligations	Other provisions for risks and charges	Total
A. Opening balance	4,544	1,729	143,666	149,939
B. Increases	3,703	97	68,575	72,375
B.1 Provision for the year	3,693	11	67,437	71,141
B.2 Changes due to the time value of money	-	-	5	5
B.3 Difference due to discount-rate changes	-	-	28	28
B.4 Other changes	10	86	1,105	1,201
- of which business combinations	-	-	-	-
C. Decreases	1,028	112	68,028	69,168
C.1 Use during the year	1,028	112	66,406	67,546
C.2 Differences due to discount-rate changes	-	-	23	23
C.3 Other changes	-	-	1,599	1,599
- of which business combinations	-	-	-	-
D. Closing balance	7,219	1,714	144,213	153,146

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

	Provisions for credit risk relating to commitments undertaken and financial guarantees given			
	Stage 1	Stage 2	Stage 3	Total
Commitments to disburse funds	4,283	1,176	-	5,459
Financial guarantees given	366	440	954	1,760
Total	4,649	1,616	954	7,219

10.5 Defined benefit company pension funds

An internal fund of Credem and Credemleasing is managed to provide pension benefits in addition to those provided by the National Social Security Institution. It is a "Defined Benefit Plan" whose amounts are subject to the same equalisation as INPS (National Social Security Institution) pensions, as well as registration with the Central Pensions Register.

Actuarial valuation is carried out for this item.

The beneficiaries of said plans are those who:

- were heirs of people that passed away during their period of employment with Credem and Credemleasing (replaced by the current National Insurance Fund since 1 January 1996);
- were former employees of Banca Popolare Dauna, who had already retired or who had resigned before 30 November 1999. Banca Popolare Dauna became part of Credem on 11 December 1999, following a merger by incorporation.

For the actuarial valuations of the Fund as at 31 December 2020, taking into account the guidelines for drafting of the technical reports by social security institutions, the demographic and economic-financial assumptions described in the following two paragraphs were adopted.

During the year, the fund recorded a net decrease of € 16 thousand.

Demographic assumptions

The following probabilities were used:

- for the probability of death of retired personnel, table IPS55 was used, according to gender;
- for the probability of death of personnel who retired due to total, permanent invalidity, that used in the INPS model for the 2010 forecast, according to gender;
- for the probability of surviving dependants, that published in the INPS model for the updated 2010 forecast, according to gender.

Economic-financial assumptions

The assumptions in question regard the discounting rate, the inflation rates and annual revaluation rates of Fund and INPS pensions.

The revaluation rate used was an average variation from the inflation rate of 75% taken from a high number of cases similar to that in question, and in relation to the increases set forth by regulations in force from 2009 (100% of the ISTAT inflation rate for yearly pensions totalling less than 5 times the minimum and 75% of the rate for yearly pensions falling within the previous amount and 8 times the minimum); note that the Fund pension is supplementary to that of INPS only for some retirees. As regards the discounting rate, in accordance with IAS, a rate has been adopted that is in line with the likely average life of the group of people in question.

Table of economic-financial bases

Variables	Values %
Inflation rates	0.80%
Annual discount rate	0.34%

Additional information

Accounting standard IAS 19, for defined benefit post-employment plans, requires a sensitivity analysis of the main actuarial assumption.

The following paragraphs contain this information, highlighting the new value of the staff termination indemnity using a change of +/- 25 bps for the inflation rate and +/- 25 bps for the discounting rate.

The average financial term is around 11.5 years.

Sensitivity analysis of main valuation parameters

change in assumptions

inflation rate		discount rate	
+ 0.25 bps	- 0.25 bps	+ 0.25 bps	- 0.25 bps
1,745	1,685	1,668	1,763

10.6 Provisions for risks and charges: other provisions

	Total 31/12/2020	Total 31/12/2019
For guarantees and commitments:	7,218	4,544
For other risk and charges:	144,214	143,666
- for legal and sundry disputes pending	47,962	50,025
- for other financial charges	96,252	93,641
Total	151,432	148,210

As part of its normal business operations, the Group is involved in various judicial proceedings, which may result in compensation and/or restitution obligations, and the consequent outlay of economic resources (so-called legal risk). All outstanding disputes have been duly analysed by the Bank and, in the light of these analyses, as well as of the recommendations of its external attorneys, the appropriate allocations have been made, where necessary, on the basis of the circumstances in question.

More specifically, the Group has established a provision for risks and charges to cover the contingent liabilities that may be triggered by pending lawsuits.

The majority of these disputes regard the core businesses, particularly loans, investment services, anatocism and taxes.

Disputes regarding real estate, administration, the work of financial advisors, inheritance and over the counter transactions are of minor significance.

Estimates of allocations were made analytically for the individual positions in cases where the counterparty had already taken legal action and on the basis of potential risk estimated according to a series of historical-statistical data in the case of objective risks (complaints) that have not yet become lawsuits. The impact of discounting was calculated using the Euribor rate.

Following the trend in interest rates, which have now become negative for maturities of up to 15 years, the impacts for the sensitivity analysis on provisions for risks and charges, using a change of +/- 25 bps for the discounting rate, are in fact insignificant.

Total other provisions for risks and charges amount to € 144.2 million.

The following paragraphs provide a description of the main categories of potential liabilities, for which, if the same are retained to be probable, allocations have been made to provisions to cover other various risks and charges.

Labour disputes: the risks relating to labour disputes are assessed quarterly on the basis of the progress of the disputes and therefore the provisions are adjusted accordingly.

Bankruptcy revocations: these are disputes that the Bank may be involved in as part of its ongoing business activities when customers undergoing Bankruptcy arrange payments in favour of the Bank, issue remittances on a current bank account at a time close to the declaration of Bankruptcy. Revocatory action is a tool that can be used by the bankruptcy receiver in order to reconstitute the equity of the bankrupt party addressed to paying its creditors, by retracting amounts that had been paid out in the period prior to the bankruptcy (the so-called suspect

period). The Group makes a valuation of each position on a case-by-case basis, before the fact and before the law, paying special attention to documental/factual evidence. Following said analysis, where necessary, the appropriate allocations are therefore made (and changed on each occasion, where necessary) in line with the specific circumstances of the case in question. All relative lawsuits are constantly monitored and the risks resulting from such, where appropriate, are covered by specific allocations to the provision for risks and charges, in application of the provisions of IAS 37.

Misappropriation: this regards disputes the Bank may be involved in as part of its ongoing business activities. There are some claims and legal disputes resulting from irregular conduct by employees or financial consultants when carrying out the assignments entrusted to them or in their work, leading to claims by customers against the Bank, which may be considered liable for said conduct.

The Group makes a valuation of each position on a case-by-case basis, before the fact and before the law, paying special attention to documental/factual evidence.

Following said analysis, where necessary, the appropriate allocations are therefore made (and changed on each occasion, where necessary) in line with the specific circumstances of the case in question.

Disputes regarding anatocism: the overall number of pending lawsuits has remained stable, in the light, above all, of issues triggered by some rulings (as well as by the development of sector-related legislation). All relative lawsuits - at times also including disputes regarding exceeding the Usury Threshold Rate - are constantly monitored and the risks resulting from such, where appropriate, are covered by specific allocations to the provision for risks and charges, in application of the provisions of IAS 37.

Disputes regarding investment services: with regard to legal disputes regarding investment services - bonds in default, derivatives, etc. - the policy adopted by the Bank in this regard is that of assessing each position on a case-by-case basis, paying particular attention to documentary evidence and to the adequacy profile of the investments disputed with respect to the position of the individual counterparty. Following said analysis, where considered necessary, allocations are therefore made in line with the specific circumstances.

Claims made by customers: the total number of claims received from customers in 2020 came to 3,935. The individual Group companies make provisions against the claims received: specifically, if the damages claimed are higher than a set threshold of significance (at present € 25 thousand), the loss provision is made analytically. If the damages claimed are lower than said threshold, the provision is calculated by applying a forfeit/statistical percentage to the total damages claimed in pending claims.

Tax disputes

The risks resulting from the Group's tax disputes are covered by adequate allocations to provisions for risks and charges. As regards the Parent Company, there are 29 disputes pending, in part related to local taxes as well as minor income taxes, while the rest regard direct and registration taxes, taking into account all proceedings pending at various levels of the courts. With regard to these disputes, no effective risks have emerged or at least the estimated risk appears remote. Therefore, no specific provisions have been made. Considering the uncertain outcomes of disputes, for one of the disputes pending in the Regional Tribunal Court, the company made use of the facilitated definition of disputes in which the Italian Internal Revenue Agency is a party, pursuant to and for the purposes of Art. 6 of Italian Legislative Decree no. 119/2018, converted, with amendments, by Italian Law no. 136/2018.

Credemleasing has 32 disputes pending at various levels of the courts, 21 of which relate to minor taxes (ICI, IMU, TA.RI., road taxes) and the remainder pertain to VAT, direct taxes and corporate taxes. Considering the uncertain outcomes of disputes, in certain cases, some of which are pending in the Court of Cassation, the company made use of the facilitated definition of disputes in which Italian Internal Revenue Agency is a party, pursuant to and for the purposes of Art. 6 of Italian Legislative Decree no. 119/2018, converted, with amendments, by Italian Law no. 136/2018. Banca Euromobiliare has a proceeding pending before the CTRE on the referral decision handed down by the Supreme Court of Cassation, in January 2019, in relation to a registration tax assessment following the sale of a business division.

Lastly, there are disputes of lesser importance related to the work of financial advisors and labour-related matters, as well as the real estate and administration areas.

Section 11 – Technical reserves – Item 110

11.1 Technical reserves: breakdown

	Direct business	Indirect business	Total 31/12/2020	Total 31/12/2019
A. Non-life business	-	-	-	-
A1. Provision for premiums reserves	-	-	-	-
A2. Provision for claims reserves	-	-	-	-
A3. Other reserves	-	-	-	-
B. Life business	4,108,760	-	4,108,760	3,909,406
B1. Mathematical reserves	4,052,996	-	4,052,996	3,850,645
B2. Provision for reserves for amounts to be disbursed	45,724	-	45,724	48,230
B3. Other reserves	10,040	-	10,040	10,531
C. Technical reserves when investments risk is borne by the insured party	-	-	-	-
C1. Reserves for contracts with disbursements connected to investment funds and market indices	-	-	-	-
C2. Reserves from pension fund management	-	-	-	-
D. Total technical reserves	4,108,760	-	4,108,760	3,909,406

The values indicated refer to the subsidiary Credemvita.

Section 13 – Group equity – Items 120, 130, 140, 150, 160, 170 and 180

13.1 “Share capital” and “Treasury shares”: breakdown

	Total 31/12/2020	Total 31/12/2019
A. Share capital		
A.1 Ordinary shares	332,392	332,392
A.2 Savings shares	-	-
A.3 Preferred shares	-	-
A.4 Other shares	-	-
B. Treasury shares		
B.1 Ordinary shares	7,463	9,583
B.2 Savings shares	-	-
B.3 Preferred shares	-	-
B.4 Other shares	-	-

The portfolio contains 1,581,575 treasury shares, with an equivalent value of € 7.5 million, purchased as part of the programme implemented in accordance with the resolutions adopted by the Ordinary Shareholders’ Meetings held on 27 April 2012 and 30 April 2015; the purpose of these programmes is to purchase shares of Credito Emiliano to fully cover payment plans based on financial instruments addressed to executives with strategic responsibility and the “most important staff” of the banking group. In accordance with legislation in force, the details of the programme have already been communicated to the market.

During the year, 449,098 shares were allocated.

For further details on payment plans based on financial instruments, please refer to “Part I” of these Explanatory notes to the consolidated financial statements.

13.2 Share capital – Parent Company's number of shares: annual changes

Item/Type	Ordinary	Other
A. Shares outstanding as at the beginning of the year	330,361	-
- fully paid	332,392	-
- not fully paid	-	-
A.1 Treasury shares (-)	2,031	-
A.2 Shares outstanding: opening balances	330,361	-
B. Increases	449	-
B.1 New issues	449	-
- against payment:	-	-
- bonds converted	-	-
- warrants exercised	-	-
- other	-	-
- without payment:	449	-
- to employees	443	-
- to Directors	6	-
- other	-	-
B.2 Sale of treasury shares	-	-
B.3 Other changes	-	-
C. Decreases	-	-
C.1 Cancellation	-	-
C.2 Purchase of treasury shares	-	-
C.3 Business transferred	-	-
C.4 Other changes	-	-
D. Shares outstanding: closing balances	332,392	-
D.1 Treasury shares (+)	1,582	-
D.2 Shares outstanding as at the end of the year	330,811	-
- fully paid	330,811	-
- not fully paid	-	-

13.4 Profit reserves: other information

This category includes the legal reserve, the extraordinary reserve and the reserve for banking risks previously recognised in the financial statements, drawn up in accordance with previously effective Italian Legislative Decree no. 87/92 and reclassified according to the IAS standards.

The legal reserve, established as required by law, must be equal to at least one-fifth of share capital. Said reserve was established in the past through the allocation of at least one-tenth of the annual net profits to the same, in accordance with Article 29 of the Articles of Association. Should the reserve decrease, it must be replenished through the obligation of allocating one-twentieth of the profit.

The statutory or extraordinary reserve is established, based on the Articles of Association, through allocation of the residual profit following the distribution of profit to ordinary shares.

The merger reserves pursuant to Italian Law no. 218 of 30 July 1990 were established in occasion of reorganisation or merger transactions carried out in accordance with the aforementioned law.

Other reserves include the reserve established as a result of the stock option plan and other reserves established in the past for specific regulatory provisions.

There are also two reserves in tax suspension, separate by the type of realignment carried out pursuant to Art. 110 of Italian Law Decree of 14 August 2020, subject to subsequent amendment by Italian Law no. 178/2020.

Finally, the item includes the effects generated by the transition to international accounting standards.

In particular, the profit reserves include the effects resulting from the change in accounting standards that do not involve a contribution to the income statement in upcoming years. The additional effects generated by transition to the IAS/IFRS and which are expected to change over time and be recognised in income statement upon realisation or disposal of the corresponding asset and liability were booked under "Valuation reserves". These regard the measurement of financial assets measured at fair value through other comprehensive income, the measurement of derivative cash flow hedges, the reserve associated to actuarial profits/losses on defined benefit plans and special revaluation laws. The annual changes of said reserves are included in comprehensive income.

Section 14 – Non-controlling interests – Item 190

14.1 Breakdown of item 190 "Non-controlling interests"

Company Name	Total 31/12/2020	Total 31/12/2019
Equity investments in consolidated companies with significant third party investment		
SATA Srl	442	-
CREDEM CB Srl	4	4
Total	446	4

Following the power exercised by the insurance company Credemvita – belonging to the financial conglomerate of a predominantly banking nature – to postpone the first-time adoption of IFRS 9 (Deferral Approach) until 2023, the following new Balance Sheet - Liabilities items have been added to the consolidated financial statements as required by the update of Banca d'Italia Circular no. 262:

- Balance Sheet – Liabilities: Item 15. “Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39”, which includes deposits from banks, deposits from customers and debt securities issued, as defined in accordance with IAS 39;
- Balance Sheet – Liabilities: Item 35. “Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39”, which includes financial liabilities held for trading, financial liabilities measured at fair value and derivatives with a negative fair value, as defined in accordance with IAS 39;
- Balance Sheet – Shareholders’ Equity: Item 125. “Valuation reserves pertaining to insurance companies”, which includes valuation reserves for financial assets available for sale, shadow accounting effects and related taxes.

Item 15 of the liabilities - Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39

Deposits from customers: breakdown

Type of transaction/Amounts	31/12/2020	31/12/2019
1. Current accounts and demand deposits	-	-
2. Time deposits	-	-
3. Loans	-	-
3.1 Repos	-	-
3.2 Other	-	-
4. Liabilities for commitments to repurchase own equity instruments	-	-
5. Other liabilities	2,714	3,534
Total	2,714	3,534
Fair value - level 1	-	-
Fair value - level 2	-	-
Fair value - level 3	2,714	3,534
Total Fair value	2,714	3,534

Debt securities issued: breakdown

Type of security/Amounts	Total 31/12/2020				Total 31/12/2019			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	106,158	-	-	109,079	49,587	-	-	51,153
1.1 Structured	-	-	-	-	49,587	-	-	51,153
1.2 other	106,158	-	-	109,079	-	-	-	-
2. Other securities	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	-	-	-	-	-	-	-	-
Total	106,158	-	-	109,079	49,587	-	-	51,153

Details of item 30 “Debt securities issued”: subordinated securities

	31/12/2020	31/12/2019
A. Debt securities issued		
Debt securities issued - Subordinated securities	106,158	49,587

At the end of the year, Credemvita carried out a redemption operation and placement of bonds.

Specifically, the subordinated bond loan, called “Credemvita s.p.a. 4.491% 15/25”, ISIN code XS1313785211 in euros was repaid with the simultaneous issue of the following subordinated loan:

Non-convertible bond, fixed rate, issued at 98.330% on 18 November 2020 and called “Credemvita s.p.a.”, ISIN code XS2253071216 in euros. The security has the following characteristics:

- Nominal value: € 107,500,000;
- Expiry date: 18/02/2031;
- Coupon: fixed annual rate, set at the time of issue of 3.5% for the first 5 years. The interest rate is reviewed at the end of the fifth year, without application of any step-up mechanism;
- Rating: BBB- by Fitch

The loan may be repaid - in addition to the natural maturity date - after the fifth year, or in the circumstance of a “Regulatory Event” (namely in the event that the securities are no longer considered eligible - and therefore cannot be included among the elements of the level 2 own funds of the Company, or, in accordance with market practice, in the event that the Company is no longer subject to the supervision of the IVASS) and a “Tax Event” (namely if, due to the introduction of new tax laws or amendments to the existing laws, the Company is subject to payment of further taxes on the Loan or is no longer able to deduct the interest paid on the Loan).

Item 35 of the liabilities - Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39

Financial liabilities measured at fair value: breakdown

Type of transaction/Amounts	31/12/2020					31/12/2019				
	NV	FV			FV*	NV	FV			FV*
		L1	L2	L3			L1	L2	L3	
1. Deposits from banks	-	-	-	-	-	-	-	-	-	-
1.1 Structured	-	-	-	-	-	-	-	-	-	-
1.2 Other	-	-	-	-	-	-	-	-	-	-
2. Deposits from customers	3,698,395	-	-	3,698,395	3,698,395	3,450,625	-	-	3,450,625	3,450,625
2.1 Structured	-	-	-	-	-	-	-	-	-	-
2.2 Other	3,698,395	-	-	3,698,395	-	3,450,625	-	-	3,450,625	-
3. Debt securities	-	-	-	-	-	-	-	-	-	-
3.1 Structured	-	-	-	-	-	-	-	-	-	-
3.2 Other	-	-	-	-	-	-	-	-	-	-
Total	3,698,395	-	-	3,698,395	3,698,395	3,450,625	-	-	3,450,625	3,450,625

FV = fair value

FV* = fair value calculated by excluding the variations in value due to the change in the creditworthiness of the issuer with respect to the issue date.

NV = nominal or notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

Deposits from customers essentially include the amounts collected by the Group's insurance company for the issue of policies with primarily financial characteristics in relation to investments with risks borne entirely by the subscribers.

The nominal value of insurance policies is conventionally indicated at fair value.

Liability item 125 – Valuation reserves pertaining to insurance companies pursuant to IAS 39

Valuation reserves of financial assets available for sale of insurance companies pursuant to IAS 39: breakdown

Asset/Amounts	Total 31/12/2020		Total 31/12/2019	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	18,722	26,946	21,035	32,446
2. Equity securities	-	-	-	-
3. Units of UCITS	786	7,071	1,897	9,680
4. Loans	-	-	-	-
Total	19,508	34,017	22,932	42,126

Other information

1. Commitments undertaken and guarantees given

	Nominal value on commitments undertaken and guarantees given			Total 31/12/2020	Total 31/12/2019
	Stage 1	Stage 2	Stage 3		
1. Commitments to disburse funds	10,391,464	154,296	26,054	10,571,814	9,605,564
a) Central Banks	-	-	-	-	-
b) Public administrations	7,362	-	-	7,362	8,849
c) Banks	25,291	581	-	25,872	48,173
d) Other financial companies	200,992	15,262	9	216,263	293,042
e) Non-financial companies	8,592,245	48,950	9,796	8,650,991	7,710,490
f) Households	1,565,574	89,503	16,249	1,671,326	1,545,010
2. Financial guarantees given	1,266,387	26,350	2,496	1,295,233	837,053
a) Central Banks	837,272	3,147	-	840,419	295,543
b) Public administrations	1	-	-	1	2
c) Banks	1,669	1,618	15	3,302	5,874
d) Other financial companies	6,186	6	-	6,192	6,345
e) Non-financial companies	348,822	16,130	2,229	367,181	403,803
f) Households	72,437	5,449	252	78,138	125,486

3. Assets pledged as collateral for liabilities and commitments

Portfolios	Amount 31/12/2020	Amount 31/12/2019
1. Financial assets measured at fair value through profit or loss	1,185	-
2. Financial assets measured at fair value through other comprehensive income	2,362,596	2,975,160
3. Financial assets measured at amortised cost	11,958,947	10,173,895
4. Property, plant and equipment	-	-
of which: property, plant and equipment considered inventory	-	-

Item 1. "Financial assets measured at fair value through profit or loss" includes the receivables as surety for the advance on loans with the European Central Bank.

Item 2. "Financial assets measured at fair value through other comprehensive income" includes:

- € 1,128.9 million as surety for the advance on loans with the European Central Bank;
- € 1,233.6 million as surety on repurchase agreements;

Item 3. "Financial assets measured at amortised cost" includes:

- € 1,743.0 million in receivables transferred to special purpose entities under the covered bond operations;
- € 7,360.8 million as surety for the advance on loans with the European Central Bank;
- € 307.1 million as initial and change margins with clearing brokers;
- € 189.9 million as surety for the Clearing House and Guarantee Fund;
- € 51.8 million as surety with Banca d'Italia for the issue of banker's drafts;
- € 1,639.6 million as surety on repurchase agreements;

- € 393.5 million as surety on other types of collateralised deposits;
- € 273.3 million as surety on securities lending transactions.

6. Asset management and trading on behalf of third parties

Type of services	Amount 31/12/2020
1. Trading on behalf of customers	14,572,230
a) purchases	8,037,555
1. settled	8,030,335
2. unsettled	7,220
b) sales	6,534,675
1. settled	6,527,366
2. unsettled	7,309
2. Portfolio management	29,942,736
a) individual	6,169,134
b) collective	23,773,602
3. Custody and administration of securities	113,460,331
a) third party securities in deposit: relating to depositary bank activities (excluding asset management)	-
1. securities issued by companies included in consolidation	-
2. other securities	-
b) third party securities held on deposit (excluding segregated accounts): other	51,476,772
1. securities issued by companies included in consolidation	500,979
2. other securities	50,975,793
c) third party securities deposited with third parties	51,123,198
d) own securities deposited with third parties	10,860,361
4. Other transactions	13,475,569

Item 4. “Other transactions” mostly includes services provided to third parties relative to order receipt and transmission activities.

IFRS 7 requires specific disclosure of financial instruments which:

- have been netted in the balance sheet in accordance with IAS 32;
- may be netted in certain circumstances but are shown in the balance sheet as open balances insofar as regulated by “framework netting agreements or similar agreements” which however do not meet the criteria established by IAS 32 for netting.

For the disclosure of said agreements, the standard requires the effects of the real financial guarantees received and made to be considered.

In this regard, we hereby state that, following analyses conducted, there are no netting agreements in place that entail netting balances on the balance sheet, in accordance with that required by IAS 32. Therefore, in tables 6. and 7., the columns regarding “Amount of financial assets/liabilities offset in the balance sheet” are empty.

7. Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

Instrument type	Gross amounts of financial assets (a)	Amount of financial liabilities offset in balance sheet (b)	Net amount of financial assets recognised in the balance sheet (c=a-b)	Related amounts not subject to balance sheet offsetting		Net amount (f=c-d-e) 31/12/2020	Net amount 31/12/2019
				Financial instruments (d)	Deposits of cash collateral received (e)		
1. Derivatives	300,480	-	300,480	243,139	41,384	15,957	10,205
2. Repurchase agreements	-	-	-	-	-	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-
Total 31/12/2020	300,480	-	300,480	243,139	41,384	15,957	X
Total 31/12/2019	354,459	-	354,459	320,764	23,490	X	10,205

8. Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

Instrument type	Gross amounts of financial liabilities (a)	Amount of financial assets offset in balance sheet (b)	Net amount of financial liabilities recognised in the balance sheet (c=a-b)	Related amounts not subject to balance sheet offsetting		Net amount (f=c-d-e) 31/12/2020	Net amount 31/12/2019
				Financial instruments (d)	Deposits of cash collateral pledged (e)		
1. Derivatives	383,979	-	383,979	243,139	137,284	3,556	(1)
2. Repurchase agreements	2,925,497	-	2,925,497	2,925,497	-	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Other transactions	-	-	-	-	-	-	-
Total 31/12/2020	3,309,476	-	3,309,476	3,168,636	137,284	3,556	X
Total 31/12/2019	3,082,170	-	3,082,170	2,978,698	103,473	-	(1)

PART C

INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

Section 1 – Interest – Items 10 and 20

1.1 Interest income and similar revenues: breakdown

Item/Type	Debt securities	Loans	Other transactions	Total 31/12/2020	Total 31/12/2019
1. Financial assets measured at fair value through profit or loss:	482	57	-	539	697
1.1 Financial assets held for trading	482	-	-	482	600
1.2 Financial assets measured at fair value	-	-	-	-	-
1.3 Other financial assets measured at fair value, as per mandatory requirements	-	57	-	57	97
2. Financial assets measured at fair value through other comprehensive income	10,219	-	X	10,219	64,602
3. Financial assets measured at amortised cost:	54,453	405,816	X	460,269	459,431
3.1 Loans to banks	1,386	116	X	1,502	189
3.2 Loans to customers	53,067	405,700	X	458,767	459,242
4. Hedging derivatives	X	X	25,772	25,772	45,593
5. Other assets	X	X	73	73	2,599
6. Financial liabilities	X	X	X	55,367	13,998
Total	65,154	405,873	25,845	552,239	586,920
of which: interest income from impaired financial assets	-	12,960	-	12,960	12,627
of which: interest income on finance leases	-	52,271	-	52,271	51,105

1.2 Interest income and similar revenues: other information

1.2.1 Interest income from financial assets in foreign currency

Interest income amounts to € 18,768 thousand.

1.3 Interest expense and similar charges: breakdown

Item/Type	Payables	Securities	Other transactions	Total 31/12/2020	Total 31/12/2019
1. Financial liabilities measured at amortised cost	(27,863)	(35,379)	X	(63,242)	(104,618)
1.1 Deposits from central banks	-	X	X	-	-
1.2 Deposits from banks	(12,282)	X	X	(12,282)	(46,204)
1.3 Deposits from customers	(15,581)	X	X	(15,581)	(18,232)
1.4 Debt securities issued	X	(35,379)	X	(35,379)	(40,182)
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities measured at fair value	-	-	-	-	-
4. Other liabilities and funds	X	X	(11)	(11)	(3)
5. Hedging derivatives	X	X	-	-	-
6. Financial assets	X	X	X	(2,925)	(2,124)
Total	(27,863)	(35,379)	(11)	(66,178)	(106,745)
of which: interest expense relating to lease liabilities	(3,844)	-	-	(3,844)	(3,777)

1.4 Interest expense and similar charges: other information

1.4.1 Interest expense from financial liabilities in foreign currency

Interest expense amounts to € 13,016 thousand.

1.5 Spreads relating to hedge transactions

Item	Total 31/12/2020	Total 31/12/2019
A. Positive spreads on hedging transactions	171,713	168,364
B. Negative spreads on hedging transactions	(145,941)	(122,771)
C. Net spread (A-B)	25,772	45,593

Section 2 – Net fee and commission income/expense – Items 40 and 50

2.1 Fee and commission income: breakdown

Services/Amounts	Total 31/12/2020	Total 31/12/2019
a) guarantees given	4,209	4,277
b) credit derivatives	-	-
c) management, brokerage and advisory services	461,831	496,056
1. trading in financial instruments	10,265	7,652
2. currency trading	2,840	3,362
3. portfolio management	303,944	339,702
3.1. individual	92,272	105,452
3.2. collective	211,672	234,250
4. custody and administration of securities	3,197	2,725
5. custodian bank	-	-
6. placement of securities	77,812	68,548
7. order receipt and transmission	7,354	4,664
8. advisory services	12,079	12,519
8.1. related to investments	11,810	11,507
8.2. related to financial structure	269	1,012
9. distribution of third-party services	44,340	56,884
9.1. portfolio management	349	331
9.1.1. individual	349	331
9.1.2. collective	-	-
9.2. insurance products	42,536	50,167
9.3. other products	1,455	6,386
d) collection and payment services	87,455	80,077
e) securitisation servicing	-	-
f) factoring services	12,010	11,551
g) tax collection services	-	-
h) management of multilateral trading facilities	-	-
i) management of current accounts	108,740	104,597
j) other services	21,636	22,048
Total	695,881	718,606

A disaggregation of commissions by technical form is shown below, in line with the requirements of IFRS 15 par. 114. The main types of commission relate to (IFRS 15 par. 119):

- Individual and collective portfolio management: the performance obligation corresponds to € 5,239 thousand and is usually satisfied over time;
- Placement of securities: this regards commission at the time of placement of funds/SICAV collected, amounting to € 33,354 thousand;
- Provision of third party services: this regards acquisition commission relating to insurance policies amounting to € 6,510 thousand.

The Group receives different types of variable commission such as:

- Success Fees and retainer fees;
- Performance/Overperformance;
- Rappel.

These commissions are received when specific objectives are achieved, envisaged by contract and are recorded when the calculation of the variable amount becomes certain.

In Part L of the Explanatory notes to the consolidated financial statements, the disaggregation of Revenues by operating segment is illustrated.

2.2 Fee and commission expenses: breakdown

Services/Amounts	Total 31/12/2020	Total 31/12/2019
a) guarantees received	(724)	(894)
b) credit derivatives	-	-
c) management and brokerage services	(128,071)	(144,096)
1. trading in financial instruments	(1,506)	(1,315)
2. currency trading	-	-
3. portfolio management:	(14,658)	(20,677)
3.1 own portfolio	(1,462)	(1,903)
3.2 third party portfolio	(13,196)	(18,774)
4. custody and administration of securities	(2,499)	(2,724)
5. financial instruments placement	(13,032)	(23,529)
6. off-site distribution of financial instruments, products and services	(96,376)	(95,851)
d) collection and payment services	(38,261)	(24,648)
e) other services	(11,480)	(12,075)
Total	(178,536)	(181,713)

Section 3 – Dividends and similar income – Item 70

3.1 Dividends and similar income: breakdown

Items/Income	Total 31/12/2020		Total 31/12/2019	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	19	-	30	-
B. Other financial assets measured at fair value, as per mandatory requirements	-	-	-	-
C. Financial assets measured at fair value through other comprehensive income	454	-	228	-
D. Investments	-	-	-	-
Total	473	-	258	-

Section 4 – Net profit (loss) from trading – Item 80

4.1 Net profit (loss) from trading: breakdown

Transactions/Income	Unrealised profits (A)	Trading profits (B)	Unrealised losses (C)	Trading losses (D)	Net Profit (Loss) [(A+B)-(C+D)]
1. Financial assets held for trading	130	5,096	(17)	(438)	4,771
1.1 Debt securities	3	5,093	(1)	(169)	4,926
1.2 Equity securities	67	3	-	(257)	(187)
1.3 Units of UCITS	60	-	(16)	(9)	35
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	(3)	(3)
2. Financial liabilities held for trading	-	-	-	-	-
2.1 Debt securities	-	-	-	-	-
2.2 Deposits	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Financial assets and liabilities: exchange differences	X	X	X	X	23,022
4. Derivatives	93,697	155,310	(45,939)	(200,488)	(2,298)
4.1 Financial derivatives:	93,697	155,310	(45,939)	(200,488)	(2,298)
- On debt securities and interest rates	93,695	155,310	(45,935)	(200,488)	2,582
- On equity securities and stock indices	2	-	(4)	-	(2)
- On currencies and gold	X	X	X	X	(4,878)
- Other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges related to fair value option	X	X	X	X	-
Total	93,827	160,406	(45,956)	(200,926)	25,495

In the table above, results from trading in financial cash assets in foreign currency are indicated separately from those relating to foreign exchange activities.

Section 5 – Net profit (loss) from hedging – Item 90

5.1 Net profit (loss) from hedging: breakdown

Income/Amounts	Total 31/12/2020	Total 31/12/2019
A. Gains on:		
A.1 Fair value hedging instruments	169,606	251,258
A.2 Hedged financial assets (fair value)	52,851	231,698
A.3 Hedged financial liabilities (fair value)	427	24,906
A.4 Cash-flow hedging derivatives	-	15
A.5 Assets and liabilities denominated in foreign currency	-	-
Total gains on hedging activities (A)	222,884	507,877
B. Losses on:		
B.1 Fair value hedging instruments	(110,691)	(365,486)
B.2 Hedged financial assets (fair value)	(45,503)	(8,026)
B.3 Hedged financial liabilities (fair value)	(64,049)	(145,884)
B.4 Cash-flow hedging derivatives	-	-
B.5 Assets and liabilities denominated in foreign currency	-	-
Total losses on hedging activities (B)	(220,243)	(519,396)
C. Net profit from hedging activities (A - B)	2,641	(11,519)
of which: results of hedges on net positions	-	-

The Macro Fair Value Hedge accounting method was adopted to hedge the interest rate risk associated with the disbursement of fixed-rate and floating-rate mortgages with a “Cap” option, to hedge the interest rate risk related to demand deposits of customers. The Micro Fair Value Hedge accounting method was applied to hedge the interest rate risk for several fixed-rate securities held in the “HTCS” and “HTC” portfolios, and to hedge the interest rate risk related to several fixed-rate bonds classified under “debt securities issued”.

Hedging operations recorded a positive result in the period. In fact, the combined valuation of the balance sheet items subject to interest rate risk hedging and of the interest rate derivatives set in place as hedging reacted positively to changes in the level and slope of the interest rate curve recorded during the year.

Section 6 – Gains (Losses) on disposal or repurchase – Item 100

6.1 Gains (Losses) on disposal or repurchase: breakdown

Items/Income	Total 31/12/2020			Total 31/12/2019		
	Gains	Losses	Net profit (loss)	Gains	Losses	Net profit (loss)
Financial assets						
1. Financial assets measured at amortised cost	28,740	(12,084)	16,656	12,965	(1,333)	11,632
1.1 Loans to banks	-	-	-	-	-	-
1.2 Loans to customers	28,740	(12,084)	16,656	12,965	(1,333)	11,632
2. Financial assets measured at fair value through other comprehensive income	8,998	(2,950)	6,048	25,265	(13,221)	12,044
2.1 Debt securities	8,998	(2,941)	6,057	25,265	(13,221)	12,044
2.2 Loans	-	(9)	(9)	-	-	-
Total assets	37,738	(15,034)	22,704	38,230	(14,554)	23,676
Financial liabilities measured at amortised cost	-	-	-	-	-	-
1. Deposits from banks	-	-	-	-	-	-
2. Deposits from customers	-	-	-	-	-	-
3. Debt securities issued	3	-	3	93	-	93
Total liabilities	3	-	3	93	-	93

The trend of the aggregate also shows the disposals of the portfolio of bad loans, unsecured loans and mortgage loans, carried out in June and October 2020, while in September, a position classified as unlikely to pay was also disposed of. The transactions concerned a gross book value of approximately € 113.0 million, resulting in a net capital loss of approximately € 2.6 million.

The contribution of the finance area, which incorporates the profit recorded on the US security in the first quarter of 2020, was positive. The unique market conditions affected portfolio movements: in this regard, sales were carried out during the year.

Section 7 – Net result of other financial assets and liabilities measured at fair value through profit or loss – Item 110

7.2 Net change in the value of other financial assets and liabilities measured at fair value through profit or loss: breakdown of other financial assets measured at fair value, as per mandatory requirements

Transactions/Income	Unrealised profits (A)	Realised profits (B)	Unrealised losses (C)	Realised losses (D)	Net Profit (Loss) [(A+B)-(C+D)]
1. Financial assets	112	28	(442)	(15)	(317)
1.1 Debt securities	-	-	-	-	-
1.2 Equity securities	-	-	-	-	-
1.3 Units of UCITS	24	-	(437)	(3)	(416)
1.4 Loans	88	28	(5)	(12)	99
2. Financial assets: exchange differences	X	X	X	X	-
Total	112	28	(442)	(15)	(317)

Section 8 – Net value adjustments/recoveries – Item 130

8.1 Net value adjustments for credit risk from financial assets measured at amortised cost: breakdown

Transactions/Income	Value adjustments (1)			Recoveries (2)		Total 31/12/2020	Total 31/12/2019
	Stage 1 and 2	Stage 3		Stage 1 and 2	Stage 3		
		Write-offs	Other				
A. Loans to banks	(274)	-	-	198	-	(76)	(140)
- Loans	(15)	-	-	198	-	183	(140)
- Debt securities	(259)	-	-	-	-	(259)	-
of which: impaired loans acquired or originated	-	-	-	-	-	-	-
B. Loans to customers	(59,257)	(1,649)	(89,272)	627	45,683	(103,868)	(62,695)
- Loans	(58,006)	(1,649)	(89,272)	172	45,683	(103,072)	(62,654)
- Debt securities	(1,251)	-	-	455	-	(796)	(41)
of which: impaired loans acquired or originated	-	-	-	-	-	-	-
Total	(59,531)	(1,649)	(89,272)	825	45,683	(103,944)	(62,835)

The cost of credit deriving from analytical adjustments amounted to € 45.2 million, down by about 37% compared to December 2019.

Following the update of the AIRB models in 2019, the group conducted a similar update of the IFRS 9 risk parameters, instrumental in quantifying collective loan adjustments, configuring them so as to represent the current/expected economic situation in the short term, reflect the expected economic conditions in the short/medium term, and represent the envisaged long-term economic cycle. This configuration makes them suitable for calculating expected losses over the entire residual life of the financial instruments (lifetime estimates).

In this context and in consideration of the scenario of profound uncertainty that has emerged since the outbreak of the Covid-19 pandemic, Credem had already submitted to the Board of Directors, with reference to the situation in March 2020, a first update of the forecast risk parameters, taking into account the information available at the time.

Subsequently, in line with the credit strategies adopted during the emergency, the bank performed a further review of risk parameters, in compliance with the guidelines issued by the European Central Bank, as well as the instructions from other regulators, aimed at mitigating an excessively pro-cyclical application of IFRS 9 models and providing a realistic and sustainable representation of the cost of credit, taking into account the extraordinary nature of the situation, but above all the uncertainty about the evolution of the macroeconomic context.

The cost of credit takes into account a review of the short and long-term historical series, the update of the effective interest rate on performing positions in the portfolio, as well as the update of forward-looking forecast data, based on the scenarios provided by Moody's Analytics in April 2020 ("Calibration of Macroeconomic Scenarios IFRS 9 - 2020").

The IFRS 9 methodological framework is subject to continuous monitoring by the Group in order to assess its consistency with macroeconomic and portfolio developments on a quarterly basis.

8.1a Net value adjustments for credit risk related to loans measured at amortised cost subject to Covid-19 support measures: breakdown

Transactions/Income	Net value adjustments			Total 31/12/2020	Total 31/12/2019
	Stage 1 and 2	Stage 3			
		Write-offs	Other		
1. Loans subject to forbearance compliant with the GLs	(15,258)	(67)	(3,176)	(18,501)	-
2. Loans subject to other forbearance measures	(375)	-	(677)	(1,052)	-
3. New loans	(2,567)	-	(187)	(2,754)	-
Total	(18,200)	(67)	(4,040)	(22,307)	-

The table shows the details of the net value adjustments for loans, subject to “moratoriums” or other forbearance measures in place at the reporting date, or which constitute new liquidity granted through public guarantee mechanisms.

8.2 Net value adjustments for credit risk from financial assets measured at fair value through other comprehensive income: breakdown

Transactions/Income	Value adjustments (1)		Recoveries (2)		Total 31/12/2020	Total 31/12/2019	
	Stage 1 and 2	Stage 3		Stage 1 and 2			Stage 3
		Write-offs	Other				
A. Debt securities	(302)	-	-	1,427	-	876	
B. Loans	-	-	-	-	-	-	
- To customers	-	-	-	-	-	-	
- To banks	-	-	-	-	-	-	
of which: impaired, acquired or originated financial assets	-	-	-	-	-	-	
Total	(302)	-	-	1,427	-	876	

Section 9 – Profits/losses from contractual changes without derecognitions – Item 140

9.1 Profits (losses) from contractual changes: breakdown

This item shows a net negative balance of € 741 thousand, a profit of € 417 thousand and a loss of € 1,158 thousand following the adjustment made to the book values of the financial assets that reflect the changes made to contractual cash flows that do not give rise to derecognitions in the accounts.

Section 10 – Net premiums earned – Item 160

10.1 Net premiums earned: breakdown

Premiums from insurance	Direct business	Indirect business	Total 31/12/2020	Total 31/12/2019
A. Life business				
A.1 Gross premium written (+)	479,802	-	479,802	397,998
A.2 Reinsurance premiums paid (-)	(5,043)	X	(5,043)	(5,519)
A.3 Total	474,759	-	474,759	392,479
B. Non-life business				
B.1 Gross premium written (+)	-	-	-	-
B.2 Reinsurance premiums paid (-)	-	X	-	-
B.3 Change in gross value of premium reserve (+/-)	-	-	-	-
B.4 Change in provision for unearned premiums ceded to reinsurers (+/-)	-	-	-	-
B.5 Total	-	-	-	-
C. Total net premiums earned	474,759	-	474,759	392,479

Section 11 – Net other operating income/charges from insurance activities – Item 170

11.1 Net other operating income/charges from insurance activities: breakdown

Item	Total 31/12/2020	Total 31/12/2019
1. Net change in technical reserves	(192,286)	(95,260)
2. Claims settled during the year	(297,242)	(313,962)
3. Other operating income/charges from insurance activities	453	365
Total	(489,075)	(408,857)

11.2 Net change in technical reserves: breakdown

Net change in technical reserves	Total 31/12/2020	Total 31/12/2019
1. Life business		
A. Mathematical reserves	(192,777)	(95,644)
A.1 Gross annual amount	(193,256)	(97,141)
A.2 (-) Amount reinsured with third parties	479	1,497
B. Other technical reserves	491	384
B.1 Gross annual amount	491	384
B.2 (-) Amount reinsured with third parties	-	-
C. Technical reserves when investments risk is borne by the insurers	-	-
C.1 Gross annual amount	-	-
C.2 (-) Amount reinsured with third parties	-	-
Total "life business reserves"	(192,286)	(95,260)
2. Non-life business		
Change in other technical reserves of non-life business other than claims fund, net of amounts recovered from reinsurance	-	-

11.3 “Claims settled during the year”: breakdown

Charges for claims	Total 31/12/2020	Total 31/12/2019
Life business: expense relating to claims, net of reinsurers' portions		
A. Amounts paid	(299,706)	(319,203)
A.1 Gross annual amount	(303,384)	(322,064)
A.2 (-) Amount reinsured with third parties	3,678	2,861
B. Change in reserves for amounts to be disbursed	2,464	5,241
B.1 Gross annual amount	2,505	5,138
B.2 (-) Amount reinsured with third parties	(41)	103
Total life business claims	(297,242)	(313,962)
Non-life business: expense relating to claims, net of amounts recovered from reinsurers		
C. Amounts paid	-	-
C.1 Gross annual amount	-	-
C.2 (-) Amount reinsured with third parties	-	-
D. Change in recoveries net of amount reinsured with third parties	-	-
E. Change in claims reserves	-	-
E.1 Gross annual amount	-	-
E.2 (-) Amount reinsured with third parties	-	-
Total non-life business claims	-	-

Section 12 – Administrative costs – Item 190

The group was able to implement particularly flexible cost management as demonstrated by the reduction in administrative costs.

The reduction in costs did not concern personnel expenses, which remained substantially in line with the 2019 figure, but was rather facilitated by the ability to adapt to the new pandemic context, producing a proactive response. Of particular importance was the use of smart working as an immediate response to the spread of the pandemic, which contributed, together with careful monitoring of costs, towards an efficient use of resources.

12.1 Personnel expenses: breakdown

Type of expense/Amounts	Total 31/12/2020	Total 31/12/2019
1) Employees	(503,188)	(500,913)
a) wages and salaries	(364,902)	(366,241)
b) social security charges	(90,426)	(90,299)
c) severance pay	(5,669)	(19,923)
d) social security expenses	(55)	(500)
e) provision for staff termination indemnity	(500)	(1,508)
f) provision for pension fund and similar obligations:	(86)	(154)
- defined contribution	-	(154)
- defined benefit	(86)	-
g) contributions to external pension fund:	(20,190)	(5,580)
- defined contribution	(20,190)	(5,580)
- defined benefit	-	-
h) costs related to share-based payments	(2,747)	(2,499)
i) other employee benefits	(18,613)	(14,209)
2) Other staff	(6,321)	(5,862)
3) Directors and Statutory Auditors	(3,603)	(3,490)
4) Retired personnel	-	-
Total	(513,112)	(510,265)

In accordance with the instructions of Banca d'Italia Circular no. 262 dated 22 December 2005 (and subsequent amendments):

- "Personnel expenses" also include directors' and statutory auditors' fees and costs incurred for atypical employment agreements;
- the sub-item "Other staff" includes fees for coordinated employment agreements.

12.2 Average number of employees by category

	Total 31/12/2020	Total 31/12/2019
1) Employees	6,149	6,101
a) executives	174	173
b) middle managers	2,993	2,978
c) remaining staff	2,982	2,950
2) Other staff	28	29
Total	6,177	6,130

The average number of employees does not include directors and statutory auditors.
Part-time employees are usually considered at 50%.

12.4 Other employees benefits

This item includes meal vouchers, staff leaving incentives, other perks, costs of insurance policies taken out for employees, costs for professional refresher courses, etc.

12.5 Other administrative expenses: breakdown

Services/Amounts	Total 31/12/2020	Total 31/12/2019
Taxes	(108,543)	(107,269)
Stamp duties	(96,424)	(94,731)
Municipal real estate property tax	(2,847)	(2,750)
Other	(9,272)	(9,788)
Other expenses	(223,204)	(230,613)
Insurance	(2,584)	(2,528)
ATM	(815)	(1,070)
Supplies, stationery and printing	(8,563)	(7,497)
Training	(982)	(3,062)
Electricity	(5,308)	(5,887)
Rent expenses on property	(990)	(1,260)
Other property expenses	(10,991)	(9,731)
Info provider	(13,748)	(12,894)
Third party data processing	(60,464)	(57,028)
Office machines	(97)	(183)
Outsourced banking processing	(6,946)	(10,959)
Marketing	(8,490)	(14,313)
Personnel mobility	(5,208)	(10,181)
POS	(1)	(6,925)
Postage	(1,426)	(1,768)
Consultancy	(9,661)	(11,957)
Legal expenses for credit collection	(6,650)	(7,829)
Legal expenses	(5,013)	(2,628)
Other compensation to external professionals	(1,489)	(1,203)
Networks and interbank services	(2,252)	(2,359)
Telephone expenses	(6,004)	(6,004)
Transportation	(477)	(616)
Armoured car service and cash counting	(2,195)	(2,655)
Security	(4,407)	(4,228)
Surveys and information	(6,643)	(6,451)
Other expenses	(51,800)	(39,397)
Total	(331,747)	(337,882)

The costs relating to short-term leases amounted to € 227 thousand, the costs relating to low-value leases to € 37 thousand, while the costs relating to leases not included in the valuation of liabilities amounted to around € 2.4 million (non-deductible VAT and other services).

The item “Other expenses” also includes various extraordinary components:

- charges of € 18.5 million corresponding to the contribution due to the National Resolution Fund (€ 16.2 million in 2019); € 16.4 million of this amount, corresponding to 85%, is recognised, in statutory terms, under “other administrative expenses”. The remaining 15%, already paid, or € 2.1 million, is currently recognised, by way of “guarantee deposit”, under assets; against this last recognition, it was considered appropriate to envisage a specific allocation, of the same amount, to Provisions for Risks and Charges. With regard to the higher impact of these expenses, Banca d'Italia, in a letter dated 15 June last, requested an additional payment in the form of the additional contribution ex

post to the National Resolution Fund, amounting to € 4.4 million, for the 2018 year. The request, intended to meet the forthcoming financial needs of the National Resolution Fund, is based on Article 71 of EU Regulation no. 806/2014, which, with regard to the above mentioned ex post contributions, establishes the validity of the request and the maximum amount that can be requested in terms of annuities;

- charges of € 22.1 million (€ 14.6 million in 2019, recognised, in statutory terms, under “other administrative expenses”) as the ordinary annual contribution to the National Fund, established to assimilate the new funding mechanism envisaged by directive 2014/49/EU (DGSD).

Section 13 – Net provisions for risks and charges – Item 200

13.1 Net provisions for credit risk relating to commitments to disburse funds and financial guarantees given: breakdown

	Total 31/12/2020	Total 31/12/2019
Net provisions for risks for commitments to disburse funds and financial guarantees given	(5,789)	(619)
Reallocation in the income statement related to risks for commitments to disburse funds and financial guarantees given	1,028	119
Total	(4,761)	(500)

The abovementioned item included a provision of 15% of the contribution to the National Resolution Fund, already paid, equal to € 2.1 million, by way of “guarantee deposit”, whereas the remaining 85% was recognised in the item “Other administrative expenses”.

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

	Total 31/12/2020	Total 31/12/2019
Net provisions for risks caused by liabilities and revocations	(5,730)	(4,440)
Interest expenses from discounting reserve caused by liabilities and revocations	(19)	-
Reallocation in the income statement related to the provisions caused by liabilities and revocations	1,639	10,333
Other provisions	(6,669)	(21,191)
Reallocation in the income statement related to other provisions	2,064	516
Total	(8,715)	(14,782)

Section 14 – Net value adjustments to (recoveries on) property, plant and equipment – Item 210

14.1 Net adjustments to (recoveries on) property, plant and equipment: breakdown

Asset/Income	Depreciation (a)	Value adjustments on impairment (b)	Recoveries (c)	Net profit (loss) (a + b - c)
A. Property, plant and equipment				
1 For operational use	(41,054)	(102)	61	(41,095)
- Owned	(18,013)	-	-	(18,013)
- Rights of use acquired through leases	(23,041)	(102)	61	(23,082)
2. Held for investment purposes	(61)	-	-	(61)
- Owned	(61)	-	-	(61)
- Rights of use acquired through leases	(61)	-	-	-
3 Inventory	-	-	-	-
Total	(41,115)	(102)	61	(41,156)

Section 15 – Net value adjustments to (recoveries on) intangible assets – Item 220

15.1 Net value adjustments to intangible assets: breakdown

Asset/Income	Amortisation (a)	Value adjustments on impairment (b)	Recoveries (c)	Net profit (loss) (a + b - c)
A. Intangible assets				
A.1 Owned	(45,247)	-	-	(45,247)
- Generated internally by the company	(5,791)	-	-	(5,791)
- Other	(39,456)	-	-	(39,456)
A.2 Rights of use acquired through leases	-	-	-	-
Total	(45,247)	-	-	(45,247)

The investment policy also continued in 2020; in fact, compared to the previous year, there was an increase in amortisation of 4.5%.

Investments are underway to sustain projects and to develop the service model towards a bank that is increasingly an omni-channel one. In addition to the investments addressed to the development of the IT system's infrastructure, the digitalisation of processes and legislative compliance, a wide number of projects have been undertaken, particularly as regards wealth management, consumer finance, payment systems, as well as monitoring the credit quality of private and corporate customers.

Section 16 – Other operating income/charges – Item 230

16.1 Other operating charges: breakdown

	Total 31/12/2020	Total 31/12/2019
Amortisation on improvements on third party assets	(3,504)	(3,737)
Contingent liabilities	(13,135)	(10,382)
Other charges	(5,406)	(12,037)
Total Other charges	(22,045)	(26,156)

16.2 Other operating income: breakdown

	Total 31/12/2020	Total 31/12/2019
Rental income	712	2,669
Recovery taxes	100,947	99,585
Contingent assets	9,130	8,192
Other income	35,435	39,189
Total Other income	146,224	149,635

“Recovery taxes” includes the recovery of the higher charge resulting from the calculation of stamp duty on securities portfolios.

