Cassa Centrale Group

# Consolidated Half-Yearly Financial Report

## as at 30 June 2020

GRUPPO CASSA CENTRALE
CREDITO COOPERATIVO ITALIANO

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Cassa Centrale Banca Credito Cooperativo Italiano
Cooperative Banking Group

# Consolidated Half-Yearly Financial Report

as at 30 June 2020

This "Consolidated Half-Yearly Financial Report" (hereinafter also "Half-yearly Report") is made up of the Interim Report on Operations (hereinafter also "Consolidated Report on Operations") and the Condensed Half-Yearly Consolidated Financial Statements (hereinafter also "Consolidated Financial Statements"). The "Explanatory Notes" contained in the Half-Yearly Report were prepared by making reference to the structure of the Explanatory Notes required by Bank of Italy Circular no. 262 of 22 December 2005, as amended, for the consolidated financial statements, albeit with a limited information content, since they are half-yearly financial statements drawn up in a condensed form.

In order to facilitate the reading, the numbering set up in the aforementioned Circular was maintained, although some parts, sections or tables may be omitted for the reasons illustrated above.

In addition to the accounting data as at 30 June 2020, the consolidated financial statements provide comparative information for the corresponding period of the previous year, with the exception of the statement of financial position, which is compared with the latest approved financial statements as at 31 December 2019.

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# Composition of the corporate bodies and officers

# Cassa Centrale Banca list of shareholders

## Ordinary shareholders

- **ASSICURA** S.r.l.
- **BANCA ADRIA COLLI EUGANEI CREDITO COOPERATIVO** - Cooperative Company
- **BANCA ALTO VICENTINO - CREDITO COOPERATIVO DI SCHIO, PEDEMONTE E ROANA** - Cooperative Company
- **BANCA CENTRO EMILIA - CREDITO COOPERATIVO** - Cooperative Company
- **BANCA CENTRO LAZIO CREDITO COOPERATIVO** - Cooperative Company
- **BANCA DEL GRAN SASSO D'ITALIA, BANCA DI CREDITO COOPERATIVO** - Cooperative Company
- **BANCA DEL TERRITORIO LOMBARDO CREDITO COOPERATIVO** - Cooperative Company
- **BANCA DELL'ALTA MURGIA CREDITO COOPERATIVO** - Cooperative Company
- **BANCA DI BOLOGNA CREDITO COOPERATIVO** - Cooperative Company
- **BANCA DI CARAGLIO, DEL CUNEESE E DELLA RIVIERA DEI FIORI - CREDITO COOPERATIVO** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO DEI CASTELLI E DEGLI IBLEI -** Cooperative Company
- **BANCA DI CREDITO COOPERATIVO DEI CASTELLI ROMANI E DEL TUSCOLO** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO DEL CIRCEO E PRIVERNATE** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO DEL VELINO - COMUNE DI POSTA PROVINCIA DI RIETI** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO DELLA ROMAGNA OCCIDENTALE** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO DELL'ALTO TIRRENO DELLA CALABRIA VERBICARO** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO DI ALBEROBELLO E SAMMICHELE DI BARI** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO DI ANAGNI** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO DI AQUARA** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO DI BARLASSINA (MILANO)** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO DI BRESCIA** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO DI CASALGRASSO E SANT'ALBANO STURA** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO DI CASSANO DELLE MURGE E TOLVE** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO DI CASTAGNETO CARDUCCI** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO DI CHERASCO** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO DI CONVERSANO** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO DI FLUMERI** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO DI LOCOROTONDO CASSA RURALE E ARTIGIANA** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO DI MONOPOLI** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO DI PIANFEI E ROCCA DE' BALDI** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO DI SAN GIOVANNI ROTONDO** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO DI SAN MARZANO DI SAN GIUSEPPE - TARANTO** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO DI SARSINA** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO DI SPELLO E BETTONA** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO DI TURRIACO** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO LA RISCOSSA DI REGALBUTO** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO LAUDENSE - LODI** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO SANGRO TEATINA DI ATESSA** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO VALDOSTANA - COOPERATIVE DE CREDIT VALDOTAINE** - Cooperative Company
- **BANCA LAZIO NORD CREDITO COOPERATIVO** - Cooperative Company
- **BANCA MALATESTIANA - CREDITO COOPERATIVO** - Cooperative Company
- **BANCA MONTE PRUNO - CREDITO COOPERATIVO DI FISCIANO, ROSCIGNO E LAURINO** - Cooperative Company
- **BANCA PREALPI SAN BIAGIO CREDITO COOPERATIVO** - Cooperative Company
- **BANCA SICANA CREDITO COOPERATIVO DI SOMMATINO, SERRADIFALCO E SAMBUCA DI SICILIA** - Cooperative Company
- **BANCATER CREDITO COOPERATIVO FVG** - Cooperative Company
- **BANCO MARCHIGIANO Credito Cooperativo** - Cooperative Company
- **BCC FELSINEA - BANCA DI CREDITO COOPERATIVO DAL 1902** - Cooperative Company
- **BENE BANCA CREDITO COOPERATIVO DI BENE VAGIENNA (CUNEO)** - Cooperative Company
- **CASSA PADANA BANCA DI CREDITO COOPERATIVO** - Cooperative Company
- **CASSA RAIFFEISEN DI SAN MARTINO IN PASSIRIA -RAIFFEISENKASSEN ST. MARTIN IN PASSEIER** - Cooperative Company
- **CASSA RURALE ADAMELLO - BANCA DI CREDITO COOPERATIVO** - Cooperative Company
- **CASSA RURALE ALTA VALLAGARINA- LIZZANA BANCA DI CREDITO COOPERATIVO** - Cooperative Company

**CASSA RURALE ALTA VALSUGANA - BANCA DI CREDITO COOPERATIVO** - Cooperative Company

**CASSA RURALE ALTO GARDA - BANCA DI CREDITO COOPERATIVO** - Cooperative Company

**CASSA RURALE DI LEDRO - BANCA DI CREDITO COOPERATIVO** - Cooperative Company

**CASSA RURALE DI ROVERETO - BANCA DI CREDITO COOPERATIVO** - Cooperative Company

**CASSA DI TRENTO, LAVIS, MEZZOCORONA E VALLE DI CEMBRA - BANCA DI CREDITO COOPERATIVO** - Cooperative Company

**CASSA RURALE DOLOMITI DI FASSA PRIMIERO E BELLUNO - BANCA DI CREDITO COOPERATIVO** - Cooperative Company

**CASSA RURALE ED ARTIGIANA DI BORGO SAN GIACOMO (BRESCIA) - CREDITO COOPERATIVO** - Cooperative Company

**CASSA RURALE ED ARTIGIANA DI BOVES - BANCA DI CREDITO COOPERATIVO (BOVES-CUNEO)** - Cooperative Company

**CASSA RURALE ED ARTIGIANA DI CORTINA D'AMPEZZO E DELLE DOLOMITI - CREDITO COOPERATIVO** - Cooperative Company

**CASSA RURALE ED ARTIGIANA DI VESTENANOVA - CREDITO COOPERATIVO** - Cooperative Company

**CASSA RURALE GIUDICARIE VALSABBIA PAGANELLA - BANCA DI CREDITO COOPERATIVO** - Cooperative Company

**CASSA RURALE NOVELLA E ALTA ANAUNIA - BANCA DI CREDITO COOPERATIVO** - Cooperative Company

**CASSA RURALE RENON - RAIFFEISENKASSE RITTEN** -Cooperative Company

**CASSA RURALE ROTALIANA E GIOVO - BANCA DI CREDITO COOPERATIVO** - Cooperative Company

**CASSA RURALE VAL DI FIEMME - BANCA DI CREDITO COOPERATIVO** - Cooperative Company

**CASSA RURALE VAL DI NON - BANCA DI CREDITO COOPERATIVO** - Cooperative Company

**CASSA RURALE VAL DI SOLE - BANCA DI CREDITO COOPERATIVO** - Cooperative Company

**CASSA RURALE VALLAGARINA - BANCA DI CREDITO COOPERATIVO** - Cooperative Company

**CASSA RURALE VALSUGANA E TESINO - BANCA DI CREDITO COOPERATIVO** - Cooperative Company

**CAVIT - Cantina Viticoltori Consorzio Cantine Sociali del Trentino** - Cooperative Company

**CENTROVENETO BASSANO BANCA - CREDITO COOPERATIVO** - Cooperative Company

**CON.SOLIDA** - Social Cooperative Company

**CONSORZIO LAVORO AMBIENTE** - Cooperative Company

**CONSORZIO MELINDA** - Agricultural Cooperative Company

**CREDITO COOPERATIVO - CASSA RURALE ED ARTIGIANA DEL FRIULI VENEZIA GIULIA** - Cooperative Company

**CREDITO COOPERATIVO CENTRO CALABRIA** - Cooperative Company

**CREDITO ETNEO - BANCA DI CREDITO COOPERATIVO** - Cooperative Company

**DZ BANK AG DEUTSCHE ZENTRALGENOSSENSCHAFTSBANK FRANKFURT AM MAIN**

**FEDERAZIONE DELLE BCC DEL FRIULI VENEZIA GIULIA** - Cooperative Company

**FEDERAZIONE TRENTINA DELLA COOPERAZIONE** - Cooperative Company

**FEDERAZIONE VENETA DELLE BANCHE DI CREDITO COOPERATIVO** - Cooperative Company

**FONDO COMUNE DELLE CASSE RURALI TRENTINE** - Cooperative Company

**FRIULOVEST BANCA - CREDITO COOPERATIVO** - Cooperative Company

**PRIMACASSA - CREDITO COOPERATIVO FVG** - Cooperative Company

**PROMOCOOP TRENTINA** S.p.A.

**ROMAGNABANCA CREDITO COOPERATIVO ROMAGNA EST E SALA DI CESENATICO** - Cooperative Company

**ROVIGOBANCA CREDITO COOPERATIVO** - Cooperative Company

**SAIT CONSORZIO DELLE COOPERATIVE DI CONSUMO TRENTINE** - Cooperative Company

**TRENTINGRANA CONSORZIO DEI CASEIFICI SOCIALI E DEI PRODUTTORI LATTE TRENTINI** - Agricultural Cooperative Company

**ZKB ZADRUŽNA KRAŠKA BANKA TRST GORICA ZADRUGA ZKB CREDITO COOPERATIVO DI TRIESTE E GORIZIA** - Cooperative Company

## Preference shareholders

**BANCA IFIS** S.p.A.

**BANCA POPOLARE ETICA** - Cooperative Company

**CHAMBER OF COMMERCE INDUSTRY AGRICULTURE AND CRAFTS - TRENTO**

**CASSA RAIFFEISEN BASSA VENOSTA** - Cooperative Company

**CASSA RAIFFEISEN DELLA VAL PASSIRIA** - Cooperative Company

**CASSA RAIFFEISEN DI SAN MARTINO IN PASSIRIA** - Cooperative Company

**COOPERATIVA PROVINCIALE GARANZIA FIDI** - Cooperative Company

**DZ BANK AG DEUTSCHE ZENTRALGENOSSENSCHAFTSBANK FRANKFURT AM MAIN**

**MEDIOCREDITO TRENTINO-ALTO ADIGE** S.p.A.

**PROMOCOOP TRENTINA** S.p.A.

**AUTONOMOUS PROVINCE OF TRENTO**

# Corporate officers and Independent Auditors

## Board of Directors

| | |
|---|---|
| **Giorgio Fracalossi** | CHAIRPERSON OF THE BOARD OF DIRECTORS |
| **Mario Sartori** | CHIEF EXECUTIVE OFFICER |
| **Carlo Antiga** | ACTING DEPUTY CHAIRPERSON |
| **Giuseppe Spagnuolo** | DEPUTY CHAIRPERSON |
| **Paola Brighi** | DIRECTOR |
| **Enrica Cavalli** | DIRECTOR |
| **Maria Luisa Di Battista** | DIRECTOR |
| **Giuseppe Graffi Brunoro** | DIRECTOR |
| **Amelio Lulli** | DIRECTOR |
| **Enrico Macrì** | DIRECTOR |
| **Giuseppe D'Orazio** | DIRECTOR (*) |
| **Giorgio Pasolini** | DIRECTOR |
| **Claudio Ramsperger** | DIRECTOR |
| **Livio Tomatis** | DIRECTOR |
| **Paola Vezzani** | DIRECTOR |

(*): deceased on 30.07.2020

## Board of Statutory Auditors

| | |
|---|---|
| **Elisabetta Caldirola** | CHAIRPERSON OF THE BOARD OF STATUTORY AUDITORS |
| **Mariella Rutigliano** | STANDING AUDITOR |
| **Claudio Stefenelli** | STANDING AUDITOR |
| **Clara Carbone** | ALTERNATE AUDITOR |
| **Maurizio Giuseppe Grosso** | ALTERNATE AUDITOR |

## Management

| | |
|---|---|
| **Mario Sartori** | CHIEF EXECUTIVE OFFICER |
| **Enrico Salvetta** | ACTING DEPUTY GENERAL MANAGER |
| **Sandro Bolognesi** | DEPUTY GENERAL MANAGER |

## Independent Auditors

| |
|---|
| **KPMG S.p.A.** |

## Risks Committee

| | |
|---|---|
| **Maria Luisa Di Battista** | CHAIRPERSON |
| **Paola Brighi** | MEMBER |
| **Giuseppe Graffi Brunoro** | MEMBER |
| **Giorgio Pasolini** | MEMBER |
| **Paola Vezzani** | MEMBER |

## Executive Committee

| | |
|---|---|
| **Mario Sartori** | CHAIRPERSON |
| **Enrica Cavalli** | MEMBER |
| **Amelio Lulli** | MEMBER |
| **Claudio Ramsperger** | MEMBER |

## Appointments Committee

| | |
|---|---|
| **Enrico Macrì** | CHAIRPERSON |
| **Maria Luisa Di Battista** | MEMBER |
| **Giuseppe Graffi Brunoro** | MEMBER |

## Remuneration Committee

| | |
|---|---|
| **Paola Vezzani** | CHAIRPERSON |
| **Enrico Macrì** | MEMBER |
| **Livio Tomatis** | MEMBER |

## Independent Directors Committee

| | |
|---|---|
| **Paola Brighi** | CHAIRPERSON |
| **Maria Luisa Di Battista** | MEMBER |
| **Enrico Macrì** | MEMBER |

# Report and Condensed Half-Yearly Consolidated Financial Statements of the Cassa Centrale Group

# Report on Consolidated Operations of the Cassa Centrale Group



# Composition of the Cassa Centrale Banca Credito Cooperativo Italiano Cooperative Banking Group

## Reform of Cooperative Credit

On 2 August 2018, the Bank of Italy accepted the request of Cassa Centrale Banca – Credito Cooperativo Italiano S.p.A. (hereinafter also "Cassa Centrale Banca", "CCB", the "Parent Company" or the "Bank") to establish the Cassa Centrale Banca Credito Cooperativo Italiano Cooperative Banking Group (hereinafter also "Cassa Centrale Group", the "Group", the "Cooperative Banking Group" or "GBC") and by means of a resolution of the Directors of 18 December 2018, the Supervisory Authority ordered the registration of the Cooperative Banking Group in the Register of Banking Groups with effect from January 2019.

The reform of cooperative credit was born from the Italian legislator's desire to strengthen the cooperative credit sector without distorting the local role and mutualistic purpose of the individual BCC-CR-RAIKAs, safeguarding the paradigm that distinguishes them.

In compliance with the new reference regulatory framework, the Cooperative Banking Group is composed of:

- the Parent Company, i.e. a joint-stock company authorised to carry out banking activities, which is responsible for the strategic and operational management of the Group and for interacting with the Supervisory Authorities;
- the Affiliated Banks, i.e. those BCC-CR-RAIKAs that adhere to the CBG through their adherence to the Cohesion Contract;
- other banks, financial and instrumental companies controlled directly and/or indirectly by the Parent Company.

With respect to that initially defined with the reform, the legislator intervened at a later date with a further Law Decree (Law Decree no. 91 of 25 July 2018, converted into Law no. 108 of 21 September 2018) with which it aimed to further enhance the territorial and mutualistic outlook of the BCC-CR-RAIKAs. By virtue of the aforesaid Law, art. 37-bis of the Consolidated Banking Act was amended, providing that the Parent Company will ensure the active participation of the Affiliated Banks in the management of the Cooperative Banking Group through the Regional Meetings of the banks themselves, as well as the possible establishment of dedicated committees, with an advisory and proposal role, in particular in the following areas:

- preparation of guidelines applicable to the main business areas;
- analysis of commercial performance trends and formulation of proposals for improvement actions to be taken;
- identification of budget objectives;
- evaluation of the effectiveness of the catalogue of products and services offered by the Parent Company;
- identification of strategic initiatives at Group level;
- pursuit of mutualistic aims.

Local Shareholders' Meetings have the objective of allowing for maximum participation, collaboration and shared responsibility on the part of all the Affiliated Banks, through constant dialogue with the Parent Company, leveraging the common purpose, the responsibility and effective and widespread communication, as well as the integrated development of the Group's culture and strategies. The relationship based on ongoing dialogue and the active involvement of its stakeholders is an expression of the responsibility that the Cooperative Banking Group has undertaken in the areas in which it operates.

Other major changes made by the Decree to Article 37-bis of the TUB include the following:

- the provision that at least 60% of the share capital of the Parent Company of the Cooperative Banking Group is held by the cooperative credit banks belonging to the same Cooperative Banking Group;
- the definition of the number of members of the Board of Directors of the Parent Company (i.e. the number of members of the Board of Directors representing the Affiliated Banks are equal to half plus two of the total number of Directors);
- the recognition of areas of autonomy in strategic planning and commercial policies for banks in the best risk classes.

In the first 18 months of activities, the Cooperative Banking Group actually operated in compliance with the new regulatory framework, with the goal of achieving progressive business efficiency and strengthening the cooperative spirit.

## The Cohesion Contract

The basis for the establishment of the Cassa Centrale Group is a contractual relationship between the Parent Company and the individual Affiliated Banks, namely the Cohesion Contract.

By means of the Cohesion Contract (Art. 37-bis of the TUB), the Affiliated Banks and the Parent Company regulate their mutual duties, responsibilities, rights and joint guarantees deriving from the adhesion with and belonging to the Cooperative Banking Group, in compliance with the mutualistic aims that characterise cooperative credit banks and in application of the principle of proportionality exercised according to the financial health of the banks themselves (risk-based approach).

The Parent Company ensures compliance with its mutualistic aims and directs the Group towards business models consistent with cooperative principles. The Affiliated Banks, for their part, ensure the operational control of their territory by exploiting the knowledge of the economic and social dynamics of their shareholders/customers in line with the Group's strategic guidelines. The Parent Company's duty is to safeguard the stability of the Group and of each of its individual members, in compliance with the principles of sound and prudent management, by supporting the Affiliated Banks in pursuing the objectives set out in their Articles of Association, as well as by promoting the cooperative spirit and the mutualistic function of the same and of the Group.

The spirit of cooperation, in fact, forms the basis of the Cohesion Contract, which finds its best expression through the drive to the social, moral and economic development of the local communities, the progress of cooperation and education to savings, pension and risk insurance, as well as the social cohesion and responsible and sustainable growth of the territories in which the Affiliated Banks operate.

As a result of the signing of the Cohesion Contract, the Affiliated Banks are subject to management and coordination by the Parent Company, while the Parent Company assumes with the Affiliated Banks the duties and responsibilities related to its role of strategic and operational management of the Group.

The Cohesion Contract outlines the respective and reciprocal rights and obligations of the members of the Group and also acknowledges the management and coordination powers assigned to the Parent Company. These powers are exercised, in particular, in matters and areas such as corporate governance, strategic planning, risk management, internal control systems, information systems and joint and several guarantees.

## The Guarantee Agreement

The Cohesion Contract provides, as a necessary and further fundamental and constitutive element of the Group, for the joint and several guarantee of the obligations assumed by the Parent Company and the Affiliated Banks, in compliance with the prudential rules applicable to banking groups and individual member banks; this guarantee forms an integral part of the Cohesion Contract. Participation under the agreement is an essential condition for adhering to the Cohesion Contract and therefore for participating in the Cooperative Banking Group.

The guarantee between the Parent Company and the Affiliated Banks is reciprocal (cross-guarantee) and contractually regulated so as to have the effect of qualifying the liabilities of the Parent Company and the Affiliated Banks as joint and several obligations of all the parties to the agreement; in other words, all the Affiliated Banks and the Parent Company must meet - both internally and externally - all the obligations contracted by the Parent Company itself or any Affiliated Bank.

The Guarantee Agreement also provides for intra-group financial support mechanisms by which the members of the scheme provide each other with financial support to ensure solvency and liquidity; in particular, to comply with the prudential requirements and the requests of the Supervisory Authority, as well as to avoid, where necessary, the application of the settlement procedures pursuant to Italian Legislative Decree no. 180/2015 or the compulsory administrative liquidation procedure referred to in Articles 80 et seq. of the TUB.

In particular, each party adhering to the Guarantee Agreement, in order to ensure the prompt availability of the funds and financial means necessary to carry out the guarantee measures, sets up within the Parent Company the so-called "readily available financial means", represented by a pre-established quota (the ex ante quota) and a quota that can be called up by the Parent Company if needed (the ex post quota), through the execution of contributions with the technical forms provided for in the Guarantee Agreement. The Parent Company periodically verifies the amount of the *ex-ante* and the *ex-post* portion and the relative capacity through stress tests.

If there is a need for intra-group financial support, the Parent Company may decide to activate the guarantee. The support initiatives for the Affiliated Banks, both capital and liquidity, necessary to ensure the solvency and liquidity of the individual members of the scheme, are carried out only by the Parent Company, using the financial resources made available by the members in execution of the Guarantee Agreement.

Support initiatives may consist of:

- capital initiatives, such as the subscription of financing shares eligible as CET1 or additional equity instruments eligible as AT1 and Tier2 of the Affiliated Bank;
- liquidity initiatives, such as the subscription of ordinary bond loans issued by the Affiliated Banks and/or through the subscription of term deposits;
- initiatives in any other technical form deemed appropriate by the Parent Company.

For further details on the guarantee scheme, please refer to the "Report on the guarantee scheme" attached to the separate financial statements of Cassa Centrale Banca in the yearly financial report.

## The organisational structure of the Group

The reform of cooperative credit has reinforced the importance of effective organisational structures and corporate governance for the pursuit of corporate objectives.

The corporate governance system of the Parent Company Cassa Centrale Banca is based on the central role of the Board of Directors, the transparency and collegiate nature of management decisions, the effectiveness of the internal control system and the strict governance of potential conflicts of interest.

To this end, in October 2018 the new Articles of Association were approved, which incorporate the legal provisions related to the establishment of the Cooperative Banking Group.

The main innovations concerned the insertion of specific articles relating to the peculiarities of the Cooperative Banking Group, the roles and responsibilities of the Parent Company as well as the methods of admission, withdrawal and exclusion from the Group.

Further updates regarded the provisions relating to the share capital of the Parent Company and the structure of the Body with strategic supervision, providing, in compliance with the reform law, as amended, that the Board of Directors must be composed of 15 directors, of which 10 must be members representing Cooperative Credit Banks.

With reference to the regulation of potential conflicts of interest, specific documents and processes were introduced (Regulations, Group policies, line controls, second-level controls, etc.) in order to monitor the risks of various types underlying a case whose scope is particularly expanded by virtue of the particular structure of the Cooperative Banking Group where the Affiliated Banks, in compliance with the cohesion contract, are at the same time the shareholders of the Parent Company.

Similarly, the Affiliated Banks updated their Articles of Association according to a model previously authorised by the Supervisory Authority, in order to implement the regulatory provisions introduced with the reform of Cooperative Credit.



## The Group structure

As at 30 June 2020, the Cassa Centrale Group consisted of:

- the Parent Company, Cassa Centrale Banca;
- the Affiliated Banks that have adhered to the Cohesion Contract and the companies controlled by them, directly or indirectly;
- other banks, financial and instrumental companies directly and/or indirectly controlled by the Parent Company.

A list of the companies included in the scope of consolidation of the Cassa Centrale Group is provided in the Explanatory Notes (Part A - Accounting policies, Section 3);

# Corporate governance

The Cassa Centrale Group, in line with legal and supervisory regulations and in order to ensure an appropriate balance of powers and a precise distinction between the functions of strategic supervision, management and control, has adopted a "traditional" system of governance, based on the distinction between the Board of Directors, which has a guidance and strategic supervision function, and the Board of Statutory Auditors, which has a control function.

An overview of the main corporate bodies with direction and governance functions is provided below. Details of the powers reserved for the control bodies are provided in the chapter dealing with "Risk management and internal control system" in this Report.

## Shareholders' Meeting

The Shareholders' Meeting is a deliberative and collective body designed to express the Bank's wishes and to resolve, in line with the dictates of Art. 2364 of the Italian Civil Code and Art. 13 of the Articles of Association, on the following matters:

- appointment of the members of the Board of Directors, the Board of Statutory Auditors and determination of their compensation and responsibilities;
- approval of the financial statements and resolution on the allocation and distribution of profits;
- upon a reasoned but non-binding proposal by the Board of Statutory Auditors, the appointment of the company responsible for externally auditing the accounts;
- resolving on the approval of remuneration and incentive policies for the Bank's Directors, Board of Statutory Auditors and staff, approving any plans based on financial instruments and the criteria for determining the compensation of any Directors and relevant staff in the event of early termination of employment or office;
- approval and amendment of any meeting regulations and resolving on other matters assigned to its competence by the regulations in force at the time or by the Articles of Association.

## The Board of Directors

The Board of Directors (hereinafter also referred to as the "BoD") is the body responsible for the strategic supervision and management of the company. The BoD of Cassa Centrale Banca consists of 15 members, 4 of whom meet the independence requirements: the Chairperson, one or two Deputy Chairpersons (one of whom Acting Deputy Chairperson). The directors are chosen, in a number not exceeding 10, from among persons who are members of the Affiliated Banks, i.e. who hold, or who have held in the 2 years prior to taking office, positions in the administrative and control bodies or top management of the Affiliated Banks, or of companies and entities in which they have a stake, operating in the cooperative credit sector. In addition to assigning the strategic supervisory function, the Articles of Association assign to the Board of Directors the management of the Executive Committee and of the Chief Executive Officer.

## Chairperson of the Board of Directors

In accordance with the provisions of Bank of Italy Circular no. 285/2013 and subsequent updates, the Chairperson of the Board of Directors (hereinafter also the "Chairperson"), who may not have an executive role or perform management functions, is assigned a coordination and guarantee role for the regular functioning of the Board of Directors and the Shareholders' Meeting. It favours internal dialogue and ensures the balance of powers, in line with the tasks regarding the organisation of the work of the Board of Directors and circulation of the information attributed to it by the Italian Civil Code. The Chairperson is also assigned by the Articles of Association to represent the Company before third parties and in court, as well as to sign on behalf of the Company. They shall promote the effective functioning of the corporate governance system, guaranteeing the balance of powers between the Bank's decision-making bodies and act as an interlocutor with the controlling body and the internal committees.