“Other income” also includes recoveries of “Fast track loan approval process commission”, regulated by paragraph 2 of Italian Law dated 23 December 2011.

Section 17 – Gains (Losses) on equity investments – Item 250

17.1 Gains (Losses) on equity investments: breakdown

Income/Sectors	Total 31/12/2020	Total 31/12/2019
1) Jointly owned companies		
A. Income	6,469	4,266
1. Revaluations	6,469	4,266
2. Gains on disposal	-	-
3. Write-backs	-	-
4. Other income	-	-
B. Charges	(636)	(636)
1. Write-downs	-	-
2. Value adjustments on impairment	-	-
3. Losses on disposal	-	-
4. Other charges	(636)	(636)
Net profit (loss)	5,833	3,630
2) Companies subject to significant influence		
A. Income	620	59
1. Revaluations	620	59
2. Gains on disposal	-	-
3. Write-backs	-	-
4. Other income	-	-
B. Charges	-	-
1. Write-downs	-	-
2. Value adjustments on impairment	-	-
3. Losses on disposal	-	-
4. Other charges	-	-
Net profit (loss)	620	59
Total	6,453	3,689

For jointly owned companies, “Income, 1. Revaluations” includes the gains of Credemassicurazioni consolidated using the equity method, while “Charges” includes the value adjustments to the amortisation of Credemassicurazioni’s VIF; for companies subject to significant influence, “Income, 1. Revaluations” includes, inter alia, the gains of Blue Eye Solutions and the Santamaria Group, consolidated using the equity method.

Section 20 – Gains (Losses) on disposals of investments – Item 280

20.1 Gains (losses) on disposals of investments: breakdown

Income/Sectors	Total 31/12/2020	Total 31/12/2019
A. Property	(127)	53
- Gains on disposal	62	125
- Losses on disposal	(189)	(72)
B. Other assets	2,214	1,940
- Gains on disposal	2,265	2,079
- Losses on disposal	(51)	(139)
Net profit (loss)	2,087	1,993

Section 21 – Tax expense (recovery) on income from continuing operations – Item 300

20.1 Tax expense (recovery) on income from continuing operations: breakdown

Income/Sectors	Total 31/12/2020	Total 31/12/2019
1. Current tax (-)	(70,226)	(106,644)
2. Changes of current tax of previous years (+/-)	474	77
3. Decreases in current tax for the year (+)	-	-
3.bis Decreases in current tax for the year due tax credit related to Italian Law no. 214/2011 (+)	-	-
4. Changes in deferred tax assets (+/-)	(9,022)	2,773
5. Changes in deferred tax liabilities (+/-)	27,977	8,717
6. Tax expense for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(50,797)	(95,077)

Current tax has been recorded on the basis of the tax legislation in force, including the provisions of Italian Legislative Decree no. 38/2005.

21.2 Reconciliation of the theoretical tax charge with the effective tax charge

The global tax burden on pre-tax profit is around 20.0%.

Art. 110 of Italian Law Decree no. 104 of 14 August 2020 (the so-called “August” decree) reintroduced, as part of the provisions that provide for the remeasurement (even if only statutory) of the company assets in the 2020 financial statements, the option, for companies that prepare their financial statements according to the IAS/IFRS accounting standards, to realign the differences between tax and book values relating to property, plant and equipment and intangible assets (excluding commodities) and fixed investments.

A substitute IRES and IRAP tax of 3% is applied to the higher realigned values, to be paid in a maximum of three annual instalments within the deadline for the payment of the balance of income taxes; it is also necessary to “encumber” an equity reserve (in a deferred tax regime) for an amount equal to the realigned differences net of the substitute tax.

The values relating to “business assets and equity investments” resulting from the financial statements for the year ending as at 31 December 2019 and identified (as already occurred for previous similar regimes) according to the provisions relating to the revaluation/realignment regime of Italian Law no. 342/2000 can be realigned. In this sense, divergences that are ordinarily created as a result of the use of the fair value criterion in the measurement of assets (for example, for real estate) or those originating from fiscally neutral extraordinary transactions may be realigned.

The group has taken steps to align the tax values to the higher statutory values of the business assets recognised in the financial statements as at 31 December 2020, for an amount of approximately € 96 million, and already present in the financial statements for the year ended as at 31 December 2019, and the realignment concerned wholly-owned properties, known as floor/ceiling, which, upon first-time application of the IAS international accounting standards, were measured at fair value in order to allow the separation of the value of the land from the value of the buildings. The external appraisal was divided between the value of the land and the value of the buildings above. For tax purposes, these higher carrying amounts could not be taken into account, continuing with the depreciation plan based on the tax rates already recognised in the past.

As a result of this realignment, the substitute tax of 3%, amounting to € 2.8 million, was accounted for and the related deferred taxes allocated as a result of the revaluation carried out upon first-time application of the international accounting standards were reversed. The net positive effect on the income statement amounted to € 22.8 million.

In addition, the 2021 Budget Law, Article 1, paragraph 83, Italian Law no. 178/2020 extended this possibility also to the goodwill resulting from the current financial statements as at 31 December 2020 with the payment of a substitute tax of 3% that allows, also for tax purposes, the higher statutory values recorded in the financial statements to be recognised instead of the lower tax values. The financial statements include goodwill, which never had tax relevance, referring to the mergers carried out in previous years for € 23.5 million. As a result of this realignment, the substitute tax of 3%, amounting to € 0.8 million, was accounted for, and the related deferred tax assets were recognised, in accordance with application no. 1 of February 2009 of the Italian Accounting Body. The net positive effect on the income statement amounted to € 4.5 million.

Deferred tax assets were recognised, relating to the goodwill subject to realignment, of € 7.6 million, in accordance with application no. 1 of February 2009 of the Italian Accounting Body, and deferred taxes relating to properties subject to realignment were released, amounting to € 28.1 million.

Section 25 – Basic Earnings per share (Basic EPS)

25.1 Average number of ordinary shares – diluted capital stock

	31/12/2020	31/12/2019
Fair value of shares	4.34	4.93
Net profit	201,729	201,230
Weighted number of shares	331,563	331,070
Potential number of shares	-	-
Potential number of diluted shares	331,563	331,070
Earnings per share	0.61	0.61
Diluted earnings per share	0.61	0.61

IAS 33 requires that both basic and diluted earnings per share (EPS) be shown, and that the calculation method be specified for both values. The basic earnings per share derives from the profit or loss attributable to holders of ordinary shares divided by the weighted average number of ordinary shares outstanding during the period.

The fair value of the shares is the weighted average of 2020.

Following the power exercised by the insurance company Credemvita – belonging to the financial conglomerate of a predominantly banking nature – to postpone the first adoption of IFRS 9 (Deferral Approach) until 2022, the following new Income Statement items have been added to the consolidated financial statements as required by the update of Banca d'Italia Circular no. 262: Income Statement:

- “Item 115. Net profit (loss) from financial assets and liabilities pertaining to insurance companies pursuant to IAS 39”, which includes all income statement components attributable to the insurance subsidiary with the exception of net premiums and the balance of other operating income/charges from insurance activities, which converge under their own item, of commissions that are represented together with similar bank items and “net value adjustments (recoveries) pertaining to insurance companies pursuant to IAS 39”, which are recognised in item 135, opened for this very purpose;
- Income Statement: “Item 135. Net value adjustments (recoveries) pertaining to insurance companies pursuant to IAS 39”, which includes any adjustments/recoveries.

The details are provided below:

Income Statement item 115 – Net profit (loss) from financial assets and liabilities pertaining to insurance companies pursuant to IAS 39

Interest income and similar revenues: breakdown

Item/Type	Debt securities	Loans	Other transactions	Total 31/12/2020	Total 31/12/2019
1. Financial assets held for trading	-	-	-	-	-
2. Financial assets measured at fair value	4,335	-	-	4,335	3,512
3. Financial assets available for sale	17,108	-	-	17,108	23,296
4. Financial assets held to maturity	25,523	-	-	25,523	22,999
5. Loans to banks	-	1	-	1	-
6. Loans to customers	-	-	-	-	-
7. Hedging derivatives	-	-	-	-	-
8. Other assets	-	-	-	-	-
Total	46,966	1	-	46,967	49,807

Interest expense and similar charges: breakdown

Item/Type	Payables	Securities	Other transactions	Total 31/12/2020	Total 31/12/2019
1. Deposits from central banks	-	-	-	-	-
2. Deposits from banks	-	-	(86)	(86)	(26)
3. Deposits from customers	-	-	-	-	-
4. Debt securities issued	-	(2,619)	-	(2,619)	(2,318)
5. Financial liabilities held for trading	-	-	-	-	-
6. Financial liabilities measured at fair value	-	-	-	-	-
7. Other liabilities and funds	-	-	(40)	(40)	(42)
8. Hedging derivatives	-	-	-	-	-
Total	-	(2,619)	(126)	(2,745)	(2,386)

Dividends and similar income: breakdown

Items/Income	Total 31/12/2020		Total 31/12/2019	
	Dividends	Income from units of UCITS	Dividends	Income from units of UCITS
A. Financial assets held for trading	-	-	-	-
B. Financial assets available for sale	-	15,491	-	14,515
C. Financial assets measured at fair value	2,426	2,002	3,012	1,629
D. Investments	-	-	-	-
Total	2,426	17,493	3,012	16,144

Net profit (loss) from trading: breakdown

Transactions/Income	Unrealised profits (A)	Trading profits (B)	Unrealised losses (C)	Trading losses (D)	Net Profit (Loss) [(A+B)-(C+D)] 31/12/2020
1. Financial assets held for trading	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-
1.2 Equity securities	-	-	-	-	-
1.3 Units of UCITS	-	-	-	-	-
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	-	-	-	-	-
2.1 Debt securities	-	-	-	-	-
2.2 Deposits	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Financial assets and liabilities: exchange differences					(10,355)
4. Derivatives	128	5,688	(15)	(1,047)	4,189
4.1 Financial derivatives:	128	5,688	(15)	(1,047)	4,189
- On debt securities and interest rates	-	-	-	-	-
- On equity securities and stock indices	128	5,688	(15)	(1,047)	4,754
- On currencies and gold	-	-	-	-	(565)
- Other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
Total	128	5,688	(15)	(1,047)	(6,166)

Gains/(losses) on disposal/re-purchase: breakdown

Items/Income	Total 31/12/2020			Total 31/12/2019		
	Gains	Losses	Net profit (loss)	Gains	Losses	Net profit (loss)
Financial assets						
1. Loans to banks	-	-	-	-	-	-
2. Loans to customers	-	-	-	-	-	-
3. Financial assets available for sale	82,260	(50,376)	31,884	82,026	(57,129)	24,897
3.1 Debt securities	64,566	(5,609)	58,957	69,854	(6,108)	63,746
3.2 Equity securities	-	-	-	-	-	-
3.3 Units of UCITS	17,694	(44,767)	(27,073)	12,172	(51,021)	(38,849)
3.4 Loans	-	-	-	-	-	-
4. Financial assets held to maturity	-	-	-	-	-	-
Total assets	82,260	(50,376)	31,884	82,026	(57,129)	24,897
Financial liabilities						
1. Deposits from banks	-	-	-	-	-	-
2. Deposits from customers	-	-	-	-	-	-
Debt securities issued	-	(493)	(493)	-	-	-
Total liabilities	-	(493)	(493)	-	-	-

Net change in the value of financial assets and liabilities measured at fair value: breakdown

Transactions/Income	Unrealised profit (A)	Realised profits (B)	Unrealised losses (C)	Realised losses (D)	Net profit (loss) [(A+B)-(C+D)]	
					31/12/2020	31/12/2019
1. Financial assets	205,649	37,740	(23,186)	(89,196)	131,007	335,391
1.1 Debt securities	9,549	834	(411)	(1,368)	8,604	7,081
1.2 Equity securities	17,050	1,032	(9,857)	(6,165)	2,060	25,826
1.3 Units of UCITS	179,050	35,874	(12,918)	(81,663)	120,343	302,484
1.4 Loans	-	-	-	-	-	-
2. Financial liabilities	-	-	(91,945)	-	(91,945)	(289,025)
2.1 Debt securities	-	-	-	-	-	-
2.2 Deposits from banks	-	-	-	-	-	-
2.3 Deposits from customers	-	-	(91,945)	-	(91,945)	(289,025)
3. Financial assets and liabilities: exchange differences	X	X	X	X	-	-
4. Credit and financial derivatives	-	-	-	-	-	-
Total	205,649	37,740	(115,131)	(89,196)	39,062	46,366

Item 135 of the income statement – Net value adjustments (recoveries) pertaining to insurance companies pursuant to IAS 39

Net value adjustments on impairment of financial assets available for sale: breakdown

Transactions/Income	Value adjustments (1)		Recoveries (2)		Total 31/12/2020	Total 31/12/2019
	Specific		Specific			
	Write-offs	Other	A	B		
A. Debt securities	-	-	-	-	-	-
B. Equity securities	-	-	-	-	-	-
C. Units of UCITS	-	(411)			(411)	(1,203)
D. Loans to banks	-	-		-	-	-
E. Loans to customers	-	-	-	-	-	-
F. Total	-	(411)	-	-	(411)	(1,203)

PART D

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

The detailed information envisaged by IAS 1 on the consolidated statement of comprehensive income is provided (amounts gross and net of taxation, reversals to profit and loss, etc.)



DETAILED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Item	31/12/2020	31/12/2019
10. Profit (Loss) for the year	201,729	201,310
Other income without reversal to income statement	(1,244)	(2,073)
20. Equity securities measured at fair value through other comprehensive income:	148	1,832
a) change in fair value	148	1,832
b) transfers to other components of shareholders' equity	-	-
30. Financial liabilities measured at fair value through profit or loss (changes to own credit rating):	-	-
a) change in fair value	-	-
b) transfers to other components of shareholders' equity	-	-
40. Coverage of equity securities measured at fair value through other comprehensive income:	-	-
a) change in fair value (hedged instrument)	-	-
b) change in fair value (hedging instrument)	-	-
50. Property, plant and equipment	-	-
60. Intangible assets	-	-
70. Defined benefit plans	(1,883)	(5,210)
80. Non-current assets and groups of assets held for sale and discontinued operations	-	-
90. Share of valuation reserves of equity investments valued at equity	-	-
100. Income tax relating to other income without reversal to income statement	491	1,305
Other income with reversal to income statement	46,056	181,529
110. Hedge of foreign investments:	-	-
a) changes in fair value	-	-
b) reversal to income statement	-	-
c) other changes	-	-
120. Exchange differences:	-	-
a) change in value	-	-
b) reversal to income statement	-	-
c) other changes	-	-
130. Cash flows hedges:	19,064	52,076
a) changes in fair value	17,670	50,328
b) reversal to income statement	1,394	1,748
c) other changes	-	-
of which: results on net positions	-	-
140. Hedging instruments (elements not designated)	-	-
a) change in value	-	-
b) reversal to income statement	-	-
c) other changes	-	-
150. Financial assets (other than equity securities) measured at fair value through other comprehensive income	41,626	145,722
a) changes in fair value	69,501	147,990
b) reversal to income statement	(32,300)	(2,268)
- adjustments for credit risk	(1,147)	(764)
- realised gains/losses on impairment	(31,153)	(1,504)
c) other changes	4,425	-
155. Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	6,771	70,053
a) changes in fair value	4,154	33,667
b) reversal to income statement	2,617	36,386
- value adjustments on impairment	-	-
- realised gains/losses	2,617	36,386
c) Other changes	-	-
160. Non-current assets and groups of assets held for sale and discontinued operations:	-	-
a) changes in fair value	-	-
b) reversal to income statement	-	-

CONSOLIDATED FINANCIAL STATEMENTS – EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

c) other changes	-	-
170. Share of valuation reserves of equity investments valued at equity:	939	2,220
a) changes in fair value	939	2,220
b) reversal to income statement	-	-
- value adjustments on impairment	-	-
- realised gains/losses	-	-
c) other changes	-	-
180. Income tax relating to other income with reversal to income statement	(22,344)	(88,542)
190. Total other income	44,812	179,456
200. Comprehensive income (Item 10+190)	246,541	380,766
210. Consolidated comprehensive income attributable to non-controlling interests	129	-
220. Consolidated comprehensive income attributable to Parent Company	246,412	380,766

PART E

INFORMATION ON RISKS AND RELATIVE HEDGING POLICIES

Introduction

Summary of the organisation of the Bank's risk management, of the relative processes and of the key functions.

The Credem Group has always strived to achieve a high level of quality in risk management, considered it fundamental and as a strategic objective in order to:

- guarantee the safeguarding of company capital and ensure the utmost effectiveness and efficiency in the value creation process;
- integrate the risk-return dimension into the decisional and operational processes of the different business areas;
- ensure the consistency of operational processes with internal strategies, policies and regulations.

The governance bodies and the specialist functions involved in the process of risk control and management are:

- The Parent Company Board of Directors (body with strategic supervisory responsibility) which assesses all types of risk at consolidated level and approves risk assumption, broken down by the Companies and Business Units identified as relevant in terms of contribution to the Group's risk, through a detailed Risk Appetite Framework process, taking into account the business model and Strategic Plan and in compliance with ICAAP and the internal control system. Credem considers the possibility that, within the identified time horizon, the risk may undergo significant changes in the presence of adverse market trends and/or characterised by high volatility of the different risk factors; to take account of this and ensure, in every situation, that the Group has sufficient margins to operate within the Risk Capacity, thresholds of tolerance to the Risk Appetite (Risk Tolerance) are defined; they represent the maximum change that the Credem Group is willing to accept in stress scenarios.
- The Executive Committee (body with management responsibility), which establishes operating thresholds in line with the risk appetite, manages the implementation of the RAF and authorises surpassing the risk appetite within the limit of the tolerance threshold.
- The Board of Statutory Auditors is responsible for control and supervision.

The Boards of Directors of the individual companies adopt the objectives established by the Board of Directors of the Parent Company in relation to the company mission and risk profile, and approve the structure of the internal operating limits and powers within the scope set by the Board of Directors of the Parent Company.

The Management of the individual companies conduct their business operations in compliance with the powers and operating limits for risk assigned by the respective Boards of Directors.

GROUP RISK COMMITTEE (GRC). The Committee plays a supporting role - which entails consultation, examination and the formulation of proposals and opinions - with a view to assisting the Board of Directors in its assessments and decisions relating to risk management and to the internal control system, to guarantee the adequacy of the same in terms of the characteristics of the business and of the Group in relation with the development of the organisation and its operations, as well as the relevant legislative scenario. The Committee is also responsible for overseeing matters of sustainability related to the performance of Group activities,

including therein supervision of the process of production of the Non-Financial Disclosure pursuant to Italian Legislative Decree no. 254/2016.

With particular reference to the duties regarding risk management and control, the Committee performs the following support functions:

- it assesses the effectiveness of the assumptions and the analyses contained within the Recovery Plan and in its subsequent updates, proposed by the ERISK department, and expresses a reasoned opinion regarding its subsequent submission to the BoD;
- it assesses, based on information from the Group Recovery Management Committee (hereinafter Recovery Committee), the actual existence of a state of recovery, expressing a reasoned opinion in this regard, with a view to its subsequent presentation to the BoD;
- it assesses, based on information from the Recovery Committee, the actual existence of conditions to close the state of recovery, expressing a reasoned opinion in this regard, with a view to its subsequent presentation to the BoD;
- it carries out the evaluation and expresses its opinion in order for the Board of Directors to define and approve the Risk Appetite Framework (known as RAF, with particular reference to the evaluation of the risk objectives and of the tolerance thresholds);
- it monitors the performance of the risk profile assumed as a whole in relation to the Risk Appetite objectives and to the tolerance thresholds in respect of all the indicators in the Group's RAF;
- it expresses an opinion on the proposals of the EC regarding risk measurement, control and analysis methods for calculating the internal capital;
- it acknowledges the assessments related to the relevance analysis and analyses any new risk;
- it evaluates the policies and practices for assessing the business operations (e.g. fair value policy and guidelines and criteria for the write-down of loans), verifying that the prices and conditions of transactions with customers are consistent with the business model and risk strategies;
- without prejudice to the responsibilities of the Group Remuneration Committee, collaborating with the latter in order to ensure that the remuneration policy reflects and promotes sound and effective risk management; in this context, it verifies the consistency of the short- and medium-term incentive systems with the RAF;
- without prejudice to the responsibilities of the Group Remuneration Committee, it also takes part in defining the individual objectives of the Head of the Internal Audit Function and in the subsequent accounting recognition.

The GROUP RISK MANAGEMENT COMMITTEE, whose mission is to inform the Executive Committee (EC) on the monitoring of the overall risk taken by each company and of its monitoring within the strategies and methods defined by the Parent Company in the Risk Appetite Framework. Periodically, the Committee:

- monitors the overall risk taken by each company both at management level and with regard to the supervisory absorptions, with reference to the Tableau de Bord for monitoring the Risk Appetite Framework (known as "Level I indicators" or "RAF indicators"). With regard to Credembanca only, this analysis is conducted at individual Business Unit level;
- as part of the monitoring activities defined in accordance with the prudential supervisory rules laid down by the European Central Bank (known as SREP process - Supervisory Review and Evaluation Process), reports the Level II indicators or "SREP indicators", namely operational indicators for which the RAF does not provide a definition of appetite and tolerance, but whose purpose is to strengthen monitoring and control activities. The list of these indicators is included as an attachment to the Credem Group Recovery Planning and Risk Appetite Regulations, where for each of them the Governance Committee or internal department is indicated, which analyses,

within its scope, their development in operational terms. The calculation methodologies for each indicator are shown in the manual “Risk Indicators”: the Risk Management department is responsible for its dissemination and updating. On at least an annual basis, in parallel with the planning processes, approves the alert thresholds and assesses consistency with the Appetite and Tolerance values of first-level RAF indicators;

- also analyses any internal or external event that can considerably change the risk profile and therefore request the competent bodies, through the Risk Officer (hereinafter RO), to carry out additional revisions of the RAF;
- analyses the consistency of the conditions applied to customers depending on the assumed risk;
- assesses specific analyses proposed by the RO that are considered examples of the trends of the various risk factors;
- makes valuations in accordance with the responsibilities assigned to Senior Management by regulations on Risk Management, particularly those relating to internal models.

The GROUP RECOVERY MANAGEMENT COMMITTEE was established to provide support to the Board of Directors in the management of the recovery states regulated by the Recovery Plan, and has advisory and decision-making powers. Under the Plan, the Committee is tasked with the following functions if the recovery thresholds are surpassed:

- it analyses situations of tension or crisis based on supporting elements contributed by the various company functions, coordinated by the Risk Officer, who ensures they are suitably presented to the committee;
- it assesses the effective existence of the recovery state, formalising the outcome of the analyses conducted
- within a reasoned proposal to be submitted to the approval of the BoD, after obtaining the opinion of the Group Risk Committee (hereinafter Risk Committee);
- once a recovery state has been confirmed, it assesses the possibility of promptly activating recovery options, with the relative preparatory actions, assessing the feasibility and effectiveness of bringing the indicators of the Recovery Plan back to within their defined limits;
- with the support of the relevant company functions, it proposes the recovery options within a Plan of Action to the BoD, together with the actions to be taken;
- once a state of recovery has been confirmed:
 - either coordinates internal and external communication;
 - or coordinates the preparation of the disclosure for the Supervisory Authority, to be submitted to the approval of the Risk Committee and the BoD;
- it assesses whether the conditions to close the state of recovery have been fulfilled and makes a reasoned proposal to the BoD in this regard, obtaining the opinion of the Risk Committee;
- through its Secretary the Risk Officer, it monitors the implementation of the recovery options and whether the indicators of the Recovery Plan have returned to within the envisaged thresholds.

The Committee is also informed by the BoD if the Tolerance threshold is surpassed, as it is considered a warning threshold for the Recovery indicators and may be convened whenever there are significant signs of deterioration.

The aim of the Risk Management department, by means of the Risk Officer and of his/her collaborators, is to:

- ensure the measurement and precise and future control of the exposure to different types of risk, in particular, market, credit, interest rate, liquidity and operational risk;

- monitor capital absorptions;
- propose to the Management Body and to General Management, with the other competent company functions, the definition and revision of the operating limits in line with the allocated capital;
- follow regulation developments and provide the Supervisory Authorities with the information required by the regulations in force in relation to internal models;
- develop and maintain risk measurement, management and control systems compliant with the regulations.

The Risk Management department is required to be authoritative, given the position it holds within the organisation and its mandate, and to be professional, understood as possessing technical expertise and adequate experience in this position. The same is guaranteed organisational solutions able to preserve the independence of the business units entrusted with the assumption and economic management of risk, specifically:

- the hierarchical placement within the Enterprise Risk Management Service (ERISK) under the management body (Executive Committee);
- independent access to Management Bodies;
- an incentive system based on the Key Performance Indicators relating to control objectives, not dependent on the bank's economic results;
- envisaging situations of conflict of interest when assigning competences;
- the option to request the adoption of reliable information systems to adequately identify, measure and monitor all of the risks assumed or to be assumed in the various operating areas and to set in place suitable reporting procedures at the various management levels;
- expressing opinions, in advance, on significant transactions that are the responsibility of the department and being consulted with regard to those assigned to Management Bodies;
- the option to assess proposals on guidelines and regulations regarding the assumption of risk in advance, including penetration into new markets and subscribing to new products.

To better illustrate the activities performed, the organisational structure of the Risk Management department is shown below, along with a description of its main areas of activity.

The missions of the Group Risk Management department offices include:

- The Risk Officer: the department coordinator;
- The "Operational and Credit Risks" (OCR) office, which assists Credembanca and the Credem Group in defining the operating principles of the Group Risk Management model and of the structure of operating limits and delegated powers, overseeing, in accordance with the Risk Appetite Framework, their functioning, compliance and development, restricted to the assessment of operating and credit risks, particularly with reference to the development of the AIRB and IFRS 9 models.
- The Rating Office (RTO) analyses and resolves on the counterparty rating and override proposals on Credembanca and Credemleasing customers forming part of the "Corporate Regulatory Unit" ensuring the supervision of the entire assignment process. It develops, oversees and maintains the model for the automatic and judgemental assignment of the rating for the Corporate Regulatory Unit in its quantitative, qualitative and group membership components.
- The "Internal Model Validation" (IMV) office, which submits the rating system, and more generally, the validated internal models to an internal validation process in order to verify on an on-going basis, repetitively, the reliability of results and to maintain consistency with legislative provisions, with company operating requirements and with the development of the reference market. It checks the suitability of the method-based and process choices and of the impairment activities in light of the IFRS 9. With regard to the risk parameters

for internal models and IFRS 9 impairment, it conducts periodic backtesting activities. It also performs second-level checks on loan performance monitoring activities. It co-ordinates activities relating to the risk model and carries out the self-assessments. It assists the Risk Officer to draw up the Self-Assessment of the ICAAP and ILAAP processes.

It oversees and validates the valuation models for pricing, fair value parameters and levels in accordance with the criteria established in the Group's Fair Value Policy, also drawn up in line with legislative and accounting provisions in force.

- The "RAF and Stress test Integration" (RSI) office, which provides support to the Risk Officer and the Group Risk Committee in quantifying and managing exposure and the relative Risk Tolerance, through the application of transversal stress scenarios, to all risks classed as significant in the RAF, with specific regard to their integration, in accordance with the relevant internal regulations. It assists the Risk Officer in defining the criteria to identify the Most Significant Transactions and in drawing up the relative preventive opinions, in accordance with the relevant internal regulations. It assists the Risk Officer in the preparation, updating and management of the Recovery and Resolution Plan. For the Risk Management department, it coordinates the activities requested by the ECB and interfaces with ERA.
- The "Finance and Asset Management Risk" (FAR) office, which assists Credembanca and the Credem Group in defining the operating principles of the Group Risk Management model and of the structure of operating limits and delegated powers, overseeing their functioning, compliance and development, as regards the financial risks of its own portfolio and of third-party portfolios in the form of units of UCITS and portfolio management.
- The "Data Risk Management" (DAM) office, which assists Credembanca and the Credem Group in defining the operating principles of the Group Risk Management model, overseeing the functioning, compliance and development of the same, restricted to Data Management processes (Data Quality, Data Reporting, Data Modelling and Solution).
- The "Insurance Risks" (RAS) office, which contributes to the definition, monitoring and assessment of the risk management system of Credemvita, including through support and advisory services to other company functions. It coordinates assessment activities, related to products in the portfolio, the launch of new products and strategic decisions. It ensures, in line with business objectives, risk assessment and mitigation at a level deemed acceptable by the company, based on its own Risk Appetite Framework. It also assists Credembanca and the Credem Group in defining the operating principles of the Group Risk Management model and of the structure of operating limits and delegated powers, overseeing, in accordance with the Risk Appetite Framework, their functioning, compliance and development, restricted to the insurance risks.

Description of the bank's risk culture and the manner in which its circulation is guaranteed.

The Board of Directors is responsible for the system of internal control, in compliance with specific supervisory regulations for banks issued by Banca d'Italia. Credito Emiliano's Board of Directors has drawn up the guidelines for internal control systems, to guarantee that the main company risks are adequately identified, managed and monitored.

The guidelines of the internal control system, represented by a set of rules, procedures and organisational structures, which seek to permit, through an adequate process of identification, measurement, management and monitoring of the main risks, business activities to be conducted in a sound and prudent manner, are drawn up by the Board of Directors, which assesses their adequacy in terms of the characteristics of the business, with the assistance of the specific

Group Risk Committee and of the company's control functions.

Credito Emiliano's internal control and risk management system is structured as follows:

- "line" controls on the proper performance of daily activities, conducted by the same functions that carry out the activities;
- controls set in place by the heads of operating/accounting administrative units, or incorporated into procedures;
- controls on the management of credit risk (including interest rate risk), market and operational risks entrusted to a specific autonomous Risk Management department, which is also responsible for the liquidity risk profile related to strategic risk;
- second-level controls, which seek to monitor measures to counter and mitigate non-compliance risk, including measures against money laundering and terrorism financing;
- controls associated with the process of financial disclosures;
- internal auditing activities, conducted by the Audit Service.

The Credem Group conducts the ICAAP at least once a year. The objective of the ICAAP process entails an independent assessment by the Credem Group, at consolidated level, of its current and future capital adequacy in relation to the risks to which it is exposed and company strategies.

In accordance with the ICAAP process and business objectives, the Board of Directors of the Parent Company assesses all types of risk at consolidated level and approves risk assumption broken down by Company and Business Unit identified as relevant in terms of contribution to the Group's risk, through a detailed Risk Appetite Framework process.

The RAF considers the possibility that the expected risk profile may undergo significant changes in the presence of adverse market trends and therefore Risk Tolerance thresholds are defined, which represent the maximum change that the Credem is willing to accept in stress scenarios.

Moreover, the Risk Management Committee reports the Level II indicators, i.e. those operational indicators for which the RAF does not provide the definition of appetite and tolerance, but aimed at strengthening the monitoring and control activities. The calculation methodologies for each indicator are shown in the manual "Risk Indicators": the Risk Management department is responsible for its dissemination and updating.

During the year, the Board of Directors, with the assistance of the Group Risk Committee, assessed the functioning of the internal control system, considering it to be, on the whole, adequate, efficient and implemented effectively with regard to the characteristics of the bank and of the Group. This opinion takes into account the plan for the implementation of the improvement measures identified following audits conducted by the Control Functions.

The Head of the Audit Service, as the Head of the Internal Audit department, has been appointed by the Board of Directors, on the proposal of the Group Risk Committee assisted by the Appointments Committee, following the approval of the Board of Statutory Auditors.

The Board, after receiving the opinion of the Group Remuneration Committee, pursuant to the Banca d'Italia provisions in this regard, approves the remuneration policy for the Heads of all control functions. Incentive policies are drawn up in line with the tasks assigned, taking care to avoid situations of conflict as regards the areas of the company they monitor.

For further details, please refer to the document entitled "Annual report to the shareholders' meeting regarding the Group remuneration policy" and in particular the paragraph entitled "Remuneration of heads of the company's control functions". The Credem Group has envisaged specific procedures for the coordination of the various parties involved in the internal control and risk management system. Coordination is guaranteed as follows:

- the Board of Directors and the Board of Statutory Auditors receive reports produced by third- and second-level functions as well as by the relative board and interfunctional committees. Note that the Board of Statutory Auditors is also informed during individual meetings of the Committees and of the Board of Directors;
- the reports produced by second-level functions are sent to the Internal Audit department;
- internal control matters and the relative risks are analysed by the Group Risk Committee, which also records the participation of the Head of the Audit Service, including in the role of Secretary (and therefore informed of all matters discussed by the Committee), the participation of the Head of the Risks Service, the participation of the Manager responsible for preparing the company's financial reports and of the Head of the Compliance and Anti-Money Laundering department, the latter in meetings relevant to their areas, and the potential attendance of any additional guests, whose participation is deemed appropriate, as already indicated previously.

The monitoring of critical issues and supervisory actions occur on a quarterly basis via a single Tableau de Bord for all FACs submitted to the Group Risk Committee and sent to the Supervisory Authority.

With a view to maintaining a high level of attention to matters regarding the management of risks relating to banking activities, for several years now the Credem Group has organised training courses at all levels of the organisation, including management bodies. In the latter regard, the following Board of Directors training sessions were held in 2020 regarding:

- Cyber security in the Credem Group;
- Product Governance in the Credem Group;
- Environmental, Social and Governance (ESG) in the Credem Group and principles of Circular Economy (EC);
- Innovation tour - first event and second event;
- General Data Protection Regulation - GDPR.

Impacts deriving from the Covid-19 pandemic

Following the spread of Covid-19 and the consequent situation of strong macroeconomic and financial uncertainty, many measures were launched by the Government to support this exceptional moment of crisis (Liquidity decree, moratoriums). The change in the situation and therefore in the reference scenarios and in the Metrics and Regulatory Regulations made it necessary to revise the Risk Appetite and/or Risk Tolerance values of some RAF indicators; in particular for the Capital, Credit and Profitability areas and an indicator relating to Liquidity.

In general, the revised values take into account the evidence of the monthly forecasting process (baseline and adverse) and incorporate additional volatility factors that are specific to the various indicators.

The new Metrics and Regulatory Regulations instead concern:

- Calculation of the Risk-Weighted Asset (RWA) for the Equity Portfolio;
- public interventions aimed at mitigating the Covid-19 emergency (Moratoriums and State Guarantees; ECB recommendations regarding procyclicality in the IFRS 9 impairment calculation methods; CRR II: the European Commission's proposal to bring forward the date of application of the extension for the SME and the 35% weighting of salary-backed loans).

The revised Risk Appetite values were calibrated taking into consideration the levels and the relative volatility of the baseline scenario used in the monthly forecast process.

In defining the adverse scenario, the material vulnerabilities, the business model, the risk profile and the external conditions that the institution must face were considered.

In addition to the revision of the Risk Appetite Framework thresholds, in April, the Executive Committee authorised the increase in the frequency of the monitoring process of a significant set of RAF indicators from quarterly to monthly.

On 3 June 2020, the communication from the ECB arrived for the launch of the monthly “Covid-19 Reporting”.

The information requested concerns three areas:

- Overview and Operational continuity (Balance Sheet and P&L, Regulatory Requirements, Operational Continuity and Risk)
- Credit Risk (Moratoriums and State Guarantees, Committed lines)
- & Counterparty Risk

There is no specific template on Liquidity risk as most of the information is already reported monthly.

The information requested was provided on a monthly basis for the entire second half of 2020 and within the twenty-sixth day from the reference date. The request for this information was also confirmed for the year 2021.

In addition, during the meetings of the Risk Management Committee, the periodic and project activities on the management of Covid-19 impacts were summarised and presented in detail, broken down on the basis of impact and type of risk:

- Credit Risk: Rating management in the context of Covid-19 (CREDI), DLIQUI Project, IFRS 9 Project, CRRII Project Opening, Moratoriums
- Liquidity Risk: Checks on the impact of moratoriums, higher drawdowns of credit lines, collateral and securities PFT, operational deposits model and new LCR DA reporting (already envisaged before Covid-19), use of IRB models approved by the Supervisory Authority for monetary policy purposes
- Market Risk: Monthly Forecasting, Challenging Scenarios (BL and Adverse)
- Insurance risk: SCR monthly monitoring, Early Warning monitoring, sensitivity analysis and stress test, Liquidity monitoring
- Wealth Management: Management of overdrafts and authorisations for managed products, Metrics review and customer adequacy limits

The requirements of the Supervisory Body are also summarised for these activities.

Section 1 - Risks associated with the consolidation of accounts

This section provides information on the companies included in the consolidation of accounts.

Quantitative information

Credit Quality

A.1.1 Breakdown of financial assets by portfolio and credit quality (book values)

Portfolios/quality	Bad loans	Unlikely to pay	Non-performing past due exposures	Performing past due exposures	Other performing exposures	Total
1. Financial assets measured at amortised cost	125,548	252,743	42,562	282,434	41,959,554	42,662,841
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	3,493,407	3,493,407
3. Financial assets measured at fair value	-	-	-	-	-	-
4. Other financial assets measured at fair value, as per mandatory requirements	-	-	-	75	17,766	17,841
5. Financial assets held for sale	-	-	-	-	-	-
Total 31/12/2020	125,548	252,743	42,562	282,509	45,470,727	46,174,089
Total 31/12/2019	174,597	275,524	40,802	513,483	36,798,245	37,802,651

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

Portfolios/quality	Non-performing				Performing			Total (net exposure)
	Gross exposure	Overall value adjustments	Net exposure	Total partial write-offs*	Gross exposure	Overall value adjustments	Net exposure	
1. Financial assets measured at amortised cost	876,447	455,598	420,849	1,050	42,351,601	109,609	42,241,992	42,662,841
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	3,495,667	2,260	3,493,407	3,493,407
3. Financial assets measured at fair value	-	-	-	-	X	X	-	-
4. Other financial assets measured at fair value, as per mandatory requirements	-	-	-	-	X	X	17,841	17,841
5. Financial assets held for sale	-	-	-	-	-	-	-	-
Total 31/12/2020	876,447	455,598	420,849	1,050	45,847,268	111,869	45,735,240	46,174,089
Total 31/12/2019	1,024,675	533,748	490,927	4,213	37,356,760	54,486	37,311,728	37,802,655

Portfolios/quality	Assets with evident poor credit quality		Other assets
	Accumulated losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	18,871
2. Hedging derivatives	-	-	273,385
Total 31/12/2020	-	-	292,256
Total 31/12/2019	-	-	378,813

CONSOLIDATED FINANCIAL STATEMENTS – EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

B. Disclosure of structured entities (other than companies for securitisation)

A structured entity is an entity structured in such a way that the voting rights or similar rights are not considered relevant to establish control, as in the case in which voting rights only refer to administrative activities and the relevant activities are conducted by means of contractual arrangements.

For special purpose vehicles and investment funds, control is considered to exist when the Group has contractual rights to manage the entity's significant activities and is exposed to the entity's variable returns.

B.1 Consolidated structured entities

The Group has no consolidated structured entities.

B.2 Structured entities not consolidated in the accounts

The Group holds the entire capital of two mutual funds managed by Euromobiliare Asset Management SGR, a company belonging to the Group. Considering the composition of the capital of these funds, essentially comprising financial assets, and given that the reporting benefits resulting from consolidation of said funds are less than the costs necessary to provide said information (chap. 3, qc38 of "The Conceptual Framework for Financial Reporting"), these mutual funds are not consolidated on a line-by-line basis.

The above-mentioned investments are recorded under the item "Financial assets held for trading" in the amount of € 2.3 million as at 31 December 2020 (€ 2.3 million as at 31 December 2019); as these amounts are recorded at fair value, their consolidation would not have had any impact on the Parent Company's profit or on the Group's shareholders' equity.

There are no active or passive relations and there are no forms of contractual arrangement relating to the financial support of these funds.

In 2020, fund management activities continued to focus exclusively on the organised disposal of the assets and the consequent recovery of the resulting liquidity, in order to maximise the sale value of the assets in question. In fact, the funds have been managed with a view to disposal since the beginning of 2009, while in 2010 the funds formally filed a liquidation procedure.

The statements of said mutual funds as at 31 December 2020 are provided as attachments to the consolidated financial statements.

B.2.1 Structured entities not consolidated for supervisory purposes

The Group does not have structured entities not consolidated for supervisory purposes.

B.2.2 Other structured entities

The Group has no other structured entities.

Section 2 - Risk of prudential consolidation

This section provides information on the companies included in prudential consolidation (companies belonging to the Banking Group).

1.1 Credit risk

1. General aspects

Historically, the Credem Group has always considered high credit quality to be a cornerstone of its capital stability and a strategic factor in the value creation process. The fundamental principles on which the disbursement of credit is based are as follows:

- consistency with the notion of domestic commercial bank when assessing the customer's business activity, its size and its geographic location with respect to the Credem network;
- the technique adopted for risk assessment, which provides an objective and coherent basis for granting credit, in line with the purpose and the financial needs of customers, with their capital and financial structures and with their relative historic and prospective repayment capacities;
- the quality and adequacy of information, in accordance with the data governance principles defined by the Credem Group, which represent a fundamental requirement for the objective valuation of a risk profile, briefly expressed as a rating;
- the fractioning of credit risk pursued by diversifying the customer portfolio with a selective approach consistent with the capital and risk/return objectives;
- consolidated assessment of counterparties at Group level, in order to obtain a coherent and non-fragmented perception of the risk profile of each individual or Group counterparty;
- the attention paid to formal correctness, before credit is disbursed, also through the support of specialist departments of the Group which provide any necessary technical or other advice;
- attentive management of customer relationships by front offices and the checks conducted by dedicated central offices guarantee the correct application of credit lines, the continuous updating of customer information, the prompt identification of non-performing loans and the adoption of the measures needed to recover the relative exposures;
- the adoption of rigorous policies to classify and hedge non-performing loans and receivables, preferring, where possible, policies aimed at settlements, reaching out-of-court agreements with counterparties, therefore containing recovery costs.

2. Credit risk management policies

2.1 Organisational aspects

At present, the Credit Service of Credito Emiliano is organised into three areas of responsibility:

- Credit Strategy and Monitoring, which establishes the objectives and the guidelines for credit development as a business line in accordance with objectives and the group RAF, carries out the controls on the credit chain, draws up internal regulations and defines the main tools and processes and models supporting the entire credit process (subject to the allocations of responsibility to the ERISK service in relation to the models falling under the IRB scope);
- Credit Management, which through decision-making activities and technical advice to commercial offices and the Companies in the scope, ensures that the risk profile of loans over time is consistent with the defined strategy objectives, monitoring the proper repayment of the anomalous positions;
- Non-performing Credit, which handles the management and recovery of the non-performing loans.

Credit Strategy guidelines are approved by the specific Group Credit Strategy Committee and resolved upon by the Board of Directors. With regard to the NPL scope, the Group's Non Performing Credit Committee defines specific strategic and monitoring actions, including with regard to the performance of the relevant SREP indicators,

Credit risk management also involves, with regard to their respective areas of competence, the processes of responsibility of the Group ERISK Service:

- The Risk Appetite Framework: in which tolerances and appetites are defined for the indicators relating to credit risk both in terms of performing loans and non-performing loans;
- Internal Rating Management System, in particular the Rating Office for assigning rating to counterparties falling within the Corporate Regulatory, Operating and Credit Risks Unit for the gauging of the parameters and for the responsibility of the Retail Rating System and the validation function for confirmation.

The provisions introduced by reference regulations for adopting internal models and subsequent amendments were therefore systematically acknowledged by Credito Emiliano S.p.A. as an opportunity to improve risk management and increase the value generated for shareholders, thanks to its historical asset credit quality as well as the widespread and consolidated use of rating instruments in the assessment, disbursement, monitoring and pricing of loans.

2.2 Management, measurement and control systems

Credit assessment and disbursement activities are differentiated on the base of the type of customer. More specifically, for the corporate segment, an “expert” system is in place to guide formulation of the loan proposal and forms the basis of the rating system. This method is based on an analysis of the economic-equity items of the financial statements supported by an evaluation of cash flows and data from the Automated Interbank Risk Service, as well as qualitative assessments of competitive positioning, business risks and belonging to the Group.

Investments in technology to support and increase “automatic” and development mechanisms continue, also with a view to Openbanking.

Among the methods supporting origination, we find the Maximum Credit that can be Granted (MAC), which is the maximum credit line level automatically attributable to a private counterparty. In particular, 2020 saw the fine-tuning of the MAC on the SME sector, to encourage a broader and more efficient approach to the segment, making it available on the Instant platforms.

For the Small Business segment, as part of the same general assessment method, differentiations were applied in order to give greater weight to information in terms of performance and data from the Automated Interbank Risk Service, which provide an important contribution to the predictive capacity of default.

Automated approval systems are used for the Retail Regulatory Function (small business procedure and small enterprise procedure) and for the Corporate Regulatory Function (Small Business Enterprises procedure) for proposals subject to “Weighted Agreement” that do not have distinctive issues as regards autonomy.

A rating system has been developed for the small business and private consumer segment, specifically adjusted for this type of customer to support the approval process of transactions.

Moreover, for all Bank customers, an internal Loss Given Default (LGD) model is in place, which assesses the potential loss given the counterparty's default, taking into consideration the counterparty type, amount of exposure, technical form and any guarantee backing the position.

All of the systems are integrated directly into the loan proposal. At present, the new Electronic Loans Procedure is operational for all private and corporate managers. This platform enabled the quality and efficiency of the preliminary loan examination and approval process and of ratings to be significantly improved.

A fundamental credit governance pillar is also represented by the assignment “ad personam” of delegated powers, after assessing fundamental elements of the

decision-making individual, such as expertise, results achieved in credit management and disbursement and training undertaken.

Delegated powers are based, for Credembanca only at present, on the “Weighted Agreement” indicator, which, by allocating weights to the individual components of the position assigned, identifies the level of risk in accordance with policies and historical default data.

The office that sets and controls credit limits is supported by a specific Group Credit Committee, which establishes, among other things, the main Credit Limit on which the Policy is based, which is the “Maximum Exposure Threshold” (MET), namely the maximum credit risk that the Group intends to undertake vis-à-vis a counterparty (or group of related parties) including the exposures resulting from securities. The definition of this threshold is based on Group Eligible Capital and Supervisory thresholds. The Committee is also responsible for reporting positions which, following specific decisions, exceed the defined thresholds. Exceeding the “Maximum Exposure Threshold” is classified as a “Most Significant Transaction” pursuant to the 15th update dated 2 July 2013 of Circular no. 263 of 27 December 2006.

Credem Group has determined that the identification of the governance bodies is a prerequisite for risk management from a consolidated perspective:

- Parent Company BoD: responsible for defining the general risk management and risk appetite guidelines, approving internal regulations that also govern the structures of specific limits;
- BoDs of the individual companies adopt the objectives established by the Parent Company BoD in relation to the company mission and risk profile;
- Executive Committee (hereinafter EC): management body of the Parent Company;

in addition, specialist functions have been set up within the Parent Company, and in particular:

- Group Risk Committee (hereinafter also Risk Committee);
- Risk Management Committee;
- The Risk Management department, which is part of the Enterprise Risk Management Service (ERISK).

The Risk Management Department is composed of both the Head of the Risk Management Department (known as the Risk Officer), identified as the head of the ERISK Service, and three different areas:

- Credit, Operations, and Rating Management area;
- Finance and Insurance area;
- Validation, Stress Test, and Data Management area.

At portfolio level, periodic analyses and monitoring are carried out by the Risk Management department.

The Group Risk Committee plays a supporting role - which entails consultation, examination and the formulation of proposals and opinions - with a view to assisting the Board of Directors in its assessments and decisions relating to risk management and in general to the internal control system, to guarantee the adequacy of the same in terms of the characteristics of the business and in relation to the development of the organisation and its operations, as well as of the relevant legislative scenario.

In particular, the Risk Management department allows the Board of Directors, assisted by the Group Risk Committee and the Board of Directors of the Company (within its scope), to carry out an appropriate assessment for deciding:

- the Risk Appetite Framework (with a special reference to the assessment of the risk objectives and tolerance thresholds) ensuring that the implementation is consistent with the risk objectives and the tolerance thresholds approved;
- the quarterly performance of the risk profile assumed as a whole in relation to the Risk Appetite objectives and to the tolerance thresholds in respect of all the indicators in the Group’s RAF.

On 2 October 2015, Banca d’Italia authorised the Credem Group to use the IRB Advanced method (PD, LGD and EAD parameters) from 30 September 2015 to quantify the capital requirement against customer credit risk classified under the Corporate and Retail supervisory function of Credito Emiliano and Credemleasing.

As regards internal models, the Risk Management department allows the Board of Directors, assisted by the Group Risk Committee and the Board of Directors of the Company (within its scope), to carry out an appropriate assessment for deciding:

- the compliance of the internal models with the instructions envisaged by the prudential regulations subject to the opinion of the Board of Statutory Auditors;
- the risk parameters related to the internal models used subject to the opinion of the validation function;
- the criteria for identifying the Most Significant Transactions (MST) and approving the related annual reporting.

Specifically, with reference to the credit risk for the activities required by prudential regulations, the Risk Management department via the Operational and Credit Risks office:

- carries out all the activities required from this office by the “Internal Rating Management System” Regulations;
- carries out management activities concerning the quantification of the credit risk in support of other functions, also with reference to transactions with associated parties and verifying the adequacy of the assessments made on non-performing loans.

Moreover, the Internal Model Validation office:

- validates the internal models as required by the “Internal Rating Management System” Regulations and the Group Risk Management Regulations;
- checks the monitoring of the loan performance.

2.3 Methods used to measure expected losses

As already illustrated in part A of these Explanatory notes to the consolidated financial statements, the IFRS 9 provides criteria for measuring expected losses that are broken down into three increasing levels of credit deterioration. Financial instruments are grouped into three stages (categories or buckets), based on credit risk and the increase in credit risk between initial recognition and the reporting date of the financial statements. In detail:

- Stage 1: performing financial instruments that did not undergo a significant increase in their risk level following initial recognition, or that had a low level of risk at the measurement date (low credit risk scope). In this case, a value adjustment is defined equal to the expected loss within the next 12 months of the residual life of the instrument.
- Stage 2: performing financial instruments that did not undergo a significant increase in their risk level following initial recognition and which do not have a low level of risk at the measurement date. In this case, an adjustment is defined equal to the expected loss over the entire residual life of the instrument (lifetime expected losses).
- Stage 3: impaired financial instruments, which show objective evidence of impairment. The value adjustment is analytically defined and covers the expected loss over the entire residual life of the loan (lifetime expected losses).

In general, the allocation rules for the three stages defined by Credem are based on the main elements provided by the internal rating system as well as on the main credit deterioration indicators monitored by Credem for the management of risk.

Credito Emiliano identifies the presence of a significant increase in credit risk (SICR) as a deterioration of at least 2 classes in the counterparty’s rating from the time of initial recognition. At the same time, rating classes that are comparable to the “investment-grade” category are considered low-risk profiles; exposures that at the measurement date fall into these categories are classified by the relevant internal application in stage 1, without the need to check for any deterioration in creditworthiness following initial recognition (so-called low credit risk exemption).

Furthermore, the presence of forbearance measures or continuous past due of more than 30 days is considered an objective sign of a deterioration in creditworthiness; therefore, financial instruments displaying such signs are classified directly in stage 2 without assessing the simultaneous presence or absence of a significant increase in credit risk or adherence to a low-risk profile.

To identify non-performing loans, and their allocation in the stage 3 risk bucket, Credem refers to the internal definition of non-performing loans governed by the “Group Credit Policy” regulation. This regulation specifies that the categories of non-performing loans are considered “default” in compliance with the relevant supervisory provisions of Banca d’Italia (Circular no. 272 of 30 July 2008 “Accounts Matrix”, Sec. B) Chapter II, “Credit Quality” - 13th update of 23 December 2020) listing the criteria and characteristics required for each category. The default definition includes the following categories, which represent default states of increasing severity:

- past-due and/or overdue non-performing exposures (PS);
- unlikely to pay (IP);
- bad loans (Z).

For the financial instruments allocated in stage 3, value adjustments are defined on an “expert” basis in relation to evidence of management and recovery of non-performing loans: for each problem/non-performing loan, a percentage of coverage is identified that is suitable to represent the expected losses in the residual life of the loan, in relation to the analysis of significant characteristics such as: type of credit product, amount of credit exposure, ageing of the deterioration state, presence of supporting guarantees (type of guarantee and level of “loan to value” coverage).