## Executive Committee

The Executive Committee consists of the Chief Executive Officer and 4 Directors appointed by the Board of Directors. Within the scope of the powers that the law and the Articles of Association do not reserve for the collective competence of the Board of Directors, the following matters are delegated to the Executive Committee, on which it resolves, as a rule, through proposals made by the Chief Executive Officer:

- loans;
- real estate investments;
- write-offs.

## Chief Executive Officer

The Board of Directors appoints a Chief Executive Officer from among its members, to whom it entrusts the day-to-day management of the Parent Company in compliance with the general planning and strategic guidelines established by the Board of Directors.

## Board Committees

The Board of Directors shall establish from among its members a Risks Committee, an Appointments Committee, a Remuneration Committee and an Independent Directors Committee, to which the following tasks are assigned:

- the Risks Committee performs support functions for the Parent Company's Corporate Bodies with regard to risks and the internal control system, paying particular attention to all activities that are instrumental and necessary for the Parent Company's Board of Directors to arrive at a correct and effective determination of the Risk Appetite Framework (RAF) and risk management policies;
- the Appointments Committee performs investigative and advisory functions in support of the Board of Directors with regard to the appointment of members and the composition of the Board of Directors of the Parent Company and, where applicable, of the Affiliated Banks when such appointment is the responsibility of the Board itself;
- the Remuneration Committee has propositional and advisory functions with regard to the remuneration and incentive systems to be adopted by the Parent Company and, where applicable, by the Affiliated Banks;
- the Independent Directors Committee, consisting of three independent directors chosen from among the members of the Board of Directors, intervenes in the negotiation and preliminary phases of transactions with associated parties, formulating reasoned and binding opinions.

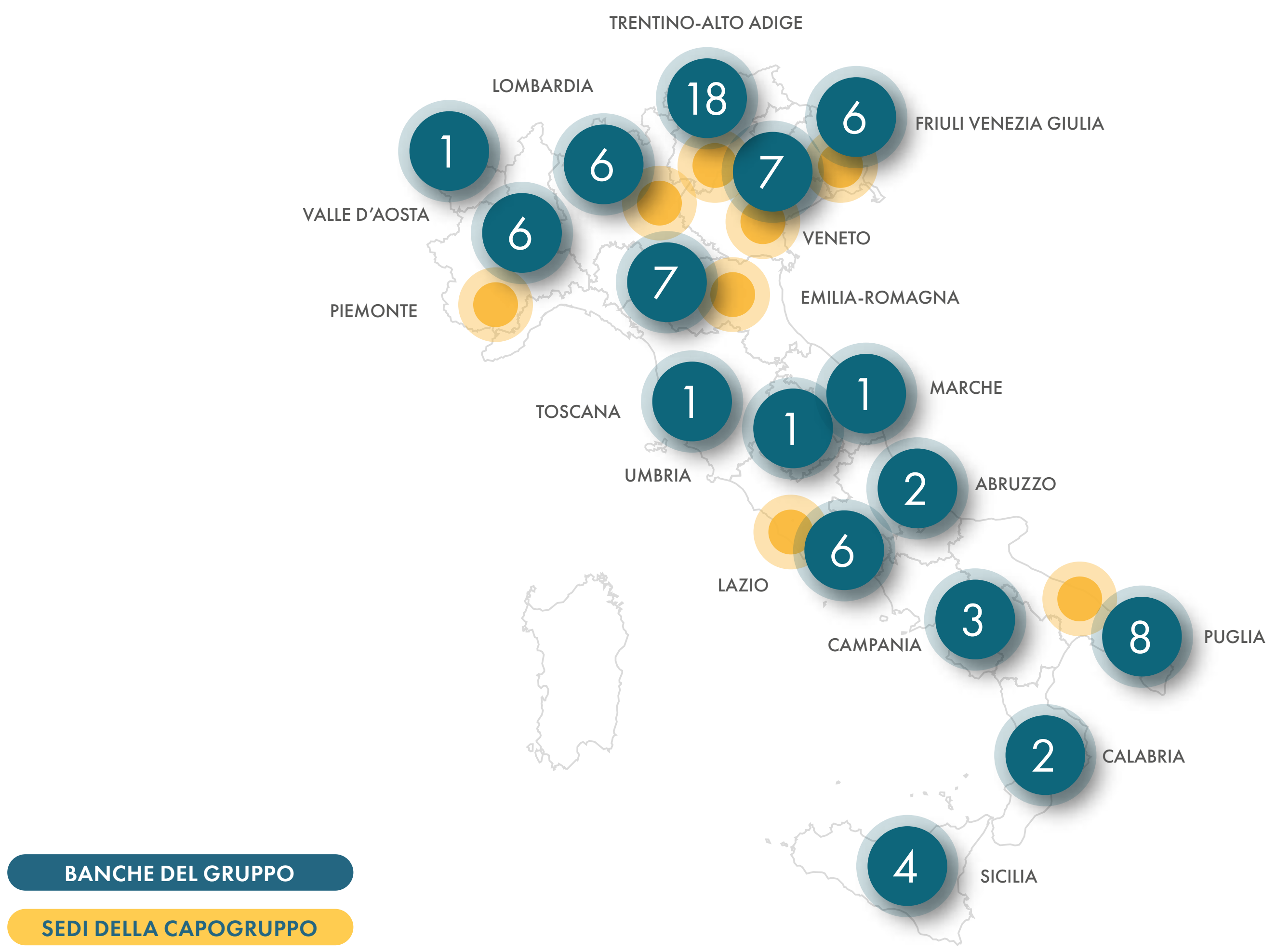
For further information and a detailed description of the corporate governance system, please refer to the "Corporate Governance Project" available on the Cassa Centrale Banca website at www.cassacentrale.it, in the "Governance" section.

## Presence on the territory

Cassa Centrale Banca has been a reference partner of cooperative credit and small and medium-sized banks that do not belong to banking groups for over 40 years, sharing their values, culture, strategies and reference model.

It has always operated as a second-level bank, providing support and impetus to the activities of BCC-CR-RAIKAs, their shareholders and customers, with an offer that has always been characterised by reliability and innovation in products and services, supported by highly specialised consulting.

With the establishment of the Cooperative Banking Group, the spirit of proximity to the territory has been strengthened, through a system of autonomous local banks and cooperatives organised in a modern Banking Group that enhances the contribution of each party within a central coordination system. The business model provides for a widespread presence in the territory characterised by a strong attention to the relationship with the customer (typically families and small economic operators), the territory and local institutions.




The geographical distribution of the Group as at 30 June 2020 is characterised by the presence of 79 Affiliated Banks with approximately 1,500 branches located throughout Italy and 10 regional offices of the Parent Company. In the first half of 2020, the process of streamlining the Affiliated Banks continued through the definition of extraordinary merger transactions. This dynamic must be observed in light of the aggregation process, within the BCC-CR-RAIKA category, aimed at pursuing objectives of stability, efficiency and competitiveness.

| PRESENCE ON THE TERRITORY | 30/06/2020 | | | | | Total 30/06/2020 | Total 31/12/2019 | Change |
|---|---|---|---|---|---|---|---|---|
| | Trentino-Alto Adige | North East | North West | Central | South and the Islands | | | |
| **REGISTERED OFFICES** | | | | | | | | |
| Parent Company | 3 | 2 | 2 | 2 | 1 | **10** | **10** | **0** |
| Affiliated Banks | 18 | 13 | 13 | 18 | 17 | **79** | **80** | **-1** |
| **BRANCHES** | | | | | | | | |
| Parent Company | 1 | 0 | 0 | 0 | 0 | **1** | **1** | **0** |
| Affiliated Banks | 271 | 373 | 354 | 321 | 177 | **1,496** | **1,499** | **-3** |

The special legal regulations, in relation to the mutualistic aims pursued, and the business model that characterises the BCC-CR-RAIKAs, are at the basis of the high number of members in the corporate structure. Cooperative shareholders play a key role as they are a crucial resource for preserving the value of Cooperative Credit Banks. They are in fact the first customers, suppliers of their own equity, witnesses of the vitality of the company, as well as the creators of projects within the social and economic fabric.

As shown in the table below, the number of shareholders as at 30 June 2020 was approximately 448 thousand, mostly concentrated in the central-north area of the country, representing a growth of 1,129 units compared with December 2019.

| AREA | 30/06/2020 | | | | | Total 30/06 /2020 | Total 31/12 /2019 | Change |
|---|---|---|---|---|---|---|---|---|
| | Trentino-Alto Adige | North East | North West | Central | South and the Islands | | | |
| No. of shareholders | 131,576 | 91,062 | 99,077 | 95,110 | 31,008 | **447,833** | **446,704** | **1,129** |
| % of total | 29.4% | 20.3% | 22.1% | 21.2% | 6.9% | **100%** | | |

## Mission, values and business model of the affiliated Banks and the Group

The BCC-CR-RAIKAs are local banks which are an expression of the communities, established in the form of cooperative companies with prevalent mutuality. Consistent with the principles and values that inspired their birth and accompanied their growth, they have always made a concrete contribution to the economic, social and cultural development of local communities. As stated in the Articles of Association, they have *"the purpose of favouring cooperative shareholders and members of local communities in banking operations and services, pursuing the improvement of their moral, cultural and economic conditions and promoting the development of cooperation and education in savings and pension planning as well as social cohesion and the responsible and sustainable growth of the territory in which they operate".*

The sharing of the values that characterise the social function of cooperation provides a peculiar characteristic to the modus operandi of the Affiliated Banks and at the same time represents a concrete wealth for the territorial communities in which they operate.

The commitment to the territory is implemented both in the active presence in the economic system through reinvestment in the areas of competence of savings collected, and in the support of initiatives in favour of bodies and associations that make the non-profit sector their objective. Particularly important are the conferences and round tables with trade associations to promote discussion on the most important issues by economic sectors that characterise the territories in which the Group operates.

The social and service function of the Affiliated Banks is characterised by a qualified, updated and dedicated offer in which the services provided by the individual entities are flanked by the services and consulting provided by the Parent Company and the Group Companies, which are designed to meet the organisational, business and compliance needs of the Affiliated Banks and to understand the needs of shareholders and customers.

The activity of the Affiliated Banks is strongly oriented towards the provision of credit through traditional forms, such as mortgages and commercial loans, in order to better meet the financial needs of customers. Direct funding also consists of traditional offerings such as deposit accounts, repos, current accounts, savings accounts and bonds. Indirect funding and assets under management mainly consist of products and services designed to ensure profitability while minimising risks.

Affiliated Banks are therefore the main interlocutors in the support and development of the real economy of the territories in which they operate, thanks to a specific offer of banking products and services that over the years has made it possible to maintain the stability of savings and to allow for constant access to credit, also by enhancing the value of proximity information that is a peculiarity that only local banks possess.

Also worthy of note is the commitment to offering and placing ethical and environmentally relevant investment products. With reference, in particular, to the offer of banking and credit products linked to eco-sustainable initiatives, of note are the initiatives aimed at spreading the culture of energy saving and the responsible use of resources with actions that directly involve the Affiliated Banks and, indirectly, customers, through products with low environmental impact, financing dedicated to businesses and households for the installation of systems for the production of electricity or heat from renewable sources and the implementation of interventions aimed at improving the energy efficiency of buildings.



# Reference Economic Background

## International scenario and italian context

In the first half of 2020, the international economic cycle slowed down considerably, mainly due to the Covid-19 health emergency. According to the estimates of the International Monetary Fund (hereinafter also "IMF") the growth of Gross Domestic Product (hereinafter also "GDP") is forecasted at -4.9% for 2020, with an estimated recovery for 2021 at a rate lower than previously indicated.

For the Euro Area, the IMF estimates for June a -10.2% fall in GDP. However, the stimulus actions implemented by the European Central Bank and the governments (not least, the approval of the Recovery Fund) made it possible, on one hand, to maintain ample liquidity in the system and, on the other hand, to avoid even stronger consequences on the labour market. In the United States, too, the situation caused a severe reduction in economic activity, with a -8% GDP forecast for 2020.

The contraction in production had an impact on inflation trends, with the IMF forecasts for 2020 reaching 0.3% in the G8 economies. Employment, on the other hand, showed a contradictory trend on the two sides of the ocean: a more limited impact in the Euro Area thanks to the measures implemented by the individual countries and at the EU level, and a significant increase in the unemployment rate in the United States (11.1% in June compared to 3.5% recorded before the break-up of the pandemic).

With regard to the Italian economy, ISTAT recorded a drop in GDP for the second quarter of 2020 of -17.7% compared to the second quarter of 2019. After a sharp decline recorded in the March-April period, industrial production recorded a vigorous recovery (exceeding +40% monthly) in May, which continued in June (+8.2%).

Inflation, measured by the annual change in the national consumer price index, recorded a -0.3% in June, affected by the drop in the prices of energy products, only partly offset by the increase in the prices of food products.

## Financial and currency markets

In the first half of 2020, the spread of Covid-19 generated an exceptional macroeconomic shock and inflation expectations in the Euro Area fell significantly. In response to the crisis, the main central banks adopted a broad range of measures aimed at supporting the flow of credit to the real economy and at ensuring the functioning and stability of the financial markets.

At its meeting on 12 March 2020, the Governing Council of the European Central Bank (hereinafter also referred to as "the ECB") announced a new set of temporary longer-term refinancing transactions (so-called "LTRO") in order to provide an immediate liquidity support to the banking sector and safeguard the functioning of the monetary markets. The transactions, conducted on a weekly basis and through fixed rate auctions with full awarding of the amounts requested, expired in June 2020, coinciding with the settlement of the fourth auction of the third series of temporary longer-term refinancing transactions (so-called "TLTRO-III) where the counterparties were able to transfer the refinancing they had obtained. At the same time, the Council made the conditions applied to the above-mentioned TLTRO-III more accommodating, increasing the total amount of funds that counterparties can obtain and reducing their cost. At the same meeting, the ECB temporarily reduced the eligibility criteria applicable to assets that banks use as collateral in Eurosystem transactions, and announced the strengthening of the expanded programme for the purchase of financial assets (so-called "APP") in the amount of EUR 120 billion until the end of 2020.

In view of the rapid spread of the epidemic and the emergence of significant turbulence on the financial markets, on 18 March 2020 the Governing Council of the ECB, during an extraordinary meeting, introduced a new programme for the purchase of public and private securities for the pandemic emergency (so-called "PEPP") in the total amount of EUR 750 billion. Purchases were expected at least until the end of 2020 and in any event so long as the pandemic emergency persists.

At a meeting held on 30 April 2020, the Governing Council of the ECB further strengthened the measures aimed at supporting credit granted to households and businesses. The terms and conditions of TLTRO-III were amended in a more accommodating stance and a new set of seven longer-term refinancing transactions were introduced for the pandemic emergency (so-called "PELTRO") aimed at ensuring eased liquidity conditions in the monetary market of the Eurozone. The transactions – which began in May, with maturity in the third quarter of 2021 – are carried out based on a policy with full awarding of the amounts requested, applying an interest rate of 25 basis points lower than the average interest rate in force for the main refinancing transactions during the duration of each transaction.

At the meeting of 4 June 2020, the Council resolved on an even more accommodating monetary policy to face the worsening of the medium-term inflation prospects. It decided to strengthen the PEPP, increasing its amount up to EUR 1,350 billion, and extended its duration by six months, at least until the end of June 2021 and in any event until the Council concludes that the crisis phase has ended.

As regards the United States, at the meetings of March 2020, the Federal Reserve (hereinafter also "FED") reduced the target range of interest rates on Federal Funds by a total of 150 basis points, bringing it to 0.00% - 0.25%. The FED also increased the liquidity available to intermediaries, launched a new programme for the purchase of public securities and mortgage-backed securities (without restrictions on their amount) and activated a number of instruments to support credit to businesses, consumers and local administrations.

In the first half of 2020, the shock deriving from the Covid-19 pandemic and the following monetary policy interventions of the ECB and the FED contributed to significantly increase volatility in the prices of Euro and US Dollar on the currency markets. The EUR/USD cross rate went from around 1.12 to a minimum of 1.07 in March at the onset of the shock, and then returned to around 1.12 at the end of the half year.

The performance of the stock and bond markets in the first half of 2020 was heavily affected by the Covid-19 pandemic.

After updating new record highs in the first 2 months of the year, the main share indices changed reflecting the new reality: the sharp drop expected in corporate profits and the uncertain future prospects caused by an unprecedented unfavourable situation led American stock markets to close the first quarter of the year with a loss of approximately 20 percentage points. Even more negative performance was recorded in the Italian market, which in March showed a drop of more than 30% from the start of the year.

The measures decided by governments and the main central banks, together with a gradual re-opening of economic activities, encouraged the recovery of the stock markets also supported by economic data in May and June that were higher than expected. The American technological securities were those to mainly make up the lost ground, allowing the main stock index to recover most of the negative performance of the first quarter (-3.1% since the beginning of the year) and the technological index to turn positive again. On the contrary, for the European indices, losses from the beginning of the year remain significant (from -15% to -20%) given their greater concentration in sectors most affected by the pandemic.

The climate of uncertainty supported instead the performance of risk-free assets. At European level, the ten-year Bund recorded new record lows of returns (-0.86%), while doubts about the stability of public accounts and the Italian economy pushed the yield of BTPs up: on the 10-year maturity, the yield of BTPs rose to 2.40% at the end of March, bringing the spread to the German counterparty with the same maturity from 129 basis points at the beginning of the year to 279 basis points.

A number of new tax policies, coordinated at European level - from the Recovery Fund to the Sure programme to support unemployment - favoured the reduction of the spreads between peripheral and core securities already started as a result of the significant interventions of the ECB. The 10-year BTP yield was 1.27% at the end of June.



## Italian banking system

The outbreak of Covid-19 and its rapid spread also generated significant impacts on the country's social, economic and financial fabric. Despite the severe slowdown in economic activity, the exceptional credit support measures introduced by the government and the extraordinary measures decided by the ECB have created the conditions to mitigate the adverse consequences of the crisis.

In any case, the effects of the pandemic were reflected in an accentuation of the trends of the banking system aggregates. While on one hand, the worsening of the economic environment led to an increased need for loans in order to mainly cover the liquidity needs of businesses, on the other, the uncertainty linked to the crisis tended to lead to an increase in the propensity to save with an accumulation of liquid and non-risky assets.

Based on the data published by ABI at the end of June 2020[1], loans to residents in Italy (including private sector and public administrations) amounted to EUR 1,697 billion, with an annual positive change of 1.7%[2] (-0.4%, the annual change recorded in December 2019). More specifically, in June 2020, loans to the private sector recorded a 2.3% annual acceleration (+0.1% in December 2019), while the year-on-year trend in loans to non-financial businesses showed, in May 2020 (latest available data at the date of the half-year close), a positive annual change of 1.9% (-1.9% at the end of 2019).

The breakdown of credit by branch of economic activity shows that in the first half of 2020, manufacturing, mineral extraction and services accounted for approximately 58% of the total. This is followed by trade financing and accommodation and catering activities with 21% (the sectors among those most negatively impacted by the crisis), construction with 11% and agriculture with 5% and residual activities with approximately 5%.

As for the risk profile, in the first half of 2020, despite the effects of the lockdown, the credit quality of the banking system improved also due to the planned disposal of impaired loans and the benefits deriving from the initiatives introduced by government measures supporting households and businesses. In fact, non-performing loans (net of write-downs and provisions made) decreased compared to the same month of the previous year to EUR 25.0 billion in June 2020 (-21.5% yoy), with a net non-performing loans/total loans ratio of 1.5% (1.6% in December 2019).

Total bank customer funding in Italy, represented by resident customer deposits and bonds net of those repurchased from banks, increased by 4.5% year-on-year to EUR 1,862 billion in June 2020 (+4.7% annual increase recorded in December 2019). More specifically, deposits (EUR 1,636 billion) recorded an annual growth of 6.0% (the annual trend in December 2019 was +5.8%), while bonds declined by 5.6%, reaching EUR 226 billion in June 2020 (-1.9% at the end of 2019).

With reference to the trend in interest rates, in relation to households and non-financial companies, the average rate of bank customer funding calculated by ABI (which includes the return on deposits, bonds and repurchase agreements in Euro) as at June 2020 was 0.56% (0.58% at the end of 2019), while the weighted average rate on loans had reached the historical low of 2.37% (2.48% in December 2019).

[1] ABI Monthly Outlook Economy and Financial-Credit Markets - July and September 2020.

[2] Calculated by including securitised loans subject to derecognition in the bank financial statements.

# Significant events in the first half of the year

The main events of the half year ended 30 June 2020 are provided below.

## Main regulatory and legislative changes resulting from the Covid-19 pandemic

The outbreak and spreading of the global Covid-19 pandemic led to the increasing issuing of emergency regulations, both at EU and national level, with significant impacts also on the bank-customer relationship. In this context, the Parent Company first of all carried out continuous monitoring of the regulatory measures issued from time to time, providing information, guidelines and advice to the Affiliated Banks, for the definition and implementation of the related adjustment measures.

At EU level, of note is the approval by the European Parliament of Regulation (EU) 2020/873 of 24 June 2020, which amends the regulations (EU) no. 575/2013 and (EU) 2019/876 with regard to some adjustments in response to the Covid-19 pandemic. This regulation was approved with the aim to facilitate the disbursement of bank credit to businesses and households in the context of the pandemic.

Again in the context of the response to the "Coronavirus" pandemic, on 2 April 2020, the European Banking Authority issued guidelines on the Covid-19 moratoria (EBA/GL/2020/02), subsequently updated on 25 June 2020 (with the issue of EBA/GL/2020/08 guidelines). These guidelines define temporary measures implemented by the Supervisory Authority in order to regulate the cases in which the moratoria on loans granted by financial institutions in the context of the pandemic do not result in a forborne classification of the exposures subject to the same.

The following are the national regulatory measures with the greatest impact for the banking sector:

- Law Decree no. 18 of 17 March 2020 (so-called "Cura Italia", converted with amendments by Law no. 27 of 24 April 2020), which has introduced specific measures to provide financial support to micro, small and medium enterprises that suffered economic damages as a result of Covid-19 pandemic, providing for them the possibility of obtaining from the Banks the suspension of the payment of instalments (or capital portions) on loans and the non-revocability of revocable credit facilities until 30 September 2020 (a deadline that was subsequently extended to 31 January 2021); the Decree also introduced support measures for first home mortgages through the extension to self-employed people and professionals as potential beneficiaries of the so-called "Gasparrini Fund";
- Law Decree no. 23 of 8 April 2020 ("Liquidity" Decree, converted with amendments by Law no. 40 of 5 June 2020), which has introduced numerous measures to support business liquidity (for example, the 100% public guarantee for loans to small and medium enterprises up to EUR 30,000), simplified procedures for the execution of banking contracts to limit physical contact between bank employees and customers, as well as the suspension of the maturity terms of credit securities (in particular cheques);
- Law Decree no. 34 of 19 May 2020 (so-called "Relaunch", converted with amendments by Law no. 77 of 17 July 2020) which extended the financial support measures to small and medium enterprises, introduced provisions for the simplified subscription of financial and insurance contracts and set forth additional tax benefits for the execution of construction works (so-called 110% Superbonus) and for summer vacation (so-called Vacation Bonus), with the possibility of transferring the related tax credits to the Banks.

In this context, the Bank of Italy, through the communications listed below, provided guidelines to the intermediaries to ensure the effectiveness of the aforementioned emergency regulatory measures. In particular:

- Communication of 23 March 2020 - "Cura Italia" Law Decree (Law Decree no. 18 of 17 March 2020) - Clarifications on reporting to the Central Credit Bureau - in which the Bank of Italy instructed the Banks to comply with the provisions of the "Cura Italia" Decree as regards the reporting to the Central Credit Bureau, and not to decrease the agreed upon revocable credit lines and not to report delays in the payments that were suspended in the case of loans repayable by instalments;
- Communication of 6 April 2020 titled "Covid-19 Epidemiology emergency. Initial indications on customer relations", whereby the Bank of Italy invited the Banks to encourage the customers to use remote access tools (also for the consultation of transparency documents) and to be cautious in adopting unilateral and unfavourable changes to the conditions applied to customers;
- Communication of 10 April 2020 titled "Recommendations of the Bank of Italy on issues relating to the economic support measures laid out by the Government applicable to the Covid-19 emergency" - through which the Supervisory Authority highlighted some reports received from customers in relation to difficulties in accessing banking services and to the lack of suitable information - providing intermediaries with specific guidelines aimed at protecting customers (e.g. preparation of a page of the website completely dedicated to the government measures adopted to deal with the health emergency);
- Communication of 19 June 2020 titled "Clarifications on reporting to the Central Credit Bureau - Covid-19 Guarantees - Full and final settlement agreements", in which the Bank of Italy intended to specify the cases in which the guarantees issued in favour of customers to face the economic consequences of the pandemic must not be reported to the Central Credit Bureau, as well as the criteria to be followed for reporting any full and final settlement agreements.

With reference to the communications issued by the Supervisory Authority described above, the Parent Company set up specific information flows to the Affiliated Banks, interfacing with the IT outsourcer for the definition of the procedural support necessary for the concrete implementation of the guidelines issued by the Bank of Italy.

## Operating context following the Covid-19 pandemic in the Cassa Centrale Group

The severe crisis caused by Covid-19, which began in the first few months of 2020, had significant impacts on the entire banking system. The "Cura Italia", "Liquidity" and "Relaunch" decrees, laid out by the Government to deal with the economic and financial consequences of the emergency, have heavily involved the banking system which has become one of the fundamental players in implementing actions to support the territory, households and businesses. This had significant effects with reference to the operations and processes that banks, and therefore also the Cooperative Banking Group had to prepare in emergency and urgent conditions.

The main activities carried out by the Cooperative Banking Group as part of the response to the phase of uncertainty that started at the end of February 2020 are described below.

## Operational continuity, security and internal/external communication

The health emergency relating to the spread of Covid-19 and the sequence of restrictive measures, issued by the Government to protect public health, had a significant impact on the management of the Cooperative Banking Group. Through the establishment of an emergency management operating unit, the Parent Company has immediately implemented measures to contain the risk of contagion, identifying specific procedures to ensure the operational continuity of critical processes, the safeguard and protection of the health of workers, customers and suppliers, providing guidance and coordination mechanisms for the Banking Group.

In order to ensure uniform and coordinated interventions and measures at Group level, Cassa Centrale Banca has provided recommendations, guidelines, communications and circulars, both informative and mandatory, to the Group Banks and the Companies in compliance with the government restrictions and provisions issued from time to time. Periodic and constant information flows to Corporate Bodies have been set up in order to maintain continuous dialogue with CODISE, an internal body of the Bank of Italy responsible for emergency management, and with the Joint Supervisory Teams (hereinafter also "JST"). From the start of the emergency state, Cassa Centrale Banca has provided for numerous initiatives for the implementation of the President of the Minister Council Decrees and protocols agreed upon with the social partners. The main measures concerned:

- extensive information on the Covid-19 emergency, on the risks and on the prevention measures through the issue of circulars to employees, infographics and posters in the workplace;

- implementing provisions on risk mitigation with information provided to all employees;
- preparation of an appropriate Biological Risk Assessment Document relating to Covid-19;
- mass activation of remote working, with appropriate information on risks of flexible work and on the security in terms of IT risk;
- regulations for accessing the company, specific for workers and external personnel, for accessing the company's common areas, for the adoption of specific protocols for sanitisation and hygienisation at the company level, distribution of certified masks as personal protection devices and disinfecting gels;
- interaction with the company doctor to ensure continuity of health surveillance and identification of vulnerable subjects to be kept monitored, also providing dedicated insurance coverage for employees;
- establishment, in cooperation with the company's union representative (hereinafter also "RSA" - Rappresentanza Sindacale Aziendale) and with the workers' representatives for safety (hereinafter also "RLS" - Rappresentanti dei Lavoratori per la Sicurezza) of a committee for the application and verification of the regulatory protocols at the company level;
- preparation of a corporate Regulation specific for the procedures applicable to the employees returning to work, with particular attention to the measures relating to the social distancing in offices and the numeric monitoring of personnel returning to work on the basis of pre-set parameters.

In line with the control and protection actions stemming from the spread of the Covid-19 pandemic, Cassa Centrale Banca also deemed it appropriate to verify its prevention plan through a voluntary and independent assessment process, entrusting Bureau Veritas, a world leader in the assessment and analysis of risks related to quality, the environment, health, safety and social responsibility.

By means of this voluntary initiative, Cassa Centrale Banca therefore underwent an independent inspection to demonstrate that it has implemented the protocols of safety and infection prevention through adequate regulations as well as the definition of specific procedures for the safeguard and protection of the health of workers, customers, suppliers and all those who interact within the environments of our organisation.

Following the assessments, Cassa Centrale Banca obtained the "Safe Guard" certification, demonstrating that it has managed the risks specifically related to the Covid-19 emergency in compliance with the regulatory provisions issued by the Authorities.

## Actions taken in favour of businesses, households and territory

In the difficult context of the emergency due to the impact of Covid-19, the strict containment measures adopted, if on one hand were effective in slowing the spread of the infection, on the other, they caused a real shock to the economy of the country with a simultaneous negative effect on the supply and demand of goods and services. The closure of activities, the interruption of operations in the channels for the procurement of raw materials or semi-finished goods, the drop in consumption, the reduction in income, the postponement of investment plans and the decline in exports are only some of the signs of the ongoing recession. Our country was one of the first to be hit by the pandemic, but the virus quickly and increasingly spread to many other countries with negative repercussions on production activities, consumption and demand on a global scale.

In order to counter the negative effects of the crisis, the Central Banks intervened repeatedly with extraordinary measures to support demand and injecting a high amount of cash into the economic system. At the same time, many governments approved stimulus packages to support income of household and businesses and credit for the economy, with significant repercussions on public accounts. The awareness that said impacts would have affected all member countries has highlighted the need for the activation of EU instruments to support the national budgeting policies. The agreement reached on 9 April within the Eurogroup provides for the allocation of resources totalling EUR 540 billion to face the health emergency, support employment and facilitate the granting of loans to businesses through the issue of EUR 200 billion of guarantees by the European Investment Bank (EIB).

In order to mitigate the effects due to the closure of the economic activities in the lockdown period, the Italian Government also launched important legislative provisions (as mentioned above) and the Cassa Centrale Group promptly implemented all the provisions aimed at facilitating the granting of the benefits envisaged by these measures to its customers, in addition to entering into specific agreements including the Addendum to the 2019 Credit Agreement promoted by ABI.

In compliance with Law Decree no. 18 of 17 March 2020 (so-called "Cura Italia" decree), agreements entered into with some local administrations and agreements executed with the trade unions (ABI, Assofin and Assilea), 69,472 borrowers were granted a moratorium, for a total amount of EUR 10.6 billion in suspended mortgages payments which represent almost 25% of the Group's total credit volume. Of these, EUR 3.8 billion relate to moratoria granted to households, while EUR 6.8 billion related to loans to businesses. There were 1,459 customers, approximately 2% of the total number of applicants, for which the Group did not determine eligibility for a moratorium or for which their assessment as at 30 June 2020 was underway.

Again as a result of the measures envisaged in the so-called "Cura Italia" decree, the Cassa Centrale Group supported the income granted to the workers for which the company made use of the redundancy fund, advancing the amount due from INPS. The advances paid were 1,033, for a value of EUR 1.27 million.

Support to businesses carried out under the so-called "Liquidity" decree is also very important. On the basis of the provisions of Article 13 (new loans to SMEs), the Group prepared and issued new credit lines for a total of EUR 687 million. This total includes 31,016 mortgages granted pursuant to paragraph 1 m (new loans up to EUR 25,000) to the micro-enterprises, which are the main reference fabric of the Cooperative Banking Group. The "Liquidity" decree is of significant importance also for supporting companies' access to credit because it makes available, through the issue of "public" guarantees (Central Guarantee Fund of SMEs and SACE), most of the resources allocated. In the first half of the current year, and in particular in May and June, the Cassa Centrale Group carried out a considerable activity to support the economic and social recovery of households, businesses and the production fabric in the context where it operates. With reference to the SACE guarantee, as at 30 June 2020, loans totalling EUR 11.7 million were disbursed, seizing the opportunity provided by art. 1, paragraph 2, letter d) of the aforementioned Liquidity Decree.

The initiatives that saw the coordination of the Parent Company were accompanied by specific loans proposed by many Affiliated Banks, with limits dedicated to favourable conditions, direct donations, fund raising activities, and other initiatives, generating a number of initiatives that represent the Group's contribution to the needs that have emerged in the local areas.

## Monitoring risk profiles

In order to monitor the impact of the Covid-19 crisis on the Group's risk profiles, the Risk Management Function has undertaken initiatives aimed at ensuring adequate monitoring both of the impacts deriving from the evolution of the scenario (current and forward-looking) and of the evolution of all the relevant risks for the Group. In particular, the main initiatives adopted in this area concerned:

- **The updating of the impacts of the macroeconomic scenario:** with the aim of constantly monitoring the possible effects of the pandemic on the macroeconomic and banking scenario, the Group periodically monitors the evolution of the reference scenarios, in order to implement and assess the evolutionary effects of the economic-operational context consequent to the healthcare emergency of Covid-19. The scenario analysis focuses not only on the typical most significant variables (such as exchange rates, national GDP and EMU and USA rates, the BTP-BUND spread, the unemployment rate, the consumer propensity and the most significant bank variables, such as, for example, short and medium/long-term loans and funding) but also on the effects of the pandemic on credit quality through forecasts with the deterioration rates of the main economic sectors. The results of the information described above are reported in the Group's integrated risk reporting, so as to submit to the management body the data relating to the impacts on the evolution of the scenarios.
- **The monitoring of risk profiles:** together with the monitoring of scenario developments, the Group constantly monitors the development of the risk profile in the context of the pandemic. Monitoring takes place both as part of the ordinary integrated risk reporting (with the aim of providing a complete representation of the monitoring activities carried out at consolidated and individual level), and through reports dedicated to the development of the loan

portfolio (with particular focus on the Covid-19 moratoria, and on the results of the "AQR" controls carried out by the Parent Company, aimed at the overall assessment of the status of the loan portfolio).

## Rating

On 23 January of this year, the rating agency Moody's assigned to Cassa Centrale Banca, the Parent Company of the Cooperative Banking Group, a "stable" outlook in the long and short term, and a Ba1 rating, following developments linked to the Group's operational start-up and to the new role as the Parent Company of 79 Affiliated Banks.

Following the deterioration of the economic context resulting from the spread of Covid-19, Moody's has put under review the rating or valuations of certain banks, including Cassa Centrale Banca.

## Reduction in impaired assets

In the first half of 2020, Cassa Centrale Banca continued its operating plan to reduce the stock of impaired loans of the Group despite the ongoing health emergency. Specifically, the Group's NPL stock decreased during the half year by approximately EUR 100 million, from EUR 4.2 billion in December 2019 to EUR 4.1 billion as at 30 June 2020. The plan for the reduction of impaired loans is part of an overall strategy aimed at improving the quality of the assets, which is also implemented through extraordinary transactions for the sale of impaired loans.

## Business combinations between Affiliated Banks

In the first half of 2020, the business combination of Cassa Rurale di Trento with Cassa Rurale di Lavis - Mezzocorona - Valle di Cembra took effect (entry into force 1 January 2020). Through the extraordinary business combinations between Affiliated Banks, the Cooperative Banking Group pursues objectives of stability, efficiency and competitiveness. These transactions had no impact on the consolidated statement of financial position as they took place between entities under joint control. As at 30 June 2020, the number of Affiliated Banks stood at 79.

## Industrial reorganisation of IT and banking services

In the first half of 2020, the business transformation process that involved the Group's IT and banking services area and led, in January 2020, to the establishment of Allitude S.p.A. (hereinafter also "Allitude"), was completed. This has led to the creation of a single reference IT and banking services company in order to guarantee efficiency and involvement, as well as to develop operational synergies and build specialist centres, including territorial centres, always at the service of the business development of the Affiliated Banks and the Group as a whole. The purpose of this process was to enhance the best practices present within the Group by making them shared. Effective on 1 July 2020, the second phase of business transformation was duly completed, according to the plan, with the incorporation into Allitude of the last two IT companies of the Cassa Centrale Group, i.e. Bologna Servizi Bancari S.r.l. (hereinafter also "BSB") and CESVE S.p.A. (hereinafter also "CESVE"). The second phase of the transaction generated a significant impact on the Allitude Services Department in terms of operational and organisational integration, in particular with reference to the company CESVE, composed of approximately 80 people specialised mainly in administrative and banking services, while for BSB, which had already seen a preventive industrial reorganisation within the Service Desk, the impact on the ICT structure of Allitude was more negligible.

In light of the broader business vision of the Group, the completion of this path is a further step forward for Allitude, with the aim of expanding its management of back office activities in support of Group Banks, but also of third parties, adopting flexible and innovative instruments that allow Banks to focus their business activities on their customers.

## Business Plan

On 30 June 2020, the Board of Directors of Cassa Centrale Banca approved the first Group Business Plan within a 2020-2022 time horizon. In order to comply with the deadline assigned by the European Central Bank, the Business Plan was defined during the period characterised by the lockdown following the health emergency. This substantially made it impossible to activate the necessary process of sharing strategic guidelines with the Group Affiliated Banks.

The Business Plan has a series of strategic development initiatives that can be attributed to four macro areas:

- commercial development based on the service model of the local bank;
- improvement of the efficiency of the business model;
- management of capital and risk profiles;
- enabling factors: people and technology.

The economic-financial and equity projections define an evolution, in the period of reference of the plan, which sees the Group's enhancing its ability to increase revenues, pursue a containment of operating costs and adopt prudent allocation policies in view of the uncertainties deriving from the impact that the health emergency will have on the real economy.

The Group confirms a high level of capitalisation, adequate profitability and a robust operational and structural liquidity profile for the period covered by the plan.

## Banca Carige S.p.A. Cassa di Risparmio di Genova e Imperia transaction

Following the closure of management activities, on 31 January 2020, the Ordinary Shareholders' Meeting of Banca Carige S.p.A. Cassa di Risparmio di Genova e Imperia (hereinafter also "Carige") re-established the corporate bodies, appointing for the three-year period 2020-2022, with term of office expiring when the Shareholders' Meeting is called to approve the financial statements as at 31 December 2022, the new Board of Directors consisting of 10 members, as well as the Chairman and the Deputy Chairman. From the list submitted by Cassa Centrale Banca, as minority shareholder and by virtue of the provisions of the Consolidated Law on Finance and the articles of association of Carige, Leopoldo Scarpa was appointed as director.

The Shareholders' Meeting also appointed the Board of Statutory Auditors for the three-year period 2020 - 2022 with Alberto Giussani as Chairperson of the Board of Statutory Auditors and Vincenzo Miceli as Alternate Auditor elected from the minority list submitted by Cassa Centrale Banca.

Lastly, at a meeting held on 30 June 2020, the Board of Directors of Cassa Centrale Banca resolved not to exercise, with reference to the first expiry between 1 and 11 July 2020, the call option to purchase all equity investments in Carige pertaining to the Interbank Deposit Protection Fund and to the Voluntary Intervention Scheme, pursuant to the option agreement executed with the aforementioned parties on 9 August 2019.

## Complaints and disputes

On 16 January 2020, the financial holding Malacalza Investimenti S.r.l. (hereinafter also "Malacalza Investimenti") brought a civil action against Carige, the Interbank Deposit Protection Fund, the Voluntary Intervention Scheme and Cassa Centrale Banca, contesting the validity of the resolution to increase the share capital by EUR 700 million approved by the shareholders of Banca Carige at the Shareholders' Meeting held on 20 September 2019 and submitting a claim for damages of over EUR 480 million.

The reasons for the disputed validity of the shareholders' resolution consist essentially in the alleged illegitimate exclusion of the option right, failure to comply with the principle of accounting parity and a determination of the issue price of the new shares that does not comply with the criteria set out in the company's regulations.

Compensation for damages is requested on the basis of the explicit hyperdiluting nature of the resolution (with a reduction of the shareholding of Malacalza Investimenti from 27.555% to 2.016%), as the cancellation of the shareholders' resolution can no longer be requested as it has already been carried out with the subscription of the share capital increase (following which, Cassa Centrale Banca acquired a stake of 8.34%).

The first hearing originally set for 19 May 2020 was postponed following the health emergency.

The same defendants, including Cassa Centrale Banca, were then sued in two further disputes by the shareholder Vittorio Malacalza and 42 other shareholders of Carige, with a claim for compensation totalling a further EUR 11.4 million, plus revaluation and interest.

The grounds and the arguments underlying the claims for damages are substantially the same as those put forward by Malacalza Investimenti.

For these two further cases, the first hearings were set for 5 May 2020 and 6 May 2020 respectively, but they have also been postponed to a later date.

Following the redefinition of the terms of the hearing, on 24 July 2020, Cassa Centrale Banca, like the other defendants, filed for a court appearance and response in order to ascertain and declare the lack of legitimate liability of Cassa Centrale Banca, as well as to reject all the claims made by the plaintiffs against it.

On 15 September 2020, the first hearing of all the class proceedings was held in Genoa, in which the parties requested the granting of the terms pursuant to art. 183, paragraph 6 of the Italian Code of Civil Procedure, with the exception of Cassa Centrale Banca, which rejected the lack of legitimate liability.

As regards the assessments carried out with the support of solicitors, Cassa Centrale Banca, considering the risk of losing the case, decided not to make provisions for risks and charges.

## Additional significant regulatory events during the half year

The reference regulatory context in which the Group operates, also following its recognition as a significant supervised entity, is broad and articulated and has led, over time, to a process of organisational and procedural adjustment. In the first half of 2020, the regulatory context was strongly characterised by the emergency of the Covid-19 pandemic (see the paragraph dedicated to legal and regulatory aspects), but during the period several other regulations with a significant impact were implemented for the banking sector as well.

The main measures implemented by the Group with reference to the most important regulatory changes are set out below.

### Transparency

With reference to the Bank of Italy's communication of 4 December 2019 on early repayment of CCD mortgage loans by consumers, the Parent Company has guided the alignment actions that the Affiliated Banks must carry out, while identifying the main impacts of the new guidelines on the processes of early repayment and curtailment of the relationships involved (CCD mortgage loans) as well as the repayment and accounting criteria to be adopted pending the IT implementations required by the Parent Company to the IT outsourcer for the automated management of repayments.

As from 1 January 2020, the provisions on payment accounts offered to consumers were applied, in implementation of Directive 2014/92/EU (so-called "PAD").

The Parent Company and the outsourcer of IT services completed the process of alignment with the new provisions, defining and executing the implementation of the procedures aimed at ensuring the production of the new "Information Document on expenses" (so-called SoF) for payment accounts offered to consumers.

### Product governance for retail banking products (POG)

On 1 January 2020, the Product Oversight Governance (so-called POG) provisions applied to retail banking products (pursuant to Title VI of the Consolidated Banking Act) also entered into force for the Affiliated Banks, on the basis of which the Banks, in their capacity of manufacturers and distributors of third party products, are required to adopt internal policies and procedures for the preparation, monitoring, review and distribution of new products that take into account the interests, objectives and characteristics of customers (the so-called Target Market).

Following the provision of the "Group Regulation on new products" applied to the Affiliated Banks at the end of 2019, the Parent Company has provided them with the "Group methodology for identifying the target market", which defines the criteria and logics for identifying the positive target market through the classification of the products and the customer profiling by using certain elements that can be modified by the Parent Company only.

Moreover, IT implementations were completed to guarantee customer profiling and classification of products, in compliance with the provisions of the aforementioned method, which are functional to the identification of the target market.



### Anti-Money Laundering

The regulatory context regarding anti-money laundering and the fight against terrorist financing, characterised by an important development in 2019, was completed on 24 March of this year in compliance with the provisions of the Bank of Italy for storing and making available documents, data and information for the fight against money laundering and terrorist financing, which will become operational from 1 January 2021, and with the UIF Provision for the transmission of Anti-Money Laundering Aggregate Reports of 25 August 2020. The Treasury Department of the Ministry of Economy and Finance (MEF) has also published a consultation document containing a draft decree implementing the provisions on the register of actual ownership of companies with legal status, private legal persons, trusts and related legal entities and institutions.

As part of the development of the reference context, the Parent Company is carrying out subsequent impact analyses on its organisational and operating model, identifying adjustment actions that involve the release of dedicated IT measures, in order to ensure compliance with the reference regulations, with particular regard to the Banks affiliated with the Cooperative Banking Group.

At the same time, the Parent Company has updated the internal regulations on this matter, taking into account the evolution of the reference regulatory environment and the defined action plan.

### Investment services

In the regulatory context outlined by Directive (EU) 2014/65 (known as "MiFID 2") and the related implementing regulations, aimed at guaranteeing the protection of investors and market integrity, the provisions regarding the protection of financial instruments and cash and cash equivalents of customers are particularly important.

In order to implement these provisions at national level, on 5 December 2019 the Bank of Italy issued the Regulation implementing articles 4 - undecies and 6, paragraph 1, letters b) and c-bis) of the Consolidated Law on Finance.

The Regulation redefined the rules, previously included in the Joint Regulation of the Bank of Italy-Consob of 29 October 2007, governing the obligation for the Banks, in relation to the provision of investment and accessory services, to identify, apply and maintain adequate organisational and procedural solutions to safeguard the financial instruments and the amounts of money of customers received in deposit for any reason.

During the reference period, Cassa Centrale Banca launched a project aimed at defining a process for the alignment at Group level with the provisions of the Bank of Italy Regulation with the aim of:

- analysing and verifying, taking into account the type and methods for the offer of the services provided, the organisational solutions and the controls adopted by the Affiliated Banks, as well as identifying the activities falling within the scope of the provisions of the Regulations;
- formalise these processes through specific documentation, illustrating the controls adopted by the Affiliated Banks;
- allow the parties appointed to carry out the audit of the accounts of Cassa Centrale and of the Banks to prepare and send to the Bank of Italy their annual report describing the controls adopted to ensure compliance with the Regulation.

### IDD - Insurance Distribution Directive

On 17 March 2020, IVASS and the Bank of Italy sent a joint letter to the market regarding policies combined with loans.

With this communication, the Supervisory Authorities provided guidelines on the elements of greater attention that the Banks, as insurance intermediaries, must consider in the distribution of insurance policies offered in combination with loans (so-called PPI Policies).

In particular, specific indications were provided regarding:

- qualification of the policy as mandatory or optional;
- placement, in combination with the loan, of policies that do not have any functional link with the loan itself (so-called "uncorrelated policies");
- control of the distribution networks and monitoring of mis-selling;

- conflicts of interest and level of costs;
- correct management of requests for early repayment (including partial) of loans and consequent initiatives on combined policies.

The Parent Company has consistently started the audit activities required in the Communication in order to check compliance of the offer policies and of the policy placement procedures combined with the loans put in place by the Affiliated Banks, with the new supervisory guidelines.

### Usury

On 20 May 2020, the Bank of Italy launched for consultation the amendments to the Instructions for the recognition of TEGMs pursuant to the usury law. The consultation ended on 20 July, but the final regulations have not yet been issued. The Supervisory Authority has submitted for consultation these amendments in consideration of the interpretation doubts that emerged and the evolution of the market, with the aim of increasing the clarity of the Instructions and guaranteeing uniform conduct by the parties in question.

Pending the release of the final regulations by the Bank of Italy, an analysis is underway on the impacts of the regulations in consultation to identify the main aspects of compliance. As soon as the final regulations have been issued, a specific Working Group will be set up to adapt.



# Operating performance of the Cassa Centrale Group

## Performance indicators of the group

The main performance indicators for the half year ended 30 June 2020 are shown below.

| RATIOS | 30/06/2020 | 31/12/2019 | % CHANGE |
|---|---|---|---|
| **STRUCTURAL RATIOS** | | | |
| Loans to customers* / Total assets | 50.5% | 56.6% | (10.8%) |
| Direct funding / Total assets | 71.0% | 77.8% | (8.7%) |
| Equity / Total assets | 7.9% | 8.9% | (11.2%) |
| Net loans / Direct funding from customers | 71.2% | 72.8% | (2.2%) |
| **PROFITABILITY RATIOS** | | | |
| Net profit / Equity (ROE) | 3.6% | 3.5% | 2.9% |
| Net profit / Total assets (ROA) | 0.3% | 0.3% | 0.0% |
| *Cost / Income ***| 68.1% | *68.5%* | *(0.6%)* |
| Interest margin / Net interest and other banking income | 59.8% | 58.9% | 1.5% |
| Net commissions / Net interest and other banking income | 30.9% | 32.2% | (4.0%) |
| Net interest and other banking income / Total assets | 2.4% | 2.8% | (14.3%) |
| **OPERATIONAL EFFECTIVENESS RATIOS** | | | |
| Operating costs / Traded volumes*** | 1.1% | 1.1% | 0.0% |
| Traded volumes per employee (mln)**** | 11.1 | 10.9 | 1.8% |

(*) Loans to customers include loans and advances to customers at amortised cost and fair value, thus differing from the exposures to customers shown in the financial statements;

(**) Indicator calculated as the ratio of operating costs to net interest and other banking income.

(***) The traded volumes are calculated considering the gross non-impaired loans to customers, the total funding excluding the repos component with Cassa di Compensazione e Garanzia;

(****) The number of Group employees considers the exact figure as at the reporting date.

The results of the indicators shown provide an in-depth analysis of several of the operating dynamics of the Cassa Centrale Group as at 30 June 2020.

With regard to structural ratios, note that loans to customers represent 50.5% of the Group's total consolidated assets (56.6% compared to the end of December 2019), a figure which confirms the prevalent activity of the Affiliated Banks aimed at financing the territory, households and small economic operators as part of their business activities. The contraction in the ratio, compared to that recorded in December 2019, reflects the new strategy for the management of the Group's owned portfolio, mainly represented by government bonds issued by the Italian Government, that was implemented in the first half of 2020 and that has led to a significant expansion of assets.

Direct funding represents 71% of the financial statements total (compared to 77.8% in December 2019) and reflects the high capacity of the Cooperative Banking Group to attract depositors.

The ratio of net loans to direct funding from customers at the end of June 2020 was 71.2% (near 72.8%, recorded in December 2019) confirming the Group's high degree of liquidity.

With reference to profitability ratios, the ROE, calculated as the ratio of the annualised profit for the year to the equity, is 3.6% (3.5% in December 2019) while the ROA[3], calculated as the ratio of net profit to the financial statements total, is 0.3% (in line with the results recorded in December 2019).

Productivity, measured by means of the traded volumes per employee index, stood at around EUR 11.1 million in June 2020, an improvement compared to EUR 10.9 million recorded in December 2019, confirming a process undertaken by the Cooperative Banking Group aimed at progressive industrial efficiency, while the Group's operating costs had a stable impact on traded volumes of 1.1%, compared to December 2019.

The following paragraphs provide a brief description of the Group's main income statement and statement of financial position aggregates, together with further management evidence commenting on the indicators previously reported.

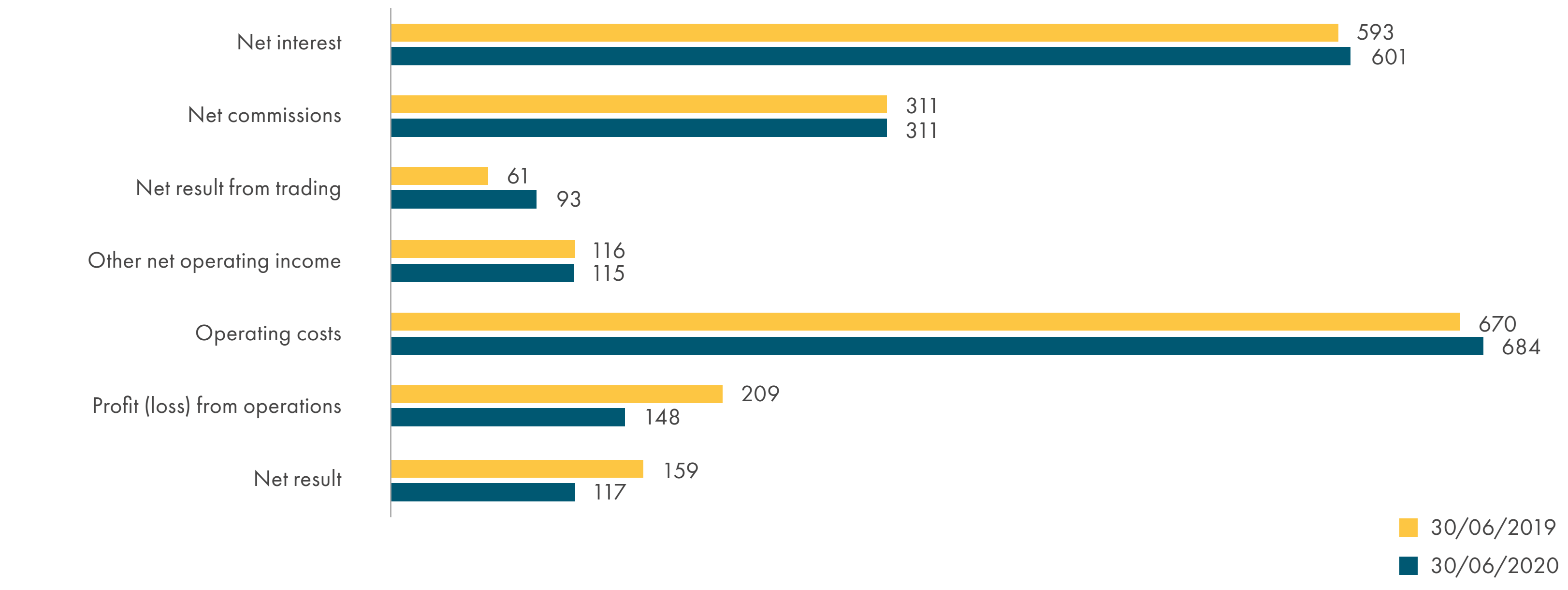
[3] The ROA is calculated in accordance with Directive (EU) no. 36/2013 (the so-called CRD IV).