For financial instruments allocated to stages 1 and 2, expected losses are calculated by loan categories that are similar in terms of credit risk. In particular, with each asset containing similar characteristics in terms of credit risk, the following are associated:

- a probability of default (PD);
- a Loss Given Default (LGD) that is also commensurate with the type of financing, i.e. the technical form, guarantee type or other relevant factors;
- an Exposure at Default (EAD).

In general, the risk parameters adopted by the Group to determine value adjustments are based on the same assumptions and estimation techniques as those used for internal models validated to quantify the capital requirement for credit risk using the IRB Advanced method (PD, LGD and EAD parameters). Unlike the latter, which are defined using a through-the-cycle approach and include adverse macroeconomic conditions (downturn recession period), the parameters adopted to determine value adjustments in accordance with IFRS 9 are based on a precise (so-called “point in time”) and forward-looking logic; so as to be able to represent the current and expected macroeconomic situation in the short to medium term. Therefore, they are estimated by taking historic data into consideration, where trends and correlations with credit risk have been identified, both forecast indicators of expected events as well as forecasts on the performance of the macroeconomic cycle.

Hence, value adjustments are calculated by assessing a range of possible results so as to reflect a target amount weighted in relation to the probability of occurrence for the different scenarios. Specifically, the Group considers three scenarios of increasing severity, and projects the trend on risk parameters adopted to measure expected losses, so that they reflect the macroeconomic conditions expected from these scenarios. The techniques used to condition the macroeconomic cycle are consistent with the Group's approach to conducting stress testing exercises conducted by European supervisory bodies:

- methods of conditioning the probability of default (PD) cycle, which combine assumptions of changes in the counterparty's creditworthiness (i.e. changes in the valuation of future ratings associated with the counterparty) with assumptions of changes in the probability of default associated with each risk profile (adoption of so-called internal “satellite models”, which express the relationship between the probability of default and the main macroeconomic factors);
- methods of conditioning the cycle of loss given default (LGD), which combine assumptions of changes in the level of credit deterioration (i.e., transfers between different default states) and assumptions of changes in the level of coverage of

guarantees supporting the loan, thereby affecting the ability to collect and the amount of loss recognised in the event of default.

In general, the detailed criteria followed to determine the value adjustments for each stage are governed by the internal policies “Policy for the write-down of loans” and “Policy for the write-down of securities”; updated and submitted for approval by the Board of Directors on at least an annual basis. In 2020, the “Guidelines and criteria for the write-down of loans of the Credem Group” were updated and refined following the changes introduced in 2019, due to the analyses of the historic trend of write-downs applied up until the end of the previous year.

Changes due to Covid-19

As part of the crisis due to the Covid-19 pandemic which broke out in 2020, the Group adopted the instructions of the various regulators on the application of accounting standard IFRS 9 on the classification of financial instruments and related measurement of expected losses.

In particular, the Group mainly acted on the methodology for determining the IFRS 9 risk parameters dedicated to performing exposures, the main drivers for the determination of provisions on performing loans, without changing the current framework for the classification of exposures in the 3 stages envisaged by the regulations. This approach made it possible to both manage the pro-cyclical nature of the ongoing emergency situation, as specifically requested by the European Central Bank (i.e. ECB) with specific letters of 1 April and 4 December 2020, and to continue to promptly detect any deterioration in credit quality, accompanied by an increase in the associated expected loss. This section is structured as follows:

- Assessment of the significant increase in credit risk (SICR);
- Measurement of expected losses.

As described in detail below in the document, the first section is dedicated to illustrating the rationale that led the Group to maintain its staging approach to financial instruments unchanged, also describing the relationships of this classification activity with the measures put in place to facilitate the repayment of the debt by the Group within the current emergency context.

The second section, on the other hand, is dedicated to an analytical description of the changes made by management in relation to the IFRS 9 measurement models, together with the assumptions underlying the aforementioned interventions.

Assessment of the significant increase in credit risk (SICR)

As stated above, the IFRS 9 framework in use by the Group relating to the staging of performing financial instruments was maintained unchanged in the context of the Covid-19 emergency. The approach adopted is based on an analytical classification principle, i.e. based on the analysis of individual positions. The staging drivers used are:

- Measurement of the Significant Increase in Credit Risk (i.e. SICR) by measuring the change in the rating at the reference date with respect to the origination date of the position: in the event of a worsening delta equal to or greater than 2 notches on the rating master scale⁵, the position is automatically classified as stage 2. Otherwise, the position is classified as stage 1. This criterion is of a relative nature, providing for a comparison with the credit situation recorded when the loan was disbursed;
- Backstop criterion on days past due: in the event of detection of 30 or more days of continuous past due, the position is automatically classified as stage 2;
- Backstop criterion on forbearance measures: in the event of a forbore performing classification, the position is automatically classified as stage 2.

It should be noted that the 2 notch worsening threshold was not changed in the context of the Covid-19 emergency, and this is applied indistinctly regardless of the portfolio/segment to which it belongs or the rating class of the position under

⁵ If the rating at the reference date is included in one of the first 4 classes, the position is automatically maintained in stage 1 by virtue of the so-called *Low Credit Risk Exemption*.

analysis.

In this context, as per regulatory indications, the granting of moratorium measures in support of creditors in compliance with the guidelines of the European Banking Authority (i.e. EBA) do not automatically result in the classification as forborne performing and, consequently, in stage 2. However, regardless of whether or not support measures are granted, the SICR is assessed on a monthly basis as per the IFRS 9 Framework in force on all positions falling within the scope of the IFRS 9. Therefore, the potential emergence of a SICR for the purpose of classification in the various stages is also assessed on the positions subject to moratorium whether or not compliant with the EBA guidelines.

With regard to positions subject to moratorium measures in general (which constitute a rather limited fraction of the overall portfolio), regardless of whether or not they comply with the EBA guidelines, it is believed that, despite these measures to facilitate repayment of the debt neutralise the backstop criterion relating to the days past due at least in part, the SICR criterion relating to the measurement of the rating delta with respect to origination is, in any case, able to intercept the underlying phenomena of deterioration in credit quality, especially through the prospective qualitative component of the FRC rating.

Specifically, the expected trends referring to the sector of economic activity and the economic impacts deriving from interim financial statements are valued through the qualitative component of the rating. In addition, it should be noted that the timing of the rating review was increased for Corporate customers (expiry of the validity of the rating reduced compared to the 12 months envisaged by the ordinary policy where deemed necessary by the Rating Office), which include the vast majority of the moratoriums granted, and maintained unchanged for Retail customers, for which the granting of moratorium measures is limited. In addition, it should be noted that the backstop criterion relating to days past due has always contributed minimally to the steps to stage 2 compared to the SICR criterion, which was historically the main driver (over 86% in December 2019).

In line with the above, the moratorium measures that do not comply with the EBA guidelines and that generate a reduction in the value of the receivable of no more than 1% automatically result in classification as forborne performing, and consequently at stage 2.

Measurement of expected losses

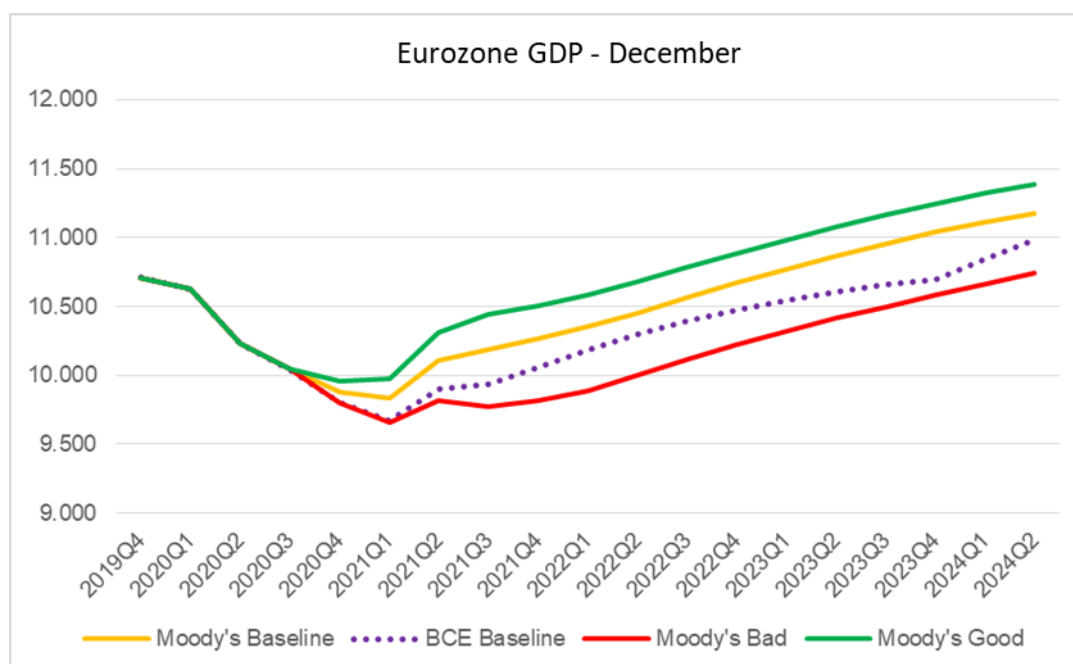
Definition of the scenario

The scenarios are provided by the external provider Moody's. In detail, three Scenarios are identified: Baseline (as indicated by Moody's), Bad and Good (respectively identified as Scenarios S3 and S1 of the same supplier). For these different scenarios, the relative probabilities of occurrence are also provided, which are used to weigh the resulting different ECL estimates and to reach the overall estimate.

Following the recommendations received from the ECB in the letter of 1 April 2020, Institutions are required to ensure the sustainability and correctness of the Scenarios in use with respect to the forecasts provided quarterly by the European Central Bank. In this regard, starting from June 2020, monitoring and comparison activity was carried out between the data published by the ECB and the scenarios provided by the provider Moody's the previous quarter (i.e. the most recent Moody's scenarios available at the date of release of the ECB scenario), verifying their substantial assimilability.



In this context, the Group confirmed the use of the provider Moody's envisaged by the current IFRS 9 framework, also in light of the failure to provide, as part of the ECB projections, the probability of occurrence of the scenarios and all the variables necessary for the input into the Group's satellite PD and Prepayment models. With regard to the ECB delivery in December (shown below), the comparison relating to the aforementioned monitoring clearly shows that the so-called Good scenario is well above the ECB forecasts, which are instead intermediate with respect to the Baseline and Bad scenarios for the entire projection period.



In light of the comparison, and in line with the aforementioned recommendations received from the regulator, it was therefore decided to recalibrate the weighting of the scenarios, defining a more severe alternative weighting that seems more sustainable and consistent with the ECB forecasts: 0% Good, 60% Bad, 40% Baseline.

Adaptation of models and overlays

The quantification of ECLs is based on:

- the application of scenarios provided by the external provider, and aligned with ECB forecasts, to the satellite models developed internally;
- the application of the effects of the scenarios (i.e. shifts) to the migration matrices including the PDs and the Prepayment rates, and the adoption of the Markov approach and the survival analysis approach to quantify the PDs and the Prepayment rates respectively with a view towards forward-looking lifetime;
- the integration of forward-looking approaches also in the LGD through the incorporation of forward-looking information on the performance of the real estate market and application of the shifts to the Danger Rate in line with that carried out for the PDs.

These rules were identified with a view towards minimising discretionary interventions in the quantification of the loan loss provisions.

In the Covid-19 context, some adjustments to the models (overlay factors) were defined and implemented to take into account the effects related to the extraordinary nature of the macroeconomic context that occurred and the measures to support the economy issued by the Government, not directly incorporated in the current methodological framework, to ensure a realistic estimate and mitigate excessive procyclical effects, as requested by the Supervisory Authority, deriving from the components of the IFRS 9 framework strongly linked to the expected macroeconomic situation, which will not necessarily produce negative effects thanks to the measures introduced.

These adjustments include the following elements.

- A stabilisation of macroeconomic forecasts during the application phase of the satellite models: in order to avoid significant changes between quarters, not representative of changes in portfolio risk but of the specific impacts deriving from the satellite models (and in particular due to the lag provided by the models, applied to a sudden change in the scenario), the shift applied to PD (and Danger Rate) was calculated, for the first year, as a percentage change between the default rate observed in December 2019 (date of update of the default rates that determine the PD PiT before application of the shift from scenario) and the one projected to

June 2022, while for the following years the rates projected to June 2023 and June 2024, respectively, were used. For consistency, this approach was also applied to the IFRS 9 Prepayment models.

- The incorporation of the effect of the moratoriums on the PD values (“moratorium corrective”): in order to incorporate the effects of the support measures relating to the moratoriums in the impairment estimates, a specific corrective was defined that takes into account the impossibility of a shift towards objective default for past due beyond 90 days (i.e. Past Due default status) of credit lines for which a moratorium was granted;
- The inclusion of specific forward-looking elements by sector (corporate customers) and by level of capitalisation (private customers) on PD values: the construction of the corrective factor is based on the identification of customers for whom it is expected that - in consideration of belonging to economic sectors not impacted by the Covid-19 emergency (corporate customers) or the significant amounts of assets held with the Group (private customers) - they will be able to overcome the crisis period without particular repercussions. Therefore, for the latter⁶, the negative effects of the macroeconomic scenario are not considered.
- The introduction of a corrective factor to avoid a “double-counting” effect of the forward-looking component on the PD values relating to the Corporate segments: this corrective factor aims to neutralise the double-counting effect of the forward-looking effect expected on the Corporate segment due to the inclusion of estimated elements:
 - both through the incorporation of Moody's macroeconomic scenario in the forward-looking PD estimates, like the other segments (as already described);
 - both through the qualitative module of the FRC Corporate rating system, characterised by the use of forecasts on the macroeconomic situation in order to determine the score to assign to the various counterparties subject to assessment.
- The sterilisation of the expected Prepayment rates: it is believed that, within the current context, the historical average data relating to the phenomenon of early repayments of instalment loans, even if projected on the basis of current macroeconomic scenarios, are not representative. Since it is very difficult to predict the phenomenon in light of the current situation and the uncertain continuation of measures to support the real economy, it was decided to set the expected Prepayment rates at zero, effectively excluding this variable from the calculation of the IFRS 9 expected losses on performing instalment loans.

Sensitivity analysis of scenarios

The information relating to the average values of the main macro-economic and financial indicators used in the scenarios, relating to the three-year period 2021-2023 is provided below. It should also be remembered that the comparative analysis of the latter with the Scenario provided by the ECB resulted in the following alternative weighting: 0% Good, 60% Bad, 40% Baseline.

The actual reference value is shown for each indicator (in this case December 2019) in absolute terms, the value of the same variables in the Baseline scenario and the percentage change with respect to it of the scenarios designated as adverse and favourable for each of the 3 years in the time horizon in which the standard requires a forward-looking approach to be adopted for estimates of ECL.

⁶ Companies included in the “agricultural businesses”, “basic commodities”, “chemical and pharmaceutical” and “electro-technical and IT” sectors and private individuals identified as “affluent” and “private” as part of the internal commercial segmentation, respectively.

Macro variable	Actual	Year 1			Year 2			Year 3		
	dic-19	Bad	Baseline	Good	Bad	Baseline	Good	Bad	Baseline	Good
Italy GDP	1,723	-4.89%	1,627	2.29%	-4.68%	1,680	1.97%	-4.62%	1,738	1.87%
Euro GDP	10,711	-4.37%	10,264	2.33%	-4.20%	10,670	2.01%	-4.14%	11,039	1.90%
Unemployment rate	9.53%	22.72%	12.77%	-2.46%	20.14%	12.73%	-2.60%	14.73%	12.07%	-2.20%
Industrial production index	104	-5.24%	93	2.23%	-4.70%	96	2.04%	-4.71%	99	1.91%
Italian residential property price index	2,019	-6.67%	1,909	3.13%	-6.51%	1,833	4.07%	-6.66%	1,784	4.59%

The table below shows the sensitivity of the segments that comprise the Group's portfolio (with reference to 31 December 2020 - figures in thousands of euros) and the impact for each classification stage in terms of adjustments and average coverage if a weight of 100% is used respectively in the three scenarios selected.

Segment	Weighted	Adverse Scenario	Baseline Scenario	Favourable Scenario
Stage 1 - Adjustments	63,710	21.42%	-32.13%	-48.90%
Corporate	34,934	20.71%	-31.06%	-47.99%
Retail	28,775	22.28%	-33.42%	-50.01%
Stage 1 - Coverage	0.22%	21.42%	-32.13%	-48.90%
Corporate	0.23%	20.71%	-31.06%	-47.99%
Retail	0.20%	22.28%	-33.42%	-50.01%
Stage 2 - Adjustments	49,158	15.52%	-23.29%	-35.10%
Corporate	12,801	16.22%	-24.33%	-38.54%
Retail	36,357	15.28%	-22.92%	-33.89%
Stage 2 - Coverage	2.72%	15.52%	-23.29%	-35.10%
Corporate	2.43%	16.22%	-24.33%	-38.54%
Retail	2.83%	15.28%	-22.92%	-33.89%
Total	112,867	134,143	80,954	64,458

Treatment of public guarantees

As part of the ECL calculation, the State guarantees provided as an extraordinary response to support the real economy in the context of the ongoing health emergency are considered similarly to the other State guarantees in the portfolio. There are no ad hoc treatments planned, the guarantees contribute to mitigate the ECL on the accounts to which they are associated through the replacement principle: the portion covered by them is, therefore, associated with the level of risk of the issuer (in this case the Italian state, with DBRS BBBH rating) instead of that of the counterparty.

Treatment of exposures classified under "Stage 3" - exposures identified for sale

Additional considerations may be made for exposures classified in "stage 3". More specifically, with regard to non-performing loans, although the definition of "credit-impaired financial asset" in IFRS 9 is essentially the same as that in the accounting standard that it replaced (IAS 39), the methods used to calculate the ECL lifetime also had methodological implications for the purposes of assessments to be carried out in this segment, mainly in relation to:

- The inclusion of forward-looking information, such as that relating to macroeconomic scenarios, recovery estimates and times, the probability of migration to lower classes, as well as information that may have an influence on the value of the collateral or on the expected duration of its recovery;
- The consideration of alternative recovery scenarios, such as those for the sale of credit assets, in connection with possible sales of units of the non-performing portfolio, in relation to the corporate targets for the reduction of non-performing assets, to which a probability of occurrence must be attributed, to be considered as part of the overall assessment.

Taking into account the above and in line with the guidelines and objectives defined by the Credit Strategy Committee, approved by the Parent Company's Board of Directors on 21/12/2017, write-downs on non-performing loans are applied using two different methods:

- Specific write-downs on individual exposures - in relation to the adjustments applied to said exposures, during the course of 2020, the expected losses on non-performing loans are determined analytically based on the recovery forecasts made by the manager or resulting from the application of the internal regulation “Guidelines and criteria for the write-down of loans of the Credem Group”, discounted as a function of the original effective interest rates and of the relative envisaged recovery time. Considering that the recovery forecasts use the specific situation of the borrower as reference, the use of sensitivity analyses for the expected losses for these exposures is not considered consistent. Nevertheless, it cannot be ruled out that a deterioration of the creditworthiness of the borrower, also due to possible negative effects on the economy related to the uncertainty of the international spread of the Coronavirus and the end of the support measures put in place, may result in the recognition of further, possibly significant, losses with respect to those considered as at 31 December 2020, based on the conditions on the reporting date of the financial statements;
- Write-downs determined according to a specific model, to be applied to a portfolio of bad loan exposures which, having matured to a significant vintage, are valued with a view to their probable future disposal (hereinafter “Stage 3 sub-model portfolio” or “Portfolio”).

The ECL calculation model in the case of “Stage 3 sub-model portfolio” is based on the following principles:

- the portfolio is associated with a number of management scenarios (best, intermediate, worst), characterised by different hypotheses regarding sell-off prices and sales volumes, to which a probability of occurrence is attributed. These scenarios take into account the probability that positions can be closed through internal management or sale;
- the valuation of the provision level depends on the ECL resulting from the weighting of the values of the aforementioned portfolio according to the different scenarios and the relative probability of occurrence;
- the characteristics of the various scenarios, their probability of occurrence and the other inputs necessary for the assessment of the portfolio to be sold are defined and updated as part of the NPL annual strategic plan, based on the Group's experience and the expected development of the market environment and relative legislative framework.

On 15 December 2020, the Parent Company's Board of Directors approved amendments to the “Guidelines and criteria for the write-down of loans of the Credem Group”, already approved by the Group's Non-Performing Loan Committee on 10 December 2020. More specifically, the proposal is to identify the “Stage 3 sub-model portfolio” as an instrument to be used on an optional basis, and no longer structural.

This change is linked to the completion in 2020 of the activities pertaining to the current basket, including the complete write-down of the exposures that remain in the portfolio based on their ageing and characteristics.

As at 31 December 2020, there are no positions included in the “Stage 3 sub-model portfolio”.

Assigning probabilities to scenarios

Each scenario previously identified (best, intermediate, worst) is attributed a probability of occurrence. Within each cluster, the sum of the probability of the various scenarios occurring must equal 100%; for positions that cannot be sold due to legal, operational or management constraints, the sales scenario must be weighted at 0%.

Estimation of the ECL in each scenario

The estimate of expected credit losses (ECL) on loans in stage 3 is based on the following main inputs, which differ between the secure and unsecured portfolios:

- Gross Book Value of transferable positions at the assessment date;

- for each year and scenario, a reduction in the stock based on sales carried out and collections recorded;
- for each year and scenario, the amount sold in absolute terms and as a percentage of the initial GBV;
- for each year and scenario, expected proceeds from the sale, in absolute terms and as a percentage of the initial GBV;
- the probability of occurrence of each scenario.

In determining the ECL, the Group estimates expected cash flows (including guarantee) for each scenario. Selling prices are determined based on similar transactions recorded on the market and binding and non-binding offers collected for similar positions. The ECL value of the stage 3 transferable portfolio will then be determined by the result of the weighted average ECL calculated for the different scenarios. The final value resulting from the mix of scenarios represents the write-down to be applied to the portfolio.

2.4 Credit risk mitigation techniques

Collateral and guarantees are of particular importance in the lending strategies of the Credem Group insofar as they enable mitigation in the complex life cycle of the loans, albeit being additional in the assessment and granting process of the loan, where the fundamental element is the assessment of the customer's ability to repay the loan. In this sense, acquiring collateral and guarantees involves an in-depth analysis, both in the acquisition phase and in monitoring and management phase. General principles have been defined for property collateral, in accordance with legislative requirements, which enable a sound and prudent process of valuation of the property which is to be used as collateral to be made:

- Independence of the valuation by using independent external appraisers unrelated to the lending process.
- Compliance and consistency of the valuation, adequate to the complexity of the transaction, its size and the type of property, to identify the market value on which the loan to value indicator is calculated.
- A robust system of controls, in accordance with legislative requirements, to oversee the valuation process.

Given the importance of the mortgage loans segment in the overall portfolio, and with a view to adaptation to supervisory provisions, a periodic monitoring process for the value of mortgaged properties has been set in place as regards real estate mortgage loans, in order to properly assess the degree of coverage of collateral.

The weighting to be applied to the various mortgage transactions, based on the nature of the property, is also included in the "Regulation for the assumption of credit risk for customers". The Credit Strategy Committee also periodically proposes guidelines in terms of the average Loan To Value of the portfolio and of new loans. In particular, due to the very nature of medium-term credit, collateral for mortgage loans is envisaged on the basis of varying percentages, depending on the type of the loan.

For collateral in the form of securities, safety margins are applied according to the type of product acquired as a guarantee and to the issuer rating, if applicable. In addition, collateral in the form of securities and their valuation for the purposes of Credit Risk Mitigation are constantly monitored.

As regards sureties, their valuation is always carried out on the basis of a prudential assessment of the assets of guarantors.

As regards public guarantees, the Credem Group adopts specific procedures to comply with the *modus operandi* required by the legislative provisions issued by the Government or by the entities that issued said guarantees.

3. Non-performing exposures

3.1 Management strategies and policies

The Non-performing Credit department provides technical support to the Bank network and in managing problem and non-performing loans and in calculating the write-downs.

Within this department, credit collection is managed according to processes established on the basis of the channel/segment, the type of loan and the level of irregularity, and is conducted by central offices or by local offices. The business model allows for an all-inclusive vision of the loan throughout the life cycle, enhancing the fluidity and integration of processes and continuity of vision. In particular, there are central structures dedicated to the management, monitoring and recovery of positions with a status of Unlikely To Pay or Bad Loan. In addition, an organisational unit has been created to manage outsourcing companies in order to directly and centrally oversee relations with the same. The valuation of losses is based on extremely prudent criteria, following the indications of the document approved by the Board of Directors entitled “Guidelines and criteria for the write-down of loans of the Credem Group”; the purpose of this document is to guide and standardise the work of the offices in charge of managing non-performing loans, in terms of calculating the relative write-downs, both for statutory purposes and as regards recovery times. The ECB Guidelines recommend that Banks establish a clear strategy aimed at reducing the amount of NPLs in a credible, sustainable and timely manner. The Guidelines are a non-binding instrument, however the Banks are required to promote rapid convergence towards the instructions provided. During the first half of 2018, the Credem Group, starting from the evidence that emerged from the assessment/gap analysis phase, and on the basis of the classification of shared remediation actions, defined an NPL Strategic-Operating Plan for the period 2018-2022, updated in 2019 for the 2019-2023 period. In the second half of 2020, the Credem Group, in line with the Group Strategy Planning, updated the NPL Strategic-Operational Plan for the period 2020-2024.

3.2 Write-offs

Autonomy with respect to the valuation of losses and write-offs is almost completely centralised under monocratic structures, thus enabling particularly short response times to settlement proposals; in any case, recourse to this measure is of a marginal nature and only occurs when the actions of direct (or through the outsourcer/legal network) recovery or sale have not had the desired effects. By virtue of the residual/secondary use compared to the other envisaged collection activities, as well as due to the lower stock of the NPLs, the amount of write-offs remains at contained levels.

3.3 Impaired, acquired or originated financial assets

There are no financial assets of these types.

4. Financial assets subject to commercial renegotiations and forbearance exposures

In March 2014, given the changes in regulations, which placed supervisory powers in the hands of the European Central Bank and the application of new EU legislation on supervisory reporting, the “Guidelines to identify and manage forbearance exposures”, which were then assimilated by the Group credit policy, were approved. In line with EBA standards, forbearance means exposures against which forbearance measures have been agreed, namely measures to sustain debtors who are facing, or are about to face, difficulties in meeting their financial obligations (so-called financial hardship status).

In general, possible forbearance measures agreed for the debtor in financial difficulty may fall into the following categories:

- changes to the terms and contractual conditions of an exposure that the counterparty is unable to repay, with new conditions that would not have been agreed if the customer had not been in financial difficulty;
- partial or total refinancing of the debt, which would not have been agreed in the absence of financial difficulty of the counterparty.

In accordance with the reference standards, classification in the forbearance portfolio is independent of the classification as default or of the presence of specific write-

downs. By virtue of the unique characteristics of these types of exposures, the evaluation and granting of forbearance measures is delegated to central decision-making structures, through the use of automated systems for alerting the presence of “potential” forborne, addressing credit proposals to the competent bodies and the expiry of terms relating to the cure period and probation period.

In relation to this type of exposure, the instructions in the ECB Guidelines on NPLs were followed, which have an impact on both processes and on applications to enable adequate tracking of the valuations made at the time forbearance measures were granted, as well as the valuations of the triggers on Unlikely To Pay Exposures, with the involvement of the Risk Management department to draw up a binding opinion in cases of repeated measures.

The amortised cost before the change of the financial assets, for which the contractual cash flows were changed during the year, amount to around € 118 million.

The guidelines, published by the EBA on 2 April 2020 and subsequently amended on 25 June 2020, envisaged that requests for moratoriums submitted to banks by 30 September 2020 could benefit from the temporary suspension of the automatic reclassification of loans to “forborne exposures”. Subsequently, with a press release dated 21 September 2020, the EBA announced the gradual non-application of its Guidelines on the treatment of moratoriums on bank loans. Therefore, it will be possible to continue to support customers even after 30 September by granting moratoriums on loans. However, these receivables must be classified on a case-by-case basis according to the usual prudential regulatory framework.

Disclosure to the public of information regarding capital adequacy, exposure to credit risks and the general features of the systems set up to identify, measure and manage risks, envisaged by EU Regulation 575/2013 (CRR), publication of the disclosure related to the so-called “Pillar 3”, shall be communicated to the market in accordance with legal requirements, on the website www.credem.it.

Quantitative information

A. Credit Quality

A.1 Non-performing and performing credit exposures: amounts, value adjustments, changes and breakdown by business segment

A.1.1 Prudential consolidation - Breakdown of financial assets by past due ranges (book value)

Portfolios/risk stages	Stage 1			Stage 2			Stage 3		
	1 to 30 days	Over 30 to 90 days	Over 90 days	1 to 30 days	Over 30 to 90 days	Over 90 days	1 to 30 days	Over 30 to 90 days	Over 90 days
1. Financial assets measured at amortised cost	190,603	834	756	27,791	47,693	14,315	44,089	19,278	240,586
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-	-	-	-
Total 31/12/2020	190,603	834	756	27,791	47,693	14,315	44,089	19,278	240,586
Total 31/12/2019	356,865	215	-	62,745	74,082	19,580	64,333	26,738	289,441

The table above provides the breakdown, for each risk stage, of the book value of the past due financial assets measured at amortised cost and of the past due financial assets measured at fair value through other comprehensive income.

A.1.2 Prudential consolidation - Financial assets, commitments to disburse funds and financial guarantees given: changes in overall value adjustments and in total provisions

Type/risk stages	Overall value adjustments																Total provisions for commitments to disburse funds and financial guarantees given			Total
	Assets included in stage 1					Assets included in stage 2					Assets included in stage 3					Of which: impaired,				
	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs		Stage 1	Stage 2	Stage 3	
Opening balance of overall adjustments	23,788	3,386	-	1	27,173	27,310	-	-	-	27,310	533,720	-	-	533,720	-	-	1,770	1,017	1,755	592,746
Increases from financial assets acquired or originated	17,945	-	-	-	17,945	5,820	-	-	-	5,820	-	-	-	-	-	-	3,343	888	-	27,996
Derecognitions other than write-offs	(4,560)	-	-	-	(4,560)	(3,357)	-	-	-	(3,357)	(94,262)	-	-	(94,262)	-	-	(1,184)	(568)	-	(103,931)
Net value adjustments/recoveries for credit risk	28,126	(1,126)	-	-	27,000	14,536	-	-	-	14,536	48,649	-	-	48,649	-	-	801	374	(802)	90,558
Contractual changes without derecognitions	-	-	-	-	-	-	-	-	-	-	(73)	-	-	(73)	-	-	-	-	-	(73)
Changes in estimation method	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs not directly recorded in the income statement	-	-	-	-	-	-	-	-	-	-	(32,687)	-	-	(32,687)	-	-	-	-	-	(32,687)
Other changes	(3,231)	(1)	-	(1)	(3,231)	3,231	-	-	-	3,231	249	-	-	249	-	-	(82)	(93)	-	73
Closing balance of overall adjustments	62,067	2,260	-	-	64,327	47,541	-	-	-	47,541	455,597	-	-	455,597	-	-	4,649	1,618	954	574,686
Recoveries from collections of financial assets subject to write-off	-	-	-	-	-	-	-	-	-	-	424	-	-	424	-	-	-	-	-	-
Write-offs directly recorded in the income statement	(104)	-	-	-	(104)	-	-	-	-	-	(1,693)	-	-	(1,693)	-	-	-	-	-	(1,797)

A.1.3 Financial assets, commitments to disburse funds and financial guarantees given: transfers between the different credit risk stages (gross and nominal values)

Portfolios/risk stages	Gross exposure/nominal value					
	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3	
	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
1. Financial assets measured at amortised cost	619,213	323,768	39,725	20,040	64,498	11,421
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-
4. Commitments to disburse funds and financial guarantees given	33,964	17,913	31	4	273	219
Total 31/12/2020	653,177	341,681	39,756	20,044	64,771	11,640
Total 31/12/2019	454,707	485,734	52,763	21,405	69,123	8,041

A.1.3a Loans subject to Covid-19 support measures: transfers between different stages of credit risk (gross values)

Portfolios/quality	Gross value/nominal value					
	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3	
	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
A. Loans measured at amortised cost	308,942	65,683	4,441	1,518	7,013	693
A.1 subject to forbearance compliant with the GLs	237,254	65,683	913	1,373	4,396	693
A.2 subject to other forbearance measures	13,271	-	3,528	145	1,673	-
A.3 new loans	58,417	-	-	-	944	-
B. Loans measured at fair value through other comprehensive income	-	-	-	-	-	-
B.1 subject to forbearance compliant with the GLs	-	-	-	-	-	-
B.2 subject to other forbearance measures	-	-	-	-	-	-
B.3 new loans	-	-	-	-	-	-
Total 31/12/2020	308,942	65,683	4,441	1,518	7,013	693
Total 31/12/2019	-	-	-	-	-	-

The table shows the gross value of the loans, subject to moratoriums or other forbearance measures in place at the reporting date, or which constitute new liquidity granted through public guarantee mechanisms, broken down by applicable portfolio, when the risk stage in which the exposures were included at the end of the year is different from the stage in which the exposures were included at the beginning of the year.

A.1.4 Prudential consolidation – Balance sheet and off-balance sheet credit exposures to banks: gross and net amounts

Types of exposure/amounts	Gross exposure		Overall value adjustments and total provisions	Net exposure	Total partial write-offs*
	Non-performing	Performing			
A. Balance sheet credit exposures					
a) Bad loans	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
b) Unlikely to pay	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
c) Non-performing past due exposures	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
d) Performing past due exposures	X	-	-	-	-
- of which: forborne exposures	X	-	-	-	-
e) Other performing assets	X	9,153,831	1,029	9,153,802	-
- of which: forborne exposures	X	-	-	-	-
Total (A)	-	9,153,831	1,029	9,153,802	-
B. Off-balance sheet credit exposures					
a) Non-performing	-	X	-	-	-
b) Performing	X	1,154,451	1	1,154,450	-
Total (B)	-	1,154,451	1	1,154,450	-
Total (A+B)	-	10,308,282	1,030	10,307,252	-

As per the indications of Banca d'Italia Circular no. 262 of 22 December 2005, and subsequent amendments, balance sheet credit exposures include all cash financial assets due from banks or customers regardless of the accounting portfolio they are allocated to (measured at fair value through profit or loss, measured at fair value through other comprehensive income, measured at amortised cost, held for sale) with the exception of equity securities and units of UCITS; off-balance sheet credit exposures include all financial assets other than cash-based ones (financial guarantees given, revocable and irrevocable commitments, derivatives, etc.) which involve the assumption of credit risk, regardless of the purpose of said transactions (trading, hedging, etc.).

Non-performing credit exposures (balance sheet and off-balance sheet) do not include financial assets held for trading and hedging derivatives, which are therefore conventionally recorded under performing loans credit exposures.

A.1.5 Prudential consolidation – Balance sheet and off-balance sheet credit exposures to customers: gross and net amounts

Types of exposure/amounts	Gross exposure		Overall value adjustments and total provisions	Net exposure	Total partial write-offs*
	Non-performing	Performing			
A. Balance sheet credit exposures					
a) Bad loans	445,226	X	319,677	125,549	1,050
- of which: forborne exposures	112,542	X	65,747	46,795	-
b) Unlikely to pay	378,222	X	125,481	252,741	-
- of which: forborne exposures	160,588	X	34,586	126,002	-
c) Non-performing past due exposures	53,001	X	10,439	42,562	-
- of which: forborne exposures	1,546	X	131	1,415	-
d) Performing past due exposures	X	286,877	4,368	282,509	-
- of which: forborne exposures	X	7,224	266	6,958	-
e) Other performing assets	X	36,398,751	106,476	36,292,275	-
- of which: forborne exposures	X	96,645	2,737	93,908	-
Total (A)	876,449	36,685,628	566,441	36,995,636	1,050
B. Off-balance sheet credit exposures					
a) Non-performing	28,535	X	954	27,581	-
b) Performing	X	10,987,209	6,264	10,980,945	-
Total (B)	28,535	10,987,209	7,218	11,008,526	-
Total (A+B)	904,984	47,672,837	573,659	48,004,162	1,050

The table shows the gross value of the loans, subject to moratoriums or other forbearance measures in place at the reporting date, or which constitute new liquidity granted through public guarantee mechanisms, broken down by applicable portfolio, when the risk stage in which the exposures were included at the end of the year is different from the stage in which the exposures were included at the beginning of the year.

A.1.5a Balance sheet credit exposures to customers subject to Covid-19 support measures: gross and net values

Type of exposure/amounts	Gross exposure	Overall value adjustments and total provisions	Net exposure	Total partial write-offs*
A. Bad loan exposures	-	-	-	-
a) Subject to forbearance compliant with the GLs	-	-	-	-
b) Subject to other forbearance measures	-	-	-	-
c) New loans	-	-	-	-
B. Unlikely to pay credit exposures	34,502	7,196	27,306	-
a) Subject to forbearance compliant with the GLs	15,477	4,315	11,162	-
b) Subject to other forbearance measures	18,539	2,803	15,736	-
c) New loans	486	78	408	-
C. Non-performing past due exposures	1,924	271	1,653	-
a) Subject to forbearance compliant with the GLs	1,072	149	923	-
b) Subject to other forbearance measures	207	12	195	-
c) New loans	645	110	535	-
D. Performing past due exposures	12,973	164	12,809	-
a) Subject to forbearance compliant with the GLs	11,880	158	11,722	-
b) Subject to other forbearance measures	-	-	-	-
c) New loans	1,093	6	1,087	-
E. Other performing exposures	5,993,492	27,672	5,965,820	-
a) Subject to forbearance compliant with the GLs	3,584,441	24,592	3,559,849	-
b) Subject to other forbearance measures	18,352	519	17,833	-
c) New loans	2,390,699	2,561	2,388,138	-
TOTAL (A+B+C+D+E)	6,042,891	35,303	6,007,588	-

The table shows, with reference to loans subject to moratoriums or other forbearance measures in place at the reporting date, or which constitute new liquidity granted through public guarantee mechanisms, the breakdown of gross exposure and total value adjustments, as well as the disclosure on the net exposure and total partial write-offs for the various categories of impaired/non-impaired assets.

A.1.7 Prudential consolidation - Balance sheet credit exposures to customers: changes in gross non-performing exposures

Source/Categories	Bad loans	Unlikely to pay	Non-performing past due exposures
A. Gross exposure, opening balance	577,657	398,465	48,524
- of which: transferred but not derecognised	-	-	-
B. Increases	48,686	126,488	63,785
B.1 transfers from performing loans	6,795	60,628	37,242
B.2 transfers from impaired, acquired or originated financial assets	-	135	27
B.3 transfers from other categories of non-performing exposures	40,009	17,715	294
B.4 contractual changes without derecognitions	-	183	1
B.5 other increases	1,882	47,827	26,221
C. Decreases	181,117	146,731	59,308
C.1 transfers to performing loans	350	22,069	9,706
C.2 write-offs	30,028	1,708	-
C.3 collections	39,604	79,808	30,640
C.4 amount realised upon disposal of positions	15,441	2,150	-
C.5 losses on disposal	3,156	-	-
C.6 transfers to other categories of non-performing exposures	228	39,072	18,717
C.7 Contractual changes without derecognitions	-	611	-
C.8 other decreases	92,310	1,313	245
D. Gross exposure, closing balance	445,226	378,222	53,001
- of which: transferred but not derecognised	-	-	-

A.1.7bis Prudential consolidation – Balance sheet credit exposures to customers: changes in gross forborne exposures by credit quality

Type/Quality	Forborne: non-performing	Forborne: performing
A. Gross exposure, opening balance	269,881	114,026
- of which: transferred but not derecognised	-	-
B. Increases	52,909	55,709
B.1 transfers from performing loans not forborne	4,988	35,686
B.2 transfers from performing loans forborne	13,206	X
B.3 transfers from non-performing loans forborne	X	12,894
B.4 transfers from non-performing loans not forborne	-	-
B.4 other increases	34,715	7,129
C. Decreases	48,114	65,866
C.1 transfers to performing loans not forborne	X	23
C.2 transfers to performing loans forborne	12,894	X
C.3 transfers to non-performing loans forborne	X	13,206
C.4 write-off	1,501	-
C.5 collections	30,716	45,394
C.6 amount realised upon disposal of positions	-	-
C.7 losses on disposal	-	-
C.8 other decreases	3,003	7,243
D. Gross exposure, closing balance	274,676	103,869
- of which: transferred but not derecognised	-	-

A.1.9 Prudential consolidation – Balance sheet non-performing credit exposures to customers: changes in overall adjustments

Source/Categories	Bad loans		Unlikely to pay		Non-performing past due exposures	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Opening balance of overall adjustments	403,061	59,493	122,937	36,726	7,723	248
- of which: transferred but not derecognised	-	-	-	-	-	-
B. Increases	62,832	11,143	48,315	14,601	8,607	399
B.1 value adjustments from impaired, acquired or originated financial assets	-	X	-	X	-	X
B.2 other value adjustments	41,060	9,491	45,835	14,518	8,598	399
B.3 losses on disposal	3,156	-	-	-	-	-
B.4 transfers from other categories of non-performing exposures	18,360	1,647	2,445	79	9	-
B.5 contractual changes without derecognitions	-	-	31	-	-	-
B.6 other increases	256	5	4	4	-	-
C. Decreases	146,216	4,889	45,771	16,741	5,891	516
C.1 write-backs from valuation	9,458	39	12,394	4,060	1,556	261
C.2 write-backs from collection	11,524	3,286	12,319	11,018	1,869	252
C.3 profit from disposal	-	-	739	-	-	-
C.4 write-off	30,030	1,488	1,708	13	-	-
C.5 transfers to other categories of non-performing exposures	76	76	18,272	1,646	2,466	3
C.6 contractual changes without derecognitions	-	-	104	-	-	-
C.7 other decreases	95,128	-	235	4	-	-
D. Closing balance of overall adjustments	319,677	65,747	125,481	34,586	10,439	131
- of which: transferred but not derecognised	-	-	-	-	-	-

A.2 Classification of exposures based on external and internal ratings

A.2.1 Prudential consolidation – Financial assets, commitments to disburse funds and financial guarantees given: breakdown by external rating class (gross values)

Exposures	External rating classes						No rating	Total
	class 1	class 2	class 3	class 4	class 5	class 6		
A. Financial assets measured at amortised cost	431,530	622,656	4,363,544	-	-	-	37,835,258	43,252,988
- Stage 1	431,530	622,656	4,363,544	-	-	-	35,271,826	40,689,556
- Stage 2	-	-	-	-	-	-	1,686,984	1,686,984
- Stage 3	-	-	-	-	-	-	876,448	876,448
B. Financial assets measured at fair value through other comprehensive income	367,326	1,584,740	1,476,882	52,519	-	-	14,202	3,495,669
- Stage 1	367,326	1,584,740	1,476,882	52,519	-	-	14,202	3,495,669
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
C. Financial assets held for sale	-	-	-	-	-	-	-	-
- Stage 1	-	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
Total (A+B+C)	798,856	2,207,396	5,840,426	52,519	-	-	37,849,460	46,748,657
of which: impaired, acquired or originated financial assets	-	-	-	-	-	-	-	-
D. Commitments to disburse funds and financial guarantees given	-	-	-	-	-	-	-	-
- Stage 1	-	-	-	-	-	-	11,976,552	11,976,552
- Stage 2	-	-	-	-	-	-	180,646	180,646
- Stage 3	-	-	-	-	-	-	28,550	28,550
Total (D)	-	-	-	-	-	-	12,185,748	12,185,748
Total (A+B+C+D)	798,856	2,207,396	5,840,426	52,519	-	-	50,035,208	58,934,405

The external rating classes indicated refer to classes of creditworthiness of debtors/guarantors set forth in prudential legislation.

The rating agencies used are shown below, and a reconciliation table of the risk classes and agency ratings is also provided.

Portfolios	ECA/ECAI
Exposure to Central administrations and central banks	DBRS Rating Limited
Exposure to international organisations	Fitch Ratings Standard & Poor's Rating Services*
Exposure to multilateral development banks	Fitch Ratings Standard & Poor's Rating Services*
Exposure to enterprises and other entities	Fitch Ratings Standard & Poor's Rating Services*
Exposure to undertakings for collective investment in transferable securities (UCITS)	Fitch Ratings Standard & Poor's Rating Services*
Positions in securitisations with a short-term rating	Fitch Ratings Standard & Poor's Rating Services Moody's
Positions in securitisations other than those with a short-term rating	Fitch Ratings Standard & Poor's Rating Services Moody's

*ECAI used only in the mitigation of the risk (CRM) on financial instruments borrowed by way of guarantee

Credit rating credit	DBRS Rating Limited	Fitch Ratings	Standard & Poor's Rating Services	Moody's
1	from AAA to AAL	from AAA to AA-	from AAA to AA-	from Aaa to Aa3
2	from AH to AL	from A+ to A-	from A+ to A-	from A1 to A3
3	from BBBH to BBBL	from BBB+ to BBB-	from BBB+ to BBB-	from Baa1 to Baa3
4	from BBH to BBL	from BB+ to BB-	from BB+ to BB-	from Ba1 to Ba3
5	from BH to BL	from B+ to B-	from B+ to B-	from B1 to B3
6	CCC	CCC+ and lower	CCC+ and lower	Caa1 and lower

A.2.2 Prudential consolidation - Breakdown of financial assets, commitments to disburse funds and financial guarantees given by internal rating class (gross values)

Exposures	Internal rating classes									Total (A+B+C+D)
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	Class 7	Class 8	No rating	
A. Financial assets measured at amortised cost	3,013,935	10,763,844	5,053,476	4,798,683	3,146,248	851,126	565,248	624,936	14,435,492	43,252,988
- Stage 1	3,013,486	10,740,803	5,024,512	4,789,336	2,342,607	533,973	189,825	561,201	13,493,813	40,689,556
- Stage 2	449	23,041	28,964	9,347	803,641	317,153	375,423	63,735	65,231	1,686,984
- Stage 3	-	-	-	-	-	-	-	-	876,448	876,448
B. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	20,764	3,474,905	3,495,669
- Stage 1	-	-	-	-	-	-	-	20,764	3,474,905	3,495,669
- Stage 2	-	-	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-	-	-
C. Financial assets held for sale	-	-	-	-	-	-	-	-	-	-
- Stage 1	-	-	-	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-	-	-
Total (A+B+C)	3,013,935	10,763,844	5,053,476	4,798,683	3,146,248	851,126	565,248	645,700	17,910,397	46,748,657
of which: impaired, acquired or originated financial assets	-	-	-	-	-	-	-	-	-	-
D. Commitments to disburse funds and financial guarantees given										
- Stage 1	2,845,592	3,232,238	2,195,178	1,269,800	770,467	270,794	73,711	146,615	1,172,157	11,960,997
- Stage 2	1	2	209	343	38,201	79,655	11,778	5,142	45,315	180,646
- Stage 3	-	-	-	-	-	-	-	-	28,550	28,550
Total (D)	2,845,593	3,232,240	2,195,387	1,270,143	808,668	350,449	85,489	151,757	1,246,022	12,170,193
Total (A+B+C+D)	5,859,528	13,996,084	7,248,863	6,068,826	3,954,916	1,201,575	650,737	797,457	19,156,419	58,934,405

On 2 October 2015, Banca d'Italia authorised the Credem Group to use the IRB Advanced method (PD, LGD and EAD parameters) from 30 September 2015 to quantify the capital requirement against customer credit risk classified under the Corporate and Retail supervisory function of Credito Emiliano and Credemleasing. The internal rating classes are shown insofar as they are used in credit risk management; to calculate prudential capital requirements, only those relating to the Corporate and Retail supervisory function are used. Details of the various rating classes used are shown below.

- C1 no risk issues at the moment nor, most likely, over the medium/long term
- C2 no risk issues at the moment nor, most likely, over the medium term
- C3 no risk issues at the moment nor, most likely, over the short term
- C4 risk compatible with possibility for reduction/slight worsening over the short term
- C5 risk situation with symptoms of worsening already evident
- C6 situation highlighting evidently problematic aspects
- C7 highly problematic situation with potential risk of default
- C8 highly problematic situation with short-term risk of default

A.3 Breakdown of secured credit exposures by type of guarantee

A.3.1 Prudential consolidation – Secured balance sheet and off-balance sheet credit exposures to banks

	Gross exposure	Net exposure	Collateral				Guarantees									Total (1)+(2)
							(2)									
							Credit derivatives					Signature loans				
			Property - mortgages	Property - Loans for leases	Securities	Other collateral	CLN	Other derivatives				Public administra- tions	Banks	Other financial companies	Other entities	
Central counterpart ies	Banks	Other financial companies						Other entities								
1. Secured balance sheet credit exposures:	281	280	-	280	-	-	-	-	-	-	-	-	-	-	-	280
1.1. totally secured	281	280	-	280	-	-	-	-	-	-	-	-	-	-	-	280
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2. partially secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Secured off-balance sheet credit exposures:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.1. totally secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2. partially secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.3.2 Prudential consolidation – Secured balance sheet and off-balance sheet credit exposures to customers

	Gross exposure	Net exposure	Collateral (1)				Guarantees (2)										Total (1)+(2)
							Credit derivatives					Signature loans					
			Property - mortgages	Property - financial leases	Securities	Other collateral	CLN	Other derivatives	Other derivatives			Public administrations	Banks	Other financial companies	Other entities		
								Central counterpar ties	Banks	Other financial companies	Other entities						
1. Secured balance sheet credit exposures:	20,747,736	20,443,680	9,763,814	2,818,232	1,262,981	942,492	-	-	-	-	-	2,413,797	63,711	45,087	1,922,901	19,233,015	
1.1. totally secured	17,259,916	16,974,150	9,762,773	2,818,232	1,157,142	876,892	-	-	-	-	-	613,416	53,711	25,240	1,619,849	16,927,255	
- of which non-performing	572,033	351,782	254,543	43,679	5,032	22,407	-	-	-	-	-	2,566	-	61	22,079	350,367	
1.2. partially secured	3,487,820	3,469,530	1,041	-	105,839	65,600	-	-	-	-	-	1,800,381	10,000	19,847	303,052	2,305,760	
- of which non-performing	17,309	5,646	191	-	733	140	-	-	-	-	-	1,468	-	-	2,328	4,860	
2. Secured off-balance sheet credit exposures:	774,324	774,014	77,828	-	155,182	54,525	-	-	-	-	-	5	166	951	345,329	633,986	
2.1. totally secured	600,384	600,094	77,828	-	143,179	47,802	-	-	-	-	-	5	166	951	324,155	594,086	
- of which non-performing	634	634	126	-	120	9	-	-	-	-	-	-	-	-	379	634	
2.2. partially secured	173,940	173,920	-	-	12,003	6,723	-	-	-	-	-	-	-	-	21,174	39,900	
- of which non-performing	462	462	-	-	333	3	-	-	-	-	-	-	-	-	52	388	

During the year, mortgage guarantees of € 2.3 million were called in, expected to be collected over the next few years, while € 7.5 million were collected with respect to enforcements of pledges, insurance policies and sureties. During the year, € 24.0 million were also collected from calling in mortgage guarantees initiated in previous years.

During 2020, legal activities were initiated for calling in guarantees via property foreclosures in the cases where it had not been possible to reach satisfactory settlements. The positions entrusted to the outsourcing companies, comprising exposures > € 75,000 and < € 300,000 originating from mortgage loans, were assessed and activated according to the same approach; in fact, the activities of the external companies in the first few months of handling of the cases concentrate on attempting to contact the customers, so as to gauge the possibility of reaching settlements (full and final settlement or by means of contained repayment plans over time). Also during the performance of the enforcement actions, the outsourcing company continues with the contact activities so as to gauge the possibility of negotiated settlement of the positions.