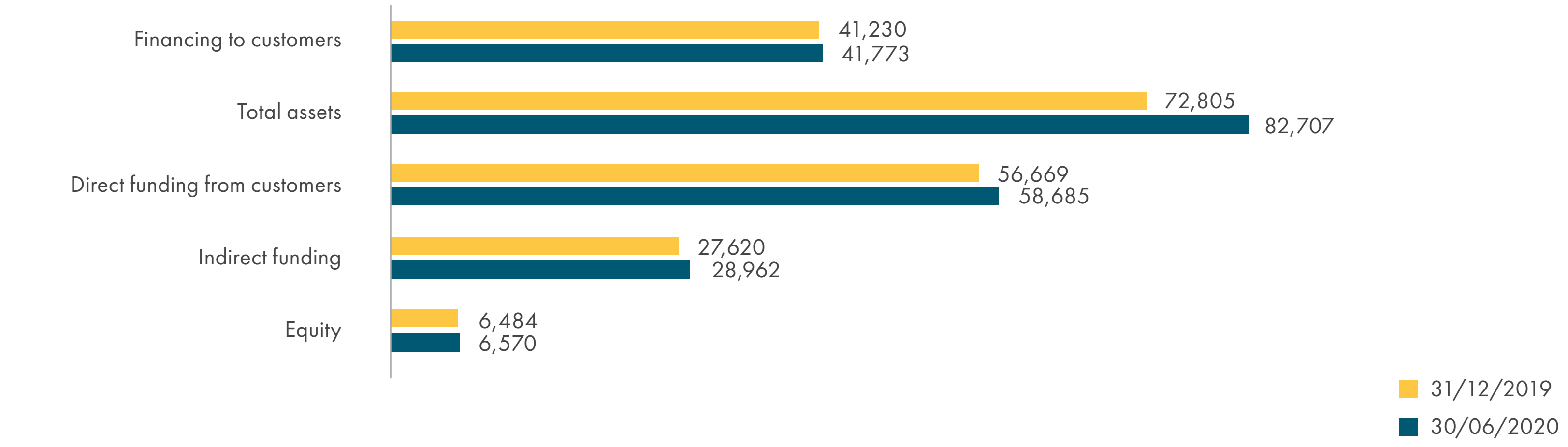
## Summary of results

A graphic representation of the results of the main items in the income statement and statement of financial position is provided below. Please refer to the specific sections for details of individual items.

### Income statement figures (millions of euro)




### Statement of financial position figures (millions of euro)



## ECONOMIC RESULTS

### Reclassified income statement [4]

| (Figures in millions of Euro) | 30/06/2020 | 30/06/2019 | Change | % Change |
|---|---|---|---|---|
| **Interest margin** | **601** | **593** | **8** | **1.3%** |
| Net commissions | 311 | 311 | - | 0.0% |
| Dividends | 1 | 2 | (1) | (50.0%) |
| Net trading revenues | 92 | 59 | 33 | 55.9% |
| **Net interest and other banking income** | **1,005** | **965** | **40** | **4.1%** |
| Net value adjustments/write-backs | (174) | (86) | (88) | n.s. |
| **Income from financial activities** | **831** | **879** | **(48)** | **(5.5%)** |
| Operating charges* | (763) | (789) | 26 | (3.3%) |
| Net allocations to provisions for risks and charges | (36) | 3 | (39) | n.s. |
| Other income (charges) | 115 | 116 | (1) | (0.9%) |
| Value adjustments to goodwill and other intangible assets | | | | n.s. |
| Profit (loss) from disposal of investments and equity investments | 1 | | 1 | n.s. |
| **Gross current result** | **148** | **209** | **(61)** | **(29.2%)** |
| Income tax | (31) | (48) | 17 | (35.4%) |
| Profit (loss) for the year for minority interests | 0 | (2) | 2 | (100,0%) |
| **Net result of the Parent Company** | **117** | **159** | **(42)** | **(26.4%)** |

* This item includes personnel costs, other administrative expenses and operating amortisation/depreciation.

As at 30 June 2020, the Group's net interest and other banking income amounted to around EUR 1 billion, up by around EUR 40 million compared to the previous period. The Group's marginality is mainly attributable to the interest margin, confirming its vocation for traditional banking activities, which largely characterises its Affiliated Banks.

Net commissions, amounting to EUR 311 million, represent approximately 31% of net interest and other banking income and showed no changes compared to the same period of the previous year.

Net value adjustments in June 2020 amounted to EUR 174 million (against EUR 86 million in June 2019) and allowed to maintain a high level of control against credit risk, with total provisions on impaired loans of around 56%, in a context characterised by a highly negative economic trend affected by the spread of the Covid-19 pandemic.

The pre-tax result in June 2020 was EUR 148 million, while the net profit pertaining to the Parent Company stood at EUR 117 million, down by EUR 42 million compared to the previous period.

[4] In order to provide a better management representation of the results, the reclassified income statement figures differ from the layouts of the financial statements envisaged by Bank of Italy Circular no. 262 of 2005, 6th Update.



### Interest margin

| (Figures in millions of Euro) | 30/06/2020 | 30/06/2019 | Change | % Change |
|---|---|---|---|---|
| Financial assets measured at amortised cost not comprising loans | 87 | 72 | 15 | 20.8% |
| Other financial assets and liabilities measured at FVTPL | | 1 | (1) | (100.0%) |
| Other financial assets measured at FVOCI | 16 | 25 | (9) | (36.0%) |
| **Financial instruments** | **103** | **98** | **5** | **5.1%** |
| Net interest to customers (loans) | 494 | 520 | (26) | (5.0%) |
| Debt securities in issue | (35) | (46) | 11 | (23.9%) |
| **Customer relations** | **459** | **474** | **(15)** | **(3.2%)** |
| **Net interest to banks** | **10** | **7** | **3** | **42.9%** |
| **Differentials on hedging derivatives** | **(3)** | **(3)** | **-** | **0.0%** |
| **Other net interest** | **32** | **17** | **15** | **88.2%** |
| **Total net interest margin** | **601** | **593** | **8** | **1.3%** |

The interest margin in the first half of 2020 amounted to EUR 601 million, recording an annual growth of 1.3%, equal to approximately EUR 8 million. The trend reflects some contrasting phenomena. On one hand, there was a decrease of EUR 15 million, compared to June 2019, in the contribution of loan brokerage with customers (-3.2%). The benefit in terms of the lower cost of funding on outstanding securities, also due to the reduction in volumes (EUR 11 million of lower costs compared to the comparative period), was more than offset by the reduction in net interest from customers (EUR 26 million compared to 30 June 2019). In terms of loans, if customer transactions, on one hand, benefited from the increase in volumes disbursed (also due to government measures resulting from the Covid-19 emergency mentioned in the previous chapter), on the other hand, had to be affected by a contraction in the unit credit spread, as a result of the prevailing market conditions on new loans, which have seen considerably contracting rates for some time.

On the other hand, the contribution to profitability deriving from the Group's securities portfolio was positive, where financial assets measured at amortised cost and not consisting of loans recorded an increase of EUR 15 million compared to the comparative period. In response to circumstances of an exceptional nature following the Covid-19 emergency, the Cassa Centrale Group has in fact promptly and proactively updated its owned portfolio management strategy through greater use of TLTRO-III auctions, greater diversification of its debt securities portfolio and an increase in the proportion of financial assets allocated to the Hold to Collect business model in order to support the contribution to the interest margin. Other net interest, which shows a positive annual change of around EUR 15 million, mostly includes interest income accrued on funding transactions at negative rates with institutional counterparties and reflects the recent greater recourse to refinancing transactions through the Eurosystem represented by participation in TLTRO-II, TLTRO-III and PELTRO operations.

## Net commissions

| (Figures in millions of Euro) | 30/06/2020 | 30/06/2019 | Change | % Change |
|---|---|---|---|---|
| **Commission income** | **346** | **351** | **(5)** | **(1.4%)** |
| Management, trading and consulting services | 114 | 111 | 3 | 2.7% |
| Collection and payment services | 87 | 91 | (4) | (4.4%) |
| Current account maintenance and management | 68 | 68 | - | 0.0% |
| Guarantees issued | 7 | 7 | - | 0.0% |
| Other banking services | 70 | 74 | (4) | (5.4%) |
| **Commission expenses** | **(35)** | **(40)** | **5** | **(12.5%)** |
| Management and trading services | (8) | (9) | 1 | (11.1%) |
| Collection and payment services | (18) | (20) | 2 | (10.0%) |
| Other banking services | (9) | (11) | 2 | (18.2%) |
| **Total net commissions** | **311** | **311** | **0** | **0.0%** |

Net commissions, as at 30 June 2020, standing at EUR 311 million, showed no changes compared to the figures recorded in the same period of the previous year. Analysing the components, it should be noted that the Covid-19 pandemic had a negative impact on fee and commission income (in particular in March and April), a direct consequence of lower business volumes deriving from the restrictive measures adopted with government restrictions and the changed propensity of investors towards more liquid and low-risk forms of investment. The comparison with the corresponding period of 2019 shows, on one hand, a drop in income from collection and payment services (which represent 25% of fee and commission income) and other banking services (both components recorded a decrease of EUR 4 million compared to June 2019) and on the other hand a positive trend in the management, trading and consulting services component, which represent 33% of fee and commission income, driven by the excellent performance of bancassurance products. In the two periods, instead, the contribution to revenues of current account maintenance and management was stable, representing 20% of fee and commission income. The reduction in fee and commission expense, standing at about EUR 5 million, reflects the changed composition of transactions in the different commission segments.



## Net result from financial operations

| (Figures in millions of Euro) | 30/06/2020 | 30/06/2019 | Change | % Change |
|---|---|---|---|---|
| Financial assets and liabilities held for trading | 2 | 11 | (9) | (81.8%) |
| *- Equities* | | *2* | *(2)* | *n.s.* |
| *- Debt securities* | | *1* | *(1)* | *n.s.* |
| *- UCITS units* | | *5* | *(5)* | *n.s.* |
| *- Derivative instruments* | *1* | *1* | *-* | *0.0%* |
| *- Other* | *1* | *2* | *(1)* | *(50.0%)* |
| Net result from the sale of financial assets and liabilities | 100 | 43 | 57 | n.s. |
| Net result from hedging activities | (1) | (2) | 1 | (50.0%) |
| Dividends and similar income | 1 | 2 | (1) | (50.0%) |
| Net change in value of other financial assets and liabilities | (9) | 7 | (16) | n.s. |
| **Total net result from financial operations** | **93** | **61** | **32** | **52.5%** |

The net result from financial operations, in June 2020, amounted to approximately EUR 93 million (EUR +32 million compared to the comparative period). The most significant component of this result is the one deriving from the sale of financial assets carried out during the half year, amounting to EUR 100 million (up by EUR 57 million compared to June 2019), which can be almost entirely attributed to the revenues resulting from the sale of Government bonds held in the financial portfolio.

## Operating costs

| (Figures in millions of Euro) | 30/06/2020 | 30/06/2019 | Change | % Change |
|---|---|---|---|---|
| Administrative expenses | (707) | (737) | 30 | (4.1%) |
| *- personnel costs* | *(413)* | *(413)* | *-* | *0.0%* |
| *- other administrative expenses* | *(294)* | *(324)* | *30* | *(9.3%)* |
| Operating amortisation/depreciation | (56) | (52) | (4) | 7.7% |
| Other provisions (excluding credit risk adjustments) | (36) | 3 | (39) | n.s. |
| *- of which on commitments and guarantees* | *(9)* | | *(9)* | *n.s.* |
| Other operating charges/income | 115 | 116 | (1) | (0.9%) |
| **Total operating costs** | **(684)** | **(670)** | **(14)** | **2.1%** |

In June 2020, operating costs totalled EUR 684 million, up by approximately EUR 14 million on an annual basis.

Personnel costs amounted to a total of EUR 413 million and were substantially stable with respect to the results recorded in the first half of 2019, albeit including the effects of the recent strengthening trends of the organisational control system following the recent establishment of the Cooperative Banking Group, offset by lower costs, also due to the effects of the redundancy incentive policies.

If, on the one hand, during the half year, the Covid-19 emergency also had an impact on costs for the Cassa Centrale Group, mainly related to certain contingency interventions - linked to emergency management and operating support services aimed at guaranteeing the safety of personnel, customers and suppliers - on the other, the Group recorded a significant decrease in other administrative expenses. In June 2020, the latter amounted to EUR 294 million (EUR -30 million compared to June 2019) and showed an annual reduction mainly attributable to the lower contributions paid to the DGS and SRF funds for a total of approximately EUR 13 million (they were also allocated as specified below) and to the benefits obtained from the greater use in 2020 by the Affiliated Banks of the services offered by the companies of the Industrial Group instead of services purchased from outside the Group.

The amortisation/depreciation component, amounting to EUR 56 million (EUR +4 million compared to the previous period), reflects the higher costs incurred mainly by the Parent Company for the activities connected with the establishment of the Cooperative Banking Group, while other operating charges and income, which amounted to a total of EUR 116 million (stable on an annual basis), mainly include the recoveries of taxes and expenses relating to the ordinary operations of the Affiliated Banks.

The higher provisions recorded in June 2020, compared to the same period of the previous year, mainly refer to the portions prudentially allocated for the funds connected to the DGS deposit guarantee systems and SRF funds for a total of EUR 22 million, together with extraordinary provisions in application of the Delta Expected Credit Loss model on off-balance sheet items for a further EUR 9 million.

As at 30 June 2020, the Group's Cost Income, calculated as the ratio of operating costs to net interest and other banking income, stood at 68.1% and although reflecting the afore-mentioned cost trends, also resulting from the Group's start-up phase, showed an improvement compared with the 68.5% recorded in December 2019.

## Net value adjustments/write-backs to financial assets

| (Figures in millions of Euro) | 30/06/2020 | 30/06/2019 | Change | % Change |
|---|---|---|---|---|
| Loans to customers | (164) | (96) | (68) | 70.8% |
| *- of which write-offs* | *(12)* | *(9)* | *(3)* | *33.3%* |
| Loans to banks | (2) | 3 | (5) | n.s. |
| OCI debt securities | (5) | 8 | (13) | n.s. |
| Contractual changes without derecognitions | (3) | (1) | (2) | n.s. |
| **Total net value adjustments/write-backs** | **(174)** | **(86)** | **(88)** | **102.3%** |

In measuring the impairment of loans, the IFRS 9 accounting standard requires not only historical and current information to be considered, but also forward-looking information that can affect the recoverability of credit exposures. The update of the macroeconomic scenarios, a direct consequence of the Covid-19 pandemic, together with the changes in the level of risk of the exposures subject to valuation, led to a significant increase in the value adjustments of the loans[5] with respect to the data reported in June 2019. In fact, adjustments to loans were carried out for the 2020 half-year period for a total of EUR 174 million, a value more than doubled compared to EUR 86 million set aside in June 2019. Net adjustments resulting from derecognitions, in June 2020, amounted to around EUR 12 million (against EUR 9 million in June 2019), while value adjustments to financial assets measured at fair value through other comprehensive income amounted to EUR 5 million (conversely, in June 2019, the item recorded write-backs of around EUR 9 million).

[5] In this regard, please refer to the chapter 'Significant events in the first half of the year', paragraph "Classification and measurement of loans to customers based on the IFRS 9 general impairment model".



# Statement of financial position aggregates

## Reclassified statement of financial position[6]

| (Figures in millions of Euro) | 30/06/2020 | 31/12/2019 | Change | % Change |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | 573 | 555 | 18 | 3.2% |
| Exposures to banks | 2,739 | 1,166 | 1,573 | 134.9% |
| Exposures to customers | 41,773 | 41,230 | 543 | 1.3% |
| *of which at fair value* | *281* | *286* | *(5)* | *(1.7%)* |
| Financial assets | 34,561 | 26,689 | 7,872 | 29.5% |
| Equity investments | 72 | 89 | (17) | (19.1%) |
| Tangible and intangible assets | 1,350 | 1,353 | (3) | (0.2%) |
| Tax assets | 848 | 872 | (24) | (2.8%) |
| Other asset items | 791 | 851 | (60) | (7.1%) |
| **Total assets** | **82,707** | **72,805** | **9,902** | **13.6%** |
| **LIABILITIES** | | | | |
| Due to banks | 14,947 | 7,474 | 7,473 | 100.0% |
| Direct funding | 58,685 | 56,669 | 2,016 | 3.6% |
| *- Due to customers* | *52,957* | *50,055* | *2,902* | *5.8%* |
| *- Debt securities in issue* | *5,728* | *6,614* | *(886)* | *(13.4%)* |
| Other financial liabilities | 103 | 101 | 2 | 2.0% |
| Other provisions (risk and charges, personnel) | 427 | 386 | 41 | 10.6% |
| Tax liabilities | 84 | 80 | 4 | 5.0% |
| Other liability items | 1,891 | 1,611 | 280 | 17.4% |
| **Total liabilities** | **76,137** | **66,321** | **9,816** | **14.8%** |
| Third party minority interests | 3 | 4 | (1) | (25.0%) |
| Group equity | 6,567 | 6,480 | 87 | 1.3% |
| **Consolidated equity** | **6,570** | **6,484** | **86** | **1.3%** |
| **Total liabilities and equity** | **82,707** | **72,805** | **9,902** | **13.6%** |

[6] In order to provide a better management representation of the results, the reclassified income statement figures differ from the layouts of the financial statements envisaged by Bank of Italy Circular no. 262 of 2005, 6th Update.

As at 30 June 2020, the Group assets amounted to approximately EUR 82.7 billion (+13.6% compared with EUR 72.8 billion in December 2019) and consisted mainly of exposures to customers which included loans measured at amortised cost and at fair value totalling EUR 41.8 billion, accounting for 51% of total assets (57% at the end of 2019). The owned portfolio amounted to EUR 34.6 billion, accounting for 42% of the assets (37% in December 2019), whereas loans to banks amounted to EUR 2.7 billion and represented around 3% of the financial statements assets. The increase in assets during the half year (EUR +9.9 billion) was mainly due to an update of the strategy on the Group's owned portfolio, in support of the interest margin, in response to the exceptional circumstances resulting from the crisis triggered with the spread of the Covid-19 pandemic.

Liabilities consisted mainly of direct funding from customers which, in June 2020, amounted to EUR 58.7 billion (+3.6% compared to EUR 56.7 billion in December 2019), the details of which are shown in the following table, of amounts due to banks of around EUR 15 billion (compared to EUR 7.5 billion at the end of the previous year) and of the Group's equity, including the profit for the period of around EUR 6.6 billion (+1.3% compared to December 2019).

## Total customer funding

| (Figures in millions of Euro) | 30/06/2020 | % Impact | 31/12/2019 | Change | % Change |
|---|---|---|---|---|---|
| Current accounts and deposits on demand | 46,388 | 79% | 44,472 | 1,916 | 4.3% |
| Fixed-term deposits | 3,062 | 5% | 3,301 | (239) | (7.2%) |
| Repos and securities lending | 2,790 | 5% | 1,695 | 1,095 | 64.6% |
| Bonds | 2,566 | 4% | 3,258 | (692) | (21.2%) |
| Other funding | 3,879 | 7% | 3,943 | (64) | (1.6%) |
| **Direct funding** | **58,685** | **100%** | **56,669** | **2,016** | **3.6%** |

The high level of uncertainty associated with the Covid-19 pandemic led, in the first half of 2020, to a trend-based increase in the household propensity to save, a postponement of investment expenses by businesses and an accumulation of liquid and non-risk assets, in particular on the technical forms of deposits and current accounts.

The total amount of direct customer funding of the Cooperative Banking Group, in June 2020, was around EUR 58.7 billion, i.e. an increase of +3.6% (EUR +2.0 billion) versus the figure of the previous year. The trend was driven by short-term customer funding, mainly represented by current accounts and deposits on demand (79% of direct funding) which amounted to EUR 46.4 billion, up EUR 1.9 billion compared to December 2019.

Fixed-term funding, in the form of deposits, repos and bonds, amounted to EUR 8.4 billion, equal to 14% of direct funding volumes and remained substantially stable compared with the same period of the previous year. In June 2020, repos included transactions carried out by the Parent Company with the counterparty Cassa di Compensazione e Garanzia for a total of EUR 2.6 billion (versus EUR 1.5 billion in December 2019).



| (Figures in millions of Euro) | 30/06/2020 | % Impact | 31/12/2019 | Change | % Change |
|---|---|---|---|---|---|
| **Assets under management** | **17,421** | **60%** | **16,391** | **1,030** | **6.3%** |
| Mutual funds and SICAVs | 5,623 | 19% | 5,534 | 89 | 1.6% |
| Asset management | 5,940 | 21% | 5,492 | 448 | 8.2% |
| Banking-insurance products | 5,858 | 20% | 5,365 | 492 | 9.2% |
| **Assets under administration** | **11,541** | **40%** | **11,229** | **312** | **2.8%** |
| Bonds | 8,641 | 30% | 8,278 | 362 | 4.4% |
| Shares | 2,900 | 10% | 2,950 | (50) | (1.7%) |
| **Indirect funding** * | **28,962** | **100%** | **27,620** | **1,342** | **4.9%** |

*Indirect funding is expressed at market values; the item 'Shares' includes financial products and the figures as at 31 December 2019 are restated on a like-for-like basis.

The volatility of the financial markets as a result of uncertainties due to the health emergency, with the collapse of market assets in March, penalised the trend of the indirect funding aggregate in the first quarter of the year. However, starting from April, the general improvement in market valuations and the good performance of placed volumes led to a recovery in both assets under management and insurance and assets under administration, and led the segment towards a decidedly positive half-yearly trend.

In June 2020, the Group's indirect funding amounted to around EUR 29.0 billion (+4.9% compared to the end of December 2019). Assets under management, amounting to around EUR 17.4 billion (+6.3% versus the same period of the previous year), represented around 60% of indirect funding and showed a positive trend, driven by the half-yearly performance of asset management and banking-insurance products, with growth of 8.2% and 9.2% respectively. On the other hand, assets under administration amounted to EUR 11.5 billion, marking an increase, on a half-yearly basis, of 2.8%, due in particular to the significant contribution of the bond segment, which grew by 4.4% compared to the end of 2019, while shares were slightly penalised recording a fall of 1.7% compared to December 2019. As from a composition perspective, although the largest volume is represented by assets under management, the indirect funding aggregate reflects a balanced composition between the individual forms of assets under administration and management, the result of policies of an adequate and prudent diversification of investments implemented with customers.

Group funding, consisting of total assets under administration on behalf of customers, amounted to EUR 87.6 billion as at 30 June 2020, 67% of which was represented by direct funding and the remaining 33% by indirect funding, with the managed component representing around 19% of total volumes.

## Percentage breakdown of funding

| PERCENTAGE BREAKDOWN OF FUNDING | 30/06/2020 | 31/12/2019 |
|---|---|---|
| Direct funding | 67% | 67% |
| Indirect funding | 33% | 33% |

## Net loans to customers

| (Figures in millions of Euro) | 30/06/2020 | % Impact | 31/12/2019 | Change | % Change |
|---|---|---|---|---|---|
| **Loans at amortised cost** | **41,492** | **99%** | **40,944** | **548** | **1.3%** |
| *Mortgage loans* | *30,881* | *74%* | *29,429* | *1,452* | *4.9%* |
| *Current accounts* | *4,043* | *10%* | *4,707* | *(664)* | *(14.1%)* |
| *Other loans* | *3,460* | *8%* | *3,578* | *(118)* | *(3.3%)* |
| *Finance leases* | *582* | *1%* | *586* | *(4)* | *(0.7%)* |
| *Credit cards, personal loans and CQS* | *715* | *2%* | *759* | *(44)* | *(5.8%)* |
| *Impaired assets* | *1,811* | *4%* | *1,885* | *(74)* | *(3.9%)* |
| **Loans at fair value** | **281** | **1%** | **286** | **(5)** | **(1.7%)** |
| **Total net loans to customers** | **41,773** | **100.0%** | **41,230** | **543** | **1.3%** |

The Covid-19 pandemic has profoundly changed the macroeconomic scenario, causing, for a significant portion of the half year, a generalised shock in production activities that simultaneously involved the supply (closure of activities and interruption of value chains) and the demand (reduction in consumption and in income). In order to deal with the economic crisis resulting from the spread of the pandemic, the Cassa Centrale Group promptly implemented all actions aimed at facilitating the granting to its customers of the benefits resulting from government measures aimed at providing economic support to the production system and to the households and at supporting social local stability. In addition to the initiatives of coordination by the Parent Company, specific loans with favourable conditions were proposed by many Group banks.

As at 30 June 2020, the Group's net loans to customers amounted to EUR 41.8 billion, almost all of which are loans at amortised cost, corresponding to EUR 41.5 billion, which recorded a positive trend on a half-yearly basis of 1.3% (EUR +548 million). The aggregate mainly consisted of mortgage loans for EUR 30.9 billion, which represented 74% of total loans to customers, and current accounts receivable of around EUR 4.0 billion, corresponding to around 10% of the total. On the one hand, the trend showed a positive half-yearly change in loans with a set term (+4.9%, compared to December 2019, the change in mortgages was a total of EUR 1.5 billion) and on the other hand, it showed a fall in short-term loans, in particular current accounts, which fell by EUR 664 million over the half year. This trend, due to the measures laid down by the government decrees to address the crisis triggered by Covid-19, is linked to a restructuring of on-demand exposures versus forms of financing guaranteed by the Government, as well as to the effects of the suspended payments on mortgages that affected the pre-established amortisation plans.

## Credit quality

The Group adopts an extremely rigorous policy in the valuation of impaired loans. Part E of the Explanatory Notes, to which explicit reference is made, provides details of all quantitative and qualitative information on risks and the related hedging policies. Loans granted to customers are the main sources of credit risk for the Group and require precise control and monitoring. A summary by degree of risk relating to loans to customers is provided below.