B. Distribution and concentration of credit exposures

B.1 Prudential consolidation – Breakdown of balance sheet and off-balance sheet credit exposures to customers by business segment

Exposures/Counterparties	Public administrations		Financial companies		Financial companies (of which: insurance companies)		Non-financial companies		Households	
	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments
A. Balance sheet credit exposures										
A.1 Bad loans	1,117	1,123	104	236	-	-	60,127	190,098	64,201	128,220
- of which: forborne exposures	37	38	-	-	-	-	24,147	39,364	22,611	26,345
A.2 Unlikely to pay	3,046	948	48	99	-	-	69,051	42,422	180,596	82,012
- of which: forborne exposures	99	152	37	37	-	-	33,475	9,685	92,390	24,712
A.3 Non-performing past due exposures	242	42	18	5	-	-	6,034	938	36,268	9,454
- of which: forborne exposures	-	-	-	-	-	-	12	2	1,403	129
A.4 Performing exposures	6,862,668	4,016	1,513,815	891	11,644	15	15,358,147	51,487	12,868,651	54,450
- of which: forborne exposures	5	-	-	-	-	-	23,983	805	76,878	2,198
Total (A)	6,867,073	6,129	1,513,985	1,231	11,644	15	15,493,359	284,945	13,149,716	274,136
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	-	-	9	-	-	-	11,134	891	16,438	63
B.2 Performing exposures	7,362	1	227,700	25	15,545	-	9,015,207	3,676	1,730,676	2,562
Total (B)	7,362	1	227,709	25	15,545	-	9,026,341	4,567	1,747,114	2,625
Total (A+B) 31/12/2020	6,874,435	6,130	1,741,694	1,256	27,189	15	24,519,700	289,512	14,896,830	276,761
Total (A+B) 31/12/2019	7,267,210	5,635	1,382,359	1,245	88,362	28	22,851,633	282,975	13,578,052	301,160

B.2 Prudential consolidation – Breakdown of balance sheet and off-balance sheet credit exposures to customers by geographic area

Exposures/Geographic areas	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments
A. Balance sheet credit exposures										
A.1 Bad loans	125,547	319,664	1	11	-	2	-	-	1	-
A.2 Unlikely to pay	252,288	125,385	243	69	-	-	-	-	210	27
A.3 Non-performing past due exposures	42,498	10,423	45	12	10	3	7	1	2	-
A.4 Performing exposures	34,084,920	109,002	2,211,396	1,359	294,281	281	10,614	162	2,070	40
Total (A)	34,505,253	564,474	2,211,685	1,451	294,291	286	10,621	163	2,283	67
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	27,552	954	16	-	8	-	2	-	3	-
B.2 Performing exposures	10,966,368	6,255	7,547	7	5,800	1	907	1	323	-
Total (B)	10,993,920	7,209	7,563	7	5,808	1	909	1	326	-
Total (A+B) 31/12/2020	45,499,173	571,683	2,219,248	1,458	300,099	287	11,530	164	2,609	67
Total (A+B) 31/12/2019	40,136,040	589,253	2,215,952	1,217	2,674,336	372	21,127	107	3,302	66

The geographic breakdown NORTH-WEST, NORTH-EAST, CENTRE, SOUTH AND ISLANDS is also enclosed for ITALIAN exposures.

B.2 Prudential consolidation – Breakdown of balance sheet and off-balance sheet credit exposures to customers by geographic area

Exposures/Geographic areas	North West Italy		North East Italy		Central Italy		South Italy and Islands		
	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	
A. Balance sheet credit exposures									
A.1 Bad loans	13,057	50,751	41,758	89,936	25,012	55,934	45,720	123,043	
A.2 Unlikely to pay	33,090	21,007	74,712	34,290	39,336	16,712	105,150	53,376	
A.3 Non-performing past due exposures	5,668	1,376	9,943	2,279	4,974	1,221	21,913	5,547	
A.4 Performing exposures	7,757,529	25,680	8,933,814	30,598	10,164,637	20,229	7,200,443	32,495	
Total (A)	7,809,344	98,814	9,060,227	157,103	10,233,959	94,096	7,373,226	214,461	
B. Off-balance sheet credit exposures									
B.1 Non-performing exposures	6,075	106	6,845	408	2,241	140	12,391	300	
B.2 Performing exposures	3,776,249	1,502	3,898,568	2,027	1,553,010	854	1,738,541	1,872	
Total (B)	3,782,324	1,608	3,905,413	2,435	1,555,251	994	1,750,932	2,172	
Total (A+B)	31/12/2020	11,591,668	100,422	12,965,640	159,538	11,789,210	95,090	9,124,158	216,633
Total (A+B)	31/12/2019	10,728,495	104,466	12,056,751	131,808	9,112,516	106,314	8,238,278	246,665

B.3 Prudential consolidation – Breakdown of balance sheet and off-balance sheet credit exposures to banks by geographic area

Exposures/Geographic areas	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments
A. Balance sheet credit exposures										
A.1 Bad loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	8,014,463	489	1,103,481	525	26,377	8	57	-	3,394	7
Total (A)	8,014,463	489	1,103,481	525	26,377	8	57	-	3,394	7
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	142,856	-	1,003,705	-	5,368	-	1,286	-	950	1
Total (B)	142,856	-	1,003,705	-	5,368	-	1,286	-	950	1
Total (A+B) 31/12/2020	8,157,319	489	2,107,186	525	31,745	8	1,343	-	4,344	8
Total (A+B) 31/12/2019	2,167,597	1,201	974,755	520	24,802	10	4,484	4	17,783	7

B.4 Large exposures

	31/12/2020
Number of positions	9
Exposure	20,794,470
Risk position	1,229,098

In the calculation of “large exposures”, all of the balance sheet and off-balance sheet risk assets of an individual customer (or group of related customers) are considered, without applying weighting factors, while the threshold that qualifies an exposure as a “large risk” is when the exposure, as calculated above, is equal to or over 10% of own funds.

To gain a more accurate picture of the degree of credit concentration, the regulations also recognise exposures with a weighting factor of zero percent in terms of counterparty risk, such as for example exposures towards the Italian State, etc.

Note that the scope also includes repurchase agreements. The regulations envisage that these transactions are included in nominal exposure to the counterparty for the amount of the “securities to be received”, while weighted exposure, in specific cases, may envisage zero-weighting.

At the end of the period there were 9 positions classified as “large exposures”, amounting to a total of € 20,794.5 million corresponding to a weighted value of € 1,229.1 million (at the end of 2019 there were 14 positions amounting to a total of € 12,887.6 million, corresponding to a weighted value of € 1,400.6 million).

The positions recognised include the Ministry of the Treasury, several EU and non-EU member States and leading national and international banks.

C. Securitisation operations

Qualitative information

The Group holds a 10% interest in Emilia SPV S.r.l., a “special purpose vehicle” specifically established for the exclusive purpose of performing one or more securitisation operations pursuant to Italian Law no. 130 of 30 April 1999.

Emilia SPV S.r.l. has one revolving securitisation operation in place regarding performing residential mortgage loans not eligible for the “Covered Bond Programme” guaranteed by Credem CB S.r.l.

The loans of the operation in question, originated by Credem, were sold without recourse, meaning without the guarantee of solvency of the debtors or their guarantors, to Emilia SPV S.r.l.

At the time of the issue, Credem subscribed the total liabilities issued by the vehicle and holds them in its portfolio. Therefore, based on the regulations of IFRS 9 as regards derecognition, the loans subject to securitisation remain recorded under assets in Credem’s financial statements.

As at 31 December 2020, the “Financial assets measured at amortised cost” category also includes € 406.5 million in ABS issued by third party special purpose entities linked to loans originated in Europe, with preponderance of the component of German origination (€ 146.8 million). The portfolio consists of different types of ABS with a prevalence of residential mortgage securitisations, which account for 45.6%. Current exposure broken down by country risk is as follows:

Country	Amount (€/thousands)	Exposure %
GERMANY	146,810	36.1
NETHERLANDS	117,728	29.0
FRANCE	77,143	19.0
SPAIN	36,308	8.9
IRELAND	14,588	3.6
ITALY	11,215	2.8
UNITED KINGDOM	1,845	0.4
PORTUGAL	819	0.2
TOTAL	406,456	100.0

The securitisation portfolio is diversified over 31 issuers and 37 issues with maximum concentration of € 33.8 million per single issue, and € 55.5 million per single issuer.

C.3 Exposures arising from major “third-party” securitisation transactions broken down by type of securitised asset and type of exposure

Type of underlying assets/Exposures		Balance sheet exposures						Guarantees given						Credit facilities					
		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
		Book value	Net value adjustments/recoveries	Book value	Net value adjustments/recoveries	Book value	Net value adjustments/recoveries	Book value	Net value adjustments/recoveries	Book value	Net value adjustments/recoveries	Book value	Net value adjustments/recoveries	Book value	Net value adjustments/recoveries	Book value	Net value adjustments/recoveries	Book value	Net value adjustments/recoveries
A.1	ABEST 15 A SR SEQ FI CONSUMER CREDIT	9,957	6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.2	AUTONORIA ST35 FRN CONSUMER CREDIT	18,723	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.3	BP MORTGAGES 07/43TV RESIDENTIAL MORTGAGES	203	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.4	BP MORTGAGES 07/44TV RESIDENTIAL MORTGAGES	139	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.5	BPCE HOME19OT24FRN RESIDENTIAL MORTGAGES	17,382	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.6	BSKY GER7A FRN-24 EU CONSUMER CREDIT	225	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.7	CARS ALL FRN OT29 CONSUMER CREDIT	7,909	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.8	CORDUSIO FRN42 EUR RESIDENTIAL MORTGAGES	915	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.9	CR.AGR.HABITAT MTGE RESIDENTIAL MORTGAGES	8,102	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.10	DRIV ESP A SR 6 FLT CONSUMER CREDIT	10,557	-1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.11	DRIVM 14 A SR FLT CONSUMER CREDIT	1,728	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.12	DUTCH MBS BV18-50EUR RESIDENTIAL MORTGAGES	12,429	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.13	DUTCH RMPII 16-48EUR RESIDENTIAL MORTGAGES	3,473	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.14	E-MAC NL FRN -A-GE37 RESIDENTIAL MORTGAGES	2,035	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.15	FASTNET SEC12FRNOT56 RESIDENTIAL MORTGAGES	3,312	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.16	FINANCE (IR)ST60FRN RESIDENTIAL MORTGAGES	11,276	-1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.17	GINKO 44 A 2017-1EUR CONSUMER CREDIT	5,695	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.18	GLOBALDRIVE25FRN EUR CONSUMER CREDIT	3,664	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.19	GLOBALDRIVE27FRN EUR CONSUMER CREDIT	25,303	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.20	GREAT H.FRN-A2B-MZ39 RESIDENTIAL MORTGAGES	1,846	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Type of underlying assets/Exposures		Balance sheet exposures						Guarantees given						Credit facilities					
		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
		Book value	Net value adjustments/recoveries	Book value	Net value adjustments/recoveries	Book value	Net value adjustments/recoveries	Book value	Net value adjustments/recoveries	Book value	Net value adjustments/recoveries	Book value	Net value adjustments/recoveries	Book value	Net value adjustments/recoveries	Book value	Net value adjustments/recoveries	Book value	Net value adjustments/recoveries
A.21	GREEN APPLE-19-GE58 RESIDENTIAL MORTGAGES	12,497	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.22	HFHL 2020-1 FB61 RESIDENTIAL MORTGAGES	17,186	-2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.23	HIPOTOTTA4-CL/A ST48 RESIDENTIAL MORTGAGES	819	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.24	MAGOI 19 LG39 FLT CONSUMER CREDIT	18,285	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.25	MATSUBA161AFRNG21EUR CONSUMER CREDIT	1,209	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.26	PRADO II FRN%MZ52EUR RESIDENTIAL MORTGAGES	12,966	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.27	PRADO IIIABS56EUR RESIDENTIAL MORTGAGES	12,785	3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.28	R&B AUTO L2GER11/28 CONSUMER CREDIT	24,105	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.29	SC GERMAN AUTO 17-1A CONSUMER CREDIT	1,069	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.30	SILVER A MZ27 FRN CONSUMER CREDIT	13,577	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.31	SILVER A ST27 FRN CONSUMER CREDIT	21,653	-2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.32	STORM 17 I 17-64 TV RESIDENTIAL MORTGAGES	25,038	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.33	STORM 2017GRN A MTGE RESIDENTIAL MORTGAGES	15,340	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.34	STORM 2018GRN A MTGE RESIDENTIAL MORTGAGES	27,422	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.35	TTSOC 2017-1 A MTGE CONSUMER CREDIT	2,145	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.36	VCL29-A1-FRN GN25EUR CONSUMER CREDIT	21,665	2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.37	VCL31-A-FRN ST26EUR CONSUMER CREDIT	33,820	-3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

C.3 Prudential consolidation - Investments in Special Purpose Vehicles for securitisation

As already illustrated under qualitative information, the Group has one special purpose vehicle for securitisation, Emilia Spv, in which Credito Emiliano has a stake of 10%, and therefore this company is not consolidated.

D. Disposal transactions

A. Financial assets sold and not fully derecognised

Qualitative information

In 2015, Credem finalised a revolving securitisation operation, regarding performing residential mortgage loans, not eligible for purposes of the use in the “Covered Bonds Programme” by the special purpose vehicle Credem CB S.r.l., disbursed to its customers and selected on the basis of pre-defined criteria in order to form a “block” pursuant to and in accordance with the law applicable to credit securitisation.

Following the first disposal of assets, finalised in the fourth quarter of 2014 at a price of € 1,002,811,119.07, between 2015 and the end of 2020, in the periods indicated below, four disposals of portfolios of eligible loans were made to the special purpose vehicle for a price of:

- Fourth quarter 2015: € 285,392,481.54
- Fourth quarter 2016: € 293,707,640.58
- Fourth quarter 2017: € 245,710,926.70
- Fourth quarter 2018: € 52,416,789.64

The loans were acquired without recourse, meaning without the guarantee of solvency of the debtors or their guarantors, by EMILIA SPV S.r.l., a special purpose vehicle specifically established in which Credem has a 10% interest, for the exclusive purpose of performing one or more securitisation operations pursuant to Italian Law no. 130 of 30 April 1999.

The special purpose vehicle financed the operation through the issue, during April 2015, of different classes of “RMBS” bonds (senior and junior). The senior bonds have an official rating assigned by accredited agencies DBRS and Moody’s Investor Services (“A” rating assigned by DBRS and “A1” by Moody’s at end of December 2020). However, the junior bonds are unrated.

The senior notes pay quarterly variable interest corresponding to the 3M Euribor rate plus 75 bps, while the junior notes pay 3M Euribor rate plus 200 bps. Junior noteholders have also the right to receive, at each payment date and, in the order of priority of payments and available funds, a residual bonus after payment of all other amounts of greater priority.

The notes are structured as partly paid notes (PPN) and are fully issued for their nominal value on the issue date (€ 3,000,000,000 for the senior notes and € 900,000,000 for the junior notes). The price of the notes was paid by subscribers only partially on the issue date, while the remaining balance can be paid in a number of instalments over time, in accordance with the revolving logic of the operation.

The revolving structure allows the Bank, during a period known as replenishment, which may last up to 5 years, to sell new portfolios (six-monthly or yearly) of suitable loans to the special purpose vehicle, which will pay for them by using the income from the existing portfolio and/or income from the payment the noteholders of further shares of the price of the notes issued. Once the replenishment period is over, the notes are redeemed during an amortisation period defined at the time of issue. The replenishment period ended in May 2020, therefore activities aimed at restructuring the transaction and extending this period have begun.

As at 31 December 2020, the current tranche of senior notes corresponded to € 469,052,575.93 and that of the junior notes to € 330,378,636.28.

The senior notes are listed on the Irish Stock Exchange. Both of the tranches were purchased by Credem. The senior notes may be used for refinancing operations with the Eurosystem.

The aim of this operation is to create liquidity reserves and falls within the scope of the liquidity management activities implemented by Credem.

The special purpose vehicle has also given Credem the following options: to repurchase individual loans, within certain parameters, to repurchase loans en bloc that may become eligible for the Covered Bond Programme by Credem CB S.r.l. and to repurchase the whole loans portfolio en bloc and without recourse (in accordance with the contractual limitations envisaged).

During 2020, no new disposals of assets or new partial repurchases en bloc of loans from the special purpose vehicle were completed.

The Group did not assign any non-performing exposures classified as “unlikely to pay”.

Quantitative information

D.1 Prudential consolidation – Financial assets sold fully recognised and associated financial liabilities: book values

	Financial assets sold fully recognised				Associated financial liabilities		
	Book value	of which: subject of securitisation operations	of which: subject of contracts of sale with repurchase obligation	of which non-performing	Book value	of which: subject of securitisation operations	of which: subject of contracts of sale with repurchase obligation
A. Financial assets held for trading	-	-	-	X	-	-	-
1. Debt securities	-	-	-	X	-	-	-
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
B. Other financial assets measured at fair value, as per mandatory	-	-	-	-	-	-	-
1. Debt securities	-	-	-	-	-	-	-
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
C. Financial assets measured at fair value	-	-	-	-	-	-	-
1. Debt securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	1,233,676	-	1,233,676	-	1,235,647	-	1,235,647
1. Debt securities	1,233,676	-	1,233,676	-	1,235,647	-	1,235,647
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
E. Financial assets measured at amortised cost	1,639,568	-	1,639,568	-	1,689,851	-	1,689,851
1. Debt securities	1,639,568	-	1,639,568	-	1,689,851	-	1,689,851
2. Loans	-	-	-	-	-	-	-
Total 31/12/2020	2,873,244	-	2,873,244	-	2,925,498	-	2,925,498
Total 31/12/2019	2,639,157	-	2,639,157	-	2,650,247	-	2,650,247

Key:

A= financial assets sold fully recognised (book value)

B= financial assets sold partially recognised (book value)

C= financial assets sold partially recognised (full value)

The operations refer to the use of securities in the portfolio for short-term repurchase agreements.

D.3 Prudential consolidation - Disposals of liabilities with recourse exclusively on assets sold and not fully derecognised: fair value

	Fully recognised	Partially recognised	Total	
			31/12/2020	31/12/2019
A. Financial assets held for trading	-	-	-	-
1. Debt securities	-	-	-	-
2. Equity securities	-	-	-	-
3. Loans	-	-	-	-
4. Derivatives	-	-	-	-
B. Other financial assets measured at fair value, as per mandatory requirements	-	-	-	-
1. Debt securities	-	-	-	-
2. Equity securities	-	-	-	-
3. Loans	-	-	-	-
C. Financial assets measured at fair value	-	-	-	-
1. Debt securities	-	-	-	-
2. Loans	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	1,233,676	-	1,233,676	2,639,157
1. Debt securities	1,233,676	-	1,233,676	2,639,157
2. Equity securities	-	-	-	-
3. Loans	-	-	-	-
E. Financial assets measured at amortised cost (fair value)	1,639,568	-	1,639,568	-
1. Debt securities	1,639,568	-	1,639,568	-
2. Loans	-	-	-	-
Total financial assets	2,873,244	-	2,873,244	2,639,157
Total associated financial liabilities	2,925,497	-	X	X
Net value 31/12/2020	(52,253)	-	2,873,244	X
Net value 31/12/2019	(11,090)	-	X	2,639,157

The financial liabilities entered against financial assets sold and not derecognised (shown in the Deposits from customers and Deposits from banks columns) relate to repurchase agreements against securities recorded under assets.

The non-derecognition of the securitization operations, already extensively illustrated in paragraph “C.1 Securitization operations”, is the direct result of the subscription by the Group of the tranches of the Junior notes or of similar exposures, which entail the risk of first losses and, similarly, the benefit related to the yield of the portfolio of assets transferred. These assets are disposed of without recourse through a servicer agreement; the Group undertakes to provide the management, administration, collection and credit recovery services for the vehicle. Following the transfer, the fee collected is recorded as a balancing entry to the recognition of a debt towards the special purpose vehicle, net of the tranches of the securities subscribed. The debt recognised towards the special purpose vehicle will be reduced by virtue of the sums collected by the originator, acting as servicer, and repaid to the same vehicle.

D.4 Prudential consolidation - covered bond transactions

Credem CB Programme

At meetings held on 26 May 2010 and 25 June 2010, the Board of Directors of Credito Emiliano resolved to launch the structuring of a programme to issue covered bonds for a maximum amount of € 5 billion.

On 22 October 2010, the Board of Directors approved the first disposal by Credem of a loans portfolio worth a maximum of € 2.4 billion to Credem CB S.r.l., a Special Purpose Vehicle (SPV) selected to participate in the Programme and in which Credem holds 70% equity.

In Italy, the legislative framework for the issue of Covered Bonds (hereinafter also the “Legislation”) is represented, in particular:

- by the CICR resolution of 2 August 1996, regarding administrative and accounting organisation and internal controls, as amended and supplemented by the resolution on 23 March 2004 made by the same Committee;
- by Art. 7-bis of Italian Law no. 130 of 30 April 1999, and subsequent amendments and supplements (“Law 130”);
- by the Decree of the Ministry of the Economy and Finance no. 310 of 14 December 2006 (“MEF Decree”);
- by the Decree of the Ministry of the Economy and Finance, CICR Chairman, dated 27 December 2006, no. 933;
- by the Decree of the Ministry of the Economy and Finance, CICR Chairman, dated 12 April 2007, no. 213;
- by the provisions issued by Banca d'Italia on Covered Bonds pursuant to the Third Part, Chapter 3 of Circular no. 285 dated 17 December 2013 containing the “Supervisory provisions for banks” as amended and updated on each occasion (the “Instructions”);
- by the additional regulatory, European community and national sources, expressly referred to in the Instructions, in paragraph 2, Section 1, Chapter 3, Part Three (including therein EU Regulation no. 575/2013).

The issue of Covered Bonds by Credem is part of the Group’s strategic plan, the objective of which is, among other things, to obtain several benefits in terms of funding, such as diversifying sources of deposits, reducing the relative cost as well as extending the maturities of liabilities.

Generally speaking, the basic structure of a covered bond issue – according to that outlined in the legislation – envisages the following steps:

- the bank (Transferring Bank, Credem) transfers a package of assets with specific characteristics (the “Portfolio”) to a Special Purpose Vehicle (Credem CB S.r.l.). The assets transferred to the Special Purpose Vehicle represent a separate equity with respect to the Special Purpose Vehicle’s own equity, a benefit to the holders of covered bonds and other parties in whose favour the guarantee is issued. The Transferring Bank gives the Special Purpose Vehicle a subordinated loan, the purpose of which is to fund the purchase of the assets by the same Special Purpose Vehicle;
- Credem issues bonds. The Special Purpose Vehicle issues a guarantee in favour of the holders of the bonds issued by the issuer.

As a result of the above, the repayment of the covered bonds, which will be issued as part of the transaction, is guaranteed, not only by the issuer but also by an unconditional and irrevocable guarantee, issued by the Special Purpose Vehicle to the exclusive benefit of the investors that will subscribe the Covered Bonds and other counterparties, including those providing hedging, involved in the transaction. The latter guarantee is issued by the Special Purpose Vehicle on the Portfolio.

Given the above, it is clear that the covered bond transaction illustrated can be categorised as a “simple transaction” insofar as the originator bank, financing bank and issuing bank are all a single entity, Credem.

Transferred Portfolio

The portfolio which, on each occasion, is assigned to the Special Purpose Vehicle must possess several common features.

The main criteria common to identifying and selecting the mortgages from which the loans that make up the Cover Pool originate have been established following consultation with the rating agencies, who were asked to give a rating to the covered bonds that Credem will issue under the Programme.

At the end of October 2010, September 2011, February 2012, April 2014, October 2014, October 2015, April 2016, October 2016, April 2017, November 2017, May 2018, October 2018, and May 2019 and November 2020, mortgage loans originating from mortgage agreements were selected, which, on the relative cut-off dates, met, by way of example and not limited to, the following main cumulative criteria:

- loans not deriving from mortgage agreements that benefit from forms of financial support;
- loans not classified as “bad loans”, pursuant to the “Supervisory instructions for banks” issued by Banca d'Italia;
- loans not disbursed (even jointly) to employees or directors of Credito Emiliano or of its subsidiaries that are part of the Credem Banking Group.

On the accounting date of 31 December 2020, the Cover Pool comprised receivables originating from 56,336 mortgage loans, with a total residual debt of approximately € 4,335.06 million, as specified below in more detail.

Region where the borrower is located	Residual Debt (€/thousand)	% Residual Debt	No. of mortgages	% no. of mortgages
Abruzzo	36,036.00	0.83%	509	0.90%
Basilicata	8,334.07	0.19%	123	0.22%
Calabria	135,525.23	3.13%	2,338	4.15%
Campania	429,197.60	9.90%	5,324	9.45%
Emilia Romagna	772,859.06	17.83%	10,723	19.03%
Friuli Venezia Giulia	41,686.03	0.96%	615	1.09%
Lazio	461,233.56	10.64%	4,760	8.45%
Liguria	95,910.75	2.21%	1,290	2.29%
Lombardy	682,890.04	15.75%	7,833	13.90%
Marche	80,451.54	1.86%	1,013	1.80%
Molise	7,450.22	0.17%	116	0.21%
Piedmont	125,220.77	2.89%	1,784	3.17%
Apulia	268,585.90	6.20%	4,500	7.99%
Sardinia	148,953.32	3.44%	1,588	2.82%
Sicily	429,788.65	9.91%	6,652	11.81%
Tuscany	327,779.65	7.56%	3,941	7.00%
Trentino-Alto Adige	21,771.74	0.50%	212	0.38%
Umbria	18,910.75	0.44%	283	0.50%
Val D'Aosta	1,198.94	0.03%	8	0.01%
Veneto	241,274.18	5.57%	2,724	4.84%
Total Portfolio	4,335,058.00	100%	56,336	100%

Subordinated Loan

When the Initial Portfolio was assigned, on 29 October 2010, Credem and Credem CB signed a subordinated loan agreement, through which Credem granted Credem CB a subordinated loan to pay the purchase price of the Initial Portfolio and

undertook to grant Credem CB further subordinated loans, each for an amount equal to the price to be paid by Credem CB for the purchase of subsequent loans portfolios, assigned by Credem in accordance with the terms and conditions envisaged in the framework agreement governing the disposal of assets.

A further subordinated loan was therefore then granted at the time of the assignment of each subsequent portfolio, for an amount corresponding to the relative assignment price.

Asset Swap

Swap contracts were stipulated between the Special Purpose Vehicle and Credem, for an amount sufficient to hedge the Cover Pool, in order to guarantee the Special Purpose Vehicle protection against interest rate risk and/or base rate risk due to the presence of assets with different indexation. In June 2013, at the time of the programme's annual renewal, the structure of the hedging mechanisms for the operation was reviewed and, with the approval of the rating agencies, all swap contracts stipulated at the time between the Special Purpose Vehicle and Credem were closed in advance.

As at 31 December 2020, there are no asset swap contracts between the Special Purpose Vehicle and Credem.

Covered Bond Swap (or Liability Swap)

When the Covered Bond is issued on the market, a swap contract may be stipulated between the Special Purpose Vehicle and Credem in order to mitigate interest rate risk between the cash flows received by the Special Purpose Vehicle and that due from the same to investors in the event of the default of the issuer.

At present, there are swap contracts stipulated at the time of issue for the Covered Bonds with the following durations: "09/07/2013-2020" and "30/08/2013-2028".

Current accounts

The Programme envisages a complex structure of current accounts to sustain the cash flows of the transaction. Said structure means that a series of accounts in the name of the Special Purpose Vehicle have been opened and in particular, but not limited to such: Collection Accounts, Reserve Accounts, Payments Account, Eligible Investment Account and Expenses Account. Following the downgrade that Credem suffered in May 2020, the above current accounts in Credem CB's name were transferred from Credem to the company BNP Paribas Securities Services – Milan Branch.

Parties involved in the Programme

This section illustrates the main roles and counterparties involved in the transaction:

- Servicer: the role played by Credem, which, as such, has been engaged by Credem CB to collect and recover the loans included in the Initial Portfolio and in the portfolios that Credem itself assigns to Credem CB under the Assignment Framework Agreement;
- Back-Up Servicer: the role played by Securitisation Services which, in this capacity and upon the occurrence of certain events, governed by the Program, may take over from Credem in the role of Servicer as described above;
- Investment Manager: the role played by Credem, which, as such, has been engaged to invest the available liquidity in the current accounts opened by Credem CB and to draw up and send the Investment Manager report, which contains the results of the investment activities, to the parties to said contract;
- Account Bank: role currently played by BNP Paribas Securities Services where, in that capacity, the current accounts in the name of Credem CB were opened and where the liquidity to be used for the payments envisaged by the Programme is deposited;
- Principal Paying Agent: the role played by BNP Paribas Securities Services, which has the main task of determining and making (both on behalf of Credem

and on behalf of Credem CB) the payments due, in terms of both principal and interest, to the Covered Bondholders.

- Calculation Agent: the role played by BNP Paribas Securities Services which, as such, has the main task of drawing up and sending the Payments Report to the parties to the contract. This Report contains an indication of the Credem CB funds available and of the payments to be made, according to the order of priority of the payments determined according to the Intercreditor Agreement;
- Asset Monitor: role played by BDO Italia S.p.A. which, in that capacity, makes the calculations and checks the Compulsory Tests and the Amortisation Test conducted according to the Cover Pool Management Agreement, verifying the accuracy of the calculations made by the Calculation Agent. Separately, it is currently envisaged that the Asset Monitor also checks whether the assets making up the Portfolio comply with the requirements envisaged by the legislation and the integrity of the guarantee in favour of investors;
- Representative of the Bondholders: the role played by BNP Paribas Securities Services which, as such, exercises the rights of the counterparties involved in the transaction in relation to Credem and Credem CB;
- Listing Agent: the role played by BNP Paribas Securities Services which, as such, has the main task of managing, on behalf of Credem and Credem CB, relations and compliance with the stock exchange on which the Covered Bonds are listed.

Lastly, it should be noted that some of the Programme's contracts envisage that the parties engaged to perform some of the activities and some of the roles indicated above, for the purpose of the same, are in possession of specific ratings. Therefore, although some roles are currently played by Credem (or by parties external to the Group), it is possible that in the future the same may be assigned to parties external to the Group (or to Credem).

Risks associated with the transaction

The Covered Bond issue programme entails the following financial risks, with respect to which various mitigating measures have been taken: issuer risk, interest rate risk, credit risk, liquidity risk, refinancing risk, counterparty risk, legal risks related to the transaction.

At least once every 12 months, Credem's Internal Audit department (Auditing service) conducts a full audit of the controls set in place, also on the basis of information received and the evaluations made by the Asset Monitor. The results of these audits are reported to the competent management bodies.

Main characteristics of the Programme

The financial structure of the Programme envisages that Credem proceeds with the issue, in several consecutive series, of Covered Bonds with the ratings of Aa3 and AA- in December 2020, assigned respectively by the following rating agencies: Moody's Investors Services Inc. and Fitch Rating Limited.

Said bonds have been placed with institutional investors with the support of Dealers selected on each occasion. At the initial stage, the Programme Arrangers were Barclays Bank PLC and Société Générale; at present there is just one Arranger, Barclays.

Under the Programme, Credem may issue Covered Bonds for a total amount, on each occasion, of no more than € 5 billion. Said maximum amount may be increased in accordance with the provisions of the Programme's contractual documentation. With the Programme, Credem may issue a wide range of different types of securities; however, at present, the type most widespread on the market is the so-called soft-bullet securities, that envisage the periodic payment of interest, a one-time repayment on maturity and the option, for the Special Purpose Vehicle, if Credem should default, to extend the maturity date by a further period (usually one year). Other than the issues already made in 2010, 2011, 2012, 2013 and 2014, no new Covered Bonds were issued in 2015, 2016, 2017 or 2018, however a new issue was made in the first half of 2019 with a value date of 17 January 2019. No new issues were made in 2020, therefore the total nominal value of the Covered Bonds

outstanding as at 31 December 2020, issued under the programme guaranteed by Credem CB S.r.l., is confirmed as equal to the value as at 31 December 2019 of € 1.6 billion.

E. Prudential consolidation - credit risk measurement models

On 2 October 2015, Banca d'Italia authorised the Credem Group to use the IRB Advanced method (PD, LGD and EAD parameters) from 30 September 2015 to quantify the capital requirement against customer credit risk classified under the Corporate and Retail supervisory function of Credito Emiliano and Credemleasing. In this way, the roll-out plan launched in June 2008 was concluded with the authorisation for the use of the IRB Foundation method for Corporate customers. Periodically, the various parameters are validated in terms of control and monitoring activities to assess the overall adequacy of the credit risk measurement process. The models and methods were found to be adequate and the performance of the rating systems was confirmed as high, therefore indicating that the rating models have a good discriminatory ability.

1.2. Market risks

1.2.1 Interest rate risk and price risk – regulatory trading book

Qualitative information

The aim of the risk management model is to facilitate the achievement of a series of objectives:

- the governance and guidance role of the Parent Company in the management of the risks for each individual company and their impact on the Group's risks, in compliance with supervisory provisions in force and the Group's Risk Appetite Framework;
- management control to optimise the risk-return profile at Group level;
- uniformity of the method of analysis and of the "language" used by all Group companies.

In this regard, Market Risk, intended as the risk of losses caused by negative changes in risk factors (interest rate, price, exchange and other market factors), is measured and monitored both with reference to the banking book (on demand and maturity items) and the trading book (financial instruments traded for the purposes of positioning, trading and dealing).

Organisational structure

The main tasks of the organisational units involved in the process of market risk control and management are described below.

The Board of Directors of the Parent Company, BoD, is responsible for defining the general risk management guidelines for each business area; it also decides the powers to be assigned in relation to operational strategies, assumption of risks and corrective action; it identifies the set of Risk Appetite indicators and the relative calculation metrics, the latter proposed by the Executive Committee, EC; it establishes and approves risk objectives and tolerance thresholds, periodically assessing the adequacy of the Risk Appetite Framework (RAF) and the compatibility between objectives and effective risk; it approves the general structure of the operating limits and powers and the lines of responsibility and authority for the risk management process.

The Boards of Directors of the individual companies adopt the risk appetite and the tolerance threshold established in the RAF by the Parent Company; they approve the strategic plans and the guidelines for risk management formulated by the Parent Company as well as the structure of the internal operating limits and powers within the scope set by the Board of Directors of the Parent Company.

The Management of the individual companies conduct their business operations in compliance with the powers and operating limits for risk assigned by the respective Boards of Directors.

The Parent Company EC, as a management body, handles the implementation of the strategic plans and the risk management policies defined by the BoD, and in particular defines and oversees the implementation of the risk management process. The EC is also tasked with proposing risk measurement, control and analysis methods to the BoD and for establishing operating limits consistent with risk appetite.

The Parent Company's Committees involved in the RAF have the following responsibilities.

The Group Risk Committee carries out the evaluation and puts forward proposals in order for the BoD to approve the risk objectives and tolerance thresholds and periodically assess the adequacy of the RAF and the compatibility between objectives and effective risk.

It also expresses an opinion to the BoD on the proposals of the EC regarding risk measurement, control and analysis methods also for calculating the internal capital; lastly, it assists the Parent Company BoD by proposing general strategies for risk management.

The Risk Management Committee, set up to inform the EC on the monitoring of the overall risk assumed and its monitoring within the strategies and methods defined by the Parent Company in the RAF, performs the following functions:

- it manages the overall risk taken by each company and its monitoring within the strategies and methods defined by the Parent Company in the Risk Appetite Framework;
- it periodically assesses the overall level of risk taken by monitoring RAF indicators by type of risk;
- it also analyses any internal or external event that can considerably change the risk profile and so request the competent bodies, through the Risk Officer, to carry out additional revisions of the RAF.

The Risk Management department assists the Group Risk Committee and performs the following activities. As regards the RAF:

- it assesses, at least once a year, the adequacy of the metrics used by backtesting the risk estimation models, introducing the results, any shortcomings and the need to develop new methods to the RAF;
- it reports to Group Risk Committee at least once a quarter on the performance of the risk profile assumed as a whole in relation to the Risk Appetite objectives in respect of all the indicators, including those related to market risk.

It also handles:

- the measurement and reporting of financial risks for each individual company and at the Group level, mainly by means of risk measurements and sensitivity indicators aimed at verifying compliance with the limits assigned and consistency with the risk-return objectives established;
- the development and management of the risk measurement system through the acquisition of the market data required for the calculation;
- the definition of the risk profile for new products.

The results of Risk Management department operations are reported on a regular basis to the Group Risk Committee.

A. General aspects

Interest rate risk

Credembanca

The management of financial risks takes place through the definition of a structure of limits, which represents a direct expression of the acceptable level of risk with reference to the individual business areas/lines, in line with the Group's Risk Appetite Framework. Specifically, market risks stem from the following operations:

- traditional funding and lending;
- trading and investment in financial markets;
- trading in financial instruments where customers are the counterparty.

Interest rate risk in the regulatory trading book is generated by operations carried out in the markets for bonds and derivatives on interest rates. The interest rate risk generated by these activities is managed and controlled by means of overall limits in terms of delta (i.e. sensitivity with respect to parallel shifts in the curve), curve spread (i.e. sensitivity with respect to non-parallel shifts of the curve) and vega.

The specific or issuer risk is monitored by means of concentration limits per sector and rating class, both in terms of countervalue and of sensitivity. Furthermore, the VaR model adopted exclusively for management purposes includes issuer risk, through the use of specific time series on market spreads.

The Risk Management department produces risk reports on a daily, weekly or quarterly basis depending on the department they are to be sent to, indicating any overruns of the limits assigned by the Regulations in terms of the assumption of financial risk and the measurement of management risk in terms of VaR.

Any amendments to the Regulations and to the limits set forth therein can be submitted to the Board of Directors or the Executive Committee, depending on who is in charge, for resolution, on the proposal of the Finance Business Unit, after having obtained the opinion of the Risk Management department.

Banca Euromobiliare

The market risks related to interest rate risk are managed through the definition of different maximum operating limits in terms of ten-years-equivalent position.

The Parent Company's Risk Management department checks compliance with these limits and monitors the capital requirement trend, calculated according to the standard approach.

Price risk

The main source of price risk in the “regulatory trading book” consists of shares, funds and the relative derivative instruments.

Credembanca

Equity risks stem from trading activities. Stock market and foreign exchange trading operations involve assuming directional positions managed and controlled through position limits, both gross and net, limits in terms of Greek frets and concentration limits by underlying.

To raise seed money, there are also positions in hedge funds and private equity funds managed by Group companies.

Banca Euromobiliare

The Regulations on the assumption of financial risk, monitored by the Risk Management department, do not contemplate ordinary limits for operations on equity risk. The company also holds a position in the same hedge funds set forth in the previous point. The risk generated by said position is limited and is monitored through the capital requirement for market risks.

Impacts deriving from the Covid-19 pandemic

Following the spread of Covid-19, there was a sudden and significant increase in the volatility of the financial markets, with an impact on market risks as regards both the trading book and the banking book. In this context of strong macroeconomic and financial uncertainty, many measures were launched by the government to lend support in this exceptional time of crisis (including the “Cura Italia” and “Liquità” decree). In view of the change in the reference context, as regards market risks, it was not necessary to change the risk objectives or the management strategies. In the Risk Appetite Framework, no redefinition of the thresholds established for 2020 was necessary, which remained adequate to the risk levels observed in the period.

B. Interest rate risk and price risk: management processes and measurement methods

Interest rate risk – measurement methods and metrics

The interest rate risk for Credembanca is calculated daily using the VaR method; the measurement is for management purposes, and is not used to calculate capital requirement on market risk for which the Credem Group adopts the standard approach. The VaR measures the maximum potential loss that the portfolio may incur based on the trend in market factors, given a certain level of confidence, over a given time horizon. The methodology applied within the Credem Group includes the following parameters:

- 99% confidence level;
- 1-day time horizon;
- volatility calculated on the basis of 2 years of daily observations, giving greater weight to more recent data (decay factor $\lambda=0.94$).

To calculate absorption in terms of internal capital, the figure is converted into a 10-day VaR, prudently applying a multiplication ratio of 3.

The risk figure also undergoes stress testing as part of the process to verify capital adequacy, which aims to verify the change in capital (estimated in terms of VaR) in the event of future turbulence of the financial markets. The analysis is based on determining a variance and covariance matrix of risk factors on the assumption of a condition of stress in the markets, which increases the volatility of the financial variables and changes the structure of relationships between the same.

The matrix was determined using the same methodology as that used for VaR estimates. In particular, the option of setting the historic period used as an analysis sample for the calculation of volatility and correlations was taken, selecting critical time intervals (of high volatility) in the markets, consistent with the overall stress scenario identified.

With regard to Banca Euromobiliare, interest rate risk is monitored through the capital requirement for market risks, which follows the standard approach.

Impacts deriving from the Covid-19 pandemic

The impacts on market risks of the trading book and interest rate risks of the banking book due to the Covid-19 pandemic were limited; no changes to the measurement and control system were necessary to support the robustness of the overall risk monitoring system. However, to strengthen the timeliness and evidence of controls, the monitoring of the Risk Appetite Framework was changed from quarterly to monthly.

Quantitative information

1. Regulatory trading book: breakdown of balance sheet financial assets/liabilities and financial derivatives by residual life (repricing date)

The table in question has not been included because a sensitivity analysis for interest rate risk based on internal models and other methods is provided below.

2. Regulatory trading book: breakdown by equity exposures and stock indices by main listing countries

Type of transaction/Stock exchange market	Listed						Unlisted
	ITALY	U.S.A.	UNITED KINGDOM	FRANCE	GERMANY	OTHER COUNTRIES	
A. Equity securities							
- long positions	354	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-
B. Unsettled equity securities trades							
- long positions	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-
C. Other equity securities derivatives							
- long positions	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-
D. Stock index derivatives							
- long positions	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-

This section briefly summarises the results of the interest rate risk analyses relative to the trading book. In particular, the average, maximum and minimum VaR values

generated by the interest rate risk factor for Credembanca are reported for 2018, 2019 and 2020.

Table 1. Interest Rate Var Data

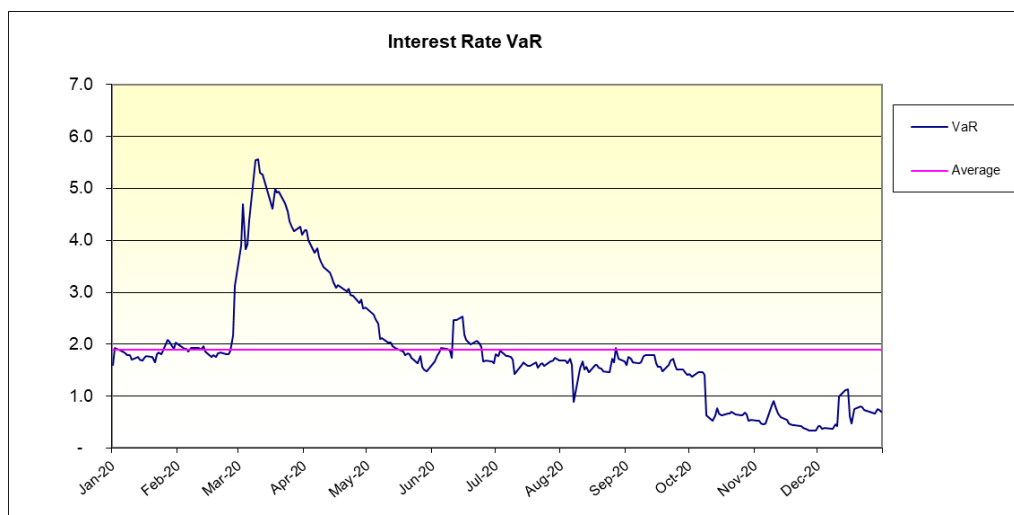
	2020	2019	2018
Credem			
VaR - average	1.9	3.4	1.1
min	0.3	1.4	0.3
max	5.6	9.2	2.1

*Figures in €/million, VaR 99% 10days * multiplication coefficient*

The comparison with the previous year shows a decreasing interest rate risk factor for Credem, although at very modest levels.

The following figures show the performance of the afore-mentioned VaR for Credem in 2020.

Figure 1. Performance of Interest Rate VaR Credem (99%, 10-day* multiplication coefficient). Figures in €/million



The increase in VaR in the early part of the year is attributable to the volatility recorded in the markets during the Covid-19 period.

As regards the shift sensitivity analysis and restricted to the regulatory trading book, the table below illustrates the data regarding the impact on the net interest income over a time horizon of 12 months, in the hypothesis of a parallel shift in interest rates of +/-100 bps (figures refer to the Group).

The analysis was conducted in line with the methodology used to measure the interest rate risk of the banking book for the Risk Appetite Framework and for Short Term Exercise reports - STE interest rate risk, in line with the reference European guidelines.

"Parallel shift" assumption (figures in €/million)		
	Shock -100 b.p.	Shock +100 b.p.
Figures as at 12/2020	+0.4	-1.1

Price risk – measurement methods and metrics

CONSOLIDATED FINANCIAL STATEMENTS – EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Equity market risk is calculated with the same frequencies and methods indicated for interest rate risk.

Quantitative information

This section briefly summarises the results of the price risk analyses relative to the trading book. In particular, the average, maximum and minimum VaR values generated by the interest rate risk factor for Credembanca are reported for 2018, 2019 and 2020.

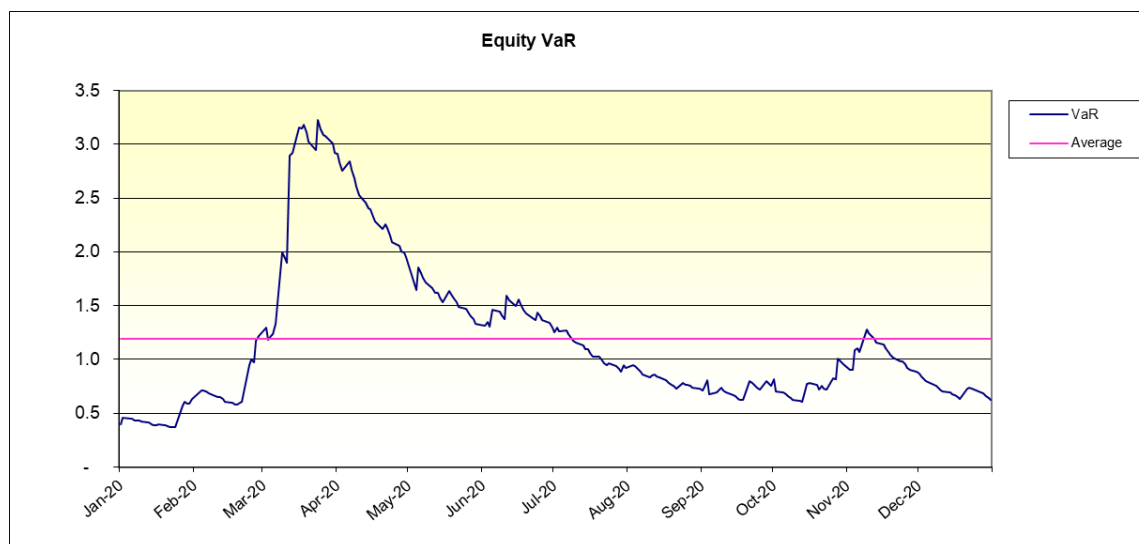
Table 2. Equity VaR data

	2020	2019	2018
Credem			
VaR - average	1.2	0.4	0.8
min	0.4	0.4	0.3
max	3.2	0.8	2.3

*Figures in €/million, VaR 99% 10days * multiplication coefficient*

The Credem figure, up on the previous report, but still at very low levels, is substantially determined by the position in hedge funds mentioned above. The figures below illustrate the performance of VaR for Credem in 2020.

Figure 2. Performance of Equity VaR Credem (99%, 10 day* multiplication coefficient). Figures in €/million



The increase in VaR in the early part of the year is attributable to the volatility recorded in the markets during the Covid-19 period.

The results of backtesting are shown in paragraph 1.2.3 “Foreign exchange risk”.

SPECIFIC RISK – QUANTITATIVE INFORMATION

Specific risk is the risk of losses caused by an unfavourable change in the price of the financial instruments traded, due to factors related to the situation of the issuer. The average, maximum and minimum values (in €/million) of specific risk, calculated on the basis of supervisory weightings, for 2018, 2019 and 2020, are provided below.

Table 3. Specific Risk data

	2020	2019	2018
Credem			
Specific risk – average	0.1	0.1	0.1
min	0.0	0.1	0.1
max	0.1	0.1	0.2

Figures in €/million

With regard to Banca Euromobiliare, the capital requirement for generic and specific market risks is substantially insignificant.

1.2.2 Interest rate risk and price risk – banking book

Qualitative information

A. Interest rate risk and price risk: general aspects, management processes and measurement methods

Interest rate risk

Credem adopts the regulatory definition of interest rate risk in the banking book, according to which, the risk in question is: “interest rate risk deriving from activities other than trading: risk deriving from potential changes in interest rates.”

The exposure to interest rate risk may be broken down into:

- income risk, resulting from the possibility that an unexpected change in interest rates leads to a fall in the net interest income and depends on the timing difference between maturities and periods to redefine the interest rate conditions of loans and deposits;
- investment risk, namely suffering negative changes in the values of all off-balance sheet assets, liabilities and instruments, following a change in interest rates, with a consequent destabilising impact on capital equilibrium.

The Group policy to manage interest rate risk in the banking book seeks to manage risk at Group level in a healthy and prudent manner, in order to ensure that risk/return objectives are optimised consistent with the Risk Appetite Framework defined at Group level. These objectives are pursued by maintaining a slight imbalance within set limits, depending on the significance of the risk of individual companies, in Regulations on the assumption of financial risks.

The Group has drawn up a specific internal regulation, Group Policy for the management of interest rate risk in the banking book, with a view to establishing the guidelines and the principles of governance and management for interest rate risk on the banking book (IRRBB), outlining a set of rules and control processes in order to stabilise the net interest income in the banking book for the Group and for individual companies.

The guidelines contained in the Policy refer to provisions issued by national and European authorities relating to instructions for the governance and management of the interest rate risk of the banking book.

The Policy, in accordance with European legislation, provides for two reference metrics to measure interest rate risk, economic value sensitivity and net interest income sensitivity within the Risk Appetite Framework, as well as in Capital Adequacy processes (ICAAP).

These metrics, calculated by the Risk Management department and reported periodically to the relevant committees, are supported by operating indicators included in the regulations of existing companies for the assumption of Financial Risks.⁷

The main bodies to which the Parent Company BoD refers by virtue of its role of strategic supervision and to which the EC refers as the body responsible for the management of interest rate risk in the banking book are the Group Risk Committee, the Risk Management Committee (with the responsibilities set forth in paragraph 2.1 Interest rate risk and price risk - regulatory trading book) and the Asset & Liability Management (ALM) Committee, which makes proposals to the BoD, after examining the Group risk profile by monitoring the risk limits with respect to the objectives set under RAF and identifies the guidelines and strategies to management interest rate risk.

The operational management of interest rate risk on the banking book is assigned to the Finance Business Unit, which has the following responsibilities:

- proposing guidelines for the management of interest rate risk in the banking book to the ALM Committee, and formulating proposals to Risk Management

⁷ Risk Management Committee and Asset Liability Management (ALM) Committee

for the subsequent approval of the Group Risk Committee, on the strategic direction of the interest rate risk profile of the banking book;

- managing the interest rate risk of the Parent Company and of Group companies, consistent with the overall risk profile defined and with the guidelines received from the ALM Committee, as well as within the limits assigned;
- establishing, together with Risk Management, the structure of operating limits to submit to the EC, consistent with the RAF and the common models to measure interest rate risk in the banking book defined by Risk Management.

For operational management, the Finance Business Unit uses a model that represents interest rate risk based on the visualisation along a timeline of transactions by repricing date, in order to highlight any imbalance between assets and liabilities. The Finance Business Unit is also responsible for making proposals to the ALM Committee on the actions considered necessary to improve the overall profile in terms of interest rate risk (and structural liquidity) and to implement these actions operationally.

Within the process of risk management and assessment of current and future capital adequacy, the Risk Management department:

- assists the BoD in evaluation exercises, with a view to setting risk objectives and tolerance thresholds within the RAF, as well as continuously checking its implementation;
- proposes to the Group Risk Committee, in collaboration with the Finance department, within the RAF process, the strategic direction as regards the interest rate profile of the banking book and adoptable tolerance thresholds;
- defines the methods for measuring interest rate risk in the banking book with the support of the Finance Business Unit, to be submitted to the EC;
- validates the models used to quantify interest rate risk and the assessment of the adequacy of the underlying stress assumptions;
- defines, together with the Finance department, the structure of the limits of the operating proxies and of the stress tests to submit to the EC, consistent with the tolerance threshold established by the BoD;
- prepares interest rate risk management and monitoring reports for the relevant committees;
- on a daily basis, monitors compliance with the operating limits established in the Regulations for the assumption of financial risks, including therein verifying that any overruns of said limits are corrected.