## Cash assets to customers

| (Figures in millions of Euro) | 30/06/2020 | | | |
|---|---|---|---|---|
| | Gross exposure | Total value adjustments | Net exposure | Coverage |
| **Impaired exposures** | **4,090** | **(2,278)** | **1,812** | **55.7%** |
| Non-performing | 1,940 | (1,366) | 574 | 70.4% |
| Unlikely to pay | 2,020 | (895) | 1,125 | 44.3% |
| Impaired past due and/or overrun | 130 | (17) | 113 | 13.1% |
| *- of which forborne* | *1,609* | *(775)* | *834* | *48.2%* |
| **Performing exposures** | **40,355** | **(394)** | **39,961** | **1.0%** |
| *- of which forborne* | *1,021* | *(80)* | *941* | *7.8%* |
| **Total cash assets to customers** | **44,445** | **(2,672)** | **41,773** | **6.0%** |

| (Figures in millions of Euro) | 31/12/2019 | | | |
|---|---|---|---|---|
| | Gross exposure | Total value adjustments | Net exposure | Coverage |
| **Impaired exposures** | **4,191** | **(2,305)** | **1,886** | **55.0%** |
| Non-performing | 1,960 | (1,351) | 609 | 68.9% |
| Unlikely to pay | 2,144 | (942) | 1,202 | 43.9% |
| Impaired past due and/or overrun | 87 | (12) | 75 | 13.8% |
| *- of which forborne* | *1,536* | *(718)* | *818* | *46.7%* |
| **Performing exposures** | **39,656** | **(312)** | **39,344** | **0.8%** |
| *- of which forborne* | *889* | *(55)* | *834* | *6.2%* |
| **Total cash assets to customers** | **43,847** | **(2,617)** | **41,230** | **6.0%** |

As at 30 June 2020, the Group had net loans to customers for EUR 41.8 billion, compared to a gross exposure of EUR 44.4 billion and to adjustment funds totalling EUR 2.7 billion which enabled the maintenance of a total portfolio coverage of 6.0%.

Net performing exposures amounted to EUR 40.0 billion in June 2020 (39.3 million in December 2019), accounting for 95.7% of the total loans, while net impaired loans, amounting to approximately EUR 1.8 billion (1.9 billion at the end of 2019), accounted for 4.3%. These ratios confirm a loan portfolio structure of the Cooperative Banking Group, which reflects a strategy aimed at reducing impaired loans and which is pursued by the Group despite a difficult economic environment due to the consequences resulting from Covid-19.

In June 2020, the portfolio of impaired loans, in terms of net exposure, showed non-performing loans for EUR 574 million, written down by a total of EUR 1.4 billion, and unlikely to pay for EUR 1.1 billion, with value adjustments of EUR 895 million. Within impaired exposures, across the board with respect to the risk level, forborne exposures for 834 million were recorded, equal to 2% of total loans, substantially stable compared to December 2019.

In June 2020, performing loans recorded value adjustments, for EUR 394 million, which provide coverage on performing loans of 1% (against a coverage of 0.8% in December 2019). The item includes forborne positions whose net value is EUR 941 million (2% of net loans) with a coverage ratio of 7.8% (6.2% in December 2019).

The provisions for performing loans, together with the significant coverage of non-performing and unlikely to pay positions, which amounted to 70.4% and 44.3% respectively (versus 68.9% and 43.9% in December 2019), allow the Group to provide significant protection against credit risk within a particularly unfavourable context.

The table below shows the main credit risk management indicators[7].

| RISK MANAGEMENT RATIOS | 30/06/2020 | 31/12/2019 | % Change |
|---|---|---|---|
| NPL ratio | 8.7% | 9.3% | (0.6%) |
| Coverage NPL | 55.7% | 55.0% | 0.7% |
| Texas ratio | 46.2% | 47.5% | (1.3%) |
| Cost of risk (bps) | 82 | 76 | +6 bps |

The NPL ratio as at 30 June 2020 stood at 8.7%, down compared to the figure at the end of the previous year of 9.3%. The performance of this indicator shows that the Group is continuing to improve asset quality, with a gradual reduction in the stock of non-performing loans, in line with the guidelines of the Supervisory Authority. In particular, this reduction is linked to extraordinary transactions for the disposal of impaired credit exposures, write-offs and direct recoveries achieved during the half year.

The constant attention paid to the valuation of NPLs is also reflected in the level of coverage of impaired loans. At the end of the first half of 2020, the Group had a NPL coverage level of 55.7%, up compared to 55% recorded in December 2019.

The active management of impaired loans and its gradual contraction are confirmed by the Texas ratio, which stood at 46.2% in June 2020, while the cost of risk of the loan portfolio amounted to 82 bps (+6 bps compared to the comparison period) reflecting the sudden deterioration of the macroeconomic context, as a result of the Covid-19 pandemic, which with the adoption of IFRS 9 leads to an increase in the lifetime risk parameters.

[7] The calculation of the indices - NPL ratio, NPL Coverage and Texas ratio (which as its numerator considers gross impaired loans) - was carried out on the basis of the EBA data model (EBA methodological guidance on risk indicators, last updated in April 2020). The cost of risk ratio is instead determined as the ratio of net adjustments and write-backs for credit risk and net loans at amortised cost (the half-year figure is annualised).



(Figures in millions of Euro)

| ECONOMIC SECTOR | 30/06/2020 | | |
|---|---|---|---|
| | Gross exposure | Value adjustments | Net exposure |
| Public Administrations | 214 | (1) | 213 |
| Financial and insurance companies | 1,190 | (28) | 1,162 |
| Non-financial companies | 21,115 | (1,850) | 19,265 |
| Consumer households and other unclassifiable enterprises | 21,926 | (793) | 21,133 |
| **Total** | **44,445** | **(2,672)** | **41,773** |

(Figures in millions of Euro)

| ECONOMIC SECTOR | 31/12/2019 | | |
|---|---|---|---|
| | Gross exposure | Value adjustments | Net exposure |
| Public Administrations | 209 | (1) | 208 |
| Financial and insurance companies | 1,140 | (25) | 1,115 |
| Non-financial companies | 20,845 | (1,785) | 19,060 |
| Consumer households and other unclassifiable enterprises | 21,653 | (806) | 20,847 |
| **TOTAL** | **43,847** | **(2,617)** | **41,230** |

In representing the loans portfolio by economic sector, it is clear that the Group, reflecting the nature of the Affiliated Banks, has a prevalent allocation of loans to customers with counterparties represented by consumer households and non-financial companies, which account for approximately 51% and 46% of net exposures to customers respectively, thus confirming the development trend of the two segments compared with December 2019.

## Breakdown of financial instruments

| (Figures in millions of Euro) | 30/06/2020 | 31/12/2019 | Change | % Change |
|---|---|---|---|---|
| **SECURITIES PORTFOLIO** | | | | |
| Trading book assets (FVTPL) | 310 | 309 | 1 | 0.3% |
| Financial liabilities | (35) | (51) | 16 | (31.4%) |
| Banking book assets (FVOCI) | 8,844 | 7,548 | 1,296 | 17.2% |
| Financial fixed assets excluding loans (AC) | 25,397 | 18,822 | 6,575 | 34.9% |
| **Total securities portfolio** | **34,516** | **26,628** | **7,888** | **29.6%** |
| **DERIVATIVES PORTFOLIO** | | | | |
| Trading assets (FVTPL) | 8 | 7 | 1 | 14.3% |
| Trading liabilities (FVTPL) | (8) | (7) | (1) | 14.3% |
| **TOTAL FINANCIAL INSTRUMENTS** | **34,516** | **26,628** | **7,888** | **29.6%** |

As at 30 June 2020, the Group's owned portfolio amounted to EUR 34.5 billion (EUR +7.9 billion compared to December 2019). In the first half of 2020, in view of the significant change in the macroeconomic and financial context resulting from the Covid-19 pandemic, strategic guidelines for the management of the owned portfolio were revised. In March, a new size target was defined, with the progressive increase to 75% of the total value of the portfolio in financial instruments attributed to the Hold to Collect business model (70% in 2019) and the maintenance of the objective of increasing the degree of diversification. At the end of June 2020, the percentage represented by Italian Government bonds was 87% of the total portfolio. The remainder of the portfolio consists of government securities from other EU countries, corporate bonds, funds and equity shares.

OTC derivative activities are mainly aimed at hedging the interest rate risk of the Group's banking book and, residually, at brokerage in relation to these types of instruments in favour of client banks, an activity carried out by the Parent Company.



## Financial assets

| (Figures in millions of Euro) | 30/06/2020 | 31/12/2019 | Change | % Change |
|---|---|---|---|---|
| **Debt securities** | **34,004** | **26,151** | **7,853** | **30.0%** |
| - Obligatorily measured at fair value (FVTPL) | 60 | 64 | (4) | (6.3%) |
| - Measured at fair value through other comprehensive income (FVOCI) | 8,547 | 7,265 | 1,282 | 17.6% |
| - Measured at amortised cost (AC) | 25,397 | 18,822 | 6,575 | 34.9% |
| **Equities** | **316** | **301** | **15** | **5.0%** |
| - Obligatorily measured at fair value (FVTPL) | 19 | 18 | 1 | 5.6% |
| - Measured at fair value through other comprehensive income (FVOCI) | 297 | 283 | 14 | 4.9% |
| **UCITS units** | **231** | **227** | **4** | **1.8%** |
| - Obligatorily measured at fair value (FVTPL) | 231 | 227 | 4 | 1.8% |
| **Total financial assets** | **34,551** | **26,679** | **7,872** | **29.5%** |

As at 30 June 2020 the composition of financial assets was almost entirely debt securities (98%). The latter are mainly government bonds of the Euro Area countries or supranational issuers.

## Exposure to the banking system: net financial position

| (Figures in millions of Euro) | 30/06/2020 | 31/12/2019 | Change | % Change |
|---|---|---|---|---|
| Loans to central banks | 2,176 | 455 | 1,721 | n.s. |
| Loans to other banks | 563 | 711 | (148) | (20.8%) |
| *Current accounts and deposits on demand* | *243* | *337* | *(94)* | *(27.9%)* |
| *Fixed-term deposits* | *151* | *281* | *(130)* | *(46.3%)* |
| *Other loans* | *169* | *93* | *76* | *81.7%* |
| **Total loans (A)** | **2,739** | **1,166** | **1,573** | **134.9%** |
| Due to central banks | (13,063) | (4,803) | (8,260) | n.s. |
| Due to other banks | (1,884) | (2,671) | 787 | (29.5%) |
| *Current accounts and deposits on demand* | *(386)* | *(293)* | *(93)* | *31.7%* |
| *Fixed-term deposits* | *(77)* | *(144)* | *67* | *(46.5%)* |
| *Repos* | *(454)* | *(469)* | *15* | *(3.2%)* |
| *Other loans* | *(967)* | *(1,765)* | *798* | *(45.2%)* |
| **Total payables (B)** | **(14,947)** | **(7,474)** | **(7,473)** | **100.0%** |
| **NET FINANCIAL POSITION (A-B)** | **(12,208)** | **(6,308)** | **(5,900)** | **93.5%** |

As at 30 June 2020, total loans to banks amounted to EUR 2.7 billion (EUR +1.6 billion compared to 31 December 2019) and included the liquidity held with the Central Bank in the amount of EUR 2.2 billion, which benefited from the tiering mechanism. Interbank funding, amounting to EUR 14.9 billion, recorded a half-yearly increase of EUR 7.5 billion due to the refinancing operations carried out with the ECB in line with the implementation of the new management strategy of the Group's owned portfolio.

The recourse to refinancing via the Eurosystem is fully represented by participation in the TLTRO-II, TLTRO-III and PELTRO operations. The 'other loans' item, the main component of amounts due to other banks, is represented by loans secured by ECB eligible securities obtained by the Affiliated Banks as part of their participation in TLTRO-II operations, through other banking intermediaries, and carried out prior to the establishment of the Cooperative Banking Group.

## Fixed assets

| (Figures in millions of Euro) | 30/06/2020 | 31/12/2019 | Change | % Change |
|---|---|---|---|---|
| Equity investments | 72 | 89 | (17) | (19.1%) |
| Goodwill | 28 | 28 | - | 0.0% |
| Tangible | 1,270 | 1,272 | (2) | (0.2%) |
| Intangible | 52 | 53 | (1) | (1.9%) |
| **Total fixed assets** | **1,422** | **1,442** | **(20)** | **(1.4%)** |

Fixed assets as at 30 June 2020 amounted to EUR 1.4 billion (-1.4% compared to December 2020) and mainly include properties necessary for business use. Other intangible assets are mainly represented by user licences and software, while goodwill refers to assets with an indefinite useful life, recognised under intangible assets, as better detailed in Part B of the Explanatory Notes to the consolidated financial statements. The half-year decrease of the equity investment aggregate (EUR -20 million) is mostly due to the liquidation of some of them or to extraordinary mergers that also involved the Group companies (business reorganisation of IT services) previously consolidated at equity and now no longer in the scope of equity investments.



## Consolidated equity

| (Figures in millions of euro) | 30/06/2020 | 31/12/2019 | Change | % Change |
|---|---|---|---|---|
| Share capital | 1,278 | 1,276 | 2 | 0.2% |
| Own shares (-) | (869) | (869) | - | 0.0% |
| Share premium | 75 | 75 | - | 0.0% |
| Reserves | 5,915 | 5,716 | 199 | 3.5% |
| Valuation reserves | 45 | 55 | (10) | (18.2%) |
| Equity instruments | 6 | 6 | - | 0.0% |
| Profit (loss) for the year | 117 | 221 | (104) | (47.1%) |
| **Group equity** | **6,567** | **6,480** | **87** | **1.3%** |
| Third party minority interests | 3 | 4 | (1) | (25.0%) |
| **Consolidated equity** | **6,570** | **6,484** | **86** | **1.3%** |

In June 2020, the Group's consolidated equity amounted to around EUR 6.6 billion, with a trend driven by the change in reserves and the contribution of profit for the period. Own shares represent the capital of the Parent Company held by the Affiliated Banks participating in the accounting consolidation of the Group in accordance with Art. 1072 of Law no. 145/2018.

## Reconciliation between the parent company's equity and profit for the year and the consolidated equity and profit for the year

| (Figures in millions of Euro) | 30/06/2020 | |
|---|---|---|
| | Equity | Result for the period |
| Accounting balances of the Parent Company | 1,151 | 26 |
| Effect of the consolidation of subsidiaries | 5,294 | 121 |
| Effect of the measurement of associates using the equity method | 69 | 1 |
| Reversal of writedowns of equity investments and recognition of goodwill impairment | (20) | |
| Elimination of dividends received from subsidiaries and associates | | (31) |
| Other consolidation adjustments | 73 | |
| **BALANCES AS PER THE CONSOLIDATED FINANCIAL STATEMENTS** | **6,567** | **117** |

## Own funds and capital adequacy

### Own funds and capital ratios

| (Figures in millions of Euro/percentages) | 30/06/2020 | 31/12/2019 |
|---|---|---|
| Common Equity Tier 1 capital - CET 1 | 6,815 | 6,742 |
| Tier 1 capital - TIER 1 | 6,821 | 6,747 |
| Total own funds - Total Capital | 6,839 | 6,771 |
| Total risk-weighted assets | 32,839 | 34,193 |
| CET1 Capital Ratio (Common equity Tier 1 capital/Risk-weighted assets | 20.75% | 19.72% |
| Tier 1 Capital Ratio (Tier 1 Capital/Risk-weighted assets) | 20.77% | 19.73% |
| *Total Capital Ratio (Own Funds/Risk-weighted assets)* | 20.83% | 19.80% |

### Risk Weighted Assets

| (Figures in millions of Euro) | 30/06/2020 | 31/12/2019 | Change | % Change |
|---|---|---|---|---|
| Credit and counterparty risk | 28,947 | 30,101 | (1,154) | (3.8%) |
| Credit valuation adjustment risk | 33 | 39 | (6) | (15.4%) |
| Market risk | 91 | 122 | (31) | (25.4%) |
| Operating risk | 3,768 | 3,768 | - | 0.0% |
| Other prudential requirements | | 163 | (163) | (100.0%) |
| **Total RWA** | **32,839** | **34,193** | **(1,354)** | **(4.0%)** |

Own funds for prudential purposes are calculated on the basis of the capital and economic result determined in accordance with IAS/IFRS and the accounting policies adopted, and taking into account the prudential rules in force at the time.

In compliance with the above provisions, own funds are represented by the sum of positive and negative items and on the basis of their financial quality; positive items are fully available to the Bank so they can be used to cover the overall regulatory capital requirements pertaining to risks.

At the end of June 2020, the Group's Common Equity Tier 1 capital (CET1), determined in application of the standards and references already mentioned, amounted to EUR 6,815 million, Tier 1 capital amounted to EUR 6,821 million and Total own funds (Total Capital) amounted to EUR 6,839 million. The CET1 capital ratio stood at 20.75% (19.72% in December 2019), the Tier 1 capital ratio was 20.77% (19.73% in December 2019) and the Total capital ratio was 20.83% (19.80% in December 2019).



# Main strategic business areas of the Cassa Centrale Group

The Cassa Centrale Group has developed its business and service model through an organisational structure divided into two main areas:

- the Affiliated Banks, which represent the Group's core business through the management of banking activities in the territory;
- the Industrial Group, including the Parent Company and the companies that offer services to Affiliated Banks in finance, credit, insurance, ICT, NPLs and asset management.

The definition of strategic business areas is consistent with the methods adopted by the governance function for making operational and strategic decisions and is based on internal management reporting.


* the industrial group refers to a management representation of the Group's main strategic areas that contribute to the economic and financial results commented below.

## Affiliated Banks

The Affiliated Banks represent the most important part of the Cooperative Banking Group's consolidated assets and the strength of the Group's current and future development. The Affiliated Banks traditionally operate with the aim of fostering the development of communities and the local economy. The principles of mutuality, which characterise cooperative credit, allow banks to play a fundamental role in the national banking industry and be an important reference point for households and small and medium-sized enterprises (hereinafter also "SMEs").

The Group's strategic plan aims to develop relations with households and SMEs by best enhancing the territorial network and applying synergies, the expansion of the commercial offer and economies of scale resulting from belonging to a Group of national importance.

In general, the structure of Cooperative Credit Banks reflects the nature of territorial banks, characterised by a high level of funding from customers deriving from the historical relationship with the local area to which they belong, by a prevalence of loans to counterparties represented by households and small companies, by a low ratio of loans to deposits which, in terms of liquidity, reflects the structural soundness of the Group and by the investment of excess liquidity, mainly in government securities.

Below is a summary representation of the main income statement and statement of financial position aggregates of the Affiliated Banks, with a focus on the individual territorial areas in which the Group operates.

(Figures in millions of Euro)

| LOANS TO CUSTOMERS | 30/06/2020 | | | | | Total 30/06/2020 | Total 31/12/2019 | Change | % Change |
|---|---|---|---|---|---|---|---|---|---|
| | Trentino-Alto Adige | North East | North West | Central | South and the Islands | | | | |
| Gross loans to customers | 10,226 | 9,343 | 9,578 | 9,708 | 4,178 | **43,033** | 42,553 | 480 | 1.1% |
| *of which performing* | *9,253* | *8,593* | *8,665* | *8,846* | *3,698* | ***39,056*** | *38,487* | *569* | *1.5%* |
| *of which non-performing* | *973* | *750* | *913* | *862* | *480* | ***3,977*** | *4,066* | *(89)* | *(2.2%)* |
| Value adjustments | 587 | 514 | 596 | 567 | 316 | **2,580** | 2,520 | 60 | 2.4% |
| Net loans to customers | 9,639 | 8,829 | 8,982 | 9,141 | 3,862 | **40,453** | 40,033 | 420 | 1.0% |

The operations of the Affiliated Banks are mainly concentrated in the northern part of Italy, in line with the territorial structure of the branches.

The total gross loans of the Affiliated Banks amounted to EUR 43 billion as at 30 June 2020, continuing along a path of growth that began in 2019, the year in which the Italian Cooperative Banking Group was established. The geographical analysis of the loan disbursed confirms a homogeneous allocation to 4 of the 5 territorial areas in which the Group is divided with a lower percentage in the South and Islands that, despite the presence of a significant number of Affiliated Banks, is made up of entities with a smaller size on average.

In the first six months of the year, the growth in performing loans amounted to EUR 569 million (+1.5% compared to December 2019), according to a trend common to all geographical areas and with a more marked trend in the South and Islands (+3.5%) and in the North East (+2.3%). At counterparty level, the greater exposure to local households and SMEs is confirmed.



The evolution of credit volumes and the homogeneous breakdown across the geographic areas of competence confirm the central role of the Affiliated Banks in supporting the growth and economic recovery of these reference areas in a context strongly affected by the Covid-19 health emergency.

In line with the Group strategy, the percentage of impaired loans over gross loans fell to 8.7% (compared to 9.3% in December 2019), supported by a decrease in impaired loans, despite the absence of extraordinary loan disposals. At the territorial level, the most virtuous area is the North East, while the highest percentage of non-performing loans is in the South and Islands.

As confirmation of a Group strategy that is particularly focused on credit risk management and despite a contraction in the overall impaired loans, loan provisions are further increasing. The average coverage levels of the Affiliated Banks are confirmed as among the highest within the national banking system.

(Figures in millions of Euro)

| FUNDING | 30/06/2020 | | | | | Total 30/06/2020 | Total 31/12/2019 | Change | % Change |
|---|---|---|---|---|---|---|---|---|---|
| | Trentino-Alto Adige | North East | North West | Central | South and the Islands | | | | |
| Overall funding | 19,946 | 17,632 | 18,745 | 16,233 | 6,717 | **79,273** | 77,513 | 1,760 | 2.3% |
| Direct funding | 13,576 | 11,610 | 12,717 | 11,463 | 5,951 | **55,317** | 54,517 | 800 | 1.5% |
| Indirect funding* | 6,371 | 6,022 | 6,027 | 4,769 | 767 | **23,956** | 22,996 | 960 | 4.2% |
| *of which administrated* | *1,905* | *2,265* | *2,526* | *1,582* | *434* | ***8,711*** | *8,470* | *241* | *2.8%* |
| *of which managed* | *4,466* | *3,757* | *3,502* | *3,188* | *333* | ***15,245*** | *14,526* | *719* | *4.9%* |

* Indirect funding is expressed at market values

The Group's total funding amounted to EUR 79.3 billion (EUR +1.8 billion compared to December 2019), confirming, also in the first six months of the year, the growth trend recorded in 2019 and the significant funding capacity of the Affiliated Banks.

Direct funding amounted to EUR 55.3 billion, up by EUR 800 million compared to the end of 2019 (equal to +1.5%), incorporating, at least in part, a changed risk appetite of investors who choose more liquid and low-risk forms of investment (effects of the Covid-19 health emergency).

The distribution of direct funding among the geographical areas proportionally complies with the geographic trend described for credit volumes, with a generalised growth across all geographical areas and in the presence of a more pronounced trend in the South and Islands (+4.1%) and North East (+2.7%) areas.

All areas show a structural surplus of funding resources in the ratio of lending to funding, which results in a high degree of liquidity for the Affiliated Banks and therefore for the Cooperative Banking Group. The prudent approach to the investment of resources funded from depositors historically characterises the operations of the BCC-CR-RAIKAs, which allocate these resources mainly to households and small and medium-sized enterprises in the areas of reference.

In June, the total indirect funding of the Affiliated Banks amounted to around EUR 24 billion[8], up by EUR 1 billion in the first six months of the year. Indirect funding accounted for 30% of total funding, with different values among the various geographical areas, from 34% in the North East to 11% in the South and Islands. An analysis of the breakdown of indirect funding shows a predominant percentage of asset under management products, with the exception of the

[8] Indirect funding is expressed at market values.

South and the Islands, where volumes are however very low. Volumes of assets under management were driven by positive trends in bancassurance products (+9.2% compared to December) and in Funds and SICAVs, with an increase of around 3.0% compared to December. The trend in the first six months of the year also showed an increasing contribution of the administered segment, with an increase of EUR 241 million compared to December 2019 (+2.8%).

Indirect funding segments, in particular in reference with asset under management, have always seen Affiliated Banks lagging behind the rest of the banking industry, having historically favoured the placement of direct funding products. The trend has changed in recent years along with important investments made in the specialist training of staff of the Affiliated Banks in order to increase their ability to offer shareholders and customers a high level of advisory support. These investments, supported by the careful search by the companies of the Industrial Group for products suitable for members and customers of BCC-CR-RAIKAs, are making it possible to gradually close the gap with regard to the system, maintaining a high level of attention to the quality of the service provided to the savings customer.

(Figures in millions of Euro)

| CHANGE MARGINS AND COMMISSIONS | 30/06/2020 | | | | | Total 30/06/2020 | Total 30/06/2019 | Change | % Change |
|---|---|---|---|---|---|---|---|---|---|
| | Trentino-Alto Adige | North East | North West | Central | South and the Islands | | | | |
| Interest margin | 136 | 122 | 112 | 131 | 75 | 577 | 575 | 2 | 0.4% |
| Net commissions | 54 | 59 | 64 | 61 | 26 | 265 | 266 | (1) | (0.5%) |
| Net interest and other banking income | 200 | 193 | 212 | 210 | 108 | 924 | 884 | 40 | 4.5% |

The economic contribution deriving from the interest margin totalled EUR 577 million, for the Affiliated Banks, corresponding to 62% of net interest and other banking income. Despite a context that has been characterised, for years, by interest rates at record lows and increasing commercial pressure, the interest margin in the first half of 2020 was in line with the profitability of the same period of 2019 (+0.4%). The contribution of the interest margin to the comprehensive income is therefore confirmed as high, in line with the predominantly traditional banking operations that characterise the Affiliated Banks and therefore the Group as a whole. The main source of income remains the traditional activity of collection of savings and lending in the territories where the Affiliated Banks are located. To this must be added the investment of excess liquidity mainly in securities of government issuers or in relation to the Parent Company.

In June 2020, net commissions of the Affiliated Banks amounted to a total of EUR 265 million, in line with the trend in 2019 and with a homogeneous contribution of the different Central North areas in which the Group operates. The average contribution of the net commissions of the territorial areas to net interest and other banking income is 29%, with a territorial incidence spanning from 24% in the South and the Islands to 31% in the North-East.

From an analysis of the primary revenues of the Affiliated Banks, their capacity of offering shareholders and customers services capable of completing the commercial offer and increasing margins from services, is becoming increasingly decisive. This path will continue with a strong focus on the protection of shareholders and customers in compliance with the cooperative principles that are the basis of the operations of the Affiliated Banks.



## Industrial group

The Industrial Group is represented by the Parent Company and the subsidiaries and associates that operate in different areas of activity, namely:

- ICT and back office services, with the subsidiary Allitude S.p.A. (hereinafter also "Allitude"). Effective 1 July 2020, the final step of the rationalisation of the ICT and back office offer was completed with the merger into Allitude of Cesve S.p.A. and Bologna Servizi Bancari S.r.l. (hereinafter also "CESVE" and "BSB");
- lease services, with the subsidiary Claris Leasing S.p.A. (hereinafter also "Claris Leasing" or "Claris");
- insurance services, with the subsidiaries Assicura Agenzia S.r.l. and Assicura Broker S.r.l. (hereinafter also "Assicura Agenzia" and "Assicura Broker");
- collective asset management services, with the subsidiary Nord Est Asset Management S.A. (hereinafter also "NEAM");
- other ancillary services, with the subsidiaries Centrale Credit Solutions S.r.l., Centrale Soluzioni Immobiliari S.r.l., Centrale Casa S.r.l. and the associate Centrale Trading S.r.l.

The main income statement and statement of financial position aggregates referring to the industrial Group as at 30 June 2020 are shown below.

(Figures in millions of Euro)

| LOANS TO CUSTOMERS* | 30/06/2020 | 31/12/2019 | Change | % Change |
|---|---|---|---|---|
| Gross loans to customers | 1,412 | 1,294 | 118 | 9.1% |
| *of which performing* | *1,299* | *1,169* | *130* | *11.1%* |
| *of which non-performing* | *113* | *125* | *(12)* | *(9.9%)* |
| Value adjustments | 92 | 97 | (5) | (5.3%) |
| Net loans to customers | 1,320 | 1,197 | 123 | 10.3% |

* Management data including all intra-group eliminations.

With regard to loans to customers, the contribution of the Industrial Group to the Cassa Centrale Group's statement of financial position is mainly due to the activities of the Parent Company and the subsidiary Claris Leasing. Gross loans to customers, amounting to approximately EUR 1.4 billion, are in fact concentrated on these structures and provisions for adjustment funds of approximately EUR 92 million have been set aside with net loans amounting to EUR 1.3 billion. Compared to the end of the previous year, performing loans grew by EUR 130 million (+11%), mainly as a result of the expansion of the Parent Company's loans portfolio. On the other hand, the process of reducing impaired loans continued, which, following careful and prudent management, decreased by EUR 12 million compared to 31.12.2019 (-10%). Net value adjustments, despite an unfavourable environment as a result of the Covid-19 pandemic, decreased by around EUR 5 million, due above all to the decrease in non-performing loans. As a result of the above, net loans to customers of the Industrial Group rose by EUR 123 million (+10%).

(Figures in millions of Euro)

| FUNDING* | 30/06/2020 | 31/12/2019 | Change | % Change |
|---|---|---|---|---|
| Overall funding | 8,374 | 6,776 | 1,598 | 23.6% |
| Direct funding | 3,368 | 2,152 | 1,216 | 56.5% |
| Indirect funding** | 5,006 | 4,623 | 383 | 8.3% |
| *of which administrated* | *2,830* | 2,758 | 71 | 2.6% |
| *of which managed* | *2,176* | 1,865 | 311 | 16.7% |

* Management data including all intra-group eliminations.

** Indirect funding is expressed at market values; as at 30.06.2020 ETF financial products were included in the administered segment and the figures as at 31.12.2019 were restated on a like-for-like basis.

Funding from customers of the Industrial Group amounted to EUR 8.4 billion and was attributable to the Parent Company scope. EUR 3.4 billion is composed of direct funding which is mainly represented by transactions with the counterparty Cassa di Compensazione e Garanzia. Indirect funding[9], on the other hand, amounted to approximately EUR 5 billion, of which EUR 2.2 billion, or 43%, related to assets under management, with operations mainly related to asset management products, while assets under administration amounted to EUR 2.8 billion and represented 57% of indirect funding, with operations mainly in the bond market.

(Figures in millions of Euro)

| MARGINS AND COMMISSIONS* | 30/06/2020 | 30/06/2019 | Change | % Change |
|---|---|---|---|---|
| *Interest margin* | 24 | 18 | 6 | 32.6% |
| Net commissions | 46 | 45 | 1 | 2.9% |
| Net interest and other banking income | 81 | 81 | 0 | 0.3% |

* Management data including all intra-group eliminations and the remaining economic results of the entities consolidated on a line-by-line basis other than those under the Cohesion Contract.

The breakdown of revenues highlights the service oriented nature of the Industrial Group. In fact, net commissions amounting to EUR 46 million, represented 57% of net interest and other banking income, while the interest margin, equal to EUR 24 million, represented 30%. In particular, compared to the same period of the previous year, the interest margin grew by around EUR 6 million, while the non-interest margin was substantially stable, as was the net interest and other banking income.

Below is a brief review of the Industrial Group, with particular focus on the activities carried out by the Parent Company and the service companies supporting the Affiliated Banks.

[9] The indirect funding represented refers to the component placed by Cassa Centrale Banca directly with customers and does not include the component placed through banks.



## 1. Parent Company

The establishment of the Group has led to an enrichment of the system of offering financial products and services and to the strengthening of financial risk controls for the entire Group. The range of services offered by Cassa Centrale Banca is divided into the following areas:

- Finance;
- Loans;
- Consumer credit;
- Payment systems;
- Governance and support.

### Finance

In the finance sector, Cassa Centrale Banca offers its Affiliated Banks and other client banks a complete range of services and products for access to financial markets and for offering depositing customers multiple investment solutions.

Cassa Centrale Banca offers access services to the main bond, equity and derivatives markets both for retail customers and for management of the owned portfolio: during the first half-year of 2020, Cassa Centrale Banca carried out transactions on bond markets for approximately EUR 28 billion (up by approximately 70% compared to the same period of 2019) and on stock markets for approximately EUR 1.7 billion (+8% compared to the first 6 months of 2019).

With regard to operations in the interbank sector, intermediation of refinancing operations with the ECB and securitised financing operations of Affiliated Banks and customers as part of the "Collateral Account" service significantly increased to EUR 12.6 billion at the end of June 2020, compared to EUR 2.6 billion at the end of 2019. The trend was mainly driven by the centralisation with Cassa Centrale Banca of access to the TLTRO-III programme. At the Cassa Centrale Group level, recourse to refinancing via the Eurosystem amounted to EUR 13.1 billion at the end of June 2020 and was fully represented by participation in the TLTRO-II, TLTRO-III and PELTRO operations.

OTC derivative activities are mainly aimed at hedging the interest rate risk of the Group's banking book and, residually, at brokerage in relation to these types of instruments in favour of other client banks. In the first half of 2020, OTC derivatives were traded for a total original notional amount of EUR 14 million. The types of OTC derivatives in the portfolio are configured into interest rate swaps (IRS) and interest rate options.

A further activity that is carried out within the Treasury support services of Affiliated Banks and customers is foreign currency trading. In the first half of 2020, the volume of spot and forward foreign currency trading (equal to EUR 1.6 billion) recorded a marginal increase compared to that of the first half of 2019 (+0.6%), a sign of a stabilisation in volumes after the considerable increase following the creation of the Cassa Centrale Group (event that led to the activation of the service to some Affiliated Banks previously operating with other intermediaries).

The Finance Department has always offered services aimed at managing relations with investors who over time have become an element of excellence in the overall commercial offer of Cassa Centrale Banca.

Among these, the main products and services offered are:

- **Asset Management:** Cassa Centrale Banca's Asset Management (hereinafter also referred to as "AM") closed the first half of 2020 with EUR 8.3[10] billion in assets under management. The investment lines were marketed by 120 banks and the launch, starting from the end of 2018, of lines with variable fees (whose volumes reached more than EUR 400 million in June 2020) was commercially winning thanks to the possibility for the customer to have a commission profile depending on the result obtained by the portfolio in the reference period. During the year, a significant process for the development of the offer of Private Asset Management was also prepared, redesigning the proposals on the basis of the amount invested and introducing three new types of management: Private Silver (from EUR 250 to 500 thousand), Private Gold (from EUR 500 thousand

[10] The amount refers to asset management placed directly by Cassa Centrale Banca for around EUR 2.2 billion, asset management placed through banks for around EUR 4.8 billion, institutional asset management for EUR 680 million and pension funds, for which CCB has delegated management powers for EUR 700 million.

to EUR 1.25 million) and Private Platinum (from EUR 1.25 million). The increase in the amount invested corresponded to an increase in usable instruments and the possibilities of customising operations. The planned investment plans (PIP) - introduced in 2016 - are now widely used by the banks: currently there are 16 thousand active plans. This is an instrument that has proved to be highly defensive and useful in managing the phases of greater market volatility, reducing the entry timing risk and offering customers the possibility of gradually entering the market or benefiting from it without leaving the investment. With regard to the performance of the portfolios, after the severe difficulties experienced by the financial markets in March, the recovery recorded in the second quarter allowed the lines to return, at the end of the first half of 2020, in many cases close to the values of the beginning of the year, if not even increasing.

In view of the measures to contain the virus and the need to provide support to the placement banks in a highly volatile market environment, the Finance Department has found alternative methods to support commercial action and provide advice to customers by the banks. To this end - with the collaboration of Sales, Finance and Bancassurance Service - the "*CCB#LIVE format*" was introduced using the Teams digital platform. This is a platform used to deal with market trends, strategies on management lines, market views by the managers of Cassa Centrale Banca and the managers that are partners of NEF, the analysis of funds and bancassurance products/services. The event is held fortnightly and involves approximately 600 consultants from the Group Banks.

- **Funds Partner:** the third-party fund placement platform called Funds Partner is made available to Affiliated Banks and client banks outside of the Group scope. This is a useful tool for the consultant, who can access a database consisting of around 3 thousand funds available through a platform on which Cassa Centrale Banca has activated a process to define and maintain the list of funds that are placeable (the funds with capitalisations of less than EUR 100 million and with track records of less than 3 years are excluded). The platform makes available numerous tools provided by *Morningstar*, the reports issued by 12 investment houses and the "example portfolios" compliant with the MiFID risk profile. For these companies, Cassa Centrale Banca also performs a payment agent service. Brokered volumes exceeded EUR 2.2 billion in June 2020.
- **Advanced Advisory:** the advanced advisory service is provided to customers of 23 Banks. Cassa Centrale Banca supports these Banks as advisor in identifying the best investment strategies. The assets monitored by the service at the end of June 2020 exceeded EUR 200 million.

## Credit

The Credit Department of Cassa Centrale Banca provides support to the Affiliated Banks and the Group companies in lending activities and, in this regard, oversees the activities for the guidance and coordination of the Cooperative Banking Group. In the Credit area, the Group defined its own credit policy guidelines for 2020 in a context prior to the spread of the Covid-19 pandemic. These lines were developed in view of a limited growth in global trade and in particular considering a modest increase in Italy's GDP. The main objectives of the Group's lending activities that can be inferred from the guidelines can be summarised as follows: (i) optimisation of the portfolio's asset allocation in qualitative and quantitative terms; (ii) strengthening of the commercial network and repositioning of its lending operations; (iii) prevention of credit quality deterioration, in the medium term, particularly in major risk groups.

The outbreak of the health emergency linked to the Covid-19 pandemic has profoundly changed the macroeconomic scenario, leading to a generalised shock in production activities that involved at the same time the offer (closure of activities and interruption of value chains) and demand (reduction in consumption and in income). This scenario also affected banking activities, which began to record the first significant impacts of the emergency in March 2020 with a decisive downsizing of commercial transactions. The radical change in the operating environment and expected future outlook have required a revision of the Group's credit portfolio management guidelines. In the last few days of the half year, a specific project was launched on the loan portfolio, aimed at assessing the future sustainability of the debt by companies, taking into account:

- scenario analysis and assessment of impairment and deterioration rates in the various sectors;
- assessment of the impacts deriving from measures pursuant to the law or issued under a specific programme;
- application of the 2020/21 sector estimates on the 2018/19 financial statements of the individual companies with the goal of carrying out a projection of the expected cash flows and therefore of assessing the relative sustainability of the debt.

Among the objectives of managing the loan portfolio, a strategy was identified to ensure adequate support to businesses through the granting of new loans based on the government measures set forth by the so-called Liquidity Decree and incentivising the use of Government guarantees in order to optimise the risk of the portfolio. In providing the new loans, as always the Group pays great attention to credit quality, product, geographical and above all dimensional diversification. In particular, the latter (the dimensional aspect) is considered of fundamental importance and represents the backbone of the Group's credit supply strategy. The logic of spreading the risk over a multitude of small recipients, which has always been the main component of the credit approach of the Affiliated Banks, has been further strengthened with the introduction of risk thresholds and through an operational practice pursued in the day-to-day relationships between the Group's corporate structures and the Credit Departments of the individual Affiliated Banks. Additional space was also given to distributed products (leases, factoring, personal loans and salary-backed loans) due to the lower risk profile assumed with respect to similar banking transactions. With regard to the definition of specific credit activities (moratoria and new loans) pursuant to the decrees "Cura Italia" and "Liquidity", in relation to the impacts of the Covid-19 emergency, reference should be made to the chapter dedicated to the operating context consequent to Covid-19 in the Cassa Centrale Group (in particular in the paragraph on initiatives in favour of businesses, households and territories).

The Cassa Centrale Banca Group confirmed its participation in the various initiatives promoted by the Italian Banking Association in favour of both private individuals ("Fondo di Solidarietà mutui" [Mortgages Solidarity Fund] and "Fondo di Garanzia per la Prima Casa" [Guarantee Fund for the First Home]) and of businesses (Accordo per il credito 2019 – Imprese in ripresa 2.0 [2019 Credit Agreement – Recovering Companies 2.0]). As regards the activities in the sector of syndicated/subsidised loans, collaboration continued with the main reference points of the domestic sector (e.g. Medio Credito Centrale, MISE for the Sabatini law, ISMEA and Sace), territorial and regional, trade associations and the various Consortia for Collective Credit Guarantees throughout Italy.

In particular, in 2020 several agreements were executed, in addition to those relating to the Covid-19 emergency already mentioned in another paragraph, of which the most important ones are listed below:

- Veneto Sviluppo S.p.A. – agreement pursuant to the Regional Government Resolution (Veneto) no. 618 of 19 May 2020 (adhesion on its own account and on behalf of the Banks operating in Veneto);
- Finpiemonte S.p.A. – technical data sheets RL 07/2018 art. 22 and RL 17/2018 (-adhesion on its own account and on behalf of the Banks operating in Piedmont);
- Agreement for the suspension of the principal payment of mortgage instalments, expiring in 2020, disbursed in favour of local authorities (adhesion of Cassa Centrale Banca - the Affiliated Banks have adhered directly in the measure).

The credit assessment of banking counterparties has always been a fundamentally important activity that has become even more significant and strategic with the launch of the Cassa Centrale Group. The development of this activity over time has also been facilitated by the establishment of periodic in-depth meetings with all the Affiliated Banks.

## Consumer credit

In the first half of 2020, Cassa Centrale Banca, through the activities of its specialised business Area, continued to develop activities aimed at directly monitoring the consumer credit market segment.

After a start of the year characterised by the disbursement of personal loans under the Prestipay brand in line with expectations, the first half of 2020 was significantly affected by the gradual suspension of production activities and by the implementation of containment measures undertaken by the government to contain the spread of the Covid-19 pandemic.

The introduction, starting from March 2020, of lockdown measures aimed at reducing the risk of contagion had a strong effect on the operations of the branches of the Group Affiliated Banks, with a significant impact also on personal loan disbursement activities.

The Consumer Credit Department has always supported the operations of the Affiliated Banks and, following specific company protocols to protect the health and safety of its collaborators, has guaranteed business continuity also thanks to the immediate use of smart working.

In order to deal with the severe economic and social crisis caused by the worsening of the pandemic, the following measures were promptly taken:

- to ensure that the customers of the Group banks have access to the moratorium applied to the payment of instalments of personal loans envisaged for customers in difficulty, anticipating what was subsequently introduced by the specific Assofin agreement for consumer credit;
- to activate management mechanisms for remote customer loan applications in accordance with the so-called "Liquidity Decree" (Italian Law Decree 23/2020).

Starting from May, the flexibility of the business model adopted has allowed the Consumer Credit Department to react immediately to the progressive easing of restrictive measures and to the resumption of operations of the branches of the authorised banks, allowing for an immediate recovery of disbursement activities at the levels of the previous year.

As regards the overall results of the first half of 2020, disbursements of the personal loans under the Prestipay brand stood at EUR 74 million, down by around 35% compared to the same period of the previous year, a decrease in any event lower than that recorded in the reference market of personal loans segment (-40.1%).

Lastly, with regard to the project activities developed by the specialised business Area, internal resources have handled all aspects and activities envisaged in the plan; the prolonged lockdown period did not particularly impact the management of the Prestipay S.p.A. start-up project - the NewCo specialised in the consumer credit segment controlled by Cassa Centrale Banca S.p.A., which is expected to start operations in 2021.

In particular, the most significant activities concerned the identification, formalisation and definition of operational aspects with specialised suppliers, the design of process workflows, the creation and testing of proprietary scorecards, the preparation of the overall IT architecture in the ICT area, the creation of website devices, with the definition of the Business Requirements, the configuration of the environments, the execution of System Integration Testing and the User Acceptance Testing, the training of internal resources on ICT applications and the deployment of the production environment.

## Payment systems

The payment systems market is experiencing a period of strong renewal and high competitiveness. There is an increasing spread of digital payments on channels made available by banks or innovative solutions offered by new operators on the market. In this very dynamic context, the payment systems for the Cassa Centrale Group represent a service and support structure for the Group companies and moves on five different areas of activity, i.e. (i) Settlements, (ii) Foreign, (iii) Centralised Services, (iv) Treasury, (v) E-money in order to develop new services, making them available to the Group Affiliated Banks, to enable them to be competitive and retain the loyalty of their customers.

During the emergency period following the spread of the Covid-19 pandemic, the payment systems have ensured the operational continuity of the services provided, by enhancing the management of resources (with remote and on-site operations) in order to guarantee the supervision of all transactions, in particular those that require physical presence at the company (bills processing, cheques, foreign documents, etc.).

The individual areas of activities and services offered are better specified below.

### Settlements

With regard to settlements, the emergency from Covid-19 involved a reorganisation of many activities in order to guarantee the operational continuity of the services provided. Very complex programmes were launched, especially to guarantee the payment of pensions, incentives and contributions recognised by the Government (and associated Entities) in favour of citizens and businesses and for the management of cash. With reference to the latter aspect, particularly complex was the activity carried out during the lockdown, to ensure the operations of the ATMs and to provide a continuous service. In addition, the new applications were created very quickly to manage the payments of the subsidies that INPS started to disburse in April 2020 and the settlement service also guaranteed the continuous supervision of the procedures relating to bank transfers, commercial collections, sepa direct debits and check image truncation.

In April 2020, the 'SCT Instant' service was also launched, which makes it possible to carry out instantaneous transfers in Euro between customers whose accounts are located within the SEPA area. The service is provided on an ongoing basis and the limit time for the execution of a transaction is 20 seconds. Instant payments will play an important step for payment systems and help users rationalise processes for the transition to digital.

### Foreign

During the lockdown, the foreign service has guaranteed the regular execution of settlements and payments at international level and was one of the services required for a greater operational presence at the office, based on the processing of paperwork related to cheques, foreign bills and above all for the management of files relating to import and export documentary credit transactions. As part of the Foreign Service, numerous international transactions were carried out relating to the procurement of medical devices during the peak period of the Covid-19 emergency.

### Centralised Services

Centralised services involved the activation in GBC of a new interbank procedure ("Spunta Banca DLT") for the automatic collection of reciprocal current accounts. The procedure, carried out by SIA S.p.A. in collaboration with "ABI-Lab", allows banks to quickly identify misalignments in interbank transactions and is considered an experiment that uses a technologically advanced infrastructure ("AbiLabChain"), potentially available in the future for other advanced services. Some banks outside the Cooperative Banking Group that use the information systems managed by Allitude also joined the procedure.

### Public entity treasury

The payment systems area also includes treasury activities carried out for several public entities in Italy. As at 30 June 2020, the total number of entities managed was 861. There are currently 553 entities with an IT mandate, confirming the constant effort in the introduction of more modern methods for the performance of the service. As part of the service, support was also provided to the Affiliated Banks for participation in 37 treasury service tenders (21 of which were awarded). In the first half of 2020, the development of the new treasury application continued which will be released in August 2020.

### E-money

The activities related to E-money are mainly directed at supporting the banks that subscribed to the 'ABI Unico 3599' service (debit and credit) and that place the prepaid products of Cassa Centrale Banca.

The segment was the one that had the greatest negative impacts deriving from the Covid-19 emergency, especially during the lockdown period. Starting from the end of May, with the reduction of restrictions on the movements of people and the restart of production activities, there was an inversion of the trend and transactions also resumed a path of growth. In the first five months of 2020, however, the decline in the volumes of processed transactions, compared to the previous year, was approximately 35% and the release of new payment instruments also slowed down, albeit continuing to show a positive trend. In June 2020, debit cards amounted to around EUR 1.37 million (compared to around EUR 1.3 million in December 2019), prepaid cards totalled 360 thousand, credit cards 338 thousand and POS 66 thousand, with 2,400 ATMs. As part of the e-money service, a project was launched that will allow, by the end of October 2020, to fulfil the obligations laid out for the "Strong Customer Authentication" in the e-commerce transactions arranged with the Prepaid Cards. Activities are also continuing for the release of new products as set out for 2021 (International Debit Card and Bancomat Pay Business).

## Governance and support

In the first half of 2020, the Parent Company's governance and support functions focused on strengthening the organisational structures and developing the activities of the Cassa Centrale Group.

The recent creation of the Group has led to structure, within the Planning and HR Department, a unit devoted to ensuring the management of relations and communications with the EU and national authorities and supervisory bodies and the financial community.

As regards Planning, activities aimed at coordinating an orderly business development of the Group continued with a dedicated structure that was constantly focused on transferring the operational and strategic guidelines provided by the Parent Company to the Affiliated Banks, ensuring their effective understanding and implementation.

Activities aimed at:

- the development and sharing of the guidelines for the Group's operational plan;
- the support of activities relating to merger projects initiated and/or concluded during the financial year;
- the development of an IT platform integrated with all Group

Companies and developed with the aim of ensuring consistency between the planning of each individual Affiliated Bank and that of the Group as a whole.

In the first half of 2020, activities aimed at strengthening the structures responsible for Financial Statements, Supervisory and Tax Reporting continued, in order to further optimise the monitoring systems for a correct and timely representation of the Parent Company's separate and consolidated results of operations and financial position, as well as the fulfilment of the related accounting, supervisory and tax obligations. In this regard, the Parent Company provided significant support to the Affiliated Banks in the management of accounting, tax and reporting processes, as well as in the activities to improve the efficiency and correct management of the Group's income statement and statement of financial position data consolidation processes.

The Operations Department provided continuous support to the Group in a number of projects and activities aimed at both the development and innovation of products and services for the Affiliated Banks and for the customers, and the adjustment to external regulations. In particular, during the Covid-19 emergency, the Operations Department coordinated the programmes necessary to ensure the operational continuity of critical processes, supporting the implementation of measures and methods to contain the risk of contagion. With a view to revising the Group's organisational model, the strengthening and consolidation of the organisational structure of the Operations Department continued through specific interventions in the areas of IT Governance and Security, Service Governance, Organisation and Cost Management & Procurement.

In the IT Governance and Security area, as a result of the "Covid-19" emergency, various initiatives were undertaken to enable ICT remote operations and to strengthen the monitoring of ICT systems. A specific 'change software' evaluation committee was established in order to minimise ICT and operating risks in the emergency phase. The role of overall coordination of the migration programme of Gesbank Banks to the SIB2000 target system was then assumed and formalised, consistently with the Group's business plan, the 2020-2022 ICT strategic plan and the operating plan of the 2020 ICT projects in collaboration with the Organisation. During the first half of the year, as regards IT Governance and Security, an internal reorganisation was carried out with the aim of strengthening the oversight of data governance, ICT security and risks, ICT performance & cost management, ICT processes and methods, ICT architecture.

In the first half of 2020, the Service Governance area was characterised by an expansion of the structure, which enabled the coordination of various industrial transformation initiatives pertaining to the Cooperative Banking Group's operations. In particular, as part of the corporate integration project of the Group's IT and banking service centres, the Service Governance contributed to supporting the operational and organisational integration of the companies Bologna Servizi Bancari S.r.l. (BSB) and CESVE S.p.A. (CESVE) in Allitude S.p.A. (Allitude). The Service Governance then promoted the reallocation of resources in the Allitude structures in line with the plan for specialising and transforming the back office service hubs. With reference to the project for the migration of Gesbank Banks, the Service Governance has devoted a significant effort to guarantee continuity in the provision of the back office and administrative services requested by the migrating banks.

The Organisation foresees a structure of controls broken down into (i) Organisational Development, Demand Management and Project Portfolio Management; (ii) Processes, Internal Regulations and Business Continuity; (iii) Digital devoted to supporting digital and innovation projects. The Service continued to provide project support in numerous areas. In particular, the review of the process and methodology for managing the various types of requests, originating from the business units and IT itself, was launched through a structured operating mechanism of 'demand management' in close collaboration with Allitude. In addition, a stabilisation process was launched for the integrated management of processes and internal regulations to provide support, in terms of business continuity monitoring, during the Covid-19 emergency.

As regards Cost Management & Procurement, activities continued for the preparation of a single technological platform to standardise processes and manage the supplier database, with the aim of setting up standardised procedures for all Affiliated Banks.

The Corporate Affairs and Equity Investments Department monitored the management of operational and administrative activities with regard to the Parent Company's Corporate Bodies, also providing corporate support and consulting to the Affiliated Banks and the Group Companies. Significant operating and advisory support was provided to the Affiliated Banks during the preliminary phase of the meetings for the approval of the 2019 financial statements, which were held by resorting to a designated representative instead of the physical presence of the shareholders, as a result of the restrictive provisions on social distancing and the prohibition of gathering with other people. Support activities provided for the analysis carried out by the Affiliated Banks for the self-assessment of corporate bodies and audits regarding the requirements applied to the corporate representatives, were also particularly extensive. The work load intensified in the last few weeks of the half year in view of the renewal of numerous Boards of Directors of the Affiliated Banks, by the Shareholders' Meetings at the time of approval of the 2019 financial statements.

The Legal Department has supported the Group Companies and the Affiliated Banks in all aspects related to contracts and the management of ongoing lawsuits with targeted consulting activities. A fundamental role was also played in the activities related to the so-called Carige transaction.

The new element represented by the Group on the national economic scenario requires investments in communication and media, as well as coordination of activities relating to Institutional Relations. In this regard, in the first half of 2020 more activities were carried out by both the Affiliated Banks and the Parent Company, that were particularly necessary for:

- defining an adequate process for the drawing up of the Consolidated Non-Financial Statement, as well as for the preparation of the platform for the supply of data while entirely assigning roles and timing to the banks;
- organising these activities in full compliance with legal and regulatory provisions, maintaining constructive relations with the relevant control bodies;
- crediting the Group as a company with distinctive characteristics within the banking scenario, enhancing the sustainable development objectives with the principles and values of mutual credit collaboration. To this end, communication tools were developed to be used by the Affiliated Banks, both on paper and digitally, with tailor-made presentations at the Regional Meetings. Specific programmes such as "Community of practice" were developed for the purpose of bringing together specialised functions of the banks and the subsidiaries, and for sharing the experience built in the territories by the individual entities;
- increasing, according to a constant and gradual approach, the visibility of the Group towards the outside, also through social media (particularly LinkedIn) and coordinating the enhancement of the various programmes activated by the Group;
- defining the sustainability objectives at Group level that can be achieved and reported.