The Daily Report summarises compliance with the operating limits, and includes the following information:

- gaps by maturity segment on loan and deposit operations in euro and in foreign currency, the related limits set forth by the Regulation and any exceeding of said limits;
- interest rate risk limits in terms of Ten Years Equivalent (TYE), sensitivity and any overruns of said limits;
- concentration limits per currency and any overruns.

As regards demand items, the Group adopts a valuation model that quantifies the effects of persistence over time and the imperfect elasticity to changes in market interest rates (viscosity effect). Modelling is based on internal time series of customer behaviour, and it entails two components: an estimate, based on an econometric model, of the relationship between the interest rates of demand items and market interest rates and further regressors that enable interest rate risk to be separated, in the proper sense, from other phenomena (e.g. credit); an estimate of the persistence of volumes related to the mean-life concept, which enables the holding period of the aggregates to be linked more closely to the historic volatility of assets, through which the amount of demand items is transformed into a portfolio of fixed rate maturity items (replicating portfolio).

The Group also used the prepayment behavioural model on mortgage loans. The modelling adopted is behavioural, based on historical series analysis of the early termination and renegotiation of the rate. Unlike market models, in behavioural models the predominant factors that contribute to determining the value of the early redemption option are not exclusively financial, but include explanatory variables that depend on the characteristics of the loan (e.g. loan to value) and of the borrower (e.g. age).

Changes in the European regulatory framework on interest rate risk in the banking book (IRRBB) are continuously monitored, and the suitable adaptations made, taking the indications of the JST in relation to SREP into account.

During 2020, the Group continued to report its exposure to interest rate risk on a quarterly basis to the ECB, through Short Term Exercise reports (STE-IRRBB).

Quantitative information

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

The table in question has not been included because a sensitivity analysis for interest rate risk based on internal models and other methods is provided below.

2. Banking book: internal models and other sensitivity analysis methods

This section briefly summarises the results of the interest rate risk analyses relative to the banking book. In particular, the table below shows the data regarding the impact on the net interest income (shift sensitivity analysis), over a period of 12 months, on the assumption of a parallel shift in interest rates of +/- 100 basis points. The measurement is based on end-of-year positions, and therefore does not include assumptions on future changes of the composition of assets and liabilities. For the purpose of the analysis, the floor on the customer interest rates of items with customers was set as zero.

The analysis was conducted in line with the methodology used to measure the interest rate risk of the banking book for the Risk Appetite Framework and for Short Term Exercise reports - STE interest rate risk, in line with the reference European guidelines.

"Parallel shift" assumption (figures in €/million)		
	Shock -100 b.p.	Shock +100 b.p.
2020 figures	-12.5	+56.4

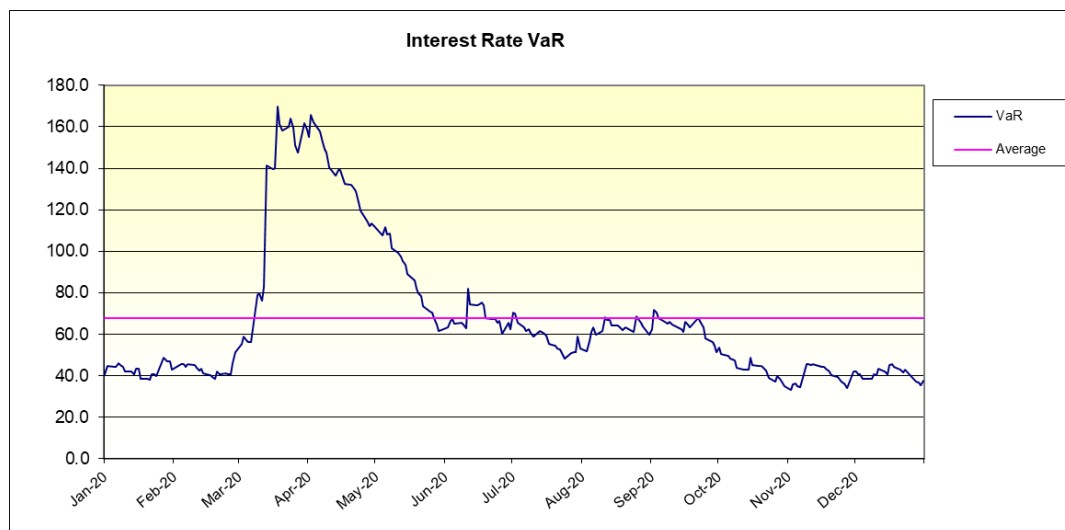
The exposure to interest rate risk from an equity perspective is measured at a consolidated level by a sensitivity analysis of the economic value (change in fair value of asset and liability items), based on a full evaluation approach, following a parallel shock on the spot interest rate curve of +/- 200 basis points. In 2020, the maximum change in economic value with relation to own funds was equal to 4.1%. In addition to the impact of the parallel shocks of interest rates, stress tests are periodically conducted internally, assuming non-parallel shocks based on the historical trend of the interest rate curve.

The methods used to analyse sensitivity to interest rate risk also include the modelling of demand items and prepayments on mortgages according to the behavioural models described above.

With regard to the interest rate risk of the banking book, the same VaR analyses described in the paragraph on the trading book are envisaged, to which readers should refer for a description of said method. The figures below show the performance of the VaR of the Credem banking book over 2020.

The results of backtesting are shown in paragraph 1.2.3 “Foreign exchange risk”.

Figure 5. Performance of Interest Rate VaR Credem – banking book (99%, 10 day* multiplication coefficient). Figures in €/million



The increase in VaR in the early part of the year is attributable to the volatility recorded in the markets during the Covid-19 period.

Price risk

The Group does not have positions in shares or listed equity investments in the banking book.

Price risk hedging

The Group does not have any hedging transaction in place.

1.2.3 Foreign exchange risk

Qualitative information

A. Foreign exchange risk: general aspects, management processes and measurement methods

Foreign exchange transactions involve the assumption of positions managed and controlled through position limits, both gross and net, and concentration limits by currency.

The currency market risk is calculated with the same frequency and method indicated for interest rate and equity risk.

B. Hedging of foreign exchange risk

The Group does not have any hedging transaction in place.

Quantitative information

1. Breakdown by currency of assets, liabilities and derivatives

Item	Currencies					
	USD	GBP	JPY	CAD	CHF	OTHER CURRENCIES
A. Financial assets	105,074	21,148	10,972	-	10,701	24,224
A.1 Debt securities	2	-	-	-	-	-
A.2 Equity securities	6,306	-	-	-	-	-
A.3 Loans to banks	39,517	18,618	9,567	-	5,295	16,236
A.4 Loans to customers	59,249	2,530	1,405	-	5,406	7,988
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	2,002	979	232	-	834	999
C. Financial liabilities	335,169	32,667	13,250	-	10,995	25,237
C.1 Deposits from banks	19,352	5,568	352	-	757	643
C.2 Deposits from customers	315,817	27,099	12,898	-	10,238	24,594
C.3 Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	2,546	488	2	66	451	-
E. Financial derivatives	-	-	-	-	-	-
- Options	-	-	-	-	-	-
+ Long positions	3,065	-	-	-	-	-
+ Short positions	3,065	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-
+ Long positions	449,810	56,124	24,371	-	22,488	59,826
+ Short positions	335,693	48,718	17,442	6	8,263	36,763
Total assets	559,951	78,251	35,575	-	34,023	85,049
Total liabilities	676,473	81,873	30,694	72	19,709	62,000
Difference (+/-)	(116,522)	(3,622)	4,881	(72)	14,314	23,049

Internal models and other sensitivity analysis methods

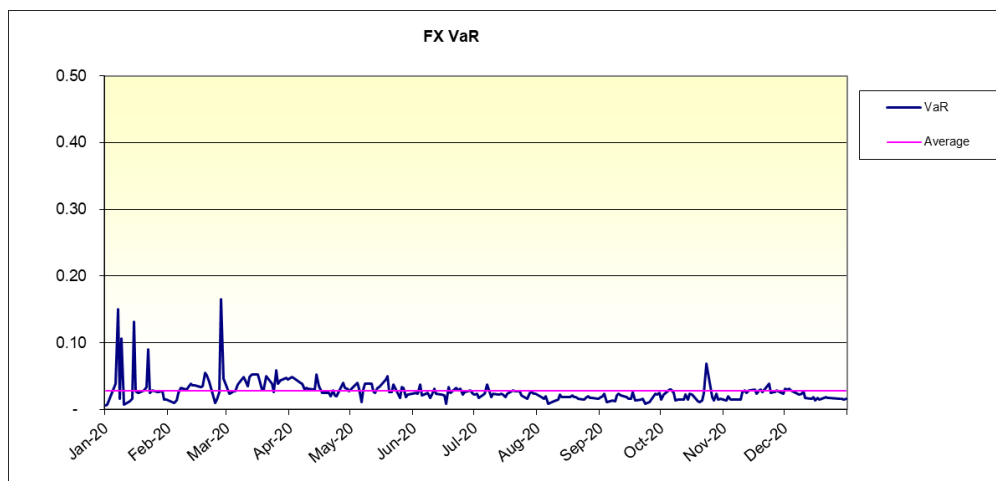
This section briefly summarises the results of the foreign exchange risk analyses relative to the trading book. In particular, the average, maximum and minimum VaR values (in €/million) generated by the currency risk factor are reported for the years 2018, 2019 and 2020.

Table 4. Currency VaR data

	2020	2019	2018
Credem			
VaR - average	0.0	0.0	0.0
min	0.0	0.0	0.0
max	0.2	0.3	0.5

Figures in €/million, VaR 99% 10days * multiplication coefficient

The following figures show the performance of the afore-mentioned VaR for Credem in 2020.



The table below shows the average contributions of equity risk, foreign exchange risk and interest rate risk in 2020 to the total non-diversified VaR.

Table 5. Average % contribution of risk factors at total non-diversified VaR

	Equity Risk	FX Risk	Interest Rate Risk
Credem 2020	1.6%	0.0%	98.3%

As part of the more comprehensive annual backtesting analysis of models, the VaR data is compared with the effective P&L recorded. The backtesting guidelines are described in the document Market Risk, Backtesting Methodology, Owned Portfolio VaR, which sets out the objectives and methodology.

Backtesting is carried out by comparing the VaR figures with the daily management P&L figures (or weekly, for the portfolios for which the calculation of profitability is on a weekly basis), based on the analysis of “exceptions”, or cases in which the loss recorded is higher than the estimated VaR for the same reference period, both in terms of numbers and in terms of time breakdown.

The scope of the backtest analysis consists of the portfolios of Finance Regulations, the VaR time horizon is in line with the calculation of the P&L. The test is based on 12 months of figures. The assumptions were checked through a series of tests:

- Frequency Test: Basilea and Kupiec (or POF, Proportion of Failure);
- Independence Test: Christoffersen and Mixed Kupiec;
- Joint Test: POF + Christoffersen, POF + Mixed Kupiec.

With regard to annual backtesting, the tests conducted confirm the solidity of the VaR model.

1.3 Derivatives and hedging policies

Transactions in derivative instruments are managed by the Group by means of a specific application that makes daily valuations on a Mark to Model basis. The reference document “Technical attachment to the Group Fair Value Policy: Pricing model manual” regulates the main pricing models most often used by the Group for its derivatives measured on a Mark to Model basis. In particular, a specific section provides a detailed illustration of these models. The series of models illustrated identifies the methods used to date and validated for valuations of own instruments.

Classification of derivative instruments and market parameters

The Credem Group has drawn up a Fair Value Policy and relative technical attachments, which also contain the accounting rules for the valuation of instruments on a Mark to Model basis, the relative parameters and the processes used for the valuation of said instruments.

In particular, the manual is divided into the following sections:

- classification of the derivative instruments, historicised within the application;
- mapping and detail of the market parameters used by the application for the valuation of all instruments;
- description of automated procedures to historicise prices.

Market parameters

The market parameters used for the valuations and managed within the application may be:

- data acquired automatically, information downloaded periodically from Info Providers (e.g. daily market parameters);
- market data estimated by the application, mainly through data acquired automatically.

In general, the parameters entered manually are those that don't need to be updated continuously and on a daily basis.

Process to validate models and parameters

As already mentioned, the reference documents illustrate all of the pricing models and market parameters validated and used by the Group for the valuation of derivative instruments.

In the event that new parameters and/or models need to be introduced, the process envisages the involvement of the validation office, which issues a specific opinion on the new element and organises the validation of the models, as provided for in the specific Group regulations for new products.

The validation office is responsible for periodically updating the reference documents with new models and/or parameters used and for analysing the validity of the models in use.

Automatic procedures and specific controls enable the valuations of the derivatives and of the parameters used to be monitored on a daily basis.

The type of valuation is shown for each type of derivative (through market quotation - Mark to Market or through valuation according to the Mark to Model technique). If the derivative has been measured using the Mark to Model technique, the pricing model and the market parameters used for the valuation are indicated.

Family	Group	Transaction Type	Description	Mark to Market/Mark to Model	Pricing model Market parameters
CURR	FXD	FXD	Spot Forward	Mark to Market for the spot, Mark to Model for the forwards	Model: Cost of Carry Parameters: exchange rates, forex curves
	FXD	XSW	Forex-Swap	Mark to Model	Model: Cost of Carry Parameters: exchange rates, forex curves
EQD	EQUIT		Equities	Mark to Market	Listed Price
IRD	ASWP		Asset Swap	Mark to Model	Model: Discounted cash flow Parameters: interest rate curve
	BONDS		Bonds	Mark to Market	Listed Price
	BONDS		Bonds	Mark to Model	Additional Features: Capped/floored rate Model: Bond component: Discounted cash flow, optional component: Fischer Black Parameters: interest rate curve, interest rate volatility, credit spread
	C/F		Cap/Floor	Mark to Model	Model: Black Normal Yield Parameters: interest rate curve, interest rate volatility
	IRS		Interest Rate Swap	Mark to Model	Model: Discounted cash flow Parameters: interest rate curve
	LFUT		Long Future	Mark to Market	Listed Price
	LN_LR		Loans/Deposit	Mark to Model	Discounted cash flow Parameters: interest rate curve
SCF	SCF	SCF	Simple Cash Flow		

1.3.1 Derivative trading instruments

A. Financial derivatives

A.1 Derivative trading instruments: end of period notional amounts

Underlying assets/Type of derivatives	Total 31/12/2020				Total 31/12/2019			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Debt securities and interest rates	-	1,290,433	396,117	-	-	11,271,177	377,744	-
a) Options	-	53,390	140,618	-	-	61,317	127,191	-
b) Swap	-	1,237,043	251,127	-	-	11,209,860	225,611	-
c) Forward	-	-	4,372	-	-	-	19,942	-
d) Futures	-	-	-	-	-	-	5,000	-
e) Others	-	-	-	-	-	-	-	-
2. Equity securities and stock indices	-	-	7,813	-	-	-	1,069	-
a) Options	-	-	7,813	-	-	-	1,069	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	-	-	-	-	-	-	-
3. Currencies and gold	-	571,754	425,126	-	-	680,801	433,386	-
a) Options	-	3,260	3,260	-	-	4,362	4,362	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	568,494	421,866	-	-	676,439	429,024	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Other	-	-	-	-	-	-	-	-
Total	-	1,862,187	829,056	-	-	11,951,978	812,199	-

A.2 Financial trading derivatives: gross positive and negative fair value – breakdown by product

Types of derivatives	Total 31/12/2020				Total 31/12/2019			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Positive fair value								
a) Options	-	6	1,433	-	-	36	1,181	-
b) Interest rate swaps	-	8,643	5,061	-	-	81,304	3,926	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	3,047	9,879	-	-	4,659	3,820	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	-	11,696	16,373	-	-	85,999	8,927	-
2. Negative fair value								
a) Options	-	609	59	-	-	708	95	-
b) Interest rate swaps	-	11,975	-	-	-	96,472	22	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	13,493	1,659	-	-	4,262	1,541	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	-	26,077	1,718	-	-	101,442	1,658	-

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

Underlying assets	Central counterparties	Banks	Other financial companies	Other entities
Contracts not subject to netting agreements				
1) Debt securities and interest rates				
- notional amount	X	1,846	115,427	278,845
- positive fair value	X	-	3,080	2,914
- negative fair value	X	4	2	62
2) Equity securities and stock indices				
- notional amount	X	-	10	7,803
- positive fair value	X	-	-	283
- negative fair value	X	-	-	-
3) Gold and currencies				
- notional amount	X	-	-	425,126
- positive fair value	X	-	-	10,095
- negative fair value	X	-	-	1,651
4) Commodities				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts included in netting agreements				
1) Debt securities and interest rates				
- notional amount	-	1,290,433	-	-
- positive fair value	-	8,648	-	-
- negative fair value	-	12,364	-	-
2) Equity securities and stock indices				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Gold and currencies				
- notional amount	-	562,214	9,540	-
- positive fair value	-	2,989	58	-
- negative fair value	-	13,406	307	-
4) Commodities				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 OTC financial derivatives – residual life: notional amounts

Underlying/residual	Up to 1 year	Over 1 year up to 5 years	Over 5 years	Total
A.1 Financial derivative contracts on debt securities and interest rates	294,157	972,538	419,856	1,686,551
A.2 Financial derivative contracts on equity securities and stock indices	1,065	6,738	10	7,813
A.3 Financial derivative contracts on currencies and gold	970,619	26,260	-	996,879
A.4 Financial derivative contracts on goods	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2020	1,265,841	1,005,536	419,866	2,691,243
Total 31/12/2019	4,684,686	6,325,273	1,754,218	12,764,177

1.3.2 Hedge accounting

Qualitative information

With regard to hedge accounting, as envisaged by IFRS 9, the Group will continue to apply the provisions of accounting standard IAS 39 (adopting the carved-out version approved by the European Commission) for all hedges in place.

Fair value hedging, hedging instruments and items hedged

The Macro Fair Value Hedge accounting method was adopted to hedge the interest rate risk associated with:

- Fixed-rate mortgages/loans, therefore alongside the Cash Flow Hedge method;
- Floating-rate mortgages/loans with a cap option, to hedge the interest rate risk generated by the option;
- the core inelastic component of demand deposits;
- TLTRO for the plain vanilla component at fixed interest rates.

In addition, the Micro Fair Value Hedge accounting method was adopted to hedge the interest rate risk associated with:

- debt securities held as HTCS and HTC (including inflationary BTP, where also the inflation risk is hedged);
- fixed-rate bonds issued by Credito Emiliano.

By applying hedge accounting, it is possible to symmetrically represent, in accounting terms, both the hedged items and the derivative products used for the hedge. In particular, to hedge interest rate risk, unlisted derivative instruments (IRS, OIS, IRO, IRS inflation) are used, which allow the differences between the financial features of loans and deposits to be realigned.

The Fair Value Hedge method requires that the hedging relationship be formally documented by a hedging card and that the effectiveness of the hedge is verified by prospective and retrospective tests of effectiveness. If the tests of effectiveness give a positive result, an adjustment of the fair value of the hedge instrument is recorded in the accounts, to align its valuation method with that of the hedging instrument. These effectiveness tests are performed periodically during the life of the operation. The hedge is considered effective if the ratio between the change in fair value of the hedged item with respect to the hedging instrument is within the range of 80% - 125%. The test of prospective and retrospective effectiveness of the hedge is carried out on a quarterly basis.

Hedge accounting cannot be maintained when the hedge becomes ineffective (outside of the range of 80%-125%). Possible sources of inefficiency may include different payment dates or arrangements between the hedged and hedging instrument, and the credit spread for the FVH security.

Cash flow hedging, hedging instruments and items hedged

The basic objective of cash flow hedging is to avoid that unexpected changes in market rates have a negative impact on the net interest income.

There are cash flow hedges on various forms of floating-rate deposits already issued and to be issued (forecast transaction).

In particular, for interest rate risk hedging, unlisted derivative instruments (interest rate swaps) are used, which allow realignment of the financial differences between loans and deposits. The objective of hedging is to partially eliminate the risk of fluctuations in future cash flows caused by changes in the floating rate over the period hedged, and the consequent achievement of indexing at a “target” fixed rate, equal to that calculated from the “fixed-leg” cash flows of the group of hedging instruments.

In previous years, the Cash Flow Hedge was also introduced for floating-rate mortgages. The definition of mortgage packages with Cash Flow Hedges was made on the basis of the following criteria:

- same payment frequency

- same type of indexing
- frequency of interest rate review and payment of interest (split into the following 3 buckets: from the 1st to the 10th day of the month, from the 11th to the 20th day of the month and from the 21st day to the end of the month).

The similarity of these characteristics in the loans portfolio and the relative derivatives guarantees the effectiveness of the hedge and therefore means that the test in point 2 of the paragraph below does not need to be conducted (this test is compulsory for the Cash Flow Hedge on various forms of funding).

Method for evaluation of effectiveness

For floating-rate deposits with Cash Flow Hedges, the following tests are conducted:

- Verification of the minimum nominal capacity for each future period, starting from the current bucket;
- performance of prospective and retrospective tests using the hypothetical derivative approach, namely a comparison between the fair value of the hedge derivative and the fair value of the hypothetical derivative, with the fixed leg as the same flows of the hedging derivatives and the floating leg as the variable flows of the hedged instrument weighted by hedge percentages.

For loans covered by the Cash Flow Hedge, the hedging swap is checked to ensure that it has been concluded at market conditions, by verifying the Market To Market value with the real-time curve when the transaction is closed.

Comments on the method presented

As regards the Cash Flow Hedges of the various forms of funding (the same applies to the mortgage Cash Flow Hedge, changing the signs of the cash flows and liabilities into assets) the derivatives for which the method in question is applied are considered as part of a single group of transactions whose overall exposure can be classified as “floating-rate collection/fixed-rate payment”. These transactions are considered, throughout their duration, as partial hedging of the cash flows generated on a group of floating-rate liabilities (floating-rate payment); these liabilities are represented by outstanding debit positions, as well as by future transactions with the same characteristics (if these respect the requirements for designation as hedged items).⁸ Within each bucket, which hedges the homogeneous set of cash flows generated by the hedged liabilities, the identification of hedged cash flows is independent from their correlation with respect to the nominals that generated them (individual floating-rate liabilities), however the hedged cash flows are identified as “the first” of all that generated within the same bucket.

The objective of hedging is to eliminate a portion of the risk of variability in cash flows resulting from redefinition of the “coupons” of hedged items. The designation of the hedge relationship refers to specific periods of future time (quarterly buckets for the securities Cash Flow Hedge, monthly buckets for the mortgage Cash Flow Hedge) and, in terms of amount hedged, may differ from bucket to bucket, depending on the overall position of the group of hedging derivatives and the outstanding transactions hedged at the end of each specific bucket.

The reduction of the risk of cash flow variability is achieved by creating a group of hedged items and hedging items with indexing features at the same floating rate and with rate definition dates that are “reasonably” close (a quarter in the case of Cash Flow Hedges on different forms of funding, 10 days in the case of mortgage Cash Flow Hedges).

In essence, the cash flows collected during each of the periods defined by the variable coupons of the group of hedging instruments will offset a portion (equal to the portion generated on the hedged principal) of the total cash flows paid on the group of hedged items (the flows generated by the first nominals in repricing each

⁸ If transactions that are solely “prospective” satisfy the requirements set forth by IAS 39 to be qualified as “forecast transactions”, even the future cash flows generated by these may in turn be included under the same definition and, consequently, measured as hedged items. For the mortgage Cash Flow Hedge, it was decided not to use “forecast transactions”.

bucket until reaching the nominal value of hedging transactions for each period), transforming the total exposure in the bucket from floating to fixed.

For this situation to occur with a high level of probability, it is necessary that the cash flows (floating) generated by the two groups be aligned in terms of indexing parameter and frequency and that the floating-rate definition dates for the individual items within the two groups be sufficiently close to one another.

The concept of high probability of forecast transactions

In order to designate the hedge ratio of different forms of funding at variable interest rates, a forecast transaction must be:⁹

- highly probable;
- able to have a final impact on the income statement as the cash flows referring to it are variable.

“Highly probable” refers to a situation where it is more likely that the transaction will occur rather than not occur.¹⁰ To this end, it is not possible to label future transactions as “highly probable” solely on the basis of management’s intentions: the analysis must be supported by objectively verifiable facts and circumstances.

The standard provides a list of points to be taken into consideration when defining the requirement of high probability.¹¹ These are:

- the frequency of similar, past transactions;
- the financial and operational ability of the entity to carry out the transaction;
- the strategic business plans (the forecast transactions must be in line with the size of the company and its growth prospects);
- the relevance of the transaction with the entity’s core business;
- the likelihood that transactions with substantially different characteristics might be used to achieve the same business purpose;
- the presence of a substantial commitment of resources for a specific activity.

Three factors affect the extent and relevance of the “evidence” necessary to demonstrate the “high probability” of a future transaction:

- the length of time until the future transaction is expected to occur. Other factors being equal, the more distant a forecast transaction is, the less certain its occurrence is and, therefore, the less likely it is that it would be considered as being “highly probable”. In these cases, much more substantial evidence of “high probability” is required (such as, for example, contracts supporting the future transaction; the accounting standard highlights how interest payments in twenty years arising from a debt instrument with said maturity would be “highly probable” if supported by a contractual obligation for the payment of said amounts);¹²
- the quantity/value of forecast transactions with respect to the actual transactions of the same type. Other factors being equal, the higher the value of forecast transactions compared to current transactions, the lower the probability that these will actually occur. Therefore, stronger evidence will be required to support the claim of “high probability”;
- the history of past designations. If the company has a history of designating hedges of forecast transactions that do not actually occur because the transaction does not take place, this is an indication of the company’s limited ability to reliably evaluate forecast transactions as “highly probable”.

¹³As highlighted in the Implementation Guidance of IAS 39, the company is not required to determine the exact date in which the forecast transaction will take place. However, it must clearly identify and document the period in which the transaction is expected to occur.

⁹ IAS 39 § 88

¹⁰ IAS 39 IG F.3.7

¹¹ IAS 39 IG F.3.7

¹² IAS 39 IG F.3.7

As regards the above, the ALM Committee has set a limit to the maximum value of forecast transactions.

The amount of the forecast transactions may not exceed the total estimated value of future floating-rate bond issues (defined as the difference between the expected outstanding volumes each year and the total amount of bonds already issued).

For correct determination of the maturing cash flows, in addition to the inertial amount of transactions already carried out, the amounts for transactions carried out in the forecasted/projected years are also determined; conventionally, the duration of these issues is assumed to be 2 and 3 years.

A decreasing percentage over time has also been established for the ratio of total assumed forecast transactions to envisaged issues, in order to express the lower probability of forecasts the more distant they are.

Quantitative information

A. Hedging financial derivatives

A.1 Hedging financial derivatives: end of period notional amounts

Underlying assets/Type of derivatives	Total 31/12/2020				Total 31/12/2019			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Debt securities and interest rates	-	15,115,328	102,327	-	-	15,014,002	139,892	-
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	15,115,328	102,327	-	-	15,014,002	139,892	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	-	-	-	-	-	-	-
2. Equity securities and stock indices	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	-	-	-	-	-	-	-
3. Currencies and gold	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Other	-	-	-	-	-	-	-	-
Total	-	15,115,328	102,327	-	-	15,014,002	139,892	-

A.2 Hedging financial derivatives: gross positive and negative fair value – breakdown by product

Types of derivatives	Positive and negative fair value								Change in the value used to calculate the effectiveness of the hedge	
	Total 31/12/2020				Total 31/12/2019				Total 31/12/2020	Total 31/12/2019
	Over the counter			Organised markets	Over the counter			Organised markets		
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties				
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements			
Positive fair value										
a) Options	-	-	-	-	-	-	-	-	-	
b) Interest rate swaps	-	273,385	-	-	-	260,499	22	-	-	
c) Cross currency swaps	-	-	-	-	-	-	-	-	-	
d) Equity swaps	-	-	-	-	-	-	-	-	-	
e) Forwards	-	-	-	-	-	-	-	-	-	
f) Futures	-	-	-	-	-	-	-	-	-	
g) Other	-	-	-	-	-	-	-	-	-	
Total	-	273,385	-	-	-	260,499	22	-	-	
Negative fair value										
a) Options	-	-	-	-	-	-	-	-	-	
b) Interest rate swaps	-	355,749	-	-	-	324,494	2,314	-	-	
c) Cross currency swaps	-	-	-	-	-	-	-	-	-	
d) Equity swaps	-	-	-	-	-	-	-	-	-	
e) Forwards	-	-	-	-	-	-	-	-	-	
f) Futures	-	-	-	-	-	-	-	-	-	
g) Other	-	-	-	-	-	-	-	-	-	
Total	-	355,749	-	-	-	324,494	2,314	-	-	

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

Underlying assets	Central counterparties	Banks	Other financial companies	Other entities
Contracts not subject to netting agreements				
1) Debt securities and interest rates				
- notional amount	X	102,327	-	-
- positive fair value	X	-	-	-
- negative fair value	X	3,057	-	-
2) Equity securities and stock indices				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Gold and currencies				
- 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 included in netting agreements				
1) Debt securities and interest rates				
- notional amount	-	15,115,328	-	-
- positive fair value	-	273,385	-	-
- negative fair value	-	362,224	-	-
2) Equity securities and stock indices				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Gold and currencies				
- 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 OTC hedging financial derivatives – residual life: notional amounts

Underlying/residual	Up to 1 year	Over 1 year up to 5 years	Over 5 years	Total
A.1 Financial derivative contracts on debt securities and interest rates	2,516,930	5,247,723	7,453,002	15,217,655
A.2 Financial derivative contracts on equity securities and stock indices	-	-	-	-
A.3 Financial derivative contracts on currencies and gold	-	-	-	-
A.4 Financial derivative contracts on goods	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2020	2,516,930	5,247,723	7,453,002	15,217,655
Total 31/12/2019	1,095,361	6,096,736	7,961,796	15,153,893

D. Hedged instruments

With regard to hedge accounting, as envisaged by IFRS 9, the Group will continue to apply the provisions of accounting standard IAS 39 (adopting the carved-out version approved by the European Commission) for all hedges in place.

D.1 Fair value hedges

	Micro-hedges: book value	Micro-hedges - net positions: book value of assets or liabilities (before netting)	Micro-hedges			Macro- hedges: book value
			Cumulative changes in fair value of the hedged instrument	Termination of hedging: residual cumulative change in fair value	Changes in value used to recognise the ineffectiveness of the hedge	
A. Assets						
1. Financial assets measured at fair value through other comprehensive income - hedging of:	3,440,876	-	-	-	-	-
1.1 Debt securities and interest rates	3,440,876	-	-	-	-	X
1.2 Equity securities and stock indices	-	-	-	-	-	X
1.3 Currencies and gold	-	-	-	-	-	X
1.4 Loans	-	-	-	-	-	X
1.5 Other	-	-	-	-	-	X
2. Financial assets measured at amortised cost - hedging of:	4,187,385	-	82,319	-	-	127,194
1.1 Debt securities and interest rates	4,187,385	-	82,319	-	-	X
1.2 Equity securities and stock indices	-	-	-	-	-	X
1.3 Currencies and gold	-	-	-	-	-	X
1.4 Loans	-	-	-	-	-	X
1.5 Other	-	-	-	-	-	X
Total 31/12/2020	7,628,261	-	82,319	-	-	127,194
Total 31/12/2019	8,536,355	-	70,873	97,350	-	105,511
B. Liabilities						
1. Financial liabilities measured at amortised cost - hedging of:	226,937	-	22,619	-	-	161,035
1.1 Debt securities and interest rates	226,937	-	22,619	-	-	X
1.2 Currencies and gold	-	-	-	-	-	X
1.3 Other	-	-	-	-	-	X
Total 31/12/2020	226,937	-	22,619	-	-	161,035
Total 31/12/2019	1,691,713	-	29,945	15,266	-	105,129

E. Impact of hedging transactions recognised in shareholders' equity

E.1. Reconciliation of components of shareholders' equity

	Cash flow hedging reserve						Foreign investment hedging reserve						Hedging instruments (elements not designated)			
													Temporal value of option		Forward element value and currency spread	
	Debt securities and interest rates	Equity securities and stock indices	Currencies and gold	Loans	Other		Debt securities and interest rates	Equity securities and stock indices	Currencies and gold	Loans	Other		Hedges relating to transactions	Hedges relating to a period	Hedges relating to transactions	Hedges relating to a period
Opening balances	35,251	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in fair value (effective portion)	11,826	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reversals to income statement	933	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
of which: future transactions no longer envisaged	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	X
Other changes	2,340	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
of which: transfers at initial book value of hedged instruments	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	X
Closing balances	50,350	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

1.4 Liquidity risk

Qualitative information

A. Liquidity risk: general aspects, management processes and measurement methods

Liquidity risk is defined as the possibility that the Group finds itself in a situation in which it is unable to meet its ordinary or extraordinary payment commitments when they become due without incurring losses that may undermine daily operations or the overall financial situation of the Group. Liquidity risk management can be divided into:

- management of short-term liquidity, including intra-day liquidity, the objective of which is to ensure the capacity to meet expected or unexpected cash payment commitments by maintaining a sustainable balance between the incoming and outgoing cash flows; this management constitutes the essential condition for normal operational continuity of banking activities;
- structural liquidity management, the objective of which is to maintain an adequate ratio between total liabilities and assets, in order to avoid pressures on short-term, current and future sources.

The Credito Emiliano Group adopted a liquidity risk management policy some time ago. The approved Policy regulates:

- the principles of liquidity risk governance and management adopted by the Group, and
- the set of regulations and control processes that aim to prevent the emergence of liquidity crisis situations for the Group and for individual Group companies, with the objective of encouraging proper and careful management of liquidity risk at consolidated level, with a view to assuring the stability and safety of company transactions, financial solidity and consequently Group solvency.

The basic principles behind the liquidity management policy are:

- definition of the Risk Appetite and Risk Tolerance (or tolerance threshold) in the context of the normal business activities and stress scenarios;
- definition and formalisation of roles and functions, in line with the principle of separating operational functions from control functions (known as “segregation of duties”);
- centralisation of the liquidity risk governance function with the Parent Company;
- implementation of a policy to transform the deadlines managed within the limits assigned;
- adoption of a diversified funding policy in terms of sources, duration and type of funding instruments;
- definition and formalisation of the principles relating to the definition of the pricing system for the internal transfer of funds;
- definition and formalisation of an emergency plan to be activated in the event of stresses and/or market crises or in the event of specific Group situations (Contingency Funding Plan);
- adoption of an internal control system.

The changes in cash flows over time are examined, on a daily basis, through a liquidity gap model, enabling the implementation of transactions aimed at establishing equilibrium between cash inflows and outflows.

The Group Asset Liability & Management Committee is awarded with decision-making powers to draw up strategies on Group funding policies. The financial equilibrium status is also regularly analysed, within the Committee, to guide funding strategy decisions. This includes the Committee’s analysis of extraordinary measures that may become necessary due to contingent market situations.

Under the RAF process, the Risk Tolerance thresholds, the metric and control procedures are also defined for the following liquidity indicators:

- Liquidity Coverage Ratio (LCR);
- Asset Encumbrance;
- Net Stable Funding Ratio (NSFR).

The Liquidity Management rules adopted establish liquidity limits for short-term maturities and other indicators to monitor the overall position on a daily basis.

As regards structural liquidity, limits are envisaged to control and manage risks resulting from mismatches of medium/long-term maturities of assets and liabilities. Gap ratios at 1, 2 and 5 years are envisaged.

These limits enable the bank to avoid medium-long term transactions triggering excessive imbalances that require short-term financing.

The stress test scenarios envisaged by the Regulation are broken down into:

- systemic stress - low severity: systemic liquidity crises entailing an unexpected instability of the money and capital markets and/or political tensions, accompanied by high levels of intensity and global impacts;
- idiosyncratic stress - medium severity: liquidity crises caused by particularly negative events for the Group;
- combined stress - high severity: this is the combination of the two previous scenarios. The purpose of the Contingency Funding Plan procedures, recently revised, is to safeguard the Group's stability during the initial stages of a state of liquidity tension and to guarantee the continuity of the Group in the event of a serious liquidity crisis.

The management of short-term liquidity and structural funding is carried out by the Parent Company's Finance Business Unit, which, overall:

- manages the intragroup cash flows arising from the net liquidity needs/surplus of the Group companies;
- measures and monitors the liquidity position of the Group and the individual Group companies;
- coordinates and raises funds in the interbank market to maintain adequate liquidity conditions for the Group;
- periodically establishes the financial interventions required to achieve medium and long-term equilibrium, sustainable growth and greater efficiency in funding;
- manages relations with the ECB (overseeing the management account and any lending or funding activity) and participates in the ECB's refinancing operations.

This set-up enables the Group's financial requirements to be adequately supported and is aimed at:

- reducing the total requirements for funding from counterparties external to the Group;
- optimising access to markets and thus, minimising total costs of external funding.

During the second half of 2020, there were no changes with regard to supervisory reporting. Reports relating to the Liquidity Coverage Ratio (LCR) and Additional Liquidity Monitoring Metrics (ALMM) have not been updated and are produced on a monthly basis, based on formats compliant with EU Implementing Regulations nos. 322/2016 and 2114/2017 respectively.

The Group also continues to participate in Basel III half-yearly monitoring, and sends the quarterly liquidity reports envisaged by EU Regulation 575/2013 (CRR), in the form of a requirement relative to stable financing (SF).

Every three months, the information required as part of the Short-Term Exercise (STE) is prepared and forwarded to the Supervisory Authorities.

During 2020, the Group carried out the extraordinary Covid-19 reporting requested by the ECB.

The total amount of funding with the ECB at the end of December 2020 relates to TLTRO3 operations for a total amount of € 7.1 billion. During the first quarter of the year, the TLTRO2 transactions still in place were repaid, for a total value of € 1.5 billion. The early repayment took place at the same time as the second participation in the TLTRO3 transactions for the amount of € 1.4 billion.

Starting from the first quarter of 2020, the Bank also started financing operations in foreign currency with the Central Bank, carrying out weekly funding operations in US dollars during the year.

As at 31 December 2020, total unrestricted liquidity reserves, meaning the high-quality liquid assets used to calculate the LCR indicator, amounted to € 9.5 billion. 95% of these reserves belong to the Parent Company and the remaining 5% to the domestic subsidiaries.

Covered Bond Programmes

In 2020, no new issues were carried out under the Covered Bond Programme by Credem CB. On 18 December 2020, the Programme was renewed annually.

As at 31 December 2020, the nominal value of the issues in circulation was € 1.6 billion.

“Euro Medium Term Note” (EMTN) issue programme

In 2020, no new issues were performed under the EMTN Programme, which, at present, has not been renewed for the year.

On 13 March 2020, Credem exercised the early repayment envisaged in the “Tier 2” subordinated bond issued in 2015 for € 200 million.

Outside of the aforementioned Programme, with value date 16 September 2020, Credemholding SpA placed the stand-alone issue of a subordinated Tier 2 bond loan for a nominal amount of € 200 million, intended for institutional and professional investors. At the same time, Credembanca issued a Tier 2 subordinated bond loan with the same characteristics, fully subscribed by Credemholding S.p.A.

Securitisation operations

With reference to the securitisation transaction relating to the Emilia SPV S.r.l. special purpose vehicle, in 2020 no new disposals or repurchases en bloc of assets were completed by the special purpose vehicle Credem CB S.r.l. of performing residential mortgage loans that had become suitable for use in the issue of Covered Bond Programmes. In May 2020, the replenishment period ended, which allowed new portfolios of eligible loans to be transferred to the special purpose vehicle. For this purpose, activities to restructure the operation and extend this period have begun.

As at 31 December 2020, the current tranche of senior notes corresponded to around € 0.47 billion and that of the junior notes to around € 0.33 billion.

Impacts deriving from the Covid-19 pandemic

Following the spread of Covid-19 and the consequent situation of strong macroeconomic and financial uncertainty, many measures were launched by the government to support this exceptional moment of crisis (Liquidity decree, moratoriums). In view of the change in the reference context, as regards liquidity risk, management strategies and risk objectives were adjusted. In particular, within the Risk Appetite Framework, the threshold established for 2020 on the Asset Encumbrance indicator was marginally increased in consideration of the provisions of the ECB that allowed the increase of the maximum possible take-up of TLTRO3. In addition, to strengthen the timeliness and evidence of controls, the monitoring of the Risk Appetite Framework changed from quarterly to monthly for the LCR indicator.

1. Time breakdown by contractual residual maturity of financial assets and liabilities

EURO

Items/time	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Unspecified maturity
Balance sheet assets	2,561,267	780,051	423,280	617,474	2,585,436	3,535,791	3,213,187	12,689,054	11,767,801	7,822,516
A.1 Government securities	-	-	85	124	4,175	994,504	221,067	1,868,710	2,721,223	-
A.2 Other debt securities	-	25	1,410	1,724	1,779	5,763	2,586	960,505	1,190,466	-
A.3 Units of UCITS	4,074	-	-	-	-	-	-	-	563	-
A.4 Loans	2,557,193	780,026	421,785	615,626	2,579,482	2,535,524	2,989,534	9,859,839	7,855,549	7,822,516
- Banks	159,538	148,450	-	-	3,847	11	71	156	87	7,578,779
- Customers	2,397,655	631,576	421,785	615,626	2,575,635	2,535,513	2,989,463	9,859,683	7,855,462	243,737
Balance sheet liabilities	30,242,562	2,242,951	254,237	569,109	186,162	44,101	796,735	8,438,385	541,262	719
B.1 Deposits and current accounts	29,996,889	28,591	15,712	78,122	161,164	14,898	4,217	6,561	31,923	719
- Banks	78,700	1,755	29	6,736	-	-	1,129	5,763	1,602	-
- Customers	29,918,189	26,836	15,683	71,386	161,164	14,898	3,088	798	30,321	719
B.2 Debt securities	156	-	-	8,438	-	-	775,213	1,250,000	450,000	-
B.3 Other liabilities	245,517	2,214,360	238,525	482,549	24,998	29,203	17,305	7,181,824	59,339	-
Off-balance sheet transactions										
C.1 Physically settled fin. derivatives										
- Long positions	1	1,171	16,044	57,514	329,812	226,734	162,790	17,974	-	-
- Short positions	1	136,877	39,828	101,874	129,583	61,894	104,439	265,425	159,118	-
C.2 Cash settled fin. derivatives										
- Long positions	14,703	38	3	-	83	108	191	-	-	-
- Short positions	12,469	2	2	-	18	13	31	-	-	-
C.3 Deposits and loans to be settled										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- Long positions	826	-	15	382	284	1,153	1,362	83,424	205,591	-
- Short positions	293,037	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	15,221	-	-	-	-	86	454	140	585	994
C.6 Financial guarantees received	-	-	-	-	-	50	284	80	673	388
C.7 Physically settled cred. derivatives										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Cash settled cred. derivatives										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

1. Time breakdown by contractual residual maturity of financial assets and liabilities
OTHER CURRENCIES

Items/time	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Unspecified maturity
Balance sheet assets	70,681	4,675	19,669	8,691	24,780	5,855	1,397	44,036	20,591	-
A.1 Government securities	-	-	-	-	1	1	8	52	73	-
A.2 Other debt securities	-	-	137	-	129	766	1,039	43,984	20,460	-
A.3 Units of UCITS	60	-	-	-	-	-	-	-	-	-
A.4 Loans	70,621	4,675	19,532	8,691	24,650	5,088	350	-	58	-
- Banks	69,763	-	-	-	1	-	-	-	-	-
- Customers	858	4,675	19,532	8,691	24,649	5,088	350	-	58	-
Balance sheet liabilities	357,196	416	-	12,559	10,444	10,153	-	-	-	-
B.1 Deposits and current accounts	357,139	416	-	12,226	10,237	9,504	-	-	-	-
- Banks	348	-	-	-	1	-	-	-	-	-
- Customers	356,791	416	-	12,226	10,236	9,504	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	57	-	-	333	207	649	-	-	-	-
Off-balance sheet transactions										
C.1 Physically settled fin. derivatives										
- Long positions	-	131,230	39,126	123,357	147,343	60,116	101,487	12,815	-	-
- Short positions	-	19,556	15,364	79,898	151,426	67,869	102,800	13,445	-	-
C.2 Cash settled fin. derivatives										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be settled										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Physically settled cred. derivatives										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Cash settled cred. derivatives										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

1.5 Operational risks

Qualitative information

A. Operation risk: general aspects, management processes and measurement methods

The Group has developed an integrated management system for the operational risks it is exposed to, which, while following strategic guidelines, improves the ability of the Organisational Units to consciously manage risk, by introducing identification, measurement and control tools able to guarantee the conscious assumption of risk in line with Governance strategies and with financial and equity circumstances, in compliance with the instructions of the Supervisory Authorities. The Parent Company's Board of Directors has approved the "Operational Risk Management" regulation (ORM Regulation), which establishes policies for the management of operational risk at Group and bank level, and sets out a common and co-ordinated system with shared rules for the division of tasks and responsibilities.

According to the regulation, operational risk is defined as "the risk of incurring losses resulting from inadequacy or inefficiency of procedures, human resources and internal systems, or external events, including legal risk; it does not include strategic or reputational risk".

Furthermore, the Parent Company's Board of Directors has also approved the use of the TSA method for all companies belonging to the Banking Group to determine capital requirements.

No significant changes were recorded with respect to the previous year as regards the operational risk management model, which is outlined below: the Body entrusted with Group strategic supervision is the Board of Directors of Credito Emiliano S.p.A., the Parent Company of the Credito Emiliano - CREDEM Banking Group. The body acts with the support of the Group Risks Committee, (Governance Committee, without powers, created to play a preliminary investigative role).

A number of bodies entrusted with management functions have been identified at Group level. These coincide with the Boards of Directors of each of the individual subsidiaries that adopted the ORM Regulation, implementing the related "form" in their specific situation and establishing the "local" functions needed for the positive outcome of the process.

From an operational perspective, the bodies entrusted with strategic supervision and those with management functions are assisted by the Operational and Credit Risks Office (OCR). Within the process that is centrally coordinated by OCR (the so-called "Central ORM"), their work is carried out with the support of several "Peripheral ORMs" belonging to the bank's various services.

The Board of Statutory Auditors is the body with a controlling role, in compliance with regulations in force regarding entities that adopt a "traditional" model of corporate governance. More specifically, the Board of Statutory Auditors of the Parent Company is responsible for supervising compliance with provisions in force, both legal and statutory, fair administration, the adequacy of accounting and organisational structures of the Group, also through coordination with similar entities operating in the subsidiaries.

In carrying out its activities, this body is supported by the Group Audit Service.

Moreover, the ORM Regulation sets out specific information flows towards the supervisory entity of the companies included in the TSA model (at individual and consolidated level, according to respective competences).

The Operational Risk Management System is periodically reviewed independently by the Parent Company's Audit Service.

The operational risk management system is defined as the structured set of processes, functions and resources to identify, measure and audit operational risks, and is divided into the following sub-processes:

- Identification;
- Measurement;

- Monitoring and Control;
- Mitigation.

The companies included in the measurement, monitoring and mitigation processes are those which, for the purposes of operational and IT risk, are relevant on an annual basis based on the analysis carried out as part of the approval of the Risk Appetite Framework (RAF) and of the capital adequacy assessment process (ICAAP) carried out by the Parent Company.

The “Identification” process consists of the following procedures:

- Loss Data Collection: this entails collecting data regarding internal operating losses, with the direct involvement of all business units. Within this context, operating loss events (including IT-related) are classified by Business Line (corporate finance, trading and sales, retail banking, commercial banking, payment and settlement, agency services, asset management, retail brokerage) and Event Type (internal fraud, external fraud, employment ratio and occupational safety, customers - products and professional practices, external damages and events, interruption of operations and malfunctioning of systems, execution, process delivery and management);
- Risk Self-Assessment: this entails collecting, through a questionnaire, subjective estimates expressed by the risk owners regarding operating events (including IT-related) potentially relevant for their business units and taking into account the development guidelines emerging from the preliminary group planning process;
- Data Pooling/Communication with external entities: this entails taking part in external common initiatives and in managing the relative relationships (e.g. DIPO consortium), as well as in communicating the operating loss data collected by the Supervisory Authorities (Banca d'Italia and European Central Bank).

The “Measurement” process involves quantifying Capital at Risk (CaR) through subjective estimates. The aim of the methods used to measure expected and unexpected losses is to monitor and identify potentially critical situations. These methods are based on questionnaires (RSA), carried out at least once a year, which, for each single type of event, ask the heads of the organisational unit (OU) that could generate/manage operational risks for a subjective estimate of some risk-generating factors:

- “standard occurrence”, the expected average number of events over the reference period of time;
- “standard impact”, the expected average loss by type of event;
- “worst impact”, the impact of an individual event when the same occurs in the worst (reasonably) conceivable way.

The analysis is performed on various levels: department, business units, company and consolidated group and an expected loss amount and an unexpected loss amount are calculated for each level. The results of the assessment are used for operational purposes to prevent and mitigate the operational risks and in the operational planning process, on a consistent basis with the matters defined by the “Group planning, scheduling and control regulations”.

The “Monitoring and Control” process seeks to promptly identify any dysfunctions in business processes or in risk management procedures so that the necessary mitigation measures are assessed.

Operational risks are also monitored within the wider Group Risk Appetite Framework (RAF) process (quarterly monitoring).

In order to ensure continuous monitoring, the Executive Committee/Board of Directors are responsible for reporting operating losses on a case-by-case basis, and for deciding independently (within the regulations already in force or, if this is not possible, beyond the threshold of €100,000) whether or not the controls have been successful and whether any organisational and/or process/product deficiencies

have been remedied. If available, the peripheral ORM that is competent at any given time includes the information to be reported within the proposals and sends them to the relevant departments, depending on the particular case (e.g., the Audit and Compliance Service). In any event, the resolutions adopted by the EC/BoD are sent, for informational purposes, to the Risk Officer of the Parent Company and the OCR. OCR checks every six months that the relevant departments have been set up by the Peripheral ORMs and if this has not happened, it directly sets up the relevant departments, if necessary, in coordination with the Peripheral ORMs.

In addition, the OCR checks, every six months, for BU/Credembanca Service and for relevant companies, that the respective losses recorded in the reference half-year or year do not exceed the related expected loss value estimated in the risk self-assessment and, if this occurs, reports at the Credembanca Executive Committee on the reasons for the deviation provided by the BU managers/Credembanca Service Managers. For the individual relevant companies, in the event that losses are greater than Expected Loss, the company's peripheral ORM reports to its BoD on the reasons for the deviation and notifies the Parent Company's Risk Officer.

The reporting system provides the management bodies and the relevant functional heads with information on the level of exposure to operational risks and is a tool used to support their active management, representing a combination of measurement, monitoring and control processes.

The "Mitigation" process defines actions to be taken to prevent and mitigate operational risks and consists of the following procedures:

- Management analysis: this entails analysing critical events that have occurred and the various possible solutions available within traditional alternative risk management methods (retention, transfer, mitigation), from a cost-benefit perspective;
- Management of mitigation: this entails selecting, planning, starting-up activities, implementing and completing mitigation actions set in place and then checking the progress and efficacy of risk mitigation interventions performed;
- Management of forms of transfer: this entails identifying, evaluating, selecting and managing the various forms of risk transfer.

The mitigation actions defined in the reporting are also included in the operational planning process.

The classification of activities into regulatory business lines is divided into the following stages:

- mapping of data;
- calculation of individual capital requirement.

Mapping of data is defined at individual level through the location of each management centre in the pertaining regulatory business line, according to the principles set forth in EU Regulation no. 575/2013; the data resources that report the income figures of such centres and any division criteria are then defined.

When applying the defined mapping, each company establishes values for each centre, their allocation to the envisaged business line and defines the individual requirement.

The defined activities to determine the consolidated capital requirement envisage the identification of the individual "Relevant Indicator" and the component relating to each Group company by regulatory business line (must be identified in compliance with criteria set out in the mapping used for individual purposes).

The capital requirement with respect to operational risks, calculated on the Relevant Indicator for the 2018 - 2020 three-year period, is € 135.6 million.