## 2. ICT and back office services

Following the establishment of Allitude S.p.A. on 1 January 2020, the process of gradual integration and operational standardisation was consolidated, which involved the area of IT and banking services of the Cooperative Banking Group and which was then completed with the entry into Allitude of BSB and CESVE.

The first half of 2020 was characterised by numerous activities to support the Group's implementation requirements, both functional and technological. These requirements were formalised in the 2020 Operating Plan document and approved by the competent decision-making bodies. In this regard, in particular, the solutions meeting the requirements deriving from the achievement of the operating standards consistent with the Group's qualification as a significant supervised entity, were developed.

In view of the Covid-19 emergency, there was a need for Allitude to guarantee the Banking Group, in all its organisational structures, the business continuity of ICT and Back Office services. This role was promptly carried out through numerous initiatives, including working remotely for CCB and Allitude personnel. Development activities were also important as regard the implementation of new policies, regulations and controls of the Parent Company, including ICT Incidents Management, the ICT 20-22 Strategic Plan, ICT Change Management and Data Governance.

The operational and organisational support envisaged for the start of migrations of the Affiliated Banks that are operating on the Gesbank IT system to the SIB2000 IT system continued. In parallel, the in-house development of new content in relation to the Group's IT systems continued and the best market solutions were selected and purchased to meet many of the new specialist needs that have emerged.

The main interventions involved the evolution of platforms and applications at Group level for the management of the following operations:

- the control and monitoring of liquidity and interest rate risk;
- the management and governance of impaired loans;
- the development of the Group's business intelligence and datawarehouse platform;
- management of the Group's supervisory reports, for which the installation of a new specific platform is underway;
- monitoring of liquidity and funding and hedging transactions in real time;
- centralised management of the purchasing cycle processes with the achievement of cost savings at Parent Company level;
- consolidated financial statements;
- Group treasury and finance;
- payment systems, including the launch of the 'SCT Instant' bank transfer method;
- planning and management control process.

It should also be noted that many of the activities of the companies in question are carried out not only with the Affiliated Banks, but also with other client banks, whether they are banks of the Iccrea Cooperative Banking Group or other client banks (cooperative banks, savings banks, etc.).

In June 2020, revenues from the services provided by the ICT service companies of the Cassa Centrale Group[11] stood at around EUR 112 million, of which EUR 104 million related only to Allitude, while costs amounted to EUR 80 million (EUR 72 million relating to Allitude). The total profit was EUR 24.4 million.

## 3. Leasing services

The offer of leasing services, through specific agreements for the distribution of the products of subsidiaries, represents an important aspect of the commercial strengthening of the Cooperative Banking Group. In a context dominated by the uncertainties resulting from the spread of the Covid-19 pandemic, which had a significant impact on the forecasted volume of executed lease agreements, in the first half of 2020 Claris Leasing S.p.A., through the distribution network of the Banks affiliated to the Cooperative Banking Group, acquired 379 contracts for a total of EUR 67.9 million (compared to the figures of the same period of 2019, an increase of 198% in volumes is recorded: a growth trend explained by the fact that the agreements for product distribution were executed in the first few months of the previous year).

As regards asset quality, the trend-based reduction in non-performing exposures continued, in line with the objective of the Cassa Centrale Group. As at June 2020, net non-performing loans represented 4.4% of total receivables through leases, down compared to the 5.2% recorded as at 31 December 2019.

As regards the granting of payment moratoria due to Covid-19, in the first half of 2020, 963 contracts were suspended, for a total amount of EUR 187 million (32.8% of total receivables). 80.8% of these suspensions resulted from the application of the 'Cura Italia' Law Decree, while the remaining 19.2% was the result of the application of the ABI moratorium or from specific initiatives undertaken by Claris Leasing.

Overall, during the half year, Claris Leasing S.p.A. recorded a net profit of EUR 1.3 million (-20.5% compared to the same period of 2019).

Lastly, it should be noted that, in the first half of 2020, the company Claris Rent S.p.A. (incorporated in December 2019, with the subsidiary Claris Leasing S.p.A. as the sole shareholder) continued to prepare for its operations, in implementation of the long-term rental development project, with the launch of the first campaign in favour of the employees of the Cassa Centrale Group. The operating lease activities in favour of the customers of the Group Affiliated Banks was added to it, thus expanding the range of products marketed.

The offer of services in the leasing sector is supplemented by the collaboration agreement between the Parent Company and Fraer Leasing S.p.A. In the first half of 2020, the brokerage agreement allowed the conclusion, at the distribution network of the Cooperative Banking Group, of 368 contracts for a total amount of approximately EUR 63 million.

[11] Allitude S.p.A. and CESVE S.p.A. are included under the scope of the ICT service companies of the Cassa Centrale Group.



## 4. Insurance services

The insurance services business is managed by the Assicura Group, which includes Assicura Agenzia S.r.l., a wholly-owned subsidiary of the Parent Company and holder of a 100% stake in Assicura Broker S.r.l.

The companies Assicura Agenzia and Assicura Broker, which presented the new brand revised in the first few months of the year and aligned with the Parent Company's corporate identity, consolidated the role of reference company for the development of the insurance offer of the Affiliated Banks and expanded their collaboration through business agreements also with banks outside the scope of the Cooperative Banking Group, thus extending the scope of activities to the entire national territory.

With reference to the Assicura Agenzia, after a first two-month period of strong growth, the spread of the Covid-19 pandemic, profoundly changing the reference scenario, affected the development of the activities originally planned and the operating methods.

Despite the difficult environment, the gradual process of rationalising and improving the efficiency of operating procedures and the digitalisation of the files implemented in the last two years, together with the timely provision to all employees of PCs connected via VPN and mobile phones, allowed efficient business continuity and guaranteed constant assistance to banks and customers. However, it was necessary to suspend the disbursements of classroom training courses and bank visits, useful to increase the skills and professionalism essential for the development of adequate consultancy on insurance and social security matters. On the other hand, in compliance with the original plans, activities aimed at updating the product catalogue continued with the activation of interesting changes, the introduction of additional insurance guarantees on some solutions already included in the offer (such as catastrophe coverage in the home policy and the full revision of the multi-risk offer for businesses) and the creation of new products (in particular in the investment segment where the new multi-segment policy "Amissima Vita" is noted).

In the first six months of 2020, despite the severe decline in the second two-month period following the lockdown imposed by the health crisis, new production increased in any event, compared to the first half of the previous year, from EUR 450 million to EUR 483 million, with an overall increase of 7%. The result is mainly attributable to the development of the life segment (+6% with EUR 426 million) and to the increase in the placement of temporary policies in the event of death (+10%), which have offset the decrease in CPI (Credit Protection Insurance) non-life policies. The total portfolio increased by 11%, exceeding EUR 4.9 billion (of which more than EUR 202 million are attributable to the protection area) with 584,838 active policies as at 30 June 2020.

Total fees paid to banks exceeded EUR 16 million, an overall 19% increase compared with 2019, and generated net commissions for Assicura Agenzia of EUR 2.9 million. The company's half-year profit amounted to EUR 1.6 million (+203% compared to June 2019).

In the first half of 2020, in addition to ensuring the operations of the services offered by quickly creating for all its employees the conditions for working remotely, Assicura Broker provided its customers with products with insurance coverage in order to mitigate the risk deriving from the Covid-19 pandemic, thereby supporting a business activity slowing down and carried out where possible online.

Overall, in the first half of 2020, there was an increase in brokered premiums and fees collected. The latter reached EUR 2.3 million, equal to an increase of 17% compared to the previous year, bringing the half-year gross profit to approximately EUR 1 million.

This increase, in addition to the commercial activity carried out which made it possible to acquire new customers, also derives from the fact that the effects of the economic crisis created by the pandemic have not yet affected the amounts of insurance premiums. Premiums may be affected in the future by a decline as a result of the reduction in turnover of customer companies and/or the closure of some of them, but the positive result of the first half allows the forecasts for 2020 to remain unchanged.

## 5. Collective asset management services

NEAM is the Luxembourg-based asset management company wholly owned by Cassa Centrale Banca which manages the NEF mutual investment fund.

The NEF Funds are placed by all Affiliated Banks and by numerous client banks (a total of 174 placement agents) which use Cassa Centrale Banca as the entity appointed to perform payments, i.e. the intermediary called upon to carry out activities to support customers in the administrative and settlement phases of orders relating to the funds subscribed.

NEF's assets under management marketed through Cassa Centrale Banca closed the first half of 2020 at just under EUR 4 billion, with funding exceeding EUR 285 million in the period and an average increase in the number of units exceeding 10%. The lockdown had a significant impact in terms of funding, especially in March (with a net outflow of EUR 4 million) against average monthly funding between EUR 50 and 60 million.

The PAC (accumulation plans), the main instrument for the growth of collective asset management services, enable to channel about EUR 50 million per month in new funding and, despite showing some signs of difficulty in March and April, recorded an increase of 13,400 positions during the half year, reaching, in June 2020, 420 thousand outstanding positions approximately.

With reference to market trends, after the record lows reached as at 20 March, with equity funds losing more than 30% compared to the beginning of the year and bonds recording an average decrease of 5% (over -15% for high yield and emerging bond markets), there was a strong recovery in the markets, supported by the interventions of the Central Banks and governments, which allowed most of the segments to return to the values recorded at the beginning of the period. During the half year, the segments that collected the most in terms of shares were the following: NEF Ethical Global Trends SDG (+38%), NEF Target 2025 (+21%) and NEF Ethical Balanced Conservative (+20%). Those most affected by profit takings were segments that had provided significant performance to customers: NEF Euro Equity (-1%) and NEF Emerging Market Equity (+0.6%). The ethical component of the NEF fund, which has made it possible to make a range of four funds (one bond, two balanced, one equity) available to the commercial network, continued to be of great interest. The volumes invested in this area amounted to around EUR 800 million.

## 6. Other services

Centrale Credit Solutions S.r.l. (hereinafter also referred to as "CCS") is mainly concerned with consulting activities in extraordinary finance transactions such as the sale of impaired loans, securitisations and project financing and also ensures, through companies specialised in the sector, administrative support to other Group Companies operating in the real estate sector.

During the first half of 2020, CCS was primarily engaged in the structuring, as advisor, of the first securitisation transaction backed by the GACS State guarantee of the Cassa Centrale Group. A total of 40 Italian banks (34 belonging to the Group) took part in this transaction, called Buonconsiglio 3, and non-performing loans will be disposed of for a total of EUR 700 million in terms of gross book value.

For CCS, the half-year financial statements as at 30 June 2020 show a loss of approximately EUR 108 thousand, but the company's turnover is expected to be sustained, starting from the second half of the year, with significant income. In particular, in July 2020, fee collection is expected, deriving from the conclusion of the assignment without recourse of 'CCS NPL 8' for a total of approximately EUR 1.1 million (transaction structured by CCS, as advisor, in 2019).

Centrale Soluzioni Immobiliari S.r.l. (hereinafter also referred to as "CSI") was set up to allow for the purchase, sale, exchange of real estate assets, including the development or completion of the same with a view to their replacement on the market. This activity is carried out mainly as an ancillary activity to the activities of Cassa Centrale Banca, with the aim of safeguarding the creditworthiness of impaired loans secured by real guarantees.

During the half year, CSI continued - through specialised companies - to create, complete and maintain the sites relating to the real estate acquired through bankruptcy proceedings. In June 2020, the so-called "Ex Dopolavoro Ferroviario" was purchased. This property is located in Piazza Centa no. 3 and confines with the headquarters of Cassa Centrale Banca, with interesting prospects of development and expansion of the spaces used as offices and meeting rooms. In view of the revenues deriving from the sale of some commercial and parking spaces and the rental of hotels and offices, and after deducting fixed costs (amortisation, depreciation, condominium expenses, IMU/Imis), a slight loss of around EUR 62 thousand was recorded in the first half of 2020.

Real estate brokerage activities are carried out by the Group through the subsidiary Centrale Casa S.r.l. and its purpose is to support the Affiliated Banks in meeting the needs of customers willing to sell or purchase property of various types. The company therefore operates as an intermediary between demand and supply. This type of operations, which are carried out in compliance with the regulations in force, in a completely autonomous manner with respect to purely banking activities, allows the Group to implement policies of cross-selling services and products typically ancillary to the purchase/sale of a property.

The activity carried out in the first half of 2020 was negatively affected by the lockdown, with a significant reduction in the volume of business, contacts and events for visiting the properties to be acquired and also inspections with potential customers. Thanks to the agents' activities, bank reports, the company website and the presence on Internet portals, also at international level, during the period 1,150 new potential customers were contacted. In addition to the ordinary activity concerning real estate purchases and sales, also thanks to the operations of the network of agents, various rental contracts were signed and specialist advisory services were provided.

Originally established to provide support and assistance to banks that use the online trading service offered by Directa Sim, over the years Centrale Trading S.r.l. (hereinafter also "Centrale Trading" or "CT") has entered into agreements with many companies, making it possible to expand the range of services provided to the Group Affiliated Banks and to other third-party banks. In June 2020, there were 167 affiliated credit institutions located throughout Italy. Over time, Centrale Trading has developed a number of complementary activities and has entered into agreements with various companies (Italpreziosi S.p.A., Six Financial Information, WebSim and MasterChart) in order to provide services able to meet the needs of its customers and strengthen income flows. Again in the first half of 2020, efforts were made to provide assistance to Affiliated Banks in full compliance with the Covid-19 protocols and regulations.

# Risk management and internal control system

The Cassa Centrale Banca Credito Cooperativo Italiano Cooperative Banking Group operates within a macroeconomic context that is permeated by a multitude of elements of discontinuity with respect to the past, not only due to the lingering uncertainties for economic recovery that worsened with the outbreak of the Covid-19 health emergency, the continuing negative rates, the ongoing measures issued in Europe and Italy, but also with reference to the reform of cooperative credit.

The risk governance model, i.e. the set of corporate governance and management and control mechanisms aimed at tackling the risks to which the Group is exposed, is part of the broader framework of the internal control system (so-called "SCI"), defined in accordance with the prudential supervisory provisions set forth in Circular no. 285/2013 issued by the Bank of Italy. These provisions require the adoption of a number of specific interventions applied to the organisation, processes and internal company devices.

The Group places great importance on risk management and control, in order to ensure prudent and sound management of banking activities, in compliance with the Group's mutualistic principles and mission. In particular, in carrying out the management and coordination of the individual Group companies, the Parent Company establishes and defines the tasks and responsibilities of the control bodies and functions within the Group, the coordination procedures, the organisational reports, the information flows and the related synergies, in compliance with the provisions of current regulations, the Cohesion Contract and the Articles of Association of Cassa Centrale Banca. Furthermore, it issues provisions for the execution of instructions set out by the Supervisory Authority in the interest and for the stability of the Group.

The guiding principle of the company's choices is therefore based on two fundamental assumptions:

- the awareness that an effective system of controls is an essential condition for the pursuit of the company's objectives and that organisational structures and processes must constantly be fit for purpose to support the realisation of the company's interests while contributing to ensuring conditions of sound and prudent management and corporate stability;
- the strategic importance of the role of the Cooperative Credit network, thanks to which the Group can offer its customers a complete range of banking and financial services, consistent with the reference operating and regulatory framework.

The Group pays particular attention to risk management and governance in order to ensure the constant evolution of its organisational/procedural controls and methodological solutions. These functions are carried out with tools to support effective and efficient governance of risks, also in response to the changes that have characterised the reference operational and regulatory environment. As required by the regulations on the reform of cooperative credit, the outsourcing of the corporate control functions of the Affiliated Banks to the Parent Company was implemented and, therefore, the Parent Company is responsible for defining the guidelines on risk measurement and management.

Cassa Centrale Banca, as the Parent Company, carries out management, coordination and control activities in order to guide the Group towards business objectives consistent with the distinctive features of the individual Affiliated Banks and in line with balanced risk management.

These objectives are aimed at defining:

- the organisational structures suitable for identifying and managing the risks to which the Group is exposed;
- the strategic guidelines aimed at safeguarding the Group's equity, economic and liquidity structure;
- the actions to be taken to safeguard the mutualistic purposes of the Affiliated Banks, in compliance with the Cohesion Contract and the related Guarantee Agreement to which the Affiliated Banks and the Parent Company are mutually committed.

The methodological framework used is based on a precise management of the different types of risk to which the Group is exposed and is characterised by a unified view of corporate risks, considering both the macroeconomic scenario and the individual risk profile, which aims to stimulate the growth of a risk control culture, strengthening a transparent and accurate representation of the same for the immediate "governability" by the executive bodies.

The risk assumption strategies are summarised in the Risk Appetite Framework (so-called "RAF") that represents the reference framework that defines - consistently with the maximum risk that can be assumed, the business model and the strategic plan - the risk appetite, the tolerance thresholds, the risk limits, the risk management policies, the reference processes necessary to define and implement them. The RAF, introduced to guarantee the assumption of risk in line with shareholders' expectations in compliance with the overall regulatory and prudential framework of reference, is defined in light of the overall company risk position and the economic/financial situation and consists of an integrated set of corporate regulations, operating processes, information flows supported by the company information system and periodic reporting systems.

The framework, developed by the Parent Company, can be broken down into the following main areas:

- **Organisation:** this includes the definition of the tasks and responsibilities of the Corporate Bodies involved in the RAF and in the exercise of activities for the direction, coordination and control of the Group Companies, in order to ensure a consistent management. Within this area, in addition to the definition of information flows, organisational and governance documents are updated with regard to the main risk profiles and references for the management of the related interrelations with a view to an overall consistency. This area includes the risk governance policies, the risk management process, the internal processes for determining and assessing capital adequacy and liquidity risk (ICAAP and ILAAP), the most significant transactions, the strategic and operational planning and the internal control system;
- **Methodological:** through the definition of indicators, of operational references for their evaluation and the setting of reference thresholds as well as the specification of the objectives and indicators identified in the operational limit system;
- **Application-based:** through the reconnaissance of the areas of intervention on the application supports for risk management and supervisory processes and the definition of the requirements necessary for activities development.

The framework defines the general principles in terms of risk appetite, the controls adopted with regard to the overall risk profile and the main specific risks.

The general principles that guide the Group's risk-taking strategy are:

- the company's business model is focused on the traditional business of a commercial credit group, with a particular focus on financing small and medium-sized enterprises and households;
- the objective of the company's strategy is not to eliminate risks but to fully understand them in order to ensure their conscious assumption and management in order to guarantee the long-term solidity and continuity of the company;
- limited risk appetite; capital adequacy, income stability, solid liquidity position, attention to maintaining a positive corporate reputation, strong control over the main specific risks to which the company is exposed represent key elements on which the entire Group's operations are based;
- formal and substantial compliance with the rules with the aim of not incurring sanctions and maintaining a solid relationship of trust with all company's stakeholders.

The monitoring of the overall risk profile is broken down into a structure of limits characterised by the need to ensure, also under stress conditions, compliance with the minimum required levels of solvency, liquidity and profitability and aims to maintain adequate levels of:

- **capitalisation**, with reference to Pillar I and Pillar II risks, through the monitoring of the Common Equity Tier 1 ratio, the Tier 1 ratio, the Total Capital ratio and the financial leverage indicator;
- **liquidity**, such as to cope with periods of tension, even prolonged ones, on the various funding supply markets with reference to both the short-term situation and the structural situation, by monitoring the indicators Liquidity Coverage ratio, Net Stable Funding Ratio and loan-funding gaps;
- **profitability**, by monitoring indicators such as cost income and ROA.

The definition of the RAF and the resulting operational limits on the main specific risks mentioned above, the use of risk assessment tools within the credit management processes and the reference control and monitoring of operational and compliance risks and capital adequacy assessment measures are the cornerstones of the operational declination of the risk strategy defined by the Board of Directors.

In the same context, reporting to corporate bodies is defined, which aims to provide on a periodic basis summary information on the evolution of the Cooperative Banking Group's risk profile, taking into account the defined risk appetite. The relative system is designed to support the preparation of a unified representation of the risk profiles to which the Group is exposed.

To strengthen the overall risk governance and management system, common policies and regulations were adopted internally by the Group, issued by the Parent Company.

With reference to quantifiable risks, the definition of the elements forming the RAF was established by referring to the same methods used to measure the risks used in the internal self-assessment process of the capital adequacy and the liquidity risk governance/management system (ICAAP/ILAAP).

In the RAF adopted by the Group, the following thresholds were defined:

- risk appetite, i.e. the level of risk that the Group intends to assume to pursue its strategic objectives;
- alarm, i.e. the risk threshold that, when it is approached or exceeded, sends an alert to the appropriate hierarchical levels followed by the activation of any corrective actions in order to avoid reaching or exceeding the "tolerance threshold";
- risk tolerance, i.e. the maximum deviation from the risk appetite permitted, set in such a way as to ensure sufficient margins to operate, even under stress conditions, within the maximum risk that can be assumed;
- risk capacity, i.e. the maximum risk that the Group is technically able to assume without violating regulatory requirements or other restrictions imposed by the Supervisory Authority.

As part of the overall risk governance and management system, the Group formalised its risk management process, i.e. the set of rules, procedures, resources (human, technological and organisational) and control activities aimed at identifying, measuring or evaluating, monitoring, preventing or mitigating, as well as communicating to the appropriate hierarchical levels all the risks assumed or that can be assumed in the various segments and at the level of the business portfolio, taking into consideration, in an integrated approach, also the reciprocal interrelationships and the evolution of the external context.

The operating structures are the first managers of the risk management process: during day-to-day operations, these structures must identify, measure or assess, monitor and mitigate the risks deriving from ordinary business activities in line with the risk management process; they must comply with the operating limits assigned to them in line with the risk objectives and the procedures into which the risk management process is organised.

The definition of a risk management process in a manner consistent with the strategic choices adopted represents a prerequisite for the effective pursuit of the risk policies adopted by the competent corporate bodies, in that it allows to guide the transactions carried out by risk-taking functions. It should also be noted that this risk management process, even though it affects the methods for carrying out the corporate business, is kept separate, within the scope of internal regulations, from the devices that govern the relative production/administrative processes (e.g. credit process, etc.).

The risk management process is broken down into the following phases:

- **Identification**: risk classification activities, taking into account the definition and specific supervisory provisions, in the business model, also through the identification of internal and external sources from which the risk originates (so-called risk factors). The corporate functions involved in the overall risk management process operate in this context as well, according to the activities assigned to them. Moreover, the activities of gathering and classifying information and the sources of information related to risk and preliminary to the definition of a complete information base, the identification of risk and the execution of the subsequent phases of the process are also highlighted.
- **Measurement/Valuation**: activities to determine, through specific methods approved by the Board of Directors, the capital absorption of internal capital, as well as further synthetic risk measures and more detailed indicators used for management and/or necessary for the assessment of risks that are difficult to quantify and for the subsequent monitoring phase.
- **Prevention/Mitigation**: concerning organisational controls and activities to identify interventions aimed at preventing and/or mitigating risks, in line with the established risk appetite. In particular, the following controls are highlighted that allow to:
  - prevent from an ex-ante perspective the assumption of risks beyond the desired level;
  - reduce on an ex-post basis the risk assumed within the desired level, as well as to manage any stress conditions.

This risk management process phase is integrated into the Risk Appetite Framework adopted by the Group through two macro-phases:

- **Monitoring:** collection and structured organisation of the results obtained from measurement and evaluation activities, as well as further quantitative and qualitative surveys that support the analysis of exposure to the risks under examination and the verification of compliance with the RAF indicators in their various forms, adopted in compliance with the RAF Regulations.
- **Reporting and communication:** activities aimed at preparing the appropriate information to be transmitted to corporate bodies and other functions (including control functions) regarding the risks assumed or assumable in the different segments, also capturing, in an integrated logic, the interrelationships with each other and with the evolution of the external environment.

Following the establishment of the Cooperative Banking Group, the Risk Management Department of the Parent Company is responsible for preparing and managing the RAF of the GBC and has the task of proposing the qualitative and quantitative parameters necessary for its definition.

## Risk map

The mapping of significant risks, which is the framework within which all risk measurement/assessment, monitoring and mitigation activities are developed, was carried out taking into account the unique characteristics of the Group, its current and future operations and the context in which it operates, as well as the provisions set forth by the regulators the best market practices. To this end, the Group has identified the risks to which it is or could be exposed, i.e. those risks that could compromise its operations, the pursuit of strategies and the achievement of corporate objectives.

The mapping of risks, carried out at Group level and determined when defining the RAF (approved by the Board of Directors of the Parent Company), is the result of the activities aimed at preparing the 2020 ICAAP/ILAAP Report. These activities, preliminary to the review and updating of the map of significant risks of the Cooperative Banking Group, were launched in the last few months of 2019 and were completed in the first quarter of 2020.

The analysis was carried out by assessing the current operating conditions of the Group and the potential ones, in order to identify any risk profiles already present in the current context or not adequately identified by the pre-existing mapped categories or to anticipate types of risk historically not relevant for the Group, but susceptible to become such in the future, as they are dependent on foreseeable changes in the economic, financial and regulatory context as well as in the company operations. This analysis also took into account the principle of proportionality.

The process of identifying the Group's significant risks was divided into three main phases:

- the identification of potentially significant risks, i.e. the verification of the relevance of the business risks already assessed and the analysis, search and identification of new potentially significant risks not yet considered by the Group;
- the application of materiality criteria to potentially significant risks, through qualitative-quantitative analyses;
- the identification of significant risks, aimed at defining the "Short list" of the relevant risks for the Group on the basis of the results of the previous analyses.

On the basis of the analyses carried out, the Group has identified the following risks:

### Credit risk

Risk of loss deriving from the insolvency or worsening of the creditworthiness of counterparties entrusted by the Group.

### Counterparty risk

Risk that the counterparty to a transaction involving certain financial instruments defaults before the settlement of the transaction. Counterparty risk is borne by the following types of transactions: financial and credit derivatives traded over the counter; repos and reverse repos on securities or commodities, securities or commodities lending or borrowing transactions and margin loans (securities financing transactions); transactions with long-term settlement. This risk is therefore a particular type of credit risk, which generates a loss if the transactions carried out with a specific counterparty have a positive value at the time of insolvency.

### Credit valuation adjustment (CVA) risk

Risk of adjusting the interim market valuation of the portfolio of transactions with a counterparty. This adjustment reflects the current market value of counterparty risk toward the entity, but does not reflect the current market value of the entity's credit risk toward the counterparty.

### Market risk

Risk of any adverse change in the value of an exposure to financial instruments, included in the regulatory trading book, due to adverse trends in interest rates, exchange rates, inflation rate, volatility, share prices, credit spreads, commodity prices (general risk) and/or the situation of the issuer (specific risk).

### Operating risk

The risk of sustaining losses deriving from the inadequacy or dysfunction of procedures, human resources and internal systems or those caused by exogenous events. This includes, among other things, losses resulting from fraud, human error, interruptions in operations, unavailability of systems, breach of contract, natural disasters.

### Liquidity risk

The risk of not being able to deal, efficiently and without compromising ordinary transactions and financial balance, with payment commitments or the disbursement of funds due to the inability to obtain sources of funding or to obtain them at costs higher than those of the market (funding liquidity risk) or due to the presence of restrictions on the disposal of assets (market liquidity risk) generating capital losses.