LEGAL RISKS

As part of its normal business operations, the Group is involved in various judicial proceedings, which may result in compensation and/or restitution obligations, and the consequent outlay of economic resources (so-called legal risk). All outstanding disputes have been duly analysed by the Bank and, in the light of these analyses,

as well as of the recommendations of its external attorneys, the appropriate allocations have been made, where necessary, on the basis of the circumstances in question.

More specifically, a provision for risks and charges has been established to cover the contingent liabilities that may arise from pending lawsuits.

The majority of these disputes regard the Group's core businesses, particularly investment services, anatocism and taxes.

Disputes regarding real estate, administration and over the counter transactions are of minor significance.

The following paragraphs provide a description of the main categories of potential liabilities, for which, if deemed to be probable, allocations have been made to other provisions for risks and charges.

Labour disputes: the risks relating to labour disputes are assessed quarterly on the basis of the progress of the disputes and therefore the provisions are adjusted accordingly.

Bankruptcy revocations: these are disputes that the Bank may be involved in as part of its ongoing business activities when customers undergoing Bankruptcy arrange payments in favour of the Bank, issue remittances on a current bank account at a time close to the declaration of Bankruptcy. Revocatory action is a tool that can be used by the bankruptcy receiver in order to reconstitute the equity of the bankrupt party addressed to paying its creditors, by retracting amounts that had been paid out in the period prior to the bankruptcy (the so-called suspect period). The Group makes a valuation of each position on a case-by-case basis, before the fact and before the law, paying special attention to documental/factual evidence. Following said analysis, where necessary, the appropriate allocations are therefore made (and changed on each occasion, where necessary) in line with the specific circumstances of the case in question. All relative lawsuits are constantly monitored and the risks resulting from such, where appropriate, are covered by specific allocations to the provision for risks and charges, in application of the provisions of IAS 37.

Misappropriation: this regards disputes the Bank may be involved in as part of its ongoing business activities. There are some claims and legal disputes resulting from irregular conduct by employees or financial consultants when carrying out the assignments entrusted to them or in their work, leading to claims by customers against the Bank, which may be considered liable for said conduct.

The Group makes a valuation of each position on a case-by-case basis, before the fact and before the law, paying special attention to documental/factual evidence.

Following said analysis, where necessary, the appropriate allocations are therefore made (and changed on each occasion, where necessary) in line with the specific circumstances of the case in question.

Disputes regarding anatocism: the overall number of pending lawsuits has remained stable, in the light, above all, of issues triggered by some rulings (as well as by the development of sector-related legislation). All relative lawsuits - at times also including disputes regarding exceeding the Usury Threshold Rate - are constantly monitored and the risks resulting from such, where appropriate, are covered by specific allocations to the provision for risks and charges, in application of the provisions of IAS 37.

Disputes regarding investment services: with regard to legal disputes regarding investment services - bonds in default, derivatives, etc. - the policy adopted by the Bank in this regard is that of assessing each position on a case-by-case basis, paying particular attention to documentary evidence and to the adequacy profile of the investments disputed with respect to the position of the individual counterparty.

Following said analysis, where considered necessary, allocations are therefore made in line with the specific circumstances.

Claims made by customers: the total number of claims received from customers in 2020 came to 3,935. The individual Group companies make provisions against the claims they have received: specifically, if the damages claimed are higher than a set threshold of significance (at present € 25 thousand), the loss provision is made analytically. If the damages claimed are lower than said threshold, the provision is calculated by applying a forfeit/statistical percentage to the total damages claimed in pending claims.

Tax disputes

The risks resulting from the Group's tax disputes are covered by adequate allocations to provisions for risks and charges. As regards the Parent Company, there are 29 disputes pending, in part related to local taxes as well as minor income taxes, while the rest regard direct and registration taxes, taking into account all proceedings pending at various levels of the courts. With regard to these disputes, no effective risks have emerged or at least the estimated risk appears remote. Therefore, no specific provisions have been made. Considering the uncertain outcomes of disputes, for one of the disputes pending in the Regional Tribunal Court, the company made use of the facilitated definition of disputes in which the Italian Internal Revenue Agency is a party, pursuant to and for the purposes of Art. 6 of Italian Legislative Decree no. 119/2018, converted, with amendments, by Italian Law no. 136/2018.

Credemleasing has 32 disputes pending at various levels of the courts, 21 of which relate to minor taxes (ICI, IMU, TA.RI., road taxes) and the remainder pertain to VAT, direct taxes and corporate taxes. Considering the uncertain outcomes of disputes, in certain cases, some of which are pending in the Court of Cassation, the company made use of the facilitated definition of disputes in which Italian Internal Revenue Agency is a party, pursuant to and for the purposes of Art. 6 of Italian Legislative Decree no. 119/2018, converted, with amendments, by Italian Law no. 136/2018. Banca Euromobiliare has a proceeding pending before the CTRE on the referral decision handed down by the Supreme Court of Cassation, in January 2019, in relation to a registration tax assessment following the sale of a business division. Lastly, there are disputes of lesser importance related to the work of financial advisors and labour-related matters, as well as the real estate and administration areas.

Total provisions for risks and charges for risks amount to € 144.2 million.

Impacts deriving from the Covid-19 pandemic

In the course of 2020, following the emergence of the global Covid-19 pandemic, a series of measures were taken to guarantee business continuity and avoid infections. These measures entailed various types of costs, which were recorded as operating losses according to the EBA guidelines as long as they were necessary to avoid closing/reopening safely and until a new level of "normality" was re-established (the expenses then incurred on a recurring basis for the "new context" were no longer considered as operating losses).

The types of costs of this nature, not budgeted for 2020 and necessary to ensure business continuity, include:

- medical device expenses (masks, PPE, hand washing gel);
- disinfection and extra cleaning;
- thermoscanners and other body temperature measurement systems;
- plexiglass barriers;
- laptops/networks;
- consultants and other staff hired specifically for purposes related to the pandemic.

These costs were determined and considered as “operating losses” until they became recurring expenses linked to the “new normal” and were recorded in Event Type 06 (Systems) as indicated by the EBA.

Other types of losses related to Covid could also be added to these types of costs, deriving for example from disputes with personnel relating to matters such as “smart working”, disputes relating to service losses for customers related to the reduction of operating times/closure of the branches etc. However, in 2020 no losses of various nature directly attributable to Covid were recorded.

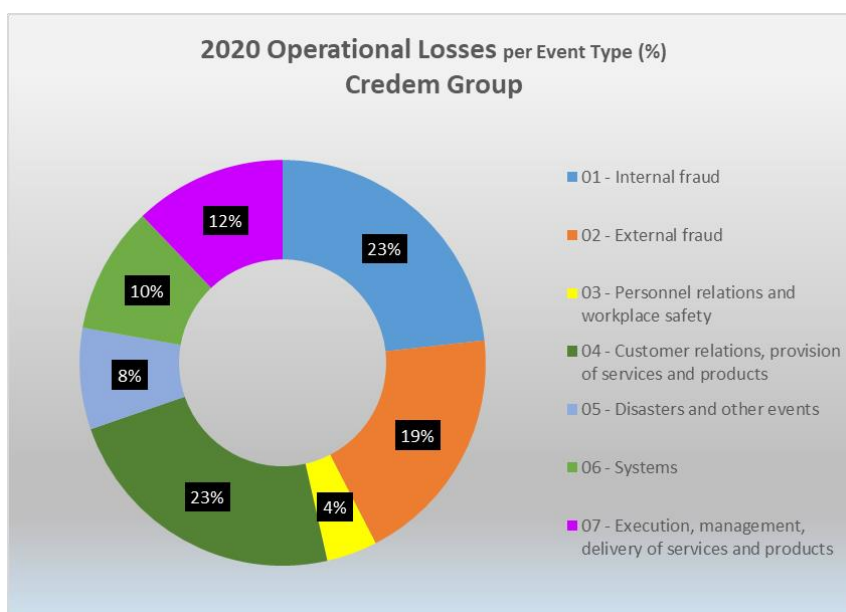
Quantitative information

The breakdown (in %) of the operational losses of the Credem Group by type of event is illustrated below:

- ET 01 - Internal fraud
- ET 02 - External fraud
- ET 03 - Personnel relations and workplace safety
- ET 04 - Customer relations, provision of services and products
- ET 05 - Disasters and other events
- ET 06 - Systems
- ET 07 - Execution, management, delivery of services and products

During 2020, the main source of operational risk, in terms of amount of loss, was the type of event relating to the Event Type 01 - Internal Fraud, and in second place (with a slightly lower amount) was “Customer relations, provision of services and products” (ET 04). Almost all losses attributable to “Conduct Risk” refer to Event Types 01 and 04.

The third source of operational risk refers to losses due to External Fraud - ET 02 (8% of this amount is due to losses related to IT risk). Subsequently, in order of incidence, there are: losses relating to Execution, management, delivery of services and products - ET 07, losses related to malfunctioning of technological systems - ET 06 (5% of this amount refers to losses attributable to IT Risk and the “Covid” macro-event is included in Event Type 06) and finally, to a lesser extent, losses due to Disasters and other events - ET 05 and Personnel relations and workplace safety - ET 03.



Section 3 – Risks of insurance companies

3.1 Insurance risks

CREDEMVITA S.P.A.

Credemvita's approach to risk management

Risk management strategies

Credemvita S.p.A has adopted a strategy for undertaking and managing risks based on criteria of sound and prudent management, coherent with the company's level of capital. This strategy is based on risk assessment principles that consider aspects relating to the significance (impact on income statement) and probability of events. The risk management approach adopted is based on proportionality criteria and is conveyed through a specific internal policy document, Risk Management Policy, which outlines the general principles, while specific documentation has been drawn up containing all of the relevant details (framework, risk analysis procedure, investment policies, risk assumption policies, etc.).

The key elements on which the Company's risk strategy and management policy are based are as follows:

- definition of the risk categories;
- internal analysis to identify the risk profile;
- definition of the Risk Appetite Framework (RAF);
- the risk management organisational model - operating limits and controls;
- risk management policies;
- risk measurement tools and methods;
- emergency plans.

The methods adopted for risk management must also allow:

- consistency checks between the level of risk assumed and the level of available capital;
- risk measurability/assessment to enable management to assess the impact of risk on business performance;
- continuous monitoring of the risk profile and comparison with the Risk Appetite Target.

As part of its risk management system, Credemvita has designed and implemented an independent process to assess its current and future capital adequacy, in relation to the significant risks to which the Company is exposed (ORSA - Own Risk and Solvency Assessment process). This process has the following phases:

- Forward-looking assessment of the Solvency II Ratio;
- Stress Test;
- Forward-looking Liquidity Plan;
- Adequacy of the Standard Formula with respect to the risk profile of the Company;
- Back Testing;
- Preparation and sending of ORSA Report.

The following processes are also an integral part of the ORSA process:

- Definition of the preliminary plan and of the company budget;
- Definition of the Risk Appetite;
- Risk identification and assessment and Continuous Monitoring.

As part of the Company's strategic policy, the Board of Directors identifies and approves the proper size of the overall capital endowment and the profitability targets adjusted for risk. The formulation of preliminary strategic guidelines by the Board of Directors guides the calibration of the risk targets and the development of the strategic plan.

These activities are significantly connected and are both developed considering the starting situation of the Company, the prospective view of the external context, the risk profiles and the guidelines in terms of risk/return. The strategic policies approved by the Board of Directors affect the production and organisational

structure in order to determine the desired impact – in the time horizon of planning – on risk/return.

The Risk Management department continuously supports the corporate bodies in the choices deriving from the implementation of the plan by facilitating the understanding and awareness of the risks assumed/to be assumed and their monitoring.

Definition of risk categories

In order to promote a risk management culture and to gain full understanding of the strategic importance of the integrated management of the same, pursuant to regulatory legislation, which requires risks to be categorised according to the nature, the size and the complexity of the inherent risks, Credemvita has designed a risk classification which represents an adequate combination of the definitions used by national and European legislation and more generally by the market.

Risks are classified into the following main classes:

- Subscription risks (or technical insurance risk);
- Market risks (including concentration risk, liquidity risk and ALM risk);
- Credit risks;
- Operational risks (including IT risk and cyber risk);
- Compliance risks;
- Second-level risks;
 - o Risk associated with belonging to a group;
 - o Reputational risk;
 - o Conduct risks;
- Strategic risks;
- Emerging risks.

Internal analysis to identify the risk profile

Credemvita, in line with the regulatory legislation, established a risk analysis procedure, meaning a methodological instrument to support risk identification and assessment activities that make it possible to collect on an ongoing basis internal and external risk information - existing and future - to which it is exposed, and which may affect all the operating processes and company areas. By its nature, these procedures are evolving based on the progressive refinement of the risk management system and the evolution of the reference regulatory framework.

Credemvita's risk analysis procedure is divided into four phases:

- analysis of the company's strategic plan and identification of emerging risk factors;
- identification of external risk factors;
- identification of operational, reputational, conduct, compliance and second-level risk factors;
- identification of strategic risk factors.

Risk Appetite Framework

The Company adopted a Risk Appetite Framework (RAF) that represents the framework that defines the risk appetite, the tolerance thresholds, the risk limits, the risk governance policies as well as the reference processes needed to define and implement them.

The RAF is defined taking into account the following aspects:

- the Company's strategy, including the organisational objectives, the strategic plan, financial and regulatory constraints and the expectations of the stakeholders;
- the key aspects of the Company's business;
- the willingness and capability of assuming risks;
- the skills, resources and technology available to the Company to manage and monitor risk exposures.

In defining its business strategies, the Company assesses, on an ongoing basis, compliance, in the various years of development of the plan, with the target risk levels defined in the Risk Appetite Framework (RAF), in order to ensure consistency between the medium to long term objectives and the Company's capability and willingness to assume risks.

The concepts relevant for the purposes of defining the RAF are broken down below:

- the Risk profile represents the actual risk of the Company assessed at a given time;
- the Risk Appetite represents the real propensity to risk of the Company and consists, therefore, of the risk level that it intends to assume to attain its strategic objectives;
- the Risk Tolerance identifies the maximum risk tolerance threshold, fixed in order to ensure the Company sufficient margins to operate, both in normal business operations and when markets are particularly stressed;
- the Risk Capacity represents the maximum risk that can be assumed by the Company; therefore, it consists of the level of risk that it is able to assume without violating regulatory requirements or other constraints imposed by the Supervisory Authority.

The risk appetite is mainly translated by means of appropriate limits (so-called Risk Limits), which support the operations of the business units and which are represented by quantitative indicators/metrics (also hereinafter "Risk Indicators"). When defining the Risk Appetite Framework, the Company makes a distinction between the risks as follows:

- quantifiable risks which have a capital impact, in relation to which the Company determines the capital requirement;
- quantifiable risks in relation to which the Company does not determine the capital requirement (for example liquidity, cash flow matching) which are measured using specific limitations and metrics;
- risks difficult to quantify, valued on a qualitative basis, which due to their nature and characteristics are difficult to quantify and are not covered by the capital requirements required by legislation, even if the occurrence of the event associated with the same would lead to significant consequences for the activities carried out by the Company.

The indicators defined for each risk category are further divided into:

- first-level indicators: these are indicators mainly aimed at observing the solvency restrictions. They are indicators of possible negative impacts and provide warnings aimed at identifying potential damaging events which threaten the achievement of the objectives and the continuity of the Business. The indicators are integrated into the RAF Policy, and a Risk Appetite, a Risk Tolerance and a Risk Capacity and the related Risk Appetite Statement system are associated with the same;
- second-level indicators: these are operational/management type indicators useful for strengthening the risk monitoring activities and possibly providing preventive signs of a potential deterioration of the first-level metrics. These indicators are supplemented within the Risk Management Policy.

The main first-level indicator of the Company is the Solvency II Ratio, that is, the ratio between Eligible Capital and Solvency Capital Requirement. The Company's objective is to have an Economic Capital level adequate and in line with the strategic objectives, greater than a previously established level of Solvency Ratio, as illustrated below:

- Risk Appetite: 139%;
- Risk Tolerance: 122%;
- Risk Capacity: 105%.

Moreover, when defining its business strategies, the Company assesses, on an ongoing basis, compliance, in the various years over which the plan is developed, with the target risk levels defined in the Risk Appetite Framework, in order to ensure consistency between the medium- to long-term objectives and the Company's capability and willingness to assume risks.

In particular, any strategic decision, based on the risk profile of the Company at the time of preparing the strategic plan, takes into account the maximum risk that can be assumed without violating regulatory requirements or other constraints imposed by the Supervisory Authority, the risk appetite of the enterprise and, therefore, the level of risk that it intends to assume in order to achieve its strategic objectives and, at the same time, the maximum threshold of deviation from the risk target, set in order to ensure the Company sufficient margins to operate in conditions deemed satisfactory.

Moreover, the Company has defined a Capital Management Policy and a Capital Management Plan, the purpose of which is to adopt adequate procedures to ensure the safeguarding of the regulatory requirements and of Risk Appetite target levels, as well as to guarantee that, both at the time of issue and later, the elements of Own Funds, which the business intends to use in order to achieve the business objectives established at the time of strategic planning, meet the regulatory requirements defined by EIOPA and are correctly classified. This plan was drawn up in line with the results of the future risk assessment according to the Solvency II approach (ORSA), with the objectives and the methods established in the Capital Management Policy and with the solvency requirements established by the Regulator, in order to guarantee the Company's capital solidity for its own operations and potential future development.

Risk management organisational model

Credemvita's risk management organisational model involves all business departments, from operating units (involved in the management of risks for the relevant processes), to Committees, to the Board of Directors, including therein the fundamental units.

In this context, the Risk Management department acts as coordinator of the risk monitoring activities. More specifically, it contributes to defining risk measurement methods and operating limits, defining appropriate verification procedures, and has the task of validating the information flows from risk monitoring activities, preparing reports for top management and verifying the consistency of the risk measurement models with the company's operations.

Risks are continuously monitored by the Risk Management department and by the relevant individual departments; to this end, reports on the development of risks have been created and have been fine-tuned over time and are submitted to the Board of Directors, the Board Committee for Internal Controls and Risks, the Investment Committee and ALM, Top Management and the relevant operational structures, with a view to improving the communication of the results and permitting a better understanding of the topics related to risk assessment.

The risk management model adopted by Credemvita is characterised by:

- a phase in which the risk indicators and/or the operating thresholds to manage risk are updated on the basis of organisational requirements and/or following changes of the internal and external scenario, or whenever they are no longer in line with the risk profile requested by the management body;
- consequent monitoring activities over the operating thresholds to manage risk. Checking compliance with the risk tolerance levels established by the Board of Directors take the form of specific organisational control procedures established to guarantee compliance with the same and to promptly trigger warning processes if the same are exceeded, as well as to define specific recovery plans following their reporting.

Risk management policies

As part of the risk management system and in line with regulatory requirements, the Board of Directors has drawn up a formal set of policies and attachments which, for each of the areas of risk to which Credemvita is exposed, specify the objectives, the tasks, the responsibilities, the process and define the tools and procedures, including those related to reporting, required to identify and consequently manage

all risk areas. The documents also have a more general objective of encouraging a culture of risk control and management within the company.

Compliance with and application of the documents are guaranteed by an Internal Control System represented by a set of rules, procedures and control techniques and organisational structures aimed to ensure the proper functioning and satisfactory performance of the company.

Risk analysis

Pursuant to sector regulations, the Company has defined a risk analysis process that includes both a qualitative assessment and, for those risks that are quantifiable, the adoption of methods to measure exposure to risk, including a system to establish the amount of maximum potential loss, both current and future. These analyses allow for the continuous profiling of the risks to which the company is exposed.

Note that in order to assess capital solvency requirements according to the regulatory Solvency II system, the Company uses the Standard Formula in compliance with that defined in the Delegated Regulation (EU) 2019/981 of the Commission. Therefore, the current and future risk assessments take into account all the risks, included in the framework of the Standard Formula, to which the business is exposed.

In order to continuously assess its solvency situation, the Company also calculates on a quarterly basis its Capital Requirement, determines its own eligible funds and the related quality and composition, checking at the same time the compliance with the operating limits and the risk appetite. Specific stress tests and sensitivity analyses are made with the same frequency on capital. Adequate documents are reported to the Board of Directors and sent to the Supervisory Authority through the Quantitative Reporting Templates (QRT). Compliance with the Level I indicators set out in the Risk Appetite Framework is verified with the same frequency.

If, as part of the various monitoring activities carried out by the Company, continuous and/or significant deviations of the risk profile with respect to the Company's Risk Appetite should emerge, or significant deviations with respect to the main technical/financial/market/product assumptions defined as part of the Strategic Plan (and therefore in the ORSA assessments), a Non-Regular ORSA activity is carried out in order to assess the impacts of these changes also from a prospective perspective.

In 2020, the Company complied with the following regulatory deadlines:

- Preparation and sending to the Supervisory Authority quarterly reports (QRT) required by Pillar 3 and preparation of the descriptive disclosure within the regulatory deadlines;
- Preparation of the Regular Supervisory Report- RSR, approved by the Board of Directors in March 2020 and sent within the regulatory deadline to IVASS;
- Preparation of the Solvency Financial Condition Report - SFCR resolved by the Board of Directors in March 2020 and sent to IVASS by the regulatory deadline;
- Conducting the ORSAs (Own Risk and Solvency Assessment) required to assess the solvency profile of the 2020-2022 strategic plan and preparation of the ORSA Report approved by the Board of Directors in April 2020 and sent to IVASS within the regulatory deadline;
- Realisation of the Non-Regular ORSA calculations necessary for the assessment of the current and future impacts in the 2020-2022 time period deriving from the implementation of a model change on the technical assumptions relating to the Credemvita II separate management. This report was approved by the Board of Directors in December 2020 and sent to IVASS.

Finally, in 2020, given the situation that resulted from the Covid-19 emergency, the Company participated at the request of the Supervisory Authority in the following activities:

- monthly monitoring of the solvency position (starting from March 2020);
- monthly monitoring of liquidity risk (starting in June beginning with the database of 31 March 2020).

Subscriptions risk (or technical insurance risks)

Subscription risk is defined as the risk of a loss or an unfavourable change in the value of insurance liabilities due to inadequate assumptions in terms of price setting and establishing technical reserves (see Art. 1, paragraph 1, letter vv-bis 4 of the CAP).

Within the risk framework of the Company, this risk can be further broken down into the following categories:

- Assumption risk: represents the risk resulting from underwriting insurance contracts, linked to insured events, to the processes followed for the pricing and selection of the risks, to the unfavourable trend of actual claims compared to that expected;
- Reserve risk: namely the risk relating to the fact that the amount of insurance reserves is insufficient to cover the commitments made to insured parties.

This class of risk can be broken down into the following risk factors:

- mortality: namely the risk resulting from an unexpected rise in mortality rates; it is associated with policies (such as insurance coverage in the event of death or mixed policies) in which the enterprise guarantees a series of individual or recurring payments in the event of the death of the policyholder or during the duration of the policy;
- survival: the longevity risk, which stems from an unexpected fall in mortality rates; this is associated with policies (for example, annuities) that envisage the enterprise guaranteeing a series of payments until the death of the policyholder or with policies (for example mixed policies) that envisage a guarantee by the enterprise of a single payment in the event of the survival of the policyholder for the entire duration of the policy;
- invalidity - morbidity: the risk that stems from an unexpected change in the level, trend or volatility of disability and morbidity rates, is applicable to policies associated with disability;
- mutuality: the mutuality risk factor means that a fall in the number of policies in the portfolio may have an unexpected negative impact on the benefits of mutuality. A high number of policies enable the company to “spread” the effects of events resulting in claims over the whole population; in the Life business, a fall in the number of contracts leads, for example, to a rise in random fluctuations of mortality. The mutuality risk factor is therefore closely related to the “Policyholder behaviour” and “Counterparty” risk factors;
- early termination - policyholder behaviour: the risk of early termination, which stems from an unexpected change in option exercise rates by policyholders; it is applicable to all of the options envisaged for policyholders, both legal and contractual, that may significantly change the value of future cash flows, the options to fully or partially suspend, reduce, limit or terminate insurance cover, as for the options that enable the full or partial amendment, renewal, increase, extension or resumption of insurance cover;
- guarantees/coverage: the riskiness of Life products depends on the “guarantees/coverage” envisaged by said contracts and on the basis of which the company has committed to pay the benefits guaranteed to beneficiaries. If the occurrence of the damaging event covered by the insurance guarantee is not correctly monitored or does not correspond to the estimates made at the time of pricing, this represents a risk element of said product;
- inflation/costs: this risk factor, which stems from an unexpected change in costs, refer to the operating costs of insurance contracts;
- disaster: the disaster risk factor, which stems from extreme or exceptional events, the impact of which is not sufficiently covered by the other subscription risks (e.g., pandemic events or nuclear explosions), refers to policies that are related to mortality.

With regard to the distribution of Credemvita subscription risks according to Solvency II regulations, the table below shows the representation of the risks with reference to Q4 2020.

Life risk - risk/sum of risk components - relative and overall

	2020	
Mortality risk	14.8%	2.9%
Longevity risk	6.0%	1.2%
Disability morbidity risk	0.0%	0.0%
Life Lapse risk	53.6%	10.5%
Expense risk	18.7%	3.7%
Revisionary risk	0.0%	0.0%
CAT risk	6.8%	1.3%

The Company has adopted guidelines for these risks which: establish the organisational and governance model, as well as the roles and responsibilities of the business departments involved in undertaking and monitoring the risk assumed and in allocating reserves; illustrate the reporting procedures applied and the communication flows between the departments involved in the underwriting and reserve processes; illustrate the manner in which the business takes reinsurance or other risk mitigation techniques into account in the process to design a new insurance product and to calculate the relative premium. The Company measures and monitors its exposure to subscription risk based on the overall portfolio, in addition to verifying compliance with the limits and policies established.

Technical risks are identified with ALM - Asset-Liability Management - approaches in order to understand the interrelations between the trends of liabilities and of hedging assets, and by following the Solvency principles in order to seize any capital requirement absorbed by each individual risk factor. This identification is made with reference to new products and to the existing portfolio.

- New products: in accordance with the Strategic Plan, the recognition of the risks related to new products is made on the basis of their technical characteristics within the ORSA process. Furthermore, in accordance with the process to create and launch new products defined within the more general POG (Product Oversight and Governance) process, the Risk Management department is tasked with drawing up a specific risk analysis (known as a risk sheet) for each individual product, the results of which are transmitted to the Management and Product Governance Committee. An integral part of the assessments of the profitability and the risks of new products is also the profit test conducted by the Company.
- Existing portfolio: with regard to the existing portfolio, risks are identified on the basis of the technical data of the portfolio and of the capital absorption measures determined through the instrument used by the Company to calculate SCR (Standard Formula).
- The information relating to the overall technical performance of the life insurance business concisely reflects the technical results of the individual Segments and therefore of the products contained in the portfolio (which in general can encompass more than one Segment).
- Again with regard to the existing portfolio, back testing assessments are conducted by the Company.

The risk measures used are summarised below:

- SCR Life in terms of ratio: provides an indication of capital absorption per unit of Gross Best Estimate Life;
- SCR Lapse in terms of ratio: provides an indication of capital absorption resulting from the Lapse risk per unit of Gross Best Estimate Life;
- PVFP portfolio in force: Present Value Future Profit is an indicator that monitors the contribution made to the creation of company economic value for each Lob Solvency II of the portfolio in force;
- SCR for LoB (Line of Business).

Market risks

Market risk is defined as the risk of a loss or an unfavourable change in the financial situation resulting directly or indirectly from fluctuations of the level or of the volatility of the market prices of assets, liabilities and financial instruments (see Art. 1, paragraph 1, letter vv-bis 3 of the CAP).

Market risks reflect the performance of the economic cycle, which may amplify or possibly reduce its significance, especially if the securities portfolio of the company is particularly concentrated in specific sectors, currencies or geographic areas. Consequently, businesses are exposed to the risk of receiving different returns, and possibly also lower than the returns expected at the time the commitment was made, or with respect to a minimum return defined contractually.

This risk can be broken down into the following risk factors:

- Interest rate risk: the value of the assets of an insurance company is sensitive to changes in interest rates. Furthermore, if the cash flows generated by the assets and those generated by the liabilities of a company are not perfectly aligned in terms of maturity, frequency of any payments and by nature of investment rates (maturity mismatching, interest rate mismatching, reset date mismatching, basic mismatching), a (positive or negative) shock of interest rates may generate unsynchronised variations in the value of the assets and liabilities. Essentially, exposure to interest rate risk refers to all of the assets and liabilities whose value is “sensitive” to changes in the term structure of interest rates or the volatility of interest rates;
- Share price risk: the market values of the stocks purchased by the company may be sensitive to the trend of the stock markets (for example, in the case of contracts whose performance is linked to the value of a share);
- Foreign exchange risk: the market value of the stocks purchased by the company may be sensitive to variations of exchange rates (for example, in the case of shares or bonds denominated in a foreign currency). Therefore, this risk factor is particularly important for insurance companies in the case of assets that are hedging the technical insurance reserves denominated in a currency other than that of the corresponding technical commitments made contractually. In fact, as the conversion of currencies is made at the end of the year at the current exchange rate, profits/losses may be recorded at said date due to variations in the exchange rates;
- Real estate risk: if the assets of an insurance company are invested in real estate, the values of said asset are sensitive to the market trend of the prices of the same;
- Credit risk: whenever an insurance company underwrites financial instruments, it may be exposed to the insolvency risk of its borrower, who may not be able to meet its obligations, or it may be exposed to the risk of a deterioration of creditworthiness, with a consequent fall in the value of the security. Exposure to credit risk refers to assets, liabilities and financial instruments that are sensitive to changes in credit spreads;
- Concentration risk: exposure to concentration risk, which results from an unexpected change in the prices, in the value of exposures towards issuers with whom the party has cumulative exposures, refers to assets subject to the share price risk, interest rate and spread risk and to real estate risk included in market risk, and excludes assets subject to the risk of counterparty default. At present, at regulatory level, Government securities are also excluded.

Market risk factors are identified in the specific financial statement classes of the Credemvita and Credemvita 2 Separate Management Products, the Unrestricted Securities Portfolio and in the guaranteed bond line of the Pension Fund.

The table below shows the distribution of the instruments in the aforementioned portfolios as at 31 December 2020 by type, expressed as a percentage of the total market value.

Security Type	Coupon Type		Total
Government Issuers	Fixed	76.16%	
	Floating	0.07%	
	Total		76.23%
Bond Issuers	Fixed	7.96%	
	Floating	2.12%	
	Total		10.07%
UCITS			
	Total		13.70%

The breakdown in UCITS is as follows:

UCITS type	%
Equity UCITS	21.71%
Govt UCITS	22.50%
Real estate UCITS	17.38%
Loan UCITS	18.12%
Corp UCITS	20.29%

With regard to the distribution of Credemvita market risks in accordance with Solvency II regulations, the table below shows the representation of the risks with reference to Q4 2020.

Market risk - risk/ sum of risk components - relative and overall

	2020	
Interest rate risk	6.1%	4.0%
Equity risk	34.6%	22.7%
Property risk	9.2%	6.0%
Spread risk	37.5%	24.6%
Currency risk	12.5%	8.2%
Concentration risk	0.0%	0.0%

As regards the risk factors referred to above, the Company adopts guidelines that establish the general principles for the activities of the Finance Area, the frequency of controls and the measures for recovery if the limits are exceeded. In the overall composition of the investment portfolio, exposure to risk, constraints related to covering insurance reserves and the impact on the Solvency Ratio are also taken into account. The limits and the indicators relating to investments are verified and controlled on a continuous basis by the relevant business departments and, periodically, the results of the same are brought to the attention of the Board of Directors. The process also envisages a review stage of the above-mentioned limits conducted by means of a sensitivity analysis of asset and liability portfolios.

Market risks are identified with reference to the portfolio of investments in movable assets already acquired and the future investment scenarios. These activities are carried out by both taking Asset-Liability Management approaches in order to understand the interrelations between the trends of liabilities and the trends of hedging assets of the technical reserves and by following the Solvency II principles in order to capture any capital requirement absorbed by each individual risk module and sub-module.

Market risks for the life insurance business are identified with reference to new investments and asset allocation targets, and to the existing portfolio.

- New investments: with regard to new investments, as part of the ORSA process, analyses relating to future investment scenarios are conducted with a view to identifying the risks related to said investment choices and to assess the quantitative impact on the risk profile. Furthermore, for “occasional” investments (according to the definition given in the Investment Policy), based on the information provided by the Finance Area (by way of example: investment objective, reference portfolio, size of the transaction) the Risk Management department conducts an ex-ante quali/quantitative assessment based on both management and regulatory approaches. The Risk Management department also conducts an ex-ante risk assessment for all non-UCIT UCIs based on the Due Diligence prepared by the Finance Area in accordance with the provisions of the Policy on UCI/ETF.
- Existing portfolio: with regard to the existing portfolio, risks are identified based on the technical data of the portfolio, market data and the risk measures determined through the calculation tool of the SCR adopted.

The macro-indicators analysed to assess and monitor market risks are illustrated below:

- SCR Market Risk-Based: indicators based on regulatory amounts relating to the capital requirement pertaining to the market risk class;
- Percentage Exposure in Asset Class: this indicator seeks to quantify and monitor exposures in the main asset classes set forth in the Investment Policy;
- Percentage of Financial and Corporate Issuer Concentration: this indicator seeks to quantify and monitor the concentration of Corporate issuers based on specific credit rating brackets;
- Exposure limit of UCITS and strategic exposure limit of UCITS.

The macro-indicators analysed to assess and monitor ALM risks are illustrated below:

- SCR Interest Rate - Based: indicators that aim to identify the capital absorption, according to Solvency II metrics, of interest rate risk according to a regulatory and management approach;
- Mismatch of returns for separate management products: this indicator measures the mismatch between the returns of separate management products and the minimum returns guaranteed to policyholders;
- Cash Flow Matching: this indicator shows the mismatch, on each occasion, between the cash flows of assets and the cash flows of liabilities;
- Duration Matching: misalignment between the duration of the asset cash flows and the duration of the liability cash flows.

Liquidity risk

The Companies are subject to potential tension in terms of liquidity, resulting from different maturities between assets and the relative liabilities. Liquidity risk is defined as the risk that the Company is not able to liquidate investments and other assets to meet its financial obligations when these fall due (see Art. 1, paragraph 1, letter vv-bis 2 of the CAP).

The possibility of performing a timely disinvestment of the portfolio is highly conditioned by the marketability of the securities in which the same is invested. The poor marketability of the securities in the portfolio may actually expose the Company to the risk of incurring losses associated with difficulties in finding counterparties on the market interested in purchasing the securities the company wishes to disinvest.

The Company quantifies its solvency position with Standard Formula metrics, which do not require liquidity risk to be quantified in terms of capital absorption.

Liquidity risk is identified with reference to the investment portfolio underlying products with guaranteed capital and/or yield. The risks are identified on the basis of the technical data of the portfolios and of the metrics defined as a function of the time horizon with which the risk in question is analysed and studied.

The indicators used by the Company to monitor the liquidity risk are set below:

- amount in current accounts: the Company has decided to monitor the amount held in current accounts in order to set a lower limit that represents the Liquidity Reserve (as prescribed by IVASS Reg. 38) and an upper limit in terms of the maximum amount to be held in the current accounts in order to render the management of the portfolio effective and to limit any effects on the Default SCR. Quantifying the Liquidity Reserve includes not only Current Account exposures, but also Government bonds of the Eurozone with a credit quality exceeding 2 and a maturity of less than 3 months.
- Liquidity Buffer: the number of consecutive periods, monthly, in which the Liquidity Buffer is negative, over the annual time period considered, provides a summary indication of the Company's liquidity situation:
- liquidity plan: this indicator seeks to demonstrate that the Company has financial resources on a continuative basis to manage liquidity risk. This condition is also the basis for the application of the Volatility Adjustment at Regulatory level.
- liquidity contingency: securities that can be easily liquidated.
- current accounts default SCR: for the purpose of limiting any effects on the default SCR deriving from the increase in the volumes of the current accounts, the Company has fixed a higher limit in terms of the default SCR.

Credit (default) risk

Credit risk (default risk) is defined as the risk of a loss or an unfavourable change in the financial situation resulting directly or indirectly from fluctuations of the creditworthiness of the issuers of securities, counterparties and borrowers to which the insurance or reinsurance company is exposed in the form of the risk of default of the counterparty, spread risk or concentration of market risk (see Art. 1, paragraph 1, letter vv-bis 1 of the CAP).

The loss of value of the credit position is mainly linked to the quality of the issuer or of the counterparty (including reinsurers, co-insurers, insured parties and intermediaries), but may also originate from a deterioration of the economic-financial conditions of the borrower, which determine the ability of the latter to meet its financial obligations, as well as from causes not related to the economic or financial situation of the debtor counterparty, such as political-military reasons for example.

The risk factors underlying risk of default are as follows:

- credit risk towards reinsurers: this risk factor represents the risk of losses resulting from the insolvency of one or more reinsurers;
- credit risk towards intermediaries and other counterparties: this represents the risk of losses following the contractual default of third parties (e.g. receivables from policyholders, insurance intermediaries, current accounts in banks);
- baseline risk: resulting from any discrepancies between reinsurance requirements and the actual coverage envisaged by the arrangement, entailing a greater risk for the Company with respect to that envisaged.

The policies relating to the management of credit risk of issuers of financial instruments refer to that illustrated above for market risk in terms of the general principles for the control of financial investments. With regard to the reinsurance counterparties, Credemvita defined policies for the management and control of that risk in terms of guidelines and limits relating to the counterparties.

The counterparty default risk is identified with reference to the counterparties for which there are credit positions.

The risk measures used are summarised below:

- Maximum amount in current accounts: this represents the maximum amount in a current account to be held for an individual portfolio;
- current accounts default SCR: for the purpose of limiting any effects on the default SCR deriving from the increase in the volumes of the current accounts, the Company has fixed a higher limit in terms of the default SCR;
- SCR Counterparty Default Risk Reinsurance/Recoverables SII: this indicator is obtained by comparing the SCR Counterparty Default Risk towards Reinsurers

(pre-diversification) and Recoverables (balance of reserves transferred and net receivables due from reinsurers);

- Exposure by Reinsurer: this indicator identifies the exposure towards each reinsurer in terms of amounts insured;
- Rating or Solvency Ratio by Reinsurer: this indicator corresponds to the rating of the individual reinsurer or, in the event of non-network counterparties, to its Solvency Ratio;
- Age of net receivables by Reinsurer: this indicator identifies the age of net receivables from each reinsurance counterparty;
- Amount of net receivables by Reinsurer: this indicator identifies the amount of net receivables from each reinsurance counterparty.

Operational, compliance, reputational, conduct risks and risk of belonging to a group

Operational risk is defined as the risk of incurring losses resulting from the inadequacy or the malfunctioning (shortcomings or errors) of internal procedures, human resources or systems, or from external events (see Art. 1, paragraph 1, letter vv-bis 5 of the CAP).

The main risk factors that characterise operational risk are:

- People Risk: human resources may be a source of risk for an enterprise, if the organisational structure is not efficient, or if there are shortcomings in the professionalism of employees or, for example, if the pay structure or the career prospects are not adequate and if the company environment is not suitable;
- Business Process Risk: business processes are a source of operational risk in the event that there are inefficiencies in the design, formalisation and definition of the structure of the same and therefore in the definition of the individuals that are part of the same and of the relative level of responsibility and authorisation;
- IT Security Risk and IT Risk: information systems may cause losses to the enterprise if adequate IT Security measures are not adopted, or in the management of hardware and software. The growing dependence on information systems and technological resources in general has made this risk factor increasingly important.

The following risk factors are also analysed by the Company:

- Outsourcing Risk: outsourcing business activities is a source of operational risk if shortcomings/inadequacies emerge in the management of relations with outsourcers, which cause losses to the enterprise;
- Physical Asset Risk: physical assets may be a cause of losses to the enterprise in the event of inadequacies: faced with natural disasters, in prevention and safety towards accidental events, faced with the obsolescence of infrastructure, prevention and security towards criminal acts, in the authorisation processes for the performance of operating activities, in the control measures of unauthorised activities and fraud by employees, in preventive measures towards fraud by external parties;
- Compliance Risk: non-compliance with legislation may cause a loss to the enterprise or harm its reputation following infringements of laws, regulations or provisions of the Supervisory Authorities or of self-regulation provisions.

A bottom-up approach is adopted for the identification of operational risk, based on a Risk Self-Assessment method, with the aim of assessing the level of risk and the quality of the measures set in place to mitigate the risk relating to operating activities and all business processes.

The purpose of this approach, based on an analysis by Functional Area, is to identify loss events that could occur, assess the possible impact and possible frequency of occurrence of these events, assess the effectiveness of the controls monitoring the possible organisational tools that can be activated for risk mitigation.

The Company also conducts an annual assessment of the effective losses incurred from operational risks (known as LDC - Loss Data Collection). This analysis also

enables back-testing to be conducted on the ex-ante assessment through Risk Self-Assessment.

As regards the assessment of the capital requirement (SCR), operational risks are assessed through the application of the Standard Formula.

The Company also continued with work to complete the Business Continuity Plan. Legislative compliance risk (namely non compliance with regulations), regards the risk of incurring judicial or administrative sanctions, and suffering reputational loss or damage due to the failure to comply with the law, regulations or provisions of Supervisory Authorities or of self-regulations, such as articles of association, codes of conduct or self-disciplinary codes; the risk resulting from unfavourable changes to the legislative framework or decisions of the courts. Legislative risk of money laundering or of financing terrorism: the risk of the Company failing to prevent actions whose purpose is to launder the profits of criminal activities and fund terrorism; the risk of incurring judicial or administrative sanctions, and suffering reputational loss or damage due to the failure to comply with the law, regulations or provisions of Supervisory Authorities regarding money laundering and anti-terrorism.

According to the model adopted by Credemvita, moreover, there are other risks/loss events that are not strictly related to specific risk factors, but that may originate from risk factors relating to the risk categories previously illustrated. In particular, this regards the risk category related to belonging to a group and reputational and conduct risk, as identified by the laws and regulations of this industry.

The risk related to belonging to a group (risk of “contagion”) means the risk that, following relations between the enterprise and other group entities, difficult situations that arise in one company of the same group may spread and have negative effects on the solvency of the enterprise itself.

In accordance with its strategy and with the investment policies adopted by the Management Body, a policy for intragroup relations has been defined, which sets appropriate operational limits.

The risk is therefore identified and analysed consistent with the categories and counterparties of the transactions in question, with particular regard to any guarantees issued within the Group and consistent with the characteristics of the following types of transaction:

- Significant transactions (between 1% and 5% inclusive of the Solvency Capital Requirement for the period);
- Very significant transactions (>5% of the Solvency Capital Requirement for the period).

Reputational risk means the risk of the company's image deteriorating, and of increased conflict with both insured parties (also due to the poor quality of the services offered, to the placement of inadequate policies or behaviour during the sales, after sales or settlement phases) and with the Supervisory Authorities and shareholders.

Reputational risk is generally broken down into:

- direct reputational risk: focused on sensitive businesses, on the basis of ESG (Environment, Social and Governance) criteria;
- indirect reputational risk: based on the management of the reputational impact of other types of risk (e.g. operational risk, cyber risk, legal risk etc.).

It is specified that the assessment of reputational risk takes place as part of the Risk Self-Assessment campaign relating to operational risk management. The identification of the risk is made operationally by the analysis of the placement procedures that entail the prior assessment of the adequacy of the contract with a view to initially identifying the insurance requirements and the customer's protection needs, as well as providing adequate information on the product;

- the assistance services provided by the distribution network;
- the claims management process;
- the claims settlement process.

Conduct risk - as a sub-category of operational, compliance and reputational risk - can be defined as the current or future risk of losses resulting from cases of

inappropriate offers of products and/or services, including cases of inadequate conduct (wilful misconduct/negligence) by the company.

Strategic risk

Strategic risk means the current or future risk of a fall in profits or of share capital and of the sustainability of the business model, including the risk of not being able to generate adequate return on capital on the basis of the risk appetite defined by the enterprise, resulting from changes in the operating scenario or from erroneous business decisions, from the inadequate implementation of decisions, improper management of the risk associated with belonging to a group, and from poor reactivity to changes in the competitive scenario.

Strategic risks are analysed by means of specific sensitivity analyses at the time of the ORSA or whenever there are significant changes in the market, of the production mix and of the assumptions underlying the assessments (by way of example, best estimate redemption rates, assumption of minimum guaranteed rate, etc.).

The assessment made by the Company in 2020 allowed the risk map to be outlined – Framework Solvency II – to which the Company is exposed (shown below).

Risk Module	Risk Sub-module	Exposure
Underwriting risk	Mortality risk	X
	Longevity risk	X
	Disability morbidity risk	---
	Life Lapse risk	X
	Expense risk	X
	Revisionary risk	---
	CAT risk	X
Market risk	Interest rate risk	X
	Equity risk	X
	Property risk	X
	Spread risk	X
	Currency risk	X
	Concentration risk	---
Counterparty default risk	Type 1 counterparties	X
	Type 2 counterparties	---
Operational risk	Operational risk	X

From a regulatory (Solvency II) perspective, the forward-looking risk assessments did not reveal risks emerging in relation to the actions envisaged by the new investment and business strategies. However, their composition is different, despite their substantial consistency in terms of relevance with respect to the past.

In relation to IVASS regulation no. 45 containing provisions on the governance and control requirements of insurance products and in relation to Regulation (EU) 2019/2088 of the European Parliament on disclosure in the financial services sector, emerging risks relating to conduct risk and ESG risk have been detected.

With regard to the future and monitored data in 2020, the assessment enabled the sub-modules of risk that are the most significant and have the greatest impact on the Company to be identified, namely the Interest Rate Down, Equity, Spread, Type 1 Counterparties, Property and Lapse risk modules.

In addition, the Company is exposed to the Spread risk on ITA Government securities (a risk not contemplated in the Standard Formula). In its assessments, the Company takes this risk factor into consideration through specific sensitivity analyses carried out periodically (at least quarterly) and in the ORSA Report YE 31.12.2020.

The results of qualitative/quantitative analyses of the adequacy of the Company's risk profile with respect to the requirements underlying the application of the Standard Formula were positive.

The results of risk assessment activities combined with market trends regarding, in particular, Italian Government bonds and with stress testing, highlighted a substantial volatility in the risk trend and in the Company's solvency due to fluctuations of the BTP/Bund spread. Nevertheless, this volatility of the solvency ratio is managed by the Company by means of specific organisational and monitoring controls in place.

In addition to calculating the impacts due to quantifiable risks, the Company also manages and monitors the risks outside the scope of the Standard Formula and the so-called non-quantifiable risks from a regulatory perspective, such as:

- compliance risk;
- reputational risk;
- risk associated with belonging to a group;
- spread risk on Government bonds;
- liquidity risk;
- strategic risk;
- emerging risks.

The assessment of these risks is based on the expert judgement of the risk takers and on the analysis of specific indicators identified for certain risk categories (such as, for example, liquidity risk: liquidity gap, contingency capacity, availability index, etc.). With regard to liquidity risk, as previously indicated, the identification is carried out with reference to the security investment portfolio and the cash flows (In and Out) and on the analysis of specific indicators defined according to the time period in which the risk is analysed and studied. In the current situation, these types of risk are properly managed, monitored on a regular basis and do not involve an add-on in terms of regulatory capital.

At present, there are not results that indicate critical situations in terms of solvency resulting from strategic risks. Nevertheless, the impact of possible changes of the macro-economic scenario that may have a significant impact on the Company's Own Funds must continue to be considered.

CREDEMASSICURAZIONI S.P.A.

Credemassicurazioni's approach to risk management

Risk management strategies

Credemassicurazioni's strategy for undertaking and managing risk is based on prudential criteria coherent with the Company's level of capital. This strategy is based on risk assessment principles that consider aspects relating to the significance (impact on profit or loss) and probability of events. The risk management approach adopted is based on proportionality criteria and is conveyed through a specific internal policy document, Risk Management Policy, which outlines the general principles, while specific documentation has been drawn up containing all of the relevant details (framework, risk analysis procedure, investment policies, etc.). The key elements on which the Company's risk strategy and management policy are based, from a current and future perspective, are as follows:

- definition of the risk categories;
- internal analysis to identify the risk profile;
- definition of the Risk Appetite Framework (RAF);
- risk management organisational model - operating limits and controls;
- risk management policies;
- risk measurement tools and methods;
- the emergency plans.

The methods adopted for risk management must also allow:

- consistency checks between the level of risk assumed and the level of available capital;

- risk measurability/assessment to enable management to assess the impact of risk on business performance;
- continuous monitoring of the risk profile and comparison with the Risk Appetite Target.

As part of the Company's strategic policy, the Board of Directors identifies and approves the proper size of the overall capital endowment and the profitability targets adjusted for risk. The formulation of preliminary strategic guidelines by the Board of Directors guides the calibration of the risk targets (Risk Appetite Target and, where relevant, Risk Tolerance) and the development of the strategic plan.

These activities are significantly interrelated and are developed considering the starting situation of the Company, the prospective view of the external context, the risk profiles and the guidelines in terms of risk/return. The strategic policies approved by the Board of Directors affect the production and organisational structure in order to determine the desired impact – in the time horizon of planning. The Risk Management department continuously supports the corporate bodies in the choices deriving from the implementation of the plan by facilitating the understanding and awareness of the risks assumed/to be assumed and their monitoring.

Definition of risk categories

In order to promote a risk management culture and to gain full understanding of the strategic importance of the integrated management of the same, pursuant to regulatory legislation, which requires risks to be categorised according to the nature, the size and the complexity of the inherent risks, Credemassicurazioni has designed a risk classification which represents an adequate combination of the definitions used by national and European legislation and more generally by the market.

Risks are classified into the following main classes:

- Subscription risks (or technical insurance risk);
- Market risks (including liquidity risk);
- Credit risks;
- Operational risks (including IT risk);
- Compliance risks;
- Second-level risks;
 - Risk associated with belonging to a group;
 - Reputational risk;
 - Conduct risks;
- Strategic risks;
- Emerging risks.

Internal analysis to identify the risk profile

In line with the requirements of the regulatory legislation regarding the need for each insurance company to adopt a risk analysis procedure that makes it possible to collect on an ongoing basis internal and external risk information - existing and future - to which it is exposed, and which may affect all the operating processes and company areas, Credemassicurazioni has prepared a risk analysis procedure.

This risk analysis procedure consists of a methodological tool to assist in the identification and assessment of risks (including the relative aggregations and correlations) and, due to its nature, is continually updated in line with the improvements made to the Company's risk management system and with changes in the relative legislative framework.

Credemassicurazioni's risk analysis procedure is divided into four phases:

- Analysis of the strategic business plan;
- Identification of external risk factors;
- Identification of operational, compliance and second-level risk factors;
- Identification of strategic risk factors.

Risk Appetite Framework

The Company adopted a Risk Appetite Framework (RAF) that represents the framework that defines the risk appetite, the risk indicators, the tolerance thresholds and the limits, the guidelines, the principles and therefore the structure within which the risk limits, the risk governance policies as well as the reference processes and procedures needed to define and implement the risks are defined.

The RAF is defined taking into account the following aspects:

- the Company's strategy, including the organisational and governance objectives, the business plan, financial and regulatory constraints and the expectations of the stakeholders;
- the key aspects of the Company's business;
- the willingness and capability of assuming risks;
- the skills, resources and technology available to the Company to manage and monitor risk exposures.

In defining its business strategies, the Company assesses, on an ongoing basis, compliance, in the various years of development of the plan, with the target risk levels defined in the Risk Appetite Framework (RAF), in order to ensure consistency between the medium to long term objectives and the Company's capability and willingness to assume risks.

The concepts relevant for the purposes of defining the RAF are broken down below:

- Risk Appetite represents the real propensity to risk of the Company and consists, therefore, of the risk level that it is willing to assume to attain its strategic objectives.
- Risk Tolerance, defined as the maximum change in Risk Appetite that the Company is willing to accept both during the normal course of business and in particularly stressed market conditions.
- Risk Profile represents the actual risk of the Company assessed at a given time.
- However, Risk Capacity represents the maximum risk that can be assumed by the Company; therefore, it consists of the level of risk that can be assumed without violating regulatory requirements or other constraints imposed by the Supervisory Authority.

The risk appetite is mainly translated by means of appropriate limits (so-called Risk Limits), which support the operations of the business units and which are represented by quantitative indicators/metrics.