### Credit concentration risk

The risk deriving from exposures to counterparties, including central counterparties, groups of related counterparties and counterparties operating in the same economic sector, in the same geographic region or carrying on the same activity or dealing with the same goods, as well as from the application of credit risk mitigation techniques, including, in particular, risks deriving from indirect exposures, such as, for example, from individual guarantee providers.

### Country risk

The risk of losses caused by events occurring in a country other than Italy. It should be understood in a broader sense of sovereign risk as it relates to all exposures regardless of the nature of the counterparties, whether natural persons, corporations, banks or governments.

### Transfer risk

The risk that the Group, exposed to a borrower financing in a currency other than the one in which it receives its main sources of income, will incur losses due to the borrower's difficulties in converting its currency into the currency in which the exposure is denominated.

### Country risk

The risk deriving from the impact of changes in interest rates on instruments sensitive to the interest rate, which are similar in terms of maturities, but different in terms of interest rate indexes used for pricing. The basic risk derives from the imperfect correlation in the adjustment of the rates accrued and paid on various instruments sensitive to the interest rate which would otherwise have similar characteristics of variability of rates.

### Banking book interest rate risk

Current and future risk of changes in the Group's banking book as a result of adverse changes in interest rates, which are reflected both in economic value and in the interest margin.

### Residual risk

The risk that some approved credit risk mitigation techniques used by the bank will be less effective than expected.

### Securitisation risk

The risk that the economic substance of the securitisation transaction may not be fully reflected in the risk assessment and risk management decisions.

### Risk of excessive leverage

The risk that a particularly high level of indebtedness in relation to capital endowment will make the Group vulnerable, making it necessary to take corrective measures to its business plan, including the sale of assets with losses that could also lead to value adjustments on the remaining assets.

### Strategic and business risk

Current or prospective risk of a decline in profits or capital resulting from changes in the operating environment or erroneous business decisions, inadequate implementation of decisions, poor responsiveness to changes in the competitive environment.

### Real estate risk of the owned portfolio

Current or prospective risk deriving from changes in value of owned properties due to changes in prices in the Italian real estate market.

### Reputational risk

Current or prospective risk of a decline in profits or capital resulting from a negative perception of the Group's image by customers, counterparties, Group shareholders, investors or supervisory authorities.

### Risk of non-compliance with the law

Risk of incurring judicial or administrative sanctions, significant financial losses or damage to reputation as a result of violations of mandatory rules (law or regulations) or self-regulation (e.g. Articles of Association, codes of conduct, corporate governance codes).

### Money laundering and terrorist financing risk

The risk arising from the violation of legal, regulatory and self-regulatory provisions functional to the prevention of the use of the financial system for the purposes of money laundering, terrorist financing or the financing of weapons of mass destruction development programmes as well as the risk of involvement in money laundering and terrorist financing or the financing of weapons of mass destruction development programmes.

### Risk related to the acquisition of equity investments

The risk of inadequate management of equity investments, in line with the provisions of the Bank of Italy Circular no. 285/2013, as amended.

### Risk of conflicts of interest with associates

The risk of distortions in the resource allocation process, exposure of the entity to risks not adequately measured or monitored and potential damages for depositors and shareholders due to the possible lack of objectivity and impartiality of decisions relating to the granting of loans and other transactions with parties close to the decision-making centres of the entity.

### Risk related to the portion of encumbered assets

The risk that the portion of encumbered assets held will be sufficient to limit the degree of liquidity of the entity's assets.

## Main actions and functions involved in mitigating and controlling the risks to which the Group is exposed

The risks identified within the risk map can be classified into two types:

- risks quantifiable in terms of internal capital, in relation to which the Group makes use of specific metrics to measure capital absorption: credit and counterparty risk, credit valuation adjustment risk (CVA), market risk, operating risk, concentration risk, interest rate risk, strategic risk and real estate risk;
- risks not quantifiable in terms of internal capital for which, as no robust and shared methods have yet been established to determine the related capital absorption, a capital buffer is not determined and for which, in line with the aforementioned Supervisory Provisions, adequate control and mitigation systems are set up: liquidity risk, country risk, transfer risk, base risk, residual risk, securitisation risk, risk of excessive leverage, reputational risk, risk of conflict of interest, risk of non-compliance with the law, money laundering and terrorist financing risk, risk related to the portion of encumbered assets, risk related to the acquisition of equity investments and risk of conflicts of interest with associates.

In general, the criteria for the allocation of the degree of overall relevance of each risk are based on the joint analysis of the relevance for operations and exposures.

With reference to each of the significant risks identified, the definition adopted by the Group and the main information on risk governance, the tools and methods for monitoring the measurement/assessment and management of the risk, and the structures responsible for management, are shown below.

### Credit risk

Credit risk consists of the possibility of incurring losses deriving from the default or deterioration of the creditworthiness of the counterparty and mainly translates into the risk that a counterparty does not fulfil its obligations, by not repaying, in full or in part, the amount set forth in the contract.

This risk is therefore mainly found in the traditional lending activity.

In light of the provisions on the internal control system (Circular no. 285/2013, Part One, Title IV, Chapter 3), the Group has adopted an organisational structure that is functional to achieving an effective and efficient credit risk management and control process consistent with the framework addressed by the Parent Company. In addition to line controls (so-called first-level controls), the functions outsourced to the Parent Company in charge of second and third-level control, with the collaboration of their own representatives, are responsible for measuring and monitoring risk trends, as well as the accuracy/adequacy of the management and operating processes.

Credit risk management control activities are carried out by the Risk Management Department, which is outsourced to the Parent Company that makes use of its internal representatives at the Affiliated Banks.

The main areas of intervention aimed at strengthening risk monitoring compliance with regulatory requirements pertain to the degree of formalisation of the valuation policies for impaired loans, as well as to the development and full effectiveness of second-level controls on individual exposures, particularly with regard to impaired ones.

By virtue of the cohesion contract with the Affiliated Banks, the Parent Company defines common and uniform rules and criteria for carrying out activities relating to the entire loan granting process and related risk management. The rules and criteria defined by the Parent Company govern risk measurement, preliminary investigation, disbursement, valuation of guarantees including real estate, performance control and monitoring of exposures, review of credit lines, classification of risk positions, interventions in the event of anomalies, classification criteria, provision policy, classification and measurement of credit exposures, classification and management of impaired exposures.

The above-mentioned rules and criteria are set out in the Group Credit Regulations, within which the Parent Company also defines the decision-making powers for the disbursement of credit, the maximum exposure thresholds for each individual customer or group of associated customers for each Affiliated Bank based on the bank's risk. Within these thresholds, the decision-making levels for the disbursement of loans are defined by the individual Affiliated Bank, in compliance with the limits established in the Group's risk policies.

The Parent Company defines the strategy and related plan for the management of impaired exposures at Group level, identifying short/medium/long-term binding objectives for each Affiliated Bank. Furthermore, it establishes the criteria for measuring exposures and creates a common information base that allows all the Affiliated Banks to know the exposures of customers towards the Group, as well as the valuations inherent to the exposures of the borrowers.

With reference to transactions with associates, the Group adopted a specific Regulation aimed at governing the procedures for identifying, approving and executing transactions with associates, as well as organisational structures and an internal control system in order to monitor the risk that the closeness of certain parties to the decision-making centres thereof may compromise the impartiality and objectiveness of the related decisions.

In consideration of the operating methods that characterise the Group's lending activities, the credit process was structured into the following phases: planning, granting of loans, credit management, classification of positions and management of impaired loans.

Within the Risk Appetite Framework process, the Risk Management Department defines the risk appetite that represents the maximum amount of capital that the Group is willing to set at risk to achieve its strategic/income objectives, based on the business model and on the strategic decisions adopted; in particular, with regard to credit risk, the Risk Management Department, in line with the prudential supervisory provisions, structures the risk objectives, identified in the RAF, in risk-limits and monitoring indicators.

The former have the objective of limiting transactions by means of a system of thresholds and escalation procedures; in addition, by defining monitoring thresholds for the same, credit risk policies are set out. The latter are operational in nature, with the aim of facilitating adequate monitoring of the Group's exposure to credit risk, thereby establishing a functional system for the continuous monitoring of the economic and equity situation while providing support to the decisions made by the corporate bodies. Therefore, they are an integral part of the RAF, making it possible to prevent the exceeding of critical thresholds that could compromise compliance with the appetite and monitoring thresholds defined in the RAS.

The Risk Management Department carries out controls aimed at periodically monitoring credit exposures (both cash and off-balance sheet), which consist of the systematic verification of the monitoring of credit exposures (in particular impaired ones), the assessment of the consistency and accuracy of the classifications, the assessment of the adequacy of provisions and the control of the effectiveness of the credit exposure recovery process as well as of the related degree of non-recoverability.

These controls are carried out with activities that include the monitoring of time-limited process phenomena and audits, the results of which may or may not lead to the determination of findings.

The Risk Management Department also provides preventive judgments on the consistency of the most significant transactions with the RAF (so-called "OMR") by acquiring, based on the nature of the transaction, the judgment of the other departments involved in the risk management process. For these purposes, it identifies all the risks to which the Group may be exposed in undertaking the transaction; it quantifies and assesses, based on the data acquired by the competent company departments, the impacts of the transaction on the risk objectives, on the alert and tolerance thresholds; it evaluates, based on the aforementioned impacts, the sustainability and consistency of the transactions with the risk appetite defined by the Board of Directors; it identifies the measures to be adopted to adjust the overall risk governance and management system, including therein the need to update the risk appetite and/or the system of operating limits.

The Credit Department is the company body delegated with the governance of the credit process (credit granting and auditing, monitoring, management of disputes) as well as the coordination and development of credit transactions and loans. The allocation of tasks and responsibilities within this Department aims - to the extent that is feasible - to separate activities that are in conflict of interest, particularly through an opportune ranking of authorisation profiles within the IT system.

The Group also uses credit risk mitigation (hereinafter also "CRM") techniques, to mitigate credit risk.

The Group considers as eligible credit risk mitigation techniques the forms of credit protection that comply with the general and specific requirements of Part Three, Title II, Chapter 4 of Regulation (EU) no. 575/2013.

In accordance with the relevant legislation, eligible credit risk mitigation techniques may be collateral or personal forms of credit protection, provided that the assets on which the protection is based meet the requirements of the legislation.

Taking into account its operating characteristics, the Group decided to use the following CRM instruments for prudential purposes:

- financial real guarantees involving cash and financial instruments, provided through agreements for the pledging and transfer of ownership and repurchase agreements;
- residential and non-residential real estate mortgages;
- other forms of real protection, represented, e.g., by deposits in cash with third parties, financial instruments issued by supervised intermediaries that the issuer has undertaken to buy back upon request by the bearer party, life insurance policies (with the requirements pursuant to Regulation (EU) no. 575/2013;
- personal guarantees and counter-guarantees represented by sureties and given by supervised intermediaries within the scope of eligible authorities. These also include mutualistic guarantees of personal type provided by credit guarantee consortia which meet the subjective and objective criteria for admissibility.

For the purposes of the benefits provided by CRM, the following are currently taken into consideration:

- personal guarantees issued by monitored intermediaries;

- personal guarantees issued by territorial entities and by the SME Guarantee Fund managed by Mediocredito Centrale;
- financial real guarantees pursuant to the provisions of Italian Legislative Decree no. 170 of 21 May 2004;
- financial real guarantees involving cash and financial instruments, and lent through repurchase agreements.

Finally, specific policies have been defined regarding the acquisition and management of the main forms of guarantee used or protection of credit exposures, in order to ensure that the legal, economic and organisational requirements for their recognition for prudential purposes are met.

In order to mitigate credit risk, the Group is continuing to reduce its NPL stock through:

- the sale of impaired loans;
- the process of recovering impaired exposures by centralising management with the Parent Company.

### Counterparty risk

Counterparty risk is a particular type of credit risk and represents the risk that the counterparty to a transaction that pertains to certain financial instruments specifically identified by the regulations, defaults before the settlement of the transaction itself.

The regulations specify the transactions that may determine the counterparty risk, in particular:

- derivative financial instruments and credit instruments traded over the counter (OTC);
- repurchase agreements receivable and payable on securities or commodities, securities or commodities lending or borrowing transactions and margin financing (SFT transactions);
- long settlement transactions (LST).

The management and control of counterparty risk is part of the broader risk management and control system of the Group, which is structured and formalised in specific internal regulations.

The Group is exposed to counterparty risk in relation to OTC derivative activities and repurchase agreements. Operations pertaining to OTC derivatives are almost entirely balanced; there are therefore sporadic operations for the hedging of assets or liabilities which refer to properties while operations of speculative nature are not implemented.

The Group estimates the additional requirement relating to the Credit Valuation Adjustment (CVA) applicable to OTC derivative transactions, based on the standardised method set forth in art. 384 of the CRR. The capital absorption is calculated from the estimate of the equivalent credit determined for counterparty risk purposes, taking into account the residual duration of the derivative contracts and the counterparty's creditworthiness.

### Market Risk

Market risk regards the risks generated by transactions carried out on the markets and regarding financial instruments, currencies and commodities. They are broken down as follows:

- **Specific position risk of the debt securities of the regulatory trading book**, which constitutes the risk of incurring losses caused by adverse changes in the price of these financial instruments due to factors related to the situation of the issuers.
- **Generic position risk of the debt securities of the regulatory trading book**, which constitutes the risk of incurring losses caused by adverse changes in the price of these financial instruments due to factors related to the performance of market interest rates (risk factor that focuses on the current value of these instruments).
- **Position risk of the equity securities of the regulatory trading book**, which includes two components:
    - "generic risk", i.e. the risk of incurring losses caused by adverse changes in market prices of the majority of equity securities;
    - "specific risk", i.e. the risk of incurring losses caused by adverse changes in the price of a specific equity security due to factors related to the situation of the issuer.
- **Position risk for UCITS units of the regulatory trading book**, which constitutes the risk of incurring losses caused by adverse changes in market prices.
- **Exchange rate risk**, i.e. the risk of incurring losses due to adverse changes in foreign currency prices on all positions held by the Group regardless of the allocation portfolio on the entire financial statements.

**Settlement risk** is the risk of incurring losses resulting from the counterparty's failure to settle past-due transactions on securities, currencies and commodities, including those represented by derivative contracts and derivative contracts without exchange of capital, both of the banking book and of the regulatory trading book. Repurchase agreements as well as securities or goods lending/borrowing transactions are excluded.

The **concentration risk of the trading book** is linked to the possibility that the insolvency of a single major borrower or various borrowers associated with each other may result in losses that could compromise the stability of the creditor bank. For this reason, the current supervisory provisions on "large exposures" require an irrevocable quantitative limit, expressed as a percentage of eligible capital, for risk positions with individual "customers" or "groups of associated customers". Any excess with respect to this limit are allowed only if they refer to a position of the regulatory trading book and provided that specific additional capital requirements are met.

The Group strengthens the compliance with the prudential rules with specific procedures and control systems aimed at ensuring sound and prudent management of market risks.

The policies pertaining to the management of the securities portfolio defined by the Board of Directors are based on the following main elements:

- definition of risk/return objectives;
- breakdown of the risk appetite (defined in terms of operating limits in the financial portfolios with reference to the various operational, accounting and supervisory aspects). In particular, VaR limits, limits by issuer - type of instrument, concentration risk exposure limits are established and measured;
- restrictions on financial instruments that can be traded in terms of permitted instruments (or permitted with specific limits relating to exposure) and their nature;
- definition of powers.

In order to manage and monitor market risk exposures assumed within the scope of the regulatory trading book, the Group has set forth in its Finance Regulations and in the underlying provisions the guiding principles, roles and responsibilities of the organisational functions involved. This is to ensure the regular and proper execution of activities on the financial markets, as part of the risk/return profile outlined by the Board of Directors or declared by customers and to maintain a proper mix of tools aimed at balancing cash flows.

In this regard, the Finance Department is responsible for assessing the opportunities offered by the market and managing the portfolio of financial instruments in line with the strategic direction and the risk management policy defined by the Board of Directors. To this end, it identifies the instruments to be traded and carries out the purchase/sale transaction in line with the strategy to be implemented (investment or hedging) and in compliance with the assigned limits and powers. The Finance Department is also responsible for monitoring the trend in the prices of financial instruments and the compliance with operating limits and/or the defined risk/return objectives, adjusting, where appropriate, the structure and composition of the owned portfolio.

The Group has established systems and controls for portfolio management by defining a trading strategy documented by position or portfolio and adequate policies and procedures for the active management of said positions. The system of operating limits and powers on the regulatory trading book and on the banking book complies with supervisory provisions and is consistent with the requirements deriving from international accounting standards.

### Liquidity risk

Liquidity risk is defined as the possibility that the Group may not be able to meet its payment commitments due to the inability to raise new funds (funding liquidity risk) sell its assets on the market (asset liquidity risk), or that it may be forced to sell its assets under unfavourable market conditions, incurring very high costs to meet these commitments (market liquidity risk).

The Parent Company's Board of Directors has resolved in favour of a document named "Policy for the management of liquidity and funding risk" which defines the policies, responsibilities, processes, operational limits and tools for managing liquidity risk, both during normal business operations as well as during potential liquidity crises, thus in line with current liquidity regulations. The policies include the strategies and organisational measures which serve to promptly contain liquidity risk; the ordinary and stress scenarios which the Group may encounter are defined. The sources of liquidity risk to which the Group is exposed can primarily be identified within the Finance/Treasury, Funding and Credit processes.

The Group has adopted a liquidity risk governance and management system that, in accordance with the provisions of the Supervisory Authorities, pursues the goal of financing the development of its activities at the best market conditions in normal operating circumstances and to guarantee the ability of meeting payment commitments even if a liquidity crisis situation emerges, without interrupting operational continuity or alter the Group's financial balance.

Regulation (EU) no. 575/2013 (CRR) prescribes that financial intermediaries shall use additional liquidity monitoring metrics (ALMM) to obtain a full picture of the liquidity risk profile. Specifically, the Implementing Regulation (EU) 2016/313 prescribes that the following six models must be set up as control information instruments:

- **Funding concentration by counterparty:** its purpose is to collect information about funding concentration by counterparty of the reporting entities, highlighting the first 10 funding contributors.
- **Funding concentration by type of product:** its purpose is to collect information about funding concentration by type of product of the reporting entities, broken down by the following types of funding: retail funding and wholesale funding.
- **Prices for funding of various durations:** its purpose is to collect information about the average value of the transactions and the average prices paid by the entities for funding with duration ranging from overnight to 10 years.
- **Renewal of the funding:** its purpose is to collect information about the volume of funds due and on the new funding obtained, i.e. on the renewal of funding at the daily level over a one-month time horizon.
- **Concentration of the offsetting capacity by issuer/counterparty:** its purpose is to collect information about the concentration of the offsetting capacity of the reporting entities with reference to the ten main assets held or liquidity lines granted to the entity for that purpose.
- **Maturity Ladder:** its purpose is to represent the asset and liability items falling due, broken down according to time brackets; therefore, it is possible to determine any gaps by individual time brackets and compare them with the Group's offsetting capacity.

The monitoring of the Group's liquidity situation, based on the reports, on the scenario analyses and on the signals provided by the risk indicators, is carried out, according to their related competences and functions, by the Treasury Service, by the Risks Management Committee and by the Risk Management Department.

The Group measures and monitors its liquidity position at 30 days through the quantification of the regulatory intra-month LCR indicator: it represents, from time to time, the capacity of the liquidity reserves to continuously hedge net cash outflows at 30 days periodically redetermined in accordance with the rules of the prudential indicator.

As regards monthly monitoring, the Group measures and monitors its exposure to 30-day operational liquidity risk through the regulatory indicator called Liquidity Coverage Ratio (LCR). It is a short-term rule aimed at ensuring the availability of liquid assets by individual banks that allow them to survive in the short to very short term in the event of acute stress, without recourse to the market. The indicator compares the liquid assets available to the Group with net cash outflows (difference between gross outflows and inflows) expected over a 30-day time period, the latter developed taking into account a predefined stress scenario.

### Banking book interest rate risk

The interest rate risk on the banking book consists of the possibility that a change in market interest rates will negatively affect the financial situation of the Group, determining both a change in its economic value and in its interest margin. Exposure to this risk is measured with reference to the assets and liabilities included in the banking book.

The Group has activated appropriate mitigation and control measures aimed at avoiding the possibility of positions exceeding a certain level of risk. These measures are codified in the corporate regulations aimed at designing monitoring processes based on position limits and systems of attention thresholds, proportional to Own Funds, which trigger the activation of appropriate corrective actions.

In particular, the following were defined:

- policies and procedures for managing interest rate risk that are consistent with the nature and complexity of the activity carried out;
- operational limits and internal procedural provisions which aim to maintain exposure within limits that are consistent with the managerial policy and with the alert thresholds pursuant to prudential regulations;
- measurement of risk which generates warning levels and informational flows so as to allow for the prompt identification and initiative of suitable corrective actions.

From an organisational point of view, the Group has identified in the Finance Departments of the Banks and in the Risk Management Department the structures responsible for overseeing the process of managing interest rate risk on the banking book. By means of the 20th update to Bank of Italy Circular no. 285/2013, the EBA guidelines on the management of banking book interest rate risk were acknowledged in national legislation.

In the first half of 2020, the Group has adopted a risk measurement method compliant with EBA guidelines, thanks to the support provided by Prometeia's Ermas calculation engine, thus abandoning the simplified method envisaged in the Bank of Italy Circular no. 285/2013. The stress tests defined by the aforementioned guidelines were also performed.

Monitoring exposure to interest rate risk within the banking book is implemented on a quarterly basis, in compliance with regulations, as well as on a monthly basis on a managerial level and on the basis of internal regulations. In addition, specific simulations are prepared before carrying out operations of a certain amount which result in capital requirement increases.

### Operating risk

Operating risk is the possibility of incurring losses deriving from the inadequacy or inefficiency of procedures, human resources and internal systems, or due to external events. This definition includes legal risk, but not reputational and strategic risk. This includes, among other things, losses resulting from fraud, human errors, breaches of contract, natural disasters, interruptions in operations and unavailability of systems.

Operating risks, according to specific aspects, also include IT risk, i.e. the risk of incurring losses in relation to the use of information and communication technology (ICT). This risk sub-categories therefore consider the potential damages deriving from the unavailability of information systems, the deterioration of the quality of the service, violation of the confidentiality of the data, breach of the integrity of the data and loss of the quality of the data.

In addition to the measurement using the method described above, for the management and control of operating risk, the Group constantly verifies exposure to specific profiles of emergence through the analysis and monitoring of a set of indicators, an activity carried out by the Risk Management Area.

In addition to the corporate bodies, the management and control of operating risks involves different organisational units, each of which is assigned specific responsibilities consistent with the ownership of the activities and processes in which the risk in question may occur. Among these, the Risk Management Department is responsible for analysing and assessing operating risks, ensuring an effective and timely assessment of all related manifestations, in compliance with the operating methods under its area of competence.

The Internal Audit Department, in the broader scope of the control activities under its competence, carries out periodic and targeted checks on specific operating risks. With regard to organisational safeguards, the Compliance Function - responsible for monitoring and ensuring compliance with the regulations - performs a particularly important role as it provides support to the process of preventing and managing the risk of judicial or administrative sanctions as well as the risk of reporting significant losses following the violation of external regulations (laws or legislative provisions) or internal ones (Articles of Association, codes of conduct, corporate governance codes). Equally important are the activities carried out by the Anti-Money Laundering Function within its specific area of competence.

Given the specific characteristics of the risk in question and its methods of manifestation, as well as the substantial inadequacy of the regulatory capital absorption calculation method (B.I.A. method) to identify the operational areas most exposed to operating risks, the Group resolved to develop a more in-depth management approach aimed at acquiring knowledge and better awareness of the actual level of risk exposure.

With the support of a dedicated instrument, activities are carried out for the survey, collection and maintenance of the most significant loss events identified in the company's transactions. To this end, a specific database was set up in which any loss identified is referred to the types envisaged by the Basel Agreement (and to the related risk owners). The application adopted makes it possible to classify the entire operating risk management process (from the recognition and survey by the organisational units where the event occurred, to its "validation" until the authorisation for accounting for the recognition of its economic impact) within a pre-established workflow. The

Group's objective is to identify areas characterised by greater vulnerability, in order to set up more effective control and mitigation systems. In this context, the application solution adopted makes it possible to manage the mitigation "tasks", i.e. initiatives for the containment of the risks to which the risk owners are exposed and which they activate.

Operating risk also includes the risk profile associated with IT risk, i.e. the risk of incurring losses in relation to the use of information and communication technology (ICT). This risk sub-categories therefore consider the potential damages deriving from the unavailability of information systems, the deterioration of the quality of the service, violation of the confidentiality of the data, breach of the integrity of the data and loss of the quality of the data.

The Group has defined, in close agreement with the project references drawn up in the competent associated offices and in compliance with the principles and regulations in force, the methodology for the analysis of IT risk and the related management process (including the profiles related to the provision of IT services through the outsourcing of ICT services to external suppliers). The adoption of said method makes it possible to integrate the management of operating risks by also considering the risks connected to IT and business continuity profiles, and to document the evaluation of IT risk based on the continuous information flows established with the Services Centre(s). The adoption of these references is also prior to the preparation of the process of verification, at least annually, of the evaluation of IT risk based on the results of the monitoring of the effectiveness of the measures to protect ICT resources.

With regard to the governance of operating risks, particular importance was attributed to the controls adopted in the alignment with the supervisory regulations introduced as regards the internal control system that have defined an organic framework of principles and rules to adhere to when corporate functions are outsourced, and that require the implementation of specific controls to cover the connected risks, and the maintenance of the capacity to control the work of the supplier and the necessary skills for any re-insourcing, if required, of outsourced activities.

This being said, with regard to all the existing outsourcing profiles, the Security Manager and the Manager of the ICT Function, in compliance with the references and guidelines applicable to this category, confirms the proper performance of the activities by the supplier, based on specific dedicated information flows. In order to ensure compliance with the requirements of current regulations, the Legal Function defines specific outsourcing agreements. In this context and with reference to the outsourcing of important operating and control functions, which involves more stringent obligations in terms of contractual restrictions and specific requirements with which the supplier must comply (involving, among other things, the definition of specific service levels, objective and measurable, and the related relevance thresholds), the levels of service insured in the event of emergency and the connected continuity solutions are defined; among other things, the following is contractually provided for: (i) the right of access, to be granted to the Supervisory Authority, to the site where the service provider operates; (ii) the setup of specific termination clauses that make it possible to withdraw from the outsourcing agreement in the case of specific events that prevent the supplier from providing the service or in the case of non-compliance with the agreed upon service level.

The Group maintains the expertise required in order to effectively control the Important Operating Functions (IOF) and to manage the risks associated with outsourcing, including those deriving from potential conflicts of interest