When defining the Risk Appetite Framework, the Company makes a distinction between the risks as follows:

- quantifiable risks which have a capital impact, in relation to which the Company determines the capital requirement;
- quantifiable risks in relation to which the Company does not determine the capital requirement (for example liquidity, cash flow matching) which are measured using specific limitations and metrics;
- risks difficult to quantify, valued on a qualitative basis, which due to their nature and characteristics are difficult to quantify and are not covered by the capital requirements required by legislation, even if the occurrence of the event associated with the same would lead to significant consequences for the activities carried out by the Company.

The indicators defined for each risk category are further divided into:

- first-level indicators: these are indicators aimed at observing the solvency restrictions. They are indicators of possible negative impacts and provide warnings aimed at identifying potential damaging events which threaten the achievement of the objectives and the continuity of the business. These are associated with a Target Appetite, a Tolerance and a Capacity and the related Risk Appetite Statement system.
- second-level indicators: these are operational/management indicators useful for strengthening the risk monitoring activities and possibly providing preventive signs of a potential deterioration of the first-level metrics.

The main first-level indicator of the Company is the Solvency II Ratio, that is, the ratio between Eligible Capital and Solvency Capital Requirement. The Company's

objective is to have an Economic Capital level adequate and in line with the strategic objectives, greater than a previously established level of Solvency Ratio, as illustrated below:

- Risk Appetite: 159%;
- Risk Tolerance: 122%;
- Risk Capacity: 105%.

Moreover, when defining its business strategies, the Company assesses, on an ongoing basis, compliance, in the various years over which the plan is developed, with the target risk levels defined in the Risk Appetite Framework, in order to ensure consistency between the medium- to long-term objectives and the Company's capability and willingness to assume risks.

In particular, any strategic decision, based on the risk profile of the Company at the time of preparing the business plan, takes into account the maximum risk that can be assumed without violating regulatory requirements or other constraints imposed by the Supervisory Authority, the risk appetite of the enterprise and, therefore, the level of risk that it is willing to assume in order to achieve its strategic objectives and, at the same time, the maximum threshold of deviation from the risk target, set in order to ensure the Company sufficient margins to operate in conditions deemed satisfactory.

Moreover, the Company has defined a capital management policy and a capital management plan, the purpose of which is to adopt adequate procedures to ensure the safeguarding of the regulatory requirements and of Risk Appetite target levels, as well as to guarantee that the elements of Own Funds, which the business intends to use in order to achieve the business objectives established at the time of strategic planning, meet the regulatory requirements defined by EIOPA and are correctly classified. This plan is drawn up in line with the results of the future risk assessment according to the Solvency II approach (ORSA), with the objectives established in the Capital Management Policy and with the solvency requirements established by the regulator, in order to guarantee the Company's capital solidity for its own operations and potential future development.

The risk management organisational model – Operating limits and controls

Credemassicurazioni's risk management organisational model involves all business departments, from operating units (involved in the management of risks for the relevant processes) to the Board of Directors, including therein the fundamental units.

In this context, the Risk Management department acts as coordinator of the risk monitoring activities. More specifically, it contributes to defining risk measurement methods and operating limits, defining appropriate verification procedures, and has the task of validating the information flows from risk monitoring activities, preparing reports for top management and verifying the consistency of the risk measurement models with the company's operations.

Risks are continuously monitored by the Risk Management department and by the relevant individual departments; to this end, reports on the development of risks have been created and have been fine-tuned over time and are submitted to the Board of Directors, the Managing Director, the Risk and Data Quality Committee, Top Management and the relevant operational structures, with a view to improving the communication of the results and permitting a better understanding of the topics related to risk assessment.

Risk management policies

As part of the risk management system and in line with sector regulatory requirements, the Board of Directors has drawn up a formal set of policies and attachments which, for each of the areas of risk to which Credemassicurazioni is exposed, specify the objectives, the tasks, the responsibilities, the process and define the tools and procedures, including those related to reporting, required to identify and consequently manage all risk areas. The documents also have a more general objective of encouraging a culture of risk control and management within the

company. Compliance with and application of the documents are guaranteed by an Internal Control System represented by a set of rules, procedures and control techniques and organisational structures aimed to ensure the proper running and good performance of the company.

Risk analysis

Pursuant to sector regulations, the Company has defined a risk analysis process that includes both a qualitative assessment and, for those risks that are quantifiable, the adoption of methods to measure exposure to risk, including a system to establish the amount of maximum potential loss, both current and future. Note that in order to assess capital solvency requirements according to the regulatory Solvency II system, the Company uses the Standard Formula in compliance with that defined in the Delegated Regulation (EU) 2019/981 of the Commission. Therefore, the current and future risk assessments take into account all the risks, included in the framework of the Standard Formula, to which the business is exposed.

In order to continuously assess its solvency situation, the Company calculates on a quarterly basis its Capital Requirement, determines its own eligible funds and the related quality and composition, checking at the same time the compliance with the operating limits and the risk appetite. Adequate documents are reported to the Board of Directors and sent to the Supervisory Authority through the Quantitative Reporting Templates (QRT). The compliance with the Risk Appetite Framework and SCR-based risk indicators broken down within the specific risk management policies is monitored with the same frequency.

If, as part of the various monitoring activities carried out by the Company, continuous and/or significant deviations of the risk profile with respect to the Company's Risk Appetite should emerge, or significant deviations with respect to the main technical/financial/market/product assumptions defined as part of the Strategic Plan (and therefore in the ORSA assessments), a Non-Regular ORSA activity is carried out in order to assess the impacts of these changes also from a prospective perspective.

In 2020, the Company complied with the following regulatory deadlines:

- Preparation and sending to the Supervisory Authority quarterly reports (QRT) required by Pillar 3 and preparation of the descriptive disclosure within the regulatory deadlines;
- Preparation of the Regular Supervisory Report- RSR, approved by the Board of Directors in March 2020 and sent within the regulatory deadline to IVASS;
- Preparation of the Solvency Financial Condition Report - SFCR resolved by the Board of Directors in March 2020 and sent to IVASS by the regulatory deadline;
- Conducting the ORSAs (Own Risk and Solvency Assessment) required to assess the solvency profile of the 2020-2022 strategic plan and preparation of the ORSA Report approved by the Board of Directors in April 2020 and sent to IVASS within the regulatory deadline;

Lastly, it should be specified that in 2020, given the situation deriving from the Covid-19 emergency, the Company participated at the request of the Supervisory Authority in the monthly monitoring of the solvency position (activity started in March 2020).

Subscription risk

Subscription risk is the risk of a loss or an unfavourable change in the value of insurance liabilities due to inadequate assumptions in terms of price setting and establishing technical reserves.

As part of the Company's risk framework, these risks are classified as technical insurance risks and are broken down into risk factors as indicated below.

- Assumption risk, namely the risk resulting from underwriting insurance contracts, linked to insured events, to the processes followed for the pricing and selection of the risks, to the unfavourable trend of actual claims compared to that expected.

- Reserve risk, namely the risk relating to the fact that the amount of insurance reserves is insufficient to cover the commitments made to insured parties and injured parties.
- Disaster risk, namely the risk of incurring losses or of an unfavourable change in the value of the liabilities insured, resulting from the significant uncertainty of the assumptions made to price premiums and to establish reserves relating to extreme and exceptional events linked to natural events or events caused by man.
- Lapse risk: represents the risk relating to the exercise of options by insurers that may be contained in non-life contracts, such as the option to withdraw from the contract before the agreed expiry or the option to renew the contract according to previously established conditions.

The Company has adopted guidelines for these risks which: establish the organisational and governance model, as well as the roles and responsibilities of the business departments involved in undertaking and monitoring the risk assumed and in allocating reserves; illustrate the reporting procedures applied and the communication flows between the departments involved in the underwriting and reserve processes; illustrate the manner in which the business takes reinsurance or other risk mitigation techniques into account in the process to design a new insurance product and to calculate the relative premium. The Company measures and monitors its exposure to subscription risk based on the overall portfolio, in addition to verifying compliance with the limits and policies established. Risk monitoring is conducted from a number of different perspectives and involves different business departments. Monitoring is conducted on a monthly basis by means of the Claims/Premiums ratio. On a periodic basis, the following aspects are monitored: the trend of premiums, the trend of claims, technical profitability of claims by product - segment.

With reference to the management of reserve risk, as part of Solvency II, Best Estimate reserves are calculated by discounting expected claims, determined based on best estimate operating assumptions, with the reference curve. The operating assumptions (e.g. claims and costs) used to forecast future cash flows are reviewed at least once a year on the basis of real portfolio experience. The Company performs a series of sensitivity analyses on the Best Estimate reserves when economic and operating assumptions change, in order to assess the most important factors and therefore to identify the most significant aspects.

Therefore, non-life technical risks are identified both with reference to new products (in the future) and with reference to the current portfolio of the Company. The risk measures used and the volumes analysed are summarised below:

- Distribution of best estimates and of the risk margin;
- SCR - Non-life - Health underwriting risk;
- SCR Premium and Reserve Risk;
- Loss, Expense and Combined Ratio Retention (net of reinsurance).

The indicated quantities are based on the following detailed hierarchy:

- segment;
- business line (Solvency II).

The analysis and identification of technical risks cannot be separated from the component relating to reinsurance in order to establish the full profile of the Company's exposure to risk. The process of identifying possible reinsurance solutions envisages a direct business analysis by segment, based on past experience (profitability, claims and exposure) and on the objectives set in the strategic plans, in order to define the distribution curves of expected claims for a proper representation of reality and future scenarios. The analysis entails the use of quantitative models consistent with the risk measurements adopted by the company (SCR).

Market risks

Market risks regard all those risks of loss deriving from the deterioration of financial investments due to adverse trends of important market variables such as share

prices, interest rates, exchange rates and credit ratings. Market risks reflect the performance of the economic cycle, which may amplify or possibly reduce its significance, especially if the securities portfolio of the company is particularly concentrated in specific sectors, currencies or geographic areas.

As regards said risks, the Company adopts guidelines that establish the general principles for the activities of the Finance department, the frequency of controls and the measures for recovery if the limits are exceeded.

In the overall composition of the investment portfolio, exposure to risk, constraints related to covering insurance reserves and the impact on the Solvency Ratio are also taken into account.

The limits relating to investments are verified and controlled on a continuous basis by the relevant business departments and, periodically, the results of the same are brought to the attention of the Board of Directors.

The process also envisages a review stage of the above-mentioned limits conducted by means of a sensitivity analysis of asset and liability portfolios. The risk valuation and measurement methods used in the investment process are consistent with the principles of the new Solvency II system.

Market risks are identified with reference to the portfolio of investments in movable assets already acquired and the future investment scenarios. Market risks are identified with ALM - asset-liability management - approaches in order to understand the interrelations between the trends of liabilities and of hedging assets, and by following the Solvency II principles in order to seize any capital requirement absorbed by each individual risk factor.

The risk measures used and the volumes analysed are summarised below:

- SCR Market Risk;
- SCR Market Risk / MV Assets.

The indicated quantities are available in the following level of detail:

- assets portfolio of the Company.

Liquidity risk

The Company quantifies its solvency position with Standard Formula metrics, which do not require liquidity risk to be quantified in terms of capital absorption. In order to control this type of risk, a set of indicators can be monitored. Three possible situations can be identified from the results of this monitoring:

- ordinary liquidity: situation in which cash and cash equivalents of the Company are in line with the normal course of business;
- liquidity tension: situation generated from events related to the Company or having a systemic nature (that affect the market or part of it), different from the normal course of business, but the immediate severity of which in terms of impact on liquidity is not considered such as to activate the emergency measures expected for the state of crisis;
- liquidity crisis: situation where adverse business and market conditions undermine the ability of making profit from corporate assets and/or the possibility that unexpected cash disbursements affect the state of solvency against limited cash equivalents.

The monitoring is carried out through a tool used not only for the monitoring of the liquidity risk but also for its reporting. The tool includes an annual future time horizon with monthly step.

The indicators used by the Company to monitor the liquidity risk are set below:

- liquidity gap;
- cumulative liquidity gap;
- contingency capacity;
- liquidity buffer;
- current ratio.

Credit risk

The risk of default is related to the insolvency of issuers of financial instruments, of reinsurers that guarantee reinsurance cover, of brokers and of other counterparties.

The policies relating to risk of default of issuers of financial instruments refer to that illustrated above for market risk in terms of the general principles for the control of financial investments. With regard to reinsurers, Credemassicurazioni has drawn up policies to manage and control this risk in terms of guidelines and limits for counterparties.

The counterparty default risk is identified with reference to the counterparties for which there are credit positions. Risks are identified, for the only existing portfolio, on the basis of the technical data of the portfolio and of the risk measures determined by means of the reference tool for calculating the SCR (standard formula).

The risk measures used are summarised below:

- SCR Counterparty Default Risk;
- SCR Counterparty Default Risk Reinsurance.

Operational, compliance, reputational risks and risk of belonging to a group

Operational risk is defined as the risk of incurring losses resulting from the inadequacy or the malfunctioning (shortcomings or errors) of internal procedures, human resources or systems, or from external events (see Art. 1, paragraph 1, letter vv-bis 5 of the CAP).

The main risk factors that characterise operational risk are:

- People Risk: human resources may be a source of risk for an enterprise, if the organisational structure is not efficient, or if there are shortcomings in the professionalism of employees or, for example, if the pay structure or the career prospects are not adequate and if the company environment is not suitable;
- Business Process Risk: business processes are a source of operational risk in the event that there are inefficiencies in the design, formalisation and definition of the structure of the same and therefore in the definition of the individuals that are part of the same and of the relative level of responsibility and authorisation;
- IT Security Risk and IT Risk: information systems may cause losses to the enterprise if adequate IT Security measures are not adopted, or in the management of hardware and software. The growing dependence on information systems and technological resources in general has made this risk factor increasingly important.

The following risk factors are also analysed by the Company:

- Outsourcing Risk: outsourcing business activities is a source of operational risk if shortcomings/inadequacies emerge in the management of relations with outsourcers, which cause losses to the enterprise;
- Physical Asset Risk: physical assets may be a cause of losses to the enterprise in the event of inadequacies: faced with natural disasters, in prevention and safety towards accidental events, faced with the obsolescence of infrastructure, prevention and security towards criminal acts, in the authorisation processes for the performance of operating activities, in the control measures of unauthorised activities and fraud by employees, in preventive measures towards fraud by external parties;
- Compliance Risk: non-compliance with legislation may cause a loss to the enterprise or harm its reputation following infringements of laws, regulations or provisions of the Supervisory Authorities or of self-regulation provisions.

A bottom-up approach is adopted for the identification of operational risk, based on a Risk Self-Assessment method, with the aim of assessing the level of risk and the quality of the measures set in place to mitigate the risk relating to operating activities and all business processes.

The purpose of this approach, based on an analysis by Functional Area, is to identify loss events that could occur, assess the possible impact and possible frequency of occurrence of these events, assess the effectiveness of the controls monitoring the possible organisational tools that can be activated for risk mitigation.

The Company also conducts an annual assessment of the effective losses incurred from operational risks (known as LDC - Loss Data Collection). This analysis also enables back-testing to be conducted on the ex-ante assessment through Risk Self-Assessment.

As regards the assessment of the capital requirement (SCR), operational risks are assessed through the application of the Standard Formula.

The Company also continued with work to complete the Business Continuity Plan. In the management of compliance risk, the company identified achieving compliance in terms of transparency and correctness of settlements with policyholders or injured parties, pre-contractual and contractual information, correct execution of contracts, with particular reference to claims management and, more generally, consumer protection, as key success factors.

In brief, by formalising the compliance risk matrix, the process of assessing compliance with legislation seeks to achieve the following:

- to improve the level of sensitivity of first-level controls towards regulatory provisions;
- to assess the existing controls on processes;
- to stimulate thought on potential risks;
- to evaluate the ability to recognise or prevent said risks;
- to identify organisational measures needed to fill any gaps that may have been found.

The Compliance department operates according to a methodological approach based on techniques of identification, assessment, management and monitoring of non-compliance risks, in line with the best market practice and coherent with those used in Risk Management and Internal Audit processes.

According to the model adopted by the Company, moreover, there are other risks/loss events that are not strictly related to specific risk factors, but that may originate from the risk categories previously illustrated. In particular this regards the risk related to belonging to a group, reputational risk and conduct risk, as identified by the laws and regulations of this industry.

The risk related to belonging to a group (risk of “contagion”) means the risk that, following relations between the enterprise and other group entities, difficult situations that arise in one company of the same group may spread and have negative effects on the solvency of the enterprise itself.

With regard to the risk associated to belonging to a group, although Credemassicurazioni is not part of any group as it is owned in equal parts, corresponding to 50% of the share capital, by Reale Mutua Assicurazioni and Credito Emiliano S.p.A., it is in any event subject to IVASS Regulation no. 30 of 26 October 2016 and therefore the Company defines its own policy for intragroup transactions, in accordance with its own strategy and with policies relating to investments, adopted by the management body and reviewed at least once a year.

The policy establishes specific guidelines for each type of intragroup transaction identified and sets the relative operating thresholds in line with the characteristics of the various types of transaction and of the counterparties to the same, as well as on the basis of all transactions conducted for each type of intragroup operation.

Reputational risk means the risk of the company's image deteriorating, and of increased conflict with both insured parties (also due to the poor quality of the services offered, to the placement of inadequate policies or behaviour during the sales, after sales or settlement phases) and with the Supervisory Authorities and shareholders.

Reputational risk is generally broken down into:

- direct reputational risk: focused on sensitive businesses, on the basis of ESG (Environment, Social and Governance) criteria;
- indirect reputational risk: based on the management of the reputational impact of other types of risk (e.g. operational risk, cyber risk, legal risk etc.).

It is specified that the assessment of reputational risk takes place as part of the Risk Self-Assessment campaign relating to operational risk management. The risk is identified operationally by analysing:

- placement procedures that entail the prior assessment of the adequacy of the contract with a view to initially identifying the insurance requirements and the customer's protection needs, as well as providing adequate information on the product;
- the assistance services provided by the distribution network;
- the claims management process;
- the claims settlement process.

Conduct risk - as a sub-category of operational, compliance and reputational risk - can be defined as the current or future risk of losses resulting from cases of inappropriate offers of products and/or services, including cases of inadequate conduct (wilful misconduct/negligence) by the company.

Strategic risk means the current or future risk of a fall in profits or of share capital and of the sustainability of the business model, including the risk of not being able to generate adequate return on capital on the basis of the risk appetite defined by the enterprise, resulting from changes in the operating scenario or from erroneous business decisions, from the inadequate implementation of decisions, improper management of the risk associated with belonging to a group, and from poor reactivity to changes in the competitive scenario.

Finally, emerging risk is the risk originating from new sources of risk that become material due to changes in the internal or external environment.

The assessment made by the Company in 2020 allowed the risk map to be outlined – Framework Solvency II – to which the Company is exposed (shown below).

Risk Module	Risk Sub-module	Exposure
Non-Life underwriting risk	Non-Life premium and reserve risk	X
	Non-Life lapse risk	X
	Non-Life CAT risk	X
Health underwriting risk	Health premium and reserve risk	X
	Health Lapse risk	X
	Health CAT	X
	Health SLT Mortality risk	---
	Health SLT Longevity risk	---
	Health SLT Disability morbidity risk	---
	Health SLT Lapse risk	---
	Health SLT Expense risk	---
	Health SLT Revision risk	---
Market risk	Interest rate risk	X
	Equity risk	X
	Property risk	---
	Spread risk	X
	Currency risk	X
	Concentration risk	---
Counterparty default risk	Type 1 counterparties	X
	Type 2 counterparties	X
Operational risk	Operational risk	X

From a regulatory (Solvency II) perspective, the forward-looking risk assessments did not reveal risks emerging in relation to the actions envisaged by the new investment and business strategies. However, their composition is different, despite their substantial consistency in terms of relevance with respect to the past.

In relation to IVASS regulation no. 45 containing provisions on the governance and control requirements of insurance products and in relation to Regulation (EU) 2019/2088 of the European Parliament on disclosure in the financial services sector, emerging risks relating to conduct risk and ESG risk have been detected.

With reference to the future and monitored data in 2020, the analysis made it possible to identify the risk sub-modules that are most significant and have most impact on the Company, namely the risk sub-modules Non-Life premium and reserve risk, Health premium and reserve risk, followed by the Non-Life lapse risk sub-module.

With respect to the above-mentioned table, the Company is exposed to the Spread risk on ITA Government securities (a risk not contemplated in the Standard Formula). In its assessments, the Company takes this risk factor into consideration through specific sensitivity analyses carried out periodically (at least quarterly) and in the ORSA Report YE 31.12.2020.

The results of qualitative/quantitative analyses of the adequacy of the Company's risk profile with respect to the requirements underlying the application of the Standard Formula were positive.

In addition to calculating the impacts due to quantifiable risks, the Company also manages and monitors the risks outside the scope of the Standard Formula and the so-called non-quantifiable risks from a regulatory perspective, such as:

- compliance risk;
- reputational risk;
- risk associated with belonging to a group;
- spread risk on Government bonds;
- liquidity risk.

The assessment of these risks is based on the expert judgement of the risk takers and on the analysis of specific indicators identified for certain risk categories (such as, for example, liquidity risk: liquidity gap, contingency capacity, availability index, etc.). With regard to liquidity risk, as previously indicated, the identification is carried out with reference to the security investment portfolio and the cash flows (In and Out) and on the analysis of specific indicators defined according to the time period in which the risk is analysed and studied. In the current situation, these types of risk are properly managed, monitored on a regular basis and do not involve an add-on in terms of regulatory capital.

At present, there are not results that indicate critical situations in terms of solvency resulting from strategic risks. Nevertheless, the impact of possible changes of the macro-economic scenario that may have a significant impact on the Company's Own Funds must continue to be considered.

PART F

INFORMATION ON CONSOLIDATED SHAREHOLDERS' EQUITY

Section 1 – Consolidated shareholders' equity

A. Qualitative information

Effective 1 January 2014, Regulation (EU) no. 575/2013 ("CRR") came into force, through which the rules defined by the Basel Committee for banking supervision were introduced into the European Union, together with a detailed series of documents called "Basel III" regarding capital adequacy (First Pillar) and disclosures to the public (Third Pillar).

Regulation (EU) no. 575/2013 and EU Directive 2013/36/EU ("CRD IV") establish the new reference regulatory framework in the European Union for banks and investment companies. From 1 January 2014, CRR and CRD IV are accompanied by technical regulating or implementing standards approved by the European Commission on the proposal of the European Supervisory Authorities ("ESA"), which implement the primary legislation.

With the adoption of the Implementing Regulation (EU) no. 680/2014, the Implementing Technical Standards were established, which are binding with regard to the harmonised prudential reporting of banks and of investment companies relating to: own funds, credit and counterparty risk, market risk, operational risk, large risks, recognition of mortgage losses, overall equity position, liquidity monitoring and financial leverage.

Furthermore, Banca d'Italia issued Circulars no. 286 and 154, which transpose the mentioned ITS, according to the matrix currently adopted for supervisory reporting.

The Group considers assessing its capital structure a priority and these analyses are conducted within specific Group Governance Committees. On these occasions, the main impacts relating to legislation in progress are also highlighted (e.g. potential impacts relating to the finalisation of the reform of Basel III as per the recent agreement of the Basel Committee dated 14 January 2019) and those already approved but not currently applicable (e.g. (EU) Regulation no. 876/2019 and (EU) Directive no. 787/2019 which amend (EU) Regulation no. 575/2013 and Directive 2013/36/EU/876 respectively, just as (EU) Regulation no. 877/2019 and EU Directive no. 879/2019).

The Group Governance Committees always include members appointed from the Parent Company's Board of Directors, chosen from the members of the Board, and the respective analyses are then presented to the Parent Company's Board of Directors.

From a supervisory profile, absorption is determined taking into account the current reporting "rules".

From a management perspective, absorption is calculated using internal models for credit and market risk and using a standard "management" model".

The risks are examined both at overall level and in detail within the Group companies (analysis of specific portfolios).

As at 31 December 2020, Own Funds were determined based on the provisions contained in Regulation (EU) no. 575/2013 (CRR).

B. Quantitative information

B.1 Consolidated shareholders' equity: breakdown by business areas

Items of shareholders' equity	Prudential consolidation	Insurance companies	Other companies	Consolidation adjustments and eliminations	Total
1. Shareholders' equity	332,427	121,600	-	(121,575)	332,452
2. Share premium	283,053	-	-	(40)	283,013
3. Reserves	2,003,160	188,922	-	11,060	2,203,142
4. Equity instruments	-	-	-	-	-
5. (Treasury shares)	(7,463)	-	-	-	(7,463)
6. Valuation reserves:	135,624	(14,463)	-	-	41,335
- Equity securities measured at fair value through other comprehensive income	12,935	-	-	-	12,935
- Coverage of equity securities measured at fair value through other comprehensive income	-	-	-	-	-
- Financial assets measured at fair value through other comprehensive income	31,245	-	-	-	31,245
- Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	-	(14,509)	-	-	(14,509)
- Property, plant and equipment	-	-	-	-	-
- Intangible assets	-	-	-	-	-
- Hedge of foreign investments	-	-	-	-	-
- Cash flow hedges	50,351	-	-	-	50,351
- Hedging instruments [elements not designated]	-	-	-	-	-
- Exchange differences	-	-	-	-	-
- Non-current assets and groups of assets held for sale and discontinued operations	-	-	-	-	-
- Financial liabilities measured at fair value through profit or loss (changes in own credit rating)	-	-	-	-	-
- Actuarial gains (losses) on defined-benefit pension plans	(11,987)	46	-	-	(11,941)
- Share of valuation reserves of equity investments valued at equity	-	-	-	-	-
- Special revaluation laws	53,080	-	-	-	53,080
7. Profit (Loss) for the year (+/-) pertaining to the Group and non-controlling interests	167,708	27,648	-	6,373	201,729
Shareholders' equity	2,914,509	323,707	-	(104,182)	3,134,034

The table above shows the components of shareholders' equity, summing those of the Group with those of third parties, broken down by type of company included in the scope of consolidation. More specifically, in the column regarding the prudential consolidation, the amount indicated is the result of the consolidation of the companies belonging to the banking group, before the economic effects of transactions made with other companies included in the scope of consolidation; subsidiaries, other than those belonging to the banking group and consolidated on a line-by-line basis have been measured under the equity method. In the column regarding insurance companies, the amount shown is the result of consolidation, before the economic effects of transactions made with companies belonging to the banking group. The "Consolidation adjustments and eliminations" column, on the other hand, shows the adjustments needed to obtain the figure indicated in the financial statements.

B.2 Valuation reserves for financial assets measured at fair value through other comprehensive income: breakdown

Asset/amounts	Prudential consolidation		Insurance companies		Other companies		Consolidation adjustments and eliminations		Total	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	32,660	1,415	-	-	-	-	-	-	32,660	1,415
2. Equity securities	12,935	-	-	-	-	-	-	-	12,935	-
3. Loans	-	-	-	-	-	-	-	-	-	-
Total 31/12/2020	45,595	1,415	-	-	-	-	-	-	45,595	1,415
Total 31/12/2019	24,361	8,269	-	-	-	-	-	-	24,361	8,269

Valuation reserves for financial assets available for sale: breakdown

Asset/amounts	Insurance companies		Other companies		Consolidation adjustments and eliminations		Total	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	18,722	26,946	-	-	-	-	18,722	26,946
2. Equity securities	-	-	-	-	-	-	-	-
3. Units of UCITS	786	7,071	-	-	-	-	786	7,071
4. Loans	-	-	-	-	-	-	-	-
Total 31/12/2020	19,508	34,017	-	-	-	-	19,508	34,017
Total 31/12/2019	22,932	42,126	-	-	-	-	22,932	42,126

B.3 Valuation reserves for financial assets measured at fair value through other comprehensive income: annual changes

	Debt securities	Equity securities	Loans
1. Opening balances	3,296	12,796	-
2. Positive changes	81,899	354	-
2.1 Fair value increases	57,900	354	-
2.2 Value adjustments for credit risk	148	X	-
2.3 Reversal to income statement of negative reserves from disposals	20,263	X	-
2.4 Transfers to other components of shareholders' equity (equity securities)	-	-	-
2.5 Other changes	3,588	-	-
3. Negative changes	53,950	215	-
3.1 Fair value reductions	11,285	216	-
3.2 Recoveries for credit risk	916	-	-
3.3 Reversal to income statement of positive reserves: realised	41,126	X	-
3.4 Transfers to other components of shareholders' equity (equity securities)	-	-	-
3.5 Other changes	623	(1)	-
4. Closing balance	31,245	12,935	-

With regard to the performance of the financial markets, we would like to note:

- In the first quarter of 2020, financial markets experienced severe fluctuations, which pushed share prices downward and caused large swings in Government bond yields, in a context of reduced liquidity, increased risk aversion and strong volatility. In March, as a result of the gradual extension of the measures to contain the epidemic to the main advanced countries, the preference of investors for financial assets considered safer (flight to quality) increased considerably; this phenomenon led to significant reductions in returns in some jurisdictions and increases in others. In the Eurozone, yield spreads against German bonds increased in all countries, to a larger extent in Greece, Italy and Portugal while more limited in Belgium, France, Ireland and Spain. After the decision by the ECB's Governing Council to set up a new asset purchase programme for € 750 billion, tensions in the Eurozone eased.
- In the second quarter of 2020, strains on financial markets caused by the spread of the pandemic partially subsided, thanks to the expansionary measures adopted in the major economic areas and the subsequent gradual easing of the restrictive measures imposed as a result of the pandemic. Starting from April, share prices partially recovered the losses recorded in the most severe phase of the pandemic, benefiting from a greater propensity for risk by investors, given the expansionary measures and the elimination of restrictive measures. Yield spreads with German ten-year bonds decreased from the first ten days of April in Greece, Portugal, Italy and, to a lesser extent, Spain and Belgium.
- In the third quarter of 2020, there was an improvement in the conditions in the financial markets favoured by the considerable interventions of the monetary authorities in support of liquidity and by the expectations encouraged by the wide-ranging measures to support the economies. Since the beginning of July, the yield spreads with German securities have fallen for several European countries and share prices have risen in the United States and Japan, driven by a more favourable economic performance than expected and by encouraging news relating to the progress of the vaccines, but fell in the United Kingdom, held back by the increase in infections and uncertainty over the outcome of negotiations with the European Union. At the beginning of September, the US stock market indices reached new all-time highs, driven by the strong appreciation of the technology sector, subject to a partial correction of the gains in subsequent weeks due to the growing

uncertainty regarding the new fiscal stimulus package and global infection trends.

- In the last quarter of 2020, conditions on the international financial markets gradually improved due to the lack of uncertainty on the outcome of the US elections and the optimism that spread thanks to the effectiveness of some vaccines. Long-term rates remained at low or slightly negative levels in the main advanced economies, where monetary policies remained highly accommodating. The yield spreads with respect to German bonds narrowed in Greece, Portugal, Italy and Spain. Share prices have risen since November in all the main advanced countries. In the United States and Japan, stock prices exceeded the levels prior to the pandemic.

The net reserves in securities issued by Central Administrations of countries belonging to the European Union recorded a positive balance of around € 22.3 million as at 31 December 2020.

Valuation reserves for financial assets available for sale of insurance companies: annual changes

	Debt securities	Equity securities	Units of UCITS	Loans
1. Opening balances	(11,411)	-	(7,783)	-
2. Positive changes	8,417	-	4,963	-
2.1 Fair value increases	7,134	-	690	-
2.2 Reversal to income statement of negative reserves	1,283	-	4,273	-
- due to impairment	-	-	-	-
- following disposal	1,283	-	4,273	-
2.3 Other changes	-	-	-	-
3. Negative changes	5,230	-	3,465	-
3.1 Fair value reductions	2,921	-	2,029	-
3.2 Impairment losses	-	-	-	-
3.3 Reversal to income statement of positive reserves: realised	2,309	-	1,436	-
3.4 Other changes	-	-	-	-
4. Closing balance	(8,224)	-	(6,285)	-

The net reserves in securities issued by Central Administrations recorded a negative balance of around € 11.4 million as at 31 December 2020, € 17.7 million of which referred to the Italian Government. The aforementioned net reserves were included fully in the calculation of the CET1 as at 31 December 2020.

B.4 Valuation reserves for defined benefit plans: annual changes

Net changes during the year show a negative balance of € 3.8 million, after the relative taxes.

Section 2 – Own funds and capital ratios

This section can be found in the disclosure on own funds and capital adequacy contained in the disclosure to the public (“Third Pillar”), “Own Funds” chapter.



PART G - BUSINESS COMBINATIONS

Section 1 – Operations performed during the year

1.1 Business combinations

No operations were performed.

1.2.1 Annual changes to goodwill

No operations were performed.

Section 2 – Business combinations completed after the period

No operations were performed.

Section 3 – Retrospective adjustments

No operations were performed.

PART H

RELATED PARTY TRANSACTIONS

1 Information on remuneration of strategic executives

The following table provides information on the remuneration of executives with strategic responsibilities, in compliance with the provisions of IAS 24.

Executives with strategic responsibilities of Credito Emiliano are those with the power and the responsibility, directly or indirectly, to plan, supervise and control the business activities of Credito Emiliano.

In this context, executives with strategic responsibilities include: the Members of the Board of Directors, the Statutory Auditors, the General Manager, the Joint General Manager, the Deputy General Managers, the other members of Central Management, the Manager responsible for preparing the company's financial reports, and the Heads of Internal Control Functions (Head of the Audit Service, Head of the Anti-Money Laundering department, Compliance Officer, Risk Officer and the Head of Remuneration Policies).

Remuneration summary	Total 31/12/2020	Total 31/12/2019
Directors	1,455	1,460
Statutory Auditors	383	302
Executives	7,438	7,588
Total	9,276	9,350

The remuneration of executives includes short-term benefits, benefits after the end of the contract of employment, other long-term benefits, benefits due to termination of the employment contract and share-based payments.

2. Information on transactions with related parties

In compliance with legislation regarding related party transactions, the Credito Emiliano Group adopted specific procedures in order to regulate these transactions and to guarantee adequate information flows.

In accordance with Consob resolution no. 17221 of 12 March 2010 and the issue by Banca d'Italia of the 9th amendment of Circular no. 263/2006, Credito Emiliano adopted specific procedures to manage related party transactions and associated party transactions.

The regulation is available for consultation on Credito Emiliano's website www.credem.it.

Without prejudice to the principle set forth in Art. 2391 of the Italian Civil Code regarding the interests of Board Directors, this topic is also regulated by the provisions of Art. 53, paragraph 4 and 136 of TULB (Italian Legislative Decree no. 385/93 - Comprehensive Regulation on banking and credit laws), as well as by Art. 6, paragraph 2 novies of the TUF (Italian Legislative Decree no. 58/98 - Comprehensive Regulation on financial brokerage), under which in cases of conflicts of interest or in any event cases in which company representatives may undertake, directly or indirectly, obligations vis-à-vis the company that they manage, supervise or control, only with the abstention from voting of the interested party and, according to Art. 136 of the TULB, following the unanimous approval of the remaining voters, and the favourable vote of all members of the Board of Statutory Auditors.

The relationships and transactions performed with related and associated parties do not raise any critical aspects and are part of ordinary service and credit activities.

The conditions applied to individual relationships and to transactions with related and associated parties do not differ from the current market practice.

In 2020, a transaction that could be defined as of greater importance in accordance with the aforementioned procedure was carried out.

In the same period, the Board of Directors adopted a “framework resolution”.

In particular, the decision regarded:

- the granting of loans to related and associated parties attributable to the Deputy Chairman Luigi Maramotti, for a maximum overall amount not exceeding € 100 million and in any event under the legislative limit of 5% of consolidated regulatory capital, disbursed by the Credito Emiliano Group in more tranches, also as part of revolving transactions.

In 2020 intragroup transactions and/or transactions with Italian and foreign related and associated parties were set in place, considered part of ordinary operations and related financial activities, concluded at conditions similar to those applied to transactions concluded with independent third parties.

The intragroup transactions were carried out on the basis of reciprocal assessments of economic convenience, and the conditions to be applied were established according to criteria of substantial correctness, with a view to the common objective of creating value for the Credem Group as a whole.

The same principle was also applied to the provision of intragroup services, as well as that which regulates said services on a minimum basis adapted to recover the relative production costs.

2. Information on transactions with related parties

	Loans	Payables	Guarantees	Assets under custody	Assets under management
Directors, statutory auditors and executives	903	5,332	611	15,360	13,006
Family members	3,359	8,302	715	124,562	9,576
Subsidiaries and associated companies	40,631	258,821	83,401	15,391	143,407
Other related parties	-	-	-	-	-
Total	44,893	272,455	84,727	155,313	165,989

2. Information on transactions with related parties

	Interest income	Interest expense	Fee and commission income and other revenues	Fee and commission expenses and other charges
Directors, statutory auditors and executives	2	1	204	21
Family members	4	-	167	14
Subsidiaries and associated companies	1,345	54	1,289	259
Other related parties	-	-	-	-
Total	1,351	55	1,660	294

The percentage of related party transactions over total Group transactions is as follows (%):

Balance sheet figures	Loans	Payables	Guarantees and commitments	Assets under custody	Assets under management
Total	0.1	0.6	0.8	0.7	0.6

Income statement figures	Interest income	Interest expense	Fee and commission income and other revenues	Fee and commission expenses and other charges
Total	0.2	0.1	0.2	0.1

Details of transactions with associated companies are provided below (€/thousand):

Balance sheet figures	Loans	Payables	Guarantees and commitments	Assets under custody	Assets under management
Total	5,212	11,739	1,020	132,133	-

Income statement figures	Interest income	Interest expense	Fee and commission income and other revenues	Fee and commission expenses and other charges
Total	66	1	16,996	5

The percentage of transactions with associated companies over total Group transactions is as follows (%):

balance sheet figures	Loans	Payables	Guarantees and commitments	Assets under custody	Assets under management
Total	-	-	-	0.6	-

ne statement figures	Interest income	Interest expense	Fee and commission income and other revenues	Fee and commission expenses and other charges
Total	-	-	2.0	-

PART I

SHARE-BASED PAYMENTS

Qualitative information

1. Description of share-based payments

In line with the compensation policies approved by the Shareholders' Meeting and in accordance with Banca d'Italia provisions regarding remuneration and incentives, a variable pay system has been drawn up based on partial payment in cash and partial payment through the free allocation of shares. The incentive system is based on the achievement of performance objectives, measured net of risks, and depends on the adequate level of capitalisation and liquidity of the Company.

The aim of the system is to enhance the loyalty of those in key business positions and is addressed to top managers that are in the category of the most important staff. The percentage of the overall bonus awarded to recipients in shares was more than 50% in 2020, conditional to the achievement of the objectives set by the Board of Directors, and with the approval of the Appointments and Remuneration Committee. More specifically, the remuneration plans reserved for the Group's most important staff, which envisage the payment of a part of the bonus through the free assignment of shares are as follows:

- 2020 bonus system;
- Bonus systems and other forms of short and medium-term variable remuneration relating to previous years.

The number of shares is calculated on the basis of the share price at the time the bonus is awarded.

Correction mechanisms are envisaged during the deferment period, by effect of which bonuses accrued may decrease or become zero.

In particular, individual deferred amounts that have already been allocated may not be paid or may be reduced in the event of certain conditions relating to profit, profitability adjusted for risk, inadequate capital and liquidity levels. The bonus may also not be disbursed if the employment contract is terminated or because of professional conduct contrary to good faith and correctness obligations.

For recognition in the financial statements, the Monte Carlo Method is used to take into account the allocation conditions of the various bonus percentages. On the basis of the appropriate assumptions, this method envisages a consistent number of alternative scenarios over the time period considered. More specifically, in each scenario, a forecast of the parameters that define performance objectives is made each year, starting from the last financial statement value, according to Geometric Brownian Motion.

This calculation method can be broken down into the following phases:

- projection of financial statement parameters and of the share price in the chosen time horizon;
- verification of performance parameters;
- calculation of the bonus for each member of the plan and projection of individual trajectories, verifying the achievement of individual objectives and for each year the continuity of work and survival;
- calculation of individual amounts according to the individual bonus payment system;
- calculation, based on the estimated share price, of the number of shares necessary to pay the part of the bonus in shares (where not already established);
- proportional allocation on the basis of the vesting period of the shares assigned;
- repetition of the procedure for the number of times established.

Quantitative information

	Plan	share pertinent to the year	impact on equity
Group	- 2020 Bonus system - Bonus systems and other forms of short and medium-term variable remuneration relating to previous years	3,204.5	16,719.9

PART L – SEGMENT REPORTING

SEGMENT REPORTING – breakdown by operating segments

The operating segments identified at Group level are:

- **Commercial Banking**, which encompasses the corresponding segment of Credito Emiliano and, wholly, the financial statements of Credemleasing, Credemfactor, Banca Euromobiliare and Avvera;
- **Asset Management**, which encompasses the financial statements of Euromobiliare Asset Management SGR, Credem Private Equity SGR, Euromobiliare Fiduciaria and Euromobiliare Advisory Sim;
- **Bancassurance**, entirely represented by Credemvita and the relevant shareholding in Credemassicurazioni;
- Trading, which encompasses the corresponding segment of Credito Emiliano, which includes trading activities;
- **ALM Treasury**, which encompasses the corresponding segment of Credito Emiliano, which includes the management of interest rate risk on the banking book and on the investment portfolio;
- **Corporate Centre and other**, which includes, in addition to consolidation adjustments, Magazzini Generali delle Tagliate, Credemtel, Sata, Gestimlux and, as regards Credito Emiliano, all departments supporting the Commercial Banking and Finance segments.

As regards Credito Emiliano, for segments related to Commercial Banking, Trading, ALM Treasury and Corporate Centres, management accounting data was used.

To ensure reported margins are consistent with actual profit realised, management accounting figures are periodically reconciled with book values.

Accounting policies determining the calculation of income and expenses by operating segments for Credito Emiliano

The financial results of operating segments are calculated using the following main criteria:

- the net interest income is obtained by applying internal transfer rates appropriate to the financial nature of the product;
- net fee and commission income is charged on a regular basis to the customers responsible for generating it and hence, to the relevant operating segment;
- operating segments cover the cost of the resources they use to perform their relative operations based on prices that reflect the actual expenses incurred;
- the costs directly attributable to the sales outlet are attributed to the same, such as, for example, the personnel and the costs relating to the use and the running of the premises; the other costs, including those relating to the central structure and the services centre, are usually attributed to the “Corporate Centre and other” segment;
- overhead costs relating to individual companies are fully attributed to the operating segments to which the respective companies belong.

SEGMENT REPORTING – comments

We invite you to refer to the extensive content contained in the Report on Operations with regard to Commercial Banking, to individual group companies and to the various business segments; to supplement the same, please find some brief comments here below.

Commercial Banking recorded a fall of its interest margin due to the transfer rate model, whose counterparty was the ALM & Treasury segment.

Commissions recorded positive performance while the performance of the component linked to trading recorded a downturn; the contribution of the other income components relating to services was stable.

Operating costs declined slightly, although their breakdown shows different trends: on the one hand, there was an increase in IT costs, while those for personnel, real estate and other expenses recorded a reduction linked to the phenomena illustrated in the report on operations.

Analytical adjustments to loans were also down, while the trend in provisions for risks and charges was affected by a significant recovery on a Group company the previous year.

The volume trend was particularly positive, recording increases in all components, bringing the Total Business from € 111.3 billion to € 121.4 billion (+9.1%).

Asset Management showed a reflective trend in operating revenues linked to the reduction in performance commissions compared to the previous year, while costs recorded a sharp decrease; volumes grew (+ 5%).

Bancassurance performance was slightly down in terms of operating revenues, and operating expenses which, although under control, recorded a slight rise.

The contribution of the Trading segment was down, while the ALM & Treasury segment recorded a trend strongly influenced by both the internal transfer rate model, mentioned previously, and the TLTRO component.

SEGMENT REPORTING - DECEMBER 2019

	Commercial Banking	Asset Management	Bancassurance	ALM Treasury	Corporate Centre and other	Intercompany Intrasegment	Total
LOANS TO CUSTOMERS	30,295	-				-3,611	26,684
INSURANCE RESERVES	-	-	7,360	-	-	-	7,360
BANKING DIRECT DEPOSITS	27,196	-	-	3,031	-	-840	29,387
TOTAL DIRECT DEPOSITS	27,196	-	7,360	3,031	-	-840	36,747
ASSETS UNDER MANAGEMENT	35,015	12,891	-	-	-	-19,806	28,100
ASSETS UNDER CUSTODY	9,807	-	-	-	9,937	-22	19,722
TOTAL INDIRECT DEPOSITS	44,822	12,891	-		9,937	-19,828	47,822
TOTAL DEPOSITS	72,018	12,891	7,360	3,031	9,937	-20,668	84,569
TOTAL BUSINESS	102,313	12,891	7,360	3,031	9,937	-24,279	111,253

SEGMENT REPORTING - DECEMBER 2020

	Commercial Banking	Asset Management	Bancassurance	ALM Treasury	Corporate Centre and other	Intercompany Intrasegment	Total
LOANS TO CUSTOMERS	33,260	-	-	-	-	-3,961	29,299
INSURANCE RESERVES		-	7,807	-	-	-	7,807
BANKING DIRECT DEPOSITS	31,355			2,606		-537	33,424
TOTAL DIRECT DEPOSITS	31,355	-	7,807	2,606	-	-537	41,231
ASSETS UNDER MANAGEMENT	37,362	13,534	-	-	-	-20,953	29,943
ASSETS UNDER CUSTODY	10,480	-	-	-	10,424	-17	20,887
TOTAL INDIRECT DEPOSITS	47,842	13,534	0		10,424	-20,970	50,830
TOTAL DEPOSITS	79,197	13,534	7,807	2,606	10,424	-21,507	92,061
TOTAL BUSINESS	112,457	13,534	7,807	2,606	10,424	-25,468	121,360

CONSOLIDATED FINANCIAL STATEMENTS – EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEGMENT REPORTING – % changes

	Commercial Banking	Asset Management	Bancassurance	ALM Treasury	Corporate Centre and other	Intercompany Intrasegment	Total
LOANS TO CUSTOMERS	9.8	-	-	-	-	9.7	9.8
INSURANCE RESERVES	-	-	6.1	-	-	-	6.1
BANKING DIRECT DEPOSITS	15.3	-	-	-14.0	-	-36.1	13.7
TOTAL DIRECT DEPOSITS	15.3	-	6.1	-14.0	-	-36.1	12.2
ASSETS UNDER MANAGEMENT	6.7	5.0	-	-	-	5.8	6.6
ASSETS UNDER CUSTODY	6.9	-	-	-	4.9	-22.7	5.9
TOTAL INDIRECT DEPOSITS	6.7	5.0	-	-	4.9	5.8	6.3
TOTAL DEPOSITS	10.0	5.0	6.1	-14.0	4.9	4.1	8.9
TOTAL BUSINESS	9.9	5.0	6.1	-14.0	4.9	4.9	9.1

SEGMENT REPORTING - DECEMBER 2019

	Commercial Banking	Asset Management	Bancassurance	Trading	ALM Treasury	Corporate Centre and other	Total
Net interest	360,239	155	-	1,808	109,740	8,233	480,175
Net fee and commission income	504,120	113,329	-51,862	9,932	6,221	-44,847	536,893
Trading and other net revenues	12,569	1,686	108,516	11,803	11,402	140,148	286,124
Operating revenues	876,929	115,170	56,654	23,543	127,363	103,534	1,303,192
Net margin relating to service agreements with other segments	-5,544	6,576	-1,032	-	-	-	-
Net margin relating to service agreements with the service centre	-210,762	-	-	-2,740	-6,366	219,868	-
Revenues and internal costs	-216,306	6,576	-1,032	-2,740	-6,366	219,868	-
Write-down of financial assets	-74,413	-	-234	-	1,204	10,014	-63,428
Other provisions for risks	-833	-10	-	-	-	-14,439	-15,282
Personnel expenses	-366,179	-17,733	-4,679	-1,467	-2,525	-117,682	-510,265
IT costs	-8,080	-4,507	-2,800	-	-	-85,416	-100,803
Real estate costs	-45,880	-843	-173	-52	-62	-4,097	-51,108
Other expenses	-106,548	-8,950	-5,733	-1,958	-2,841	-141,882	-267,912
Operating expenses	-601,933	-32,043	-13,619	-3,478	-4,224	-353,501	-1,008,798
Other costs and non-recurring revenues	-12,713	-	-	-	-367	15,073	1,993
Profit before tax	45,976	89,703	42,003	17,325	116,405	-15,026	296,387

SEGMENT REPORTING - DECEMBER 2020

	Commercial Banking	Asset Management	Bancassurance	Trading	ALM Treasury	Corporate Centre and other	Total
Net interest	331,603	147	-	-486	150,584	4,215	486,062
Net fee and commission income	519,631	77,293	-49,863	10,504	-1,989	-38,231	517,345
Trading and other net revenues	8,358	1,558	104,510	10,758	34,369	136,194	295,747
Operating revenues	859,592	78,998	54,647	20,776	182,963	102,178	1,299,154
Net margin relating to service agreements with other segments	-5,540	6,829	-1,289	-	-	-	0
Net margin relating to service agreements with the service centre	-205,756	-	-	-4,580	-8,373	218,710	0
Revenues and internal costs	-211,296	6,829	-1,289	-4,580	-8,373	218,710	0
Write-down of financial assets	-61,990	-	-	-	111	-42,092	-103,971
Other provisions for risks	-2,382	-	-	-	-	-11,094	-13,476
Personnel expenses	-362,439	-16,201	-5,326	-1,634	-2,570	-124,947	-513,117
IT costs	-10,580	-4,120	-2,849	-	-	-93,672	-111,221
Real estate costs	-43,144	-730	-153	-51	-58	-4,804	-48,940
Other expenses	-105,022	-8,754	-6,190	-2,167	-3,607	-132,250	-257,990
Operating expenses	-585,558	-29,805	-14,518	-3,851	-6,124	-408,859	-1,048,715
Other costs and non-recurring revenues	-14,629	-	-	127	-1,169	17,758	2,087
Profit before tax	48,109	56,022	38,840	12,472	167,296	-70,213	252,526

SEGMENT REPORTING – changes

Type of business	Commercial Banking	Asset Management	Bancassurance	Trading	ALM Treasury	Corporate Centre and other	Total
Net interest	-7.9	-5.2	-	-126.9	37.2	-48.8	1.2
Net fee and commission income	3.1	-31.8	-3.9	5.8	-132.0	-14.8	-3.6
Trading and other net revenues	-33.5	-7.6	-3.7	-8.9	201.4	-2.8	3.4
Operating revenues	-2.0	-31.4	-3.5	-11.8	43.7	-1.3	-0.3
Net margin relating to service agreements with other segments	-	-	-	-	-	-	-
Net margin relating to service agreements with the service centre	-	-	-	-	-	-	-
Revenues and internal costs	-2.3	3.8	24.9	67.2	31.5	-0.5	-
Write-down of financial assets	-16.7	-	-100.0	-	-90.8	-520.3	63.9
Other provisions for risks	186.0	-100.0	-	-	-	-23.2	-11.8
Personnel expenses	-1.0	-8.6	13.8	11.4	1.8	6.2	0.6
IT costs	30.9	-8.6	1.8	-	-	9.7	10.3
Real estate costs	-6.0	-13.4	-11.6	-2.7	-6.8	17.3	-4.2
Other expenses	-1.4	-2.2	8.0	10.6	27.0	-6.8	-3.7
Operating expenses	-2.7	-7.0	6.6	10.7	45.0	15.7	4.0
Other costs and non-recurring revenues	-	-	-	-	-	-	-
Profit before tax	4.6	-37.5	-7.5	-28.0	43.7	-367.3	-14.8

The disaggregation of fee and commission income by operating segment is shown below

	Commercial Banking	Asset Management	Bancassurance	Trading	ALM Treasury	Corporate Centre and other	Total
Guarantees given	4,218	-	-	-	-	-9	4,209
Credit derivatives	-	-	-	-	-	-	-
Management, brokerage and advisory services	438,440	227,934	12,405	11,016	11,046	-239,010	461,831
Collection and payment services	87,636	-	-	-	-	-181	87,455
Securitisation servicing	-	-	-	-	-	-	-
Factoring services	12,010	-	-	-	-	-	12,010
Tax collection services	-	-	-	-	-	-	-
Management of multilateral trading facilities	-	-	-	-	-	-	-
Management of current accounts	108,896	-	-	-	-	-156	108,740
Other services	20,420	1,247	-	-	-	-31	21,636
TOTAL FEE AND COMMISSION INCOME	671,620	229,181	12,405	11,016	11,046	-239,387	695,881

KEY:**Interest margin**

- + Item 30 Net Interest Income
- + Item 70 Dividends and similar income (solely for the portion relating to dividends of equity securities in financial assets classified in HTCs)
- + Item 250 Gains/(losses) on equity investments excluding gains/losses on disposals/valuations
- Credemvita Net Interest Income

Non-interest margin

- + Item 60 Net fee and commission income
- + Item 80 Net profit (loss) from trading
- + Item 90 Net profit (loss) from hedging
- + Item 100 Gains/(losses) on disposal or re-purchase
- + Item 110 Net profit (loss) from financial assets and liabilities measured at fair value
- + Item 115 Net profit (loss) from financial assets and liabilities pertaining to insurance companies pursuant to IAS 39
- + Item 130 a) Net value adjustments for credit risk from financial assets measured at amortised cost (for the part relating to securities included under this category of financial assets)
- + Item 130 b) Net value adjustments for credit risk from financial assets measured at fair value through other comprehensive income
- + Item 160 Net premiums earned
- + Item 170 Net other operating expenses/income from insurance activities
- + Item 230 Other operating income/charges (net of extraordinary items)
- + Item 70 Dividends and similar income (net of the portion relating to dividends of equity securities classified in HTCs)
- + Credemvita Net Interest Income

Operating profit

- + Net interest and other banking income
- + Item 190 Administrative costs (personnel expenses and other administrative expenses)
- + Item 200 Net value adjustments to (recoveries on) property, plant and equipment
- + Item 210 Net value adjustments to (recoveries on) intangible assets

Profit before tax

- + Operating profit
- + Item 130 Net value adjustments/recoveries for credit risk (net of those included in the non-interest margin)
- + Item 140 Profits/losses from contractual changes without derecognitions
- + Item 200 Net provisions for risks and charges
- + Extraordinary income/charges:
- + Item 230 Other operating income/charges (only extraordinary items – imbalance of extraordinary items)
- + Item 270 Net value adjustments/recoveries on goodwill
- + Item 280 Gains/(losses) on disposal of investments
- + Item 320 Profit/(loss) after tax from discontinued operations

PART M

LEASES

SECTION 1 - LESSEE

Qualitative information

On 13 January 2016, the IASB published the new standard “IFRS 16 Leases”, which replaces standard IAS 17 - Leases, as well as interpretations IFRIC 4 Determining whether an Arrangement contains a Lease, SIC 15 Operating Leases—Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard was approved by the European Commission by means of Regulation no. 2017/1986 and applies as from 1 January 2019.

The new standard provides a new definition of lease and introduces a criterion based on the control (right of use) of an asset to distinguish lease contracts from service contracts, identifying the following as discriminants: the identification of the asset, the right to replace the same, the right to substantially obtain all of the economic benefits resulting from the use of the asset and the right to direct the use of the asset underlying the contract.

The main change introduced by the standard is represented by a change in how operating lease transactions are recognised in the financial statements of the lessee/user, through the introduction of a single accounting model for the recognition of lease contracts by the lessee, regardless of whether they are classified as operating or finance leases.

According to the new accounting method, the lessee recognises a right of use for the leased asset in balance sheet assets and a lease liability in balance sheet liabilities, corresponding to the present value of the instalments envisaged for the contract, and not yet paid. The amortisation of the right of use and the interest expense deriving from the discounting of the lease liability are recorded in the income statement.

The disclosure required has also been extended for both the lessee and the lessor, with new qualitative and quantitative information required.

Methodological approach and transition decisions

With regard to the types of transition permitted by IFRS 16, the Group decided to make the transition adopting the Modified Retrospective Approach, by recognising the cumulative impact of the initial application of the standard to operating leases in place, calculating the impact on opening balances at 1 January 2019, without restating the comparative data. As at the date of initial application, the balance of the right of use assets is therefore equal to that of the lease liabilities adjusted to take into consideration any prepaid or accrued payments. Lease liabilities were determined by discounting the remaining lease payments at the date of initial application using the Incremental Borrowing Rate.

Among the operational decisions taken by the Group during the transition, it is worth highlighting:

- the choice not to redefine the scope of first-time application, namely to apply the new standard to all lease contracts already identified on the basis of the definition contained in IAS 17;
- the exclusion from the scope of application of short-term leases, i.e. with a residual life at the date of initial application of less than 12 months;
- the exclusion from the scope of application of “low value” leases, i.e. with an estimated asset value less than € 5,000;
- the use of the IAS 37 assessment at the year-end date as an alternative to the impairment test.

With regard to the decisions taken by the Group in terms of the application of the standard, it should also be noted that:

- with regard to operating leases, the scope of application refers to property and vehicle rental lease contracts;
- the Group has set the incremental borrowing rate on the basis of the interest rate curve for issues of senior unsecured bonds of the Group. The rate established, which encompasses the Group credit risk component, also considers the different contractual terms;
- with regard to the term of property leases, in general, the Group has considered only the first period of contractual renewal as reasonably certain.

Other information

Commercial lease contracts are regulated by law, therefore the lessor is permitted to cancel the lease at each expiry (usually every six years) with notice of at least twelve months.

The lessee has the same right. This means that, at any month of any year, cancellation of lease contracts could potentially be sent (or received from the lessor), and would therefore expire after twelve months. In recent years, however, given the situation of the property market, very few annual cancellations by lessors are being made.

Withdrawal is regulated between the parties in almost all of our contracts, and may be exercised only by the lessor at any time with six months' notice. In recent years, the bank has often exercised this right to manage the planned closures of branches better.

Furthermore, in parts B and C of these Explanatory notes to the consolidated financial statements, the equity and economic information required by standard IFRS 16 is reported.

Quantitative information

Property, plant and equipment used in the business	Total 31/12/2020			Total 31/12/2019		
	Buildings	Other	Total	Buildings	Other	Total
Right of use opening balance	147,618	3,781	151,399	153,740	3,201	156,941
- Depreciation	-20,286	-1,683	-21,969	-22,769	-1,375	-24,144
+/- Other changes	-5,604	-1,410	-7,014	16,647	1,955	18,602
Book value final balance	132,936	3,508	136,444	147,618	3,781	151,399

Lease liabilities	Total 31/12/2020	Total 31/12/2019
Lease liability opening balance	152,826	156,885
- payments for leases	-25,459	-26,574
+ Interest expense accrued during the year	3,844	3,814
+/- Other changes	8,439	18,701
Lease liability closing balance	139,650	152,826

Other information	Total 31/12/2020	Total 31/12/2019
Costs for low-value leases	37	159
Costs for short-term leases	227	952
Other lease expenses	2,353	2,980

Other lease expenses related to non-deductible VAT and other services.

SECTION 2 - LESSOR

Qualitative information

In the Group, finance lease transactions are made by Credemleasing.

The health emergency that negatively affected 2020 and the consequent rationing measures led to strong contractions in production activity and investment dynamics, generating a considerable slowdown in the market for long-term financial leases and rentals that amounted to around 537,000 new contracts during the year (-23.2% compared to 2019), for a financed value of approximately € 22.9 billion (-18% compared to 2019).

The market continues to be characterised by the considerable weight of investments in the securities segment (88% of the total value of new contracts in the period). In this regard, note that:

- the vehicle segment recorded an overall decline of 23.8% in the number of contracts signed and 16.6% in the volumes financed, with an overall result less penalising than expected thanks to the positive trend observed in the second part of the year and which regarded cars and commercial vehicles in long term leases in particular. The greatest contraction is seen in the car segment, both leased and rented (-20.7% and -16.7% in financed volumes respectively), which represent 68.5% of the segment. The commercial vehicle market also recorded a setback (-11%), as did industrial vehicles (-14.7%);
- in the capital goods segment, characterised by the strong predominance of finance leases, there was a contraction in terms of both new contracts (-21.8%) and volumes (-17.6%). The finance leases recorded a downturn in volumes of 16.8%, which affected the investments in all price brackets (with significant reductions for transactions of over € 0.5 million in particular); operating leases were also down by 21.1%.

The real estate segment ended with a 25.6% decrease in the number of executed agreements and a 28.5% decrease in the value of new agreements. The slowdown regarded both finished properties (-25.2% in number and -26.7% in the value of new contracts), with a negative trend observed across all the price brackets, and properties to be built, whose decrease is around -27.1% in terms of numbers and -30.6% in terms of volumes.

The air, sea and railway sector is the only one to show growth both in the number of contracts signed (+20.7%) and in the value of the volumes financed (+9.1%), driven by the upsurge of new contracts in October that involved the “sportscraft” segment (following the change in the application regime for the calculation of VAT).

In a context characterised by strong uncertainty, the Company ended with sales trends substantially improved with respect to the sector, but with a slowdown in the overall value of financed investments of 9% (a decrease of 19.3% in the number of new contracts stipulated). In line with the market, the weight of the movables segment on the total increased compared to the same period of the previous year, contributing to 68% of new contracts signed; furthermore, the same segment continues to be characterised by a strong composition of capital goods with volumes of around 54% (36% of the total), whose negative performance is confirmed both in volumes (-24.7%) and in contracts signed (-25.4%) and for all price brackets. Motor vehicles contributed approximately 11.5% of the total, recording a fall, against 2019, of 15.9% in the number of new contracts and 11.5% in the amount financed. The nautical product, for which the same considerations made on the overall positive trend of the market apply, recorded an increase in the value of new contracts (+159%) and contributed by 19% to the total new production for the period.

The real estate sector saw total volumes down by -20.9% and numbers down by -2.8% against the previous year. The “to be built” segment contributed 46.6% of financed volumes to the segment and, in line with the “System”, was characterised by financing in the over € 0.5 million price bracket. Bucking the market trend, the

“built” real estate segment recorded +10.2% in volumes and +7.8% in number, with transactions concentrated in the value range of between € 0.5 and € 2.5 million. Overall, the market share relating solely to financial leasing was 5.20% in June.

Quantitative information

1. Information on the balance sheet and income statement

2. Finance leases

Information relating to receivables for finance leases is shown below (broken down by the residual life of future receivables including the share of redemption, relating to active contracts only) and the breakdown of the same information by performing and non-performing exposure:

2.1 Classification by time period of payments to be received and reconciliation with loans for leases recognised under assets

Time Period	Total 31/12/2020 Payments to be received for leases	Total 31/12/2019 Payments to be received for leases
Up to 1 year	579,865	585,746
1 to 2 years	494,575	467,295
2 to 3 years	403,095	380,019
3 to 4 years	314,310	288,332
4 to 5 years	224,869	206,315
Over 5 years	827,701	794,443
Total payments to be received for leases	2,844,415	2,722,150
Reconciliation with loans		
Financial profits not accrued (-)	(242,137)	(244,401)
Residual amount not guaranteed (-)	-	-
Loans for leases	2,602,278	2,477,749

		Total 31/12/2020		Total 31/12/2019		
Time Period	Payments to be received for leases		Total payments to be received for leases	Payments to be received for leases		Total payments to be received for leases
	Non-performing exposures	Performing exposures		Non-performing exposures	Performing exposures	
Up to 1 year	45,267	534,597	579,865	53,997	531,755	585,752
1 to 2 years	4,698	489,877	494,575	6,183	461,118	467,301
2 to 3 years	3,873	399,222	403,095	4,168	375,855	380,023
3 to 4 years	4,327	309,983	314,310	3,434	284,902	288,336
4 to 5 years	2,734	222,135	224,869	4,214	202,103	206,317
Over 5 years	11,408	816,293	827,701	13,739	780,708	794,447
Total payments to be received for leases	72,307	2,772,108	2,844,415	85,735	2,636,441	2,722,176
RECONCILIATION						
Financial profits not accrued (-)	(4,478)	(237,659)	(242,137)	(5,232)	(239,169)	(244,401)
Residual amount not guaranteed	-	-	-	-	-	-
Loans for leases	67,829	2,534,449	2,602,278	80,503	2,397,272	2,477,775

2.2 Other information

Finance lease contracts grant the lessee the right, at the end of the contract duration indicated, and provided that said lessee has completely fulfilled all obligations undertaken, to choose between:

- acquiring ownership of the asset by paying a set amount;
- returning the leased asset.

The contracts' duration, in relation to the useful life of the assets, and the pre-set repurchase value of the assets are such as to lead lessees, in most cases, to purchase the assets upon lease maturity.

The assets leased vary depending on the requesting party and/or type of activity carried out. In general, leased goods fall into 4 categories: vehicles (automobiles, commercial vehicles, industrial vehicles), air, sea and railway (aircraft, motorboats and sportscraft, railway cars), capital goods and real estate (buildings for commercial, industrial and residential use, both built and to be built).

3. Operating leases

A classification of the payments to be received by time periods is provided.

3.1 Classification of the payments to be received by time periods

Time Period	Total 31/12/2020 Payments to be received for leases	Total 31/12/2019 Payments to be received for leases
Up to 1 year	1,506	507
1 to 2 years	1,506	500
2 to 3 years	1,484	500
3 to 4 years	1,475	500
4 to 5 years	1,471	474
Over 5 years	2,265	471
Total	9,707	2,952

3.2 Other information

There are lease contracts in place, in the capacity of lessor, for owned properties, while for several third-party properties rented, sublease contracts have been entered into.

ATTACHMENTS
TO THE
CONSOLIDATED
FINANCIAL
STATEMENTS

Country-by-country reporting

Reclassified Balance Sheet

Reclassified Income Statement

List of equity investments

Fees for auditing and for services other than auditing

Annual statement of the Euromobiliare Alternative SGR funds



COUNTRY-BY-COUNTRY REPORTING

In order to increase the confidence of European Union citizens in the financial sector, the so-called “CRD IV” directive introduces obligation to publish information regarding the bank’s activities, and specifically, the profits made, the taxes paid and any state contributions received, broken down by country in which the bank operates. Circular no. 285/2013 of Banca d’Italia, in Title III, Chapter 2, implements the rules of country by country reporting in the Italian legislative system. In line with this, the Group publishes the information requested as an attachment to the annual consolidated financial statements.

NAME OF COMPANIES ESTABLISHED AND NATURE OF THEIR BUSINESS

Name of company	Country	Type of relationship	Voting Rights %	Activity
Credito Emiliano spa	Italy	0		commercial banking
Banca Euromobiliare spa	Italy	1	100.00%	commercial banking
Credemleasing spa	Italy	1	100.00%	commercial banking
Credemfactor spa	Italy	1	100.00%	commercial banking
Avvera spa	Italy	1	100.00%	commercial banking
Euromobiliare Advisory Sim spa	Italy	1	100.00%	wealth management
Euromobiliare Asset Management SGR spa	Italy	1	100.00%	wealth management
Credem Private Equity SGR spa	Italy	1	100.00%	wealth management
Credemvita spa	Italy	1	100.00%	wealth management
Credemassicurazioni spa	Italy	2	50.00%	wealth management
Credemtel spa	Italy	1	100.00%	remote banking
Magazzini Generali delle Tagliate spa	Italy	1	100.00%	cheese warehousing
Gestimlux sarl	Luxembourg	1	100.00%	real estate management
Euromobiliare Fiduciaria spa	Italy	1	100.00%	fiduciary services
Sata srl	Italy	1	75.00%	software house
Credem CB srl	Italy	1	70.00%	special purpose vehicle

Key: Type of relationship

0 = Parent Company

1 = subsidiary

2 = jointly controlled

Parent Company

Credito Emiliano S.p.A. is a company established in Italy in the form of a joint-stock company, called CREDITO EMILIANO S.p.A. The company name can be abbreviated to CREDEMBANCA or CREDEM.

Credito Emiliano S.p.A. is the Parent Company of the “Credito Emiliano - CREDEM” Group.

Credem is a member of the Interbank Deposit Protection Fund.

Credito Emiliano S.p.A. is enrolled on the Company Register of Reggio Emilia under no. 01806740153 and on the Economic and Administrative Register REA under no. 219769, as well as on the Register of Banks under no. 5350 and on the Register of Banking Groups held by Banca d’Italia under no. 3032.

Credito Emiliano S.p.A. (Credem) is established in Italy in the form of a joint-stock company in accordance with Italian law. Article 4 of Credem’s Articles of Association establishes a duration of the company up to 31 December 2050.

Credem’s business activities envisage the collection of deposits, the disbursement of loans of various types and the offer of financial services standard to banking activity.

Credem and the companies controlled by the same form a medium-large sized group, now present throughout Italy, although maintaining its traditional roots in Emilia Romagna (Northern Italy). As it initially operated as a retail customer bank, the Group today offers a complete range of financial services including those specific to the activities of a commercial bank, savings management and brokerage. At present, the Group comprises 14 companies, in addition to the Parent Company, operating in sectors related to the offer of financial services (the common law company group also includes two insurance companies which operate respectively in the life and non-life segments: Credemvita S.p.A., fully consolidated and 100% held by Credem; Credemassicurazioni S.p.A., 50% held by Credem). The Group also includes Credem CB S.r.l., special purpose vehicle - SPV, 70% of which is held by Credem.

Background

Credem was originally founded in 1910 as Banca Agricola Commerciale di Reggio Emilia, a private local bank situated in the north of Emilia Romagna. The present day name of Credito Emiliano S.p.A. was established in 1983, when the control of Banca Belinzaghi - Milan was acquired, the Issuer's first step towards expansion out of its region.

On 1st January 1993, following the reorganisation of the regulation of the credit sector (Italian Legislative Decree no. 385/93), the "Credito Emiliano - CREDEM" banking group was formally established, on the basis of the previous organisation, the holding company of which was Credito Emiliano Holding S.p.A. (hereinafter also Credito Emiliano Holding or Credemholding), placed at the top of the shareholding structure and acting as Parent Company. From June 2009, the Parent Company of the banking group became Credem, and Credemholding left the scope of the banking group.

Group organisational structure

All companies established within the Group structure (hierarchically) report to the Parent Company Credem, which is also responsible for the governance of the same, as banking parent company.

The various Group companies break down into "captive" companies (whose activities relate directly to the distribution networks for retail and corporate customers) and "non captive" companies (which, by contrast, operate in the market regardless of the Group's distribution structure). The first category includes: Credemleasing, Credemfactor, Euromobiliare Asset Management SGR and Avvera spa. The second category includes: MGT and Credemtel S.p.A.

As at 31 December 2020, the Group's distribution structure included 600 branches, business centres and financial outlets, operating in 19 regions and 90 Italian provinces, with 6,219 employees, 833 external financial advisors with mandates, 209 Avvera agents and 253 agents for salary-backed loans.

Main business activities

The Group's core business sectors are commercial banking and wealth management.

Commercial banking regards the distribution of financial products and services to the Group's retail and corporate customers. Credito Emiliano S.p.A. and several other Group affiliates, such as Credemleasing S.p.A., Credemfactor S.p.A., Avvera spa and Banca Euromobiliare S.p.A. manage the commercial banking business. As at 31 December 2020, the Issuer's contribution to the Group's net profits was € 97.3 million (namely 48.3%), against € 76.9 million in the same period of the previous year.

The Group's wealth management activities include the management of mutual investment funds, SICAV, portfolio management as well as private equity and hedge funds. As at 31 December 2020, the Group's total business was worth around € 108.3 billion, resulting from the sum of volumes relating to direct bank deposits, insurance reserves and indirect deposits (assets under management and custody), and loans to customers. The Group's asset management activities are split between

Euromobiliare Asset Management SGR S.p.A. (a company which carries out administrative and management support services for Euromobiliare International Fund SICAV), Credem Private Equity SGR S.p.A. and Credemvita S.p.A.

Main markets

The Group's core business is focused on retail services, wealth management and on small and medium enterprises. In terms of loans to customers, the Group's activities are addressed to the domestic market only, with special focus on the north and centre of the country, which, as at 31 December 2020, represented almost 78.6% of total net cash credit exposures to customers. There are no significant concentrations with regard to the disbursement of loans to specific trade sectors. With regard to asset management, as at 31 December 2020, asset management activities were addressed to domestic customers only, while a part of direct bank deposits is performed by means of issues in Italian and/or foreign markets, although addressed to institutional investors. The Group operates in all retail and commercial banking sectors and, through its subsidiaries, in the management of mutual investment funds, brokerage, leasing, factoring and insurance.

TURNOVER

By "Turnover" we mean the relative "Net interest and other banking income" recorded as item 120 on the consolidated income statement, which amounts, for 2020, to € 1,182,837 thousand (€ 1,192,402 thousand in 2019).

NUMBER OF FULL TIME EQUIVALENT EMPLOYEES

By "Number of full time equivalent employees" we mean the ratio between the total number of hours worked by all employees, excluding overtime, and the total annual amount envisaged contractually for one full-time employee, and amounts, for 2020, to 5,816 (5,908 in 2019).

PROFIT OR LOSS BEFORE TAX

By "Profit or loss before tax" we mean the sum of items 290 and 320 (the latter before tax) of the consolidated income statement, and amounts to € 252,526 thousand (€ 296,387 thousand in 2019).

TAXES ON PROFIT OR LOSS

By "Taxes on profit or loss" we mean item 300 of the consolidated income statement, and amounts to (€ 50,797) thousand, (€ 95,077) thousand in 2019.

STATE CONTRIBUTIONS RECEIVED

The Group received contributions from Public Administrations in 2020 amounting to € 906 thousand for funded training. In this regard, note that, this category of contributions excludes operations set in place with central banks for the purpose of financial stability and operations performed with the objective of facilitating the transmission mechanism of monetary policy.

Reclassified balance sheet (€/million)

	31/12/2020	31/12/2019	changes 12/20-12/19	
			amount	%
Cash and cash equivalents	146.0	156.0	-10.0	-6.4
Loans to customers	34,353.6	29,640.0	4,713.6	15.9
Loans to banks	8,309.2	2,032.6	6,276.6	308.8
Other financial assets	11,777.8	13,818.4	-2,040.6	-14.8
Equity investments	45.7	39.2	6.5	16.6
Property, plant and equipment and intangible assets	886.8	891.3	-4.5	-0.5
Other assets	1,131.1	1,052.5	78.6	7.5
Total assets	56,650.2	47,630.0	9,020.2	18.9
Deposits from customers	33,081.7	26,877.9	6,203.8	23.1
Debt securities issued (including subordinated liabilities)	6,307.8	6,533.6	-225.8	-3.5
Technical reserves	4,108.8	3,909.4	199.4	5.1
<i>subtotal</i>	<i>43,498.3</i>	<i>37,320.9</i>	<i>6,177.6</i>	<i>16.6</i>
Deposits from banks	8,009.5	5,428.9	2,580.6	47.5
Other financial liabilities	383.5	423.3	-39.8	-9.4
Specific risk provisions	225.9	227.7	-1.8	-0.8
Other liabilities	1,399.0	1,345.4	53.5	4.0
Non-controlling interests	0.4	-	0.4	100.0
Total liabilities	53,516.7	44,746.2	8,770.4	19.6
Share capital	332.4	332.4	-	-
Treasury shares	-7.5	-9.6	2.1	-21.9
Reserves	2,607.1	2,359.7	247.4	10.5
Profit for the year	201.6	201.3	0.3	0.1
Shareholders' equity	3,133.6	2,883.8	249.8	8.7
Total liabilities and shareholders' equity	56,650.2	47,630.0	9,020.2	18.9

This reclassification was made by considering the figures that can be directly taken from the financial statements

Reclassified quarterly income statement (€/million)

	Q1	Q2	Q3	Q4	12/20	% change	12/19
net interest income	111.9	116.2	135.7	129.2	493.0	1.7	484.8
non-interest margin (*) (****)	186.4	161.9	182.6	178.2	709.1	-1.5	719.7
net interest and other banking income	298.3	278.1	318.3	307.4	1,202.1	-0.2	1,204.5
personnel expenses	(132.3)	(120.6)	(121.4)	(138.8)	(513.1)	0.5	(510.3)
administrative costs (*)	(51.8)	(43.1)	(48.9)	(48.6)	(192.4)	-8.1	(209.3)
operating expenses	(184.1)	(163.7)	(170.3)	(187.4)	(705.5)	-2.0	(719.6)
gross operating profit	114.2	114.4	148.0	120.0	496.6	2.4	484.9
Amortisation/depreciation	(21.0)	(21.4)	(21.8)	(22.2)	(86.4)	5.5	(81.9)
operating profit	93.2	93.0	126.2	97.8	410.2	1.8	403.0
provisions for risks and charges	(2.8)	0.5	2.1	(8.5)	(8.7)	-33.1	(13.0)
extraordinary income/charges (**) (***)	(14.1)	(4.4)	(16.9)	(7.3)	(42.7)	41.9	(30.1)
net value adjustments to loans and financial operations	(16.1)	(36.1)	(20.9)	(33.2)	(106.3)	67.4	(63.5)
PROFIT BEFORE TAX	60.2	53.0	90.5	48.8	252.5	-14.8	296.4
income tax	(19.5)	(15.7)	(29.2)	13.6	(50.8)	(46.6)	(95.1)
Profit (loss) pertaining to non-controlling interests	-	(0.1)	-	-	(0.1)	n.s.	-
NET PROFIT	40.7	37.2	61.3	62.4	201.6	0.1	201.3
EARNINGS PER SHARE					0.61	-	0.61
DILUTED EARNINGS PER SHARE					0.61	-	0.61

This reclassification was performed considering management accounting data that could not be directly deduced from the financial statements' schedules and the Explanatory notes.

(*) costs and the non-interest margin are shown net of indirect taxes and taxes recovered from customers (€ 101.0 million at December 2020; € 99.6 million at December 2019); contributions to national funds of € 38.4 million were written off against expenses (€ 29.0 million at December 2019);

(**) the profit resulting from the sale of bad loans was reclassified under extraordinary charges (€ -2.6 million in 2020; 0.4 million in 2019);

(***) the component relating to the contribution to the Resolution Fund (€ 2.1 million in 2020, € 1.8 million in 2019) allocated to Provisions for Risks and Charges was reclassified to extraordinary charges;

(****) value adjustments to (recoveries on) loans included in financial assets measured at amortised cost relating to securities (€ -1.1 million; € 0 in December 2019) and those included in financial assets measured at fair value through other comprehensive income (€ +1.1 million; € +0.9 million in December 2019) were recognised in the non-interest margin.

KEY:**Interest margin**

- + Item 30 Net Interest Income
- + Item 70 Dividends and similar income (solely for the portion relating to dividends of equity securities in financial assets classified in HTCs)
- + Item 250 Gains/(losses) on equity investments excluding gains/losses on disposals/valuations
- Credemvita Net Interest Income

Non-interest margin

- + Item 60 Net fee and commission income
- + Item 80 Net profit (loss) from trading
- + Item 90 Net profit (loss) from hedging
- + Item 100 Gains/(losses) on disposal or re-purchase
- + Item 110 Net profit (loss) from financial assets and liabilities measured at fair value
- + Item 115 Net profit (loss) from financial assets and liabilities pertaining to insurance companies pursuant to IAS 39
- + Item 130 a) Net value adjustments for credit risk from financial assets measured at amortised cost (for the part relating to securities included under this category of financial assets)
- + Item 130 b) Net value adjustments for credit risk from financial assets measured at fair value through other comprehensive income
- + Item 160 Net premiums earned
- + Item 170 Net other operating expenses/income from insurance activities
- + Item 230 Other operating income/charges (net of extraordinary items)
- + Item 70 Dividends and similar income (net of the portion relating to dividends of equity securities classified in HTCs)
- + Credemvita Net Interest Income

Operating profit

- + Net interest and other banking income
- + Item 190 Administrative costs (personnel expenses and other administrative expenses)
- + Item 200 Net value adjustments to (recoveries on) property, plant and equipment
- + Item 210 Net value adjustments to (recoveries on) intangible assets

Profit before tax

- + Operating profit
- + Item 130 Net value adjustments/recoveries for credit risk (net of those included in the non-interest margin)
- + Item 140 Profits/losses from contractual changes without derecognitions
- + Item 200 Net provisions for risks and charges
- + Extraordinary income/charges:
- + Item 230 Other operating income/charges (only extraordinary items – imbalance of extraordinary items)
- + Item 270 Net value adjustments/recoveries on goodwill
- + Item 280 Gains/(losses) on disposal of investments
- + Item 320 Profit/(loss) after tax from discontinued operations

List of equity investments

	Registered Office	% of share capital	Equity ratio	Book value
Credemassicurazioni spa	Reggio Emilia	50.000	50.00	44,711
Andxor srl	Cinisello Balsamo	20.000	20.00	330
Blue Eye Solutions srl	Montechiarugolo	20.000	20.00	258
Gruppo Santamaria spa	Catania	10.000	10.00	391

Fees for auditing and for services other than auditing

Information pursuant to Art. 149-duodecies of the Consob Issuers' Regulation.

The table below, drafted in accordance with Art. 149-duodecies of the Consob Issuers' Regulation (resolution no. 11971) outlines the fees relating to 2020 for auditing provided by the Independent Auditor and by companies belonging to the same network. These fees represent the costs incurred and recognised in the financial statements, net of reimbursement for expenses and deductible VAT (figures in €/thousand).

Type of service	Company providing the Service	Fees
Auditing services	Ernst & Young Spa	816
Auditing services	Ernst & Young sa (Luxembourg)	144
Release of attestations	Ernst & Young Spa	306
Other services	Ernst & Young Spa	129
Total		1,395

Note that the fees for the auditing service do not include € 22 thousand for auditing of the Credem Venture Capital II fund and the Elite fund managed by Credem Private Equity SGR, € 262 thousand for the auditing of funds managed by Euromobiliare Asset Management SGR, € 41 thousand for the auditing of the Open-end Pension Fund, separate management products, and of Internal Insurance Funds of Credemvita and € 128 thousand for the auditing of SICAVs managed by Euromobiliare Asset Management SGR. Said fees are not indicated in the consolidated income statement, as they are borne by the individual funds.

EUROMOBILIARE ALTERNATIVE INVESTMENTS MARKET NEUTRAL (UNDER LIQUIDATION)

BALANCE SHEET

ASSETS	Position as at 31/12/2019		Position as at 31/12/2019	
	Total value	% of total assets	Total value	% of total assets
A. LISTED FINANCIAL INSTRUMENTS				
A.1 Debt securities				
A11 Government securities				
A12 Other				
A.2 Equity securities				
A.3 Units of UCITS				
B. UNLISTED FINANCIAL INSTRUMENTS			12,634	0.97%
B.1 Debt securities				
B.2 Equity securities				
B.3 Units of UCITS			12,634	0.97%
C. DERIVATIVE FINANCIAL INSTRUMENTS				
C.1 Margins with clearing and guarantee organisations				
C.2 Options, premiums or other listed financial derivatives				
C.3 Options, premiums or other unlisted financial derivatives				
D. BANK DEPOSITS				
D.1 Demand				
D.2 Other				
E. REPURCHASE AGREEMENTS AND SIMILAR TRANSACTIONS				
F. NET LIQUIDITY POSITION	1,218,216	100.00%	1,285,058	99.03%
F.1 Available liquidity	1,222,510	100.35%	1,093,048	84.23%
F.2 Liquidity to be received for transactions to be settled	9		196,076	15.18%
F.3 Liquidity committed for transactions to be settled	-4,303	-0.35%	-4,066	-0.31%
G. OTHER ASSETS				
G.1 Accrued income				
G.2 Savings on tax				
G.3 Other				
TOTAL ASSETS	1,218,216	100.00%	1,297,692	100.00%

LIABILITIES AND SHAREHOLDERS' EQUITY	Position as at 31/12/2020		Position as at 31/12/2019	
	Total value		Total value	
H. LOANS RECEIVED				
I. REPURCHASE AGREEMENTS AND SIMILAR TRANSACTIONS				
L. DERIVATIVE FINANCIAL INSTRUMENTS				
L.1 Options, premiums or other listed financial derivatives				
L.2 Options, premiums or other unlisted financial derivatives				
M. DUE TO SHAREHOLDERS				
M.1 Repayments requested and not settled				
M.2 Income to be distributed				
M.3 Other				
N. OTHER LIABILITIES	-90,706		-51,661	
N.1 Commissions and charges accrued and not settled	-12,784		-11,242	
N.2 Tax payable				
N.3 Other	-77,922		-40,419	
TOTAL LIABILITIES	-90,706		-51,661	
TOTAL NET VALUE OF THE FUND	1,127,510		1,246,031	
Number of outstanding units	48.168		48.168	
Unit value of units	23,407.857		25,868.44	

VARIATIONS IN THE UNITS DURING THE YEAR	
Units issued	-
Units redeemed	-

EUROMOBILIARE ALTERNATIVE INVESTMENTS MARKET NEUTRAL (UNDER LIQUIDATION)

INCOME STATEMENT

	Statement as at 12/31/2020	Statement as at 12/31/2019
A. LISTED FINANCIAL INSTRUMENTS		
A.1 INCOME FROM INVESTMENTS		
A.11 Interest and other income on debt securities		
A.12 Dividends and other income on equity securities		
A.13 Revenues from units of UCITS		
A.2 PROFIT/LOSS FROM REALISATION		
A.2.1 Debt securities		
A.2.2 Equity securities		
A.2.3 Units of UCITS		
A.3 CAPITAL GAINS/LOSSES		
A.3.1 Debt securities		
A.3.2 Equity securities		
A.3.3 Units of UCITS		
A.4 PROFIT FROM HEDGING OF LISTED FINANCIAL INSTRUMENTS		
Profit from management of listed financial instruments		
B. UNLISTED FINANCIAL INSTRUMENTS	427	155,340
B.1 INCOME FROM INVESTMENTS		166,707.0
B.11 Interest and other income on debt securities		
B.12 Dividends and other income on equity securities		
B.13 Revenues from units of UCITS		166,707.0
B.2 PROFIT/LOSS FROM REALISATION	427	9,194
B.2.1 Debt securities		
B.2.2 Equity securities		
B.2.3 Units of UCITS	427	9,194
B.3 CAPITAL GAINS/LOSSES		-20,561
B.3.1 Debt securities		
B.3.2 Equity securities		-20,561
B.3.3 Units of UCITS		
B.4 PROFIT FROM HEDGING OF UNLISTED FINANCIAL INSTRUMENTS		
Profit from management of unlisted financial instruments	427	155,340
C. PROFIT FROM TRANSACTIONS OF NON-HEDGING DERIVATIVES		
C.1 REALISED PROFITS		
C.11 On listed instruments		
C.12 On unlisted instruments		
C.2 UNREALISED PROFITS		
C.2.1 On listed instruments		
C.2.2 On unlisted instruments		
D. BANK DEPOSITS		
D1 INTEREST AND SIMILAR INCOME		
E. PROFIT FROM FOREIGN EXCHANGE	-20,064	4,640
E1 HEDGING TRANSACTIONS		
E1.1 Results achieved		
E1.2 Results not achieved		
E2. NON-HEDGING TRANSACTIONS		
E2.1 Results achieved		
E2.2 Results not achieved		
E3 LIQUIDITY	-20,064	4,640
E3.1 Results achieved	2,188	7,158
E3.2 Results not achieved	-22,252	-2,518
F. OTHER MANAGEMENT TRANSACTIONS		
F.1 INCOME FROM REPURCHASE AGREEMENT TRANSACTIONS AND SIMILAR		
F.2 INCOME FROM SECURITIES LENDING TRANSACTIONS		
Gross profit from portfolio management	-19,637	159,980
G. FINANCIAL CHARGES	-5,325	-3,479
G1 INTEREST PAYABLE ON LOANS RECEIVED	-5,325	-3,479
G2. OTHER FINANCIAL CHARGES		
Net profit from portfolio management	-24,962	156,501
H. OPERATING COSTS	-100,175	-97,856
H1 ASSET MANAGEMENT COMPANY OPERATING COMMISSIONS	-17,786	-15,300
H2. CUSTODIAN BANK COMMISSIONS		
H3. EXPENSES FOR PUBLICATION OF PROSPECTUSES AND REPORTS FOR THE PUBLIC	-22,638	-22,560
H4. OTHER OPERATING COSTS	-800	-800
	-58,951	-59,196
I. OTHER INCOME AND CHARGES	6,666	347,928
I1 Interest income on cash and cash equivalents		950
I2. Other income	7,814	346,979
I3. Other charges	-1,148	-1
Pre-tax operating profit	-118,471	406,573
L. TAXES	-50	-50
L1 Substitute tax charged for the year		
L2. Substitute tax credited for the year		
L3. Other taxes	-50	-50
Profit/loss for the year	-118,521	406,523

EUROMOBILIARE ALTERNATIVE INVESTMENTS MARKET NEUTRAL PLUS (UNDER LIQUIDATION)

BALANCE SHEET

ASSETS	Position as at 31/12/2020		Position as at 31/12/2019	
	Total value	% of total assets	Total value	% of total assets
A. LISTED FINANCIAL INSTRUMENTS				
A.1 Debt securities				
A.11 Government securities				
A.12 Other				
A.2 Equity securities				
A.3 Units of UCITS				
B. UNLISTED FINANCIAL INSTRUMENTS	39,937	3.16%	58,476	4.38%
B.1 Debt securities				
B.2 Equity securities				
B.3 Units of UCITS	39,937	3.16%	58,476	4.38%
C. DERIVATIVE FINANCIAL INSTRUMENTS				
C.1 Margins with clearing and guarantee organisations				
C.2 Options, premiums or other listed financial derivatives				
C.3 Options, premiums or other unlisted financial derivatives				
D. BANK DEPOSITS				
D.1 Demand				
D.2 Other				
E. REPURCHASE AGREEMENTS AND SIMILAR TRANSACTIONS				
F. NET LIQUIDITY POSITION	1,225,677	96.84%	1,277,338	95.62%
F.1 Available liquidity	1,220,723	96.45%	1,153,454	86.35%
F.2 Liquidity to be received for transactions to be settled	9,351	0.74%	128,133	9.59%
F.3 Liquidity committed for transactions to be settled	-4,397	-0.35%	-4,249	-0.32%
G. OTHER ASSETS				
G.1 Accrued income				
G.2 Savings on tax				
G.3 Other				
TOTAL ASSETS	1,265,614	100.00%	1,335,814	100.00%

LIABILITIES AND SHAREHOLDERS' EQUITY	Position as at 31/12/2020		Position as at 31/12/2019	
	Total value		Total value	
H. LOANS RECEIVED				
I. REPURCHASE AGREEMENTS AND SIMILAR TRANSACTIONS				
L. DERIVATIVE FINANCIAL INSTRUMENTS				
L.1 Options, premiums or other listed financial derivatives				
L.2 Options, premiums or other unlisted financial derivatives				
M. DUE TO SHAREHOLDERS				
M.1 Repayments requested and not settled				
M.2 Income to be distributed				
M.3 Other				
N. OTHER LIABILITIES	-90,768		-51,715	
N.1 Commissions and charges accrued and not settled	-12,846		-11,296	
N.2 Tax payable				
N.3 Other	-77,922		-40,419	
TOTAL LIABILITIES	-90,768		-51,715	
TOTAL NET VALUE OF THE FUND	1,174,846		1,284,099	
Number of outstanding units	96.236		96.236	
Unit value of units	12,207.969		13,343.233	

VARIATIONS IN THE UNITS DURING THE YEAR		
Units issued		
Units redeemed		

EUROMOBILIARE ALTERNATIVE INVESTMENTS MARKET NEUTRAL PLUS (UNDER LIQUIDATION)

INCOME STATEMENT

	Statement as at 12/31/2020	Statement as at 12/31/2019
A. LISTED FINANCIAL INSTRUMENTS		
A.1 INCOME FROM INVESTMENTS		
A.11 Interest and other income on debt securities		
A.12 Dividends and other income on equity securities		
A.13 Revenues from units of UCITS		
A.2 PROFIT/LOSS FROM REALISATION		
A.2.1 Debt securities		
A.2.2 Equity securities		
A.2.3 Units of UCITS		
A.3 CAPITAL GAINS/LOSSES		
A.3.1 Debt securities		
A.3.2 Equity securities		
A.3.3 Units of UCITS		
A.4 PROFIT FROM HEDGING OF LISTED FINANCIAL INSTRUMENTS		
Profit from management of listed financial instruments		
B. UNLISTED FINANCIAL INSTRUMENTS	-1,910	82,471
B.1 INCOME FROM INVESTMENTS		103,883.0
B.11 Interest and other income on debt securities		
B.12 Dividends and other income on equity securities		
B.13 Revenues from units of UCITS		103,883.0
B.2 PROFIT/LOSS FROM REALISATION	941	3,616
B.2.1 Debt securities		
B.2.2 Equity securities		
B.2.3 Units of UCITS	941	3,616
B.3 CAPITAL GAINS/LOSSES	-2,851	-25,028
B.3.1 Debt securities		
B.3.2 Equity securities		
B.3.3 Units of UCITS	-2,851	-25,028
B.4 PROFIT FROM HEDGING OF UNLISTED FINANCIAL INSTRUMENTS		
Profit from management of unlisted financial instruments	-1,910	82,471
C. PROFIT FROM TRANSACTIONS OF NON-HEDGING DERIVATIVES		
C.1 REALISED PROFITS		
C.11 On listed instruments		
C.12 On unlisted instruments		
C.2 UNREALISED PROFITS		
C.2.1 On listed instruments		
C.2.2 On unlisted instruments		
D. BANK DEPOSITS		
D.1 INTEREST AND SIMILAR INCOME		
E. PROFIT FROM FOREIGN EXCHANGE	-16,745	4,825
E.1 HEDGING TRANSACTIONS		
E.1.1 Results achieved		
E.1.2 Results not achieved		
E.2. NON-HEDGING TRANSACTIONS		
E.2.1 Results achieved		
E.2.2 Results not achieved		
E.3 LIQUIDITY	-16,745	4,825
E.3.1 Results achieved	138	6,482
E.3.2 Results not achieved	-18,063	-1,657
F. OTHER MANAGEMENT TRANSACTIONS		
F.1 INCOME FROM REPURCHASE AGREEMENT TRANSACTIONS AND SIMILAR		
F.2 INCOME FROM SECURITIES LENDING TRANSACTIONS		
Gross profit from portfolio management	-18,655	87,296
G. FINANCIAL CHARGES	-5,525	-3,760
G.1 INTEREST PAYABLE ON LOANS RECEIVED	-5,525	-3,760
G.2 OTHER FINANCIAL CHARGES		
Net profit from portfolio management	-24,180	83,536
H. OPERATING COSTS	-101,311	-99,529
H.1 ASSET MANAGEMENT COMPANY OPERATING COMMISSIONS	-18,383	-16,963
H.2 CUSTODIAN BANK COMMISSIONS		
H.3 EXPENSES FOR PUBLICATION OF PROSPECTUSES AND REPORTS FOR THE PUBLIC	-22,652	-22,605
H.4 OTHER OPERATING COSTS	-800	-800
	-59,476	-59,161
I. OTHER INCOME AND CHARGES	16,288	301,962
I.1 Interest income on cash and cash equivalents		1,110
I.2 Other income	17,507	300,852
I.3 Other charges	-1219	
Pre-tax operating profit	-109,203	285,969
L. TAXES	-50	-50
L.1 Substitute tax charged for the year		
L.2 Substitute tax credited for the year		
L.3 Other taxes	-50	-50
Profit/loss for the year	-109,253	285,919

CERTIFICATION BY THE
CHAIRMAN AND THE
MANAGER RESPONSIBLE
FOR PREPARING THE
COMPANY'S FINANCIAL
REPORTS

Certification of consolidated financial statements pursuant to art. 81-ter of Consob regulations no. 11971 of 14 May 1999 and following update and integration

1. The undersigned, Lucio Iginio Zanon di Valgiurata, in my position of Chairman, and Paolo Tommasini, in my position of Manager responsible for preparing the financial reports of Credito Emiliano S.p.A., also taking account of the provisions set forth by art. 154-bis, paragraphs 3 and 4, of Legislative Decree no. 58 of 24 February 1998, hereby declare;

- the adequacy in relation to the company's features and
- the actual application of the administrative and accounting procedures employed to draw up the consolidated financial statements for 2020.

2. The administrative and accounting procedures employed to draw up the consolidated financial statements as at 31 December 2020 were defined, and the evaluation of their adequacy was performed pursuant to the regulations and methods set out by the Parent Company Credito Emiliano S.p.A. in compliance with the Internal Control – Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO-ERM), which is a framework for the internal control system generally accepted at international level. The IT governance procedures were also assessed with reference to the Control Objectives for Information and related Technologies (COBIT) developed by the Information System Audit and Control Association (ISACA).

3. It is also hereby certified that:

3.1 The consolidated financial statements:

- a. have been drawn up in compliance with the applicable International Accounting Standards recognised by the European Community pursuant to (EC) Regulation no. 1606/2002 of the European Parliament and Council dated 19 July 2002;
- b. correspond to the information reported in the accounting books and records;
- c. are suitable to provide a true and accurate representation of the balance sheet, income statement and financial situation of the issuer and the companies included in the scope of consolidation.

3.2 The directors' report on operations provides a reliable analysis of performance and of the company's results, as well as the situation of the issuer and of the Group of companies included in the scope of consolidation, together with a description of the main risks and uncertainties to which they are exposed.

Reggio Emilia, March 11, 2021

The Chairman

Lucio Iginio Zanon di Valgiurata

(signed)

The Manager responsible for preparing
the company's financial reports

Paolo Tommasini

(signed)

INDEPENDENT AUDITOR'S REPORT

Credito Emiliano S.p.A.

Consolidated financial statements as at December 31, 2020

Independent auditor's report pursuant to article 14 of
Legislative Decree n. 39, dated January 27, 2010 and
article 10 of EU Regulation n. 537/2014

(Translation from the original Italian text)

Independent auditor's report pursuant
to article 14 of Legislative Decree n. 39, dated January 27, 2010 and
article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

To the Shareholders of
Credito Emiliano S.p.A.

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Credem Group (the "Group"), which comprise the balance sheet as at December 31, 2020, the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended and the related explanatory notes.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2020 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing article 9 of Legislative Decree n. 38, dated February 28, 2005 and article 43 of Legislative Decree n. 136, dated August 18, 2015.

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 *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of Credito Emiliano S.p.A. (the "Company") in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

We identified the following key audit matters:

Key Audit Matter	Audit Response
Classification and measurement of financial loans to customers Financial loans to customers, which are recorded in the line item 40 b) amongst the assets of the consolidated balance sheet and measured at amortized cost, amount to about Euro 29,299 million as at December 31, 2020. The process of classifying financial loans to customers in the various risk categories and their measurement is relevant for the audit, both, because the amount of financial loans to customers is significant to the consolidated financial statements as a whole and because the amount of the related impairment losses is determined by the directors' judgment through the use of estimates that have a high degree of subjectivity. Amongst the latter, the following are particularly relevant: the identification of objective evidence of impairment of loans (impairment), the consequent classification of the exposures into Stage 3 (non-performing loans), the recoverable value of collaterals provided, the determination of expected cash flows that reflect the effects, in addition to the standard recovery strategy based on loan collection through legal actions, the realization of collateral provided and mandates to debt collection companies, those deriving from loan disposal scenarios and their related timing of collection. Furthermore, as regards the collective impairment, carried out on financial loans to customers for which objective evidence of impairment has not been identified individually, the following are of particular importance: the determination of parameters for measuring a significant increase in credit risk compared to the date of initial recognition, the set-up of calculation models for expected credit losses (ECL), the identification of the exposure at default (EAD), the determination of the probability of default (PD) and the related loss given default (LGD), estimated both on the basis of historical-	Our audit procedures related to this key audit matter included, amongst others: - an understanding of the policies, processes and controls implemented by the Group in relation to the classification and measurement of financial loans to customers and the execution of tests of controls assessed as key, including those relating to IT, in order to assess their operational effectiveness; - the execution, on a sample basis, of substantive procedures aimed at verifying the correct classification and measurement of credit exposures; - an understanding, also with the support of our experts in credit risk management and IT systems, of the methodology applied in relation to impairment losses calculated on a statistical basis and an analysis of the reasonableness of the assumptions adopted, including those related to the overlay factors, as well as the performing tests of controls and substantive procedures, in order to verify the accurate determination of EAD, PD and LGD parameters, which are relevant for the purpose of determining the impairment losses; - the performance of analytical comparative procedures on the portfolio of financial loans to customers and the related coverage levels, and an analysis of the most significant changes also through the comparison with prior year amounts and benchmark sector data. Finally, we examined the adequacy of the disclosures provided in the explanatory notes.

statistical experience and the forward looking information, including macroeconomic factors (forward looking).

In this regard, in the context of the Covid-19 pandemic, adjustments (overlay factors) defined and implemented into the expected losses calculations become relevant, as requested by the Supervisory Authorities, in order to limit the effects of excess pro-cyclicality derived from the use of components strongly linked to the expected macroeconomic scenarios.

The disclosures on the classification and measurement of financial loans to customers is provided in Part A, Part B, Part C and Part E of the explanatory notes.

Key Audit Matter	Audit Response
Goodwill impairment test Goodwill is recorded for approximately Euro 290 million in line item 100 amongst the assets of the consolidated balance sheet and is mainly allocated to the "Commercial Banking" cash generating unit (CGU). As required by the International Accounting Standard IAS 36 "Impairment of assets", the Company performs at least annually a process of verifying the recoverable amount of goodwill (impairment test). Goodwill is relevant for the audit, both because it is significant to the consolidated financial statements as a whole, and because the aforementioned test requires the directors' judgment to make estimates with a high level of subjectivity with regard to the selection of assumptions and parameters, as part of the methodology selected, since these variables may be sensitive, also due to the effects of the Covid-19 pandemic, the future performance of markets and macroeconomic scenarios. The disclosures on goodwill is provided in Part A and Section 10 "Intangible Assets" of Part B of the explanatory notes, which also describes	Our audit procedures related to this key audit matter included, amongst others: - an understanding of the methods for determining the recoverable amount adopted by the Group in the impairment test process approved by Board of Directors of the Company and related ke controls; - an analysis of the reasonableness of the assumptions and parameters used by the directors for the preparation of the impairment test and the forecast information considered in the same, also due to the effects of the Covid-19 pandemic as well as the related sensitivity analysis; - a discussion of the evidence emerging from the comparison made by Management between the actual results for the 2020 financial year and the corresponding budget forecast. During our audit we also made use of business valuation techniques experts, particularly with reference to the matters related to the mathematical accuracy of the calculations, reasonableness of the

the results of the sensitivity analysis performed by Management.

assumptions adopted by management, as well as sensitivity analyses on key assumptions.

Finally, we examined the adequacy of the disclosures provided in the explanatory notes.

Responsibilities of directors and those charged with governance for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing article 9 of Legislative Decree n. 38, dated February 28, 2005 and article 43 of Legislative Decree n. 136, dated August 18, 2015, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Group's ability to continue as a going concern and the appropriateness of such assumption when preparing the consolidated financial statements as well as providing adequate disclosure thereof on the matter. The directors prepare the consolidated financial statements on a going concern basis of accounting unless they either intend to liquidate the Parent Company Credito Emiliano S.p.A. or to cease operations or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 International Standards on Auditing (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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained 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;

- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- we have concluded on the appropriateness of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities or the business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We have communicated with those charged with governance, identified at an appropriate level as 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 have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all 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 have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of Credito Emiliano S.p.A., in the general meeting held on April 30, 2014, engaged us to perform the audits of the financial statements and consolidated financial statements for each of the years ending December 31, 2014 to December 31, 2022.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the consolidated financial statements included in this report is consistent with the content of the additional report to the Collegio Sindacale in their capacity as audit committee, prepared pursuant to article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated January 27, 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated February 24, 1998

The directors of Credito Emiliano S.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and Ownership Structure of Credem Group as at December 31, 2020, including their consistency with the related consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated February 24, 1998, with the consolidated financial statements of Credem Group as at December 31, 2020 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operations and the above-mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the consolidated financial statements of Credem Group as at December 31, 2020 and comply with the applicable laws and regulations.

With reference to the statement required by article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated January 27, 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated December 30, 2016

The directors of Credito Emiliano S.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated December 30, 2016. We have verified that non-financial information has been approved by the directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated December 30, 2016, such non-financial information is subject to a separate compliance report issued by us.

Bologna, April 2, 2021

EY S.p.A.
Signed by: Giuseppe Miele, Partner

This report has been translated into the English language solely for the convenience of international readers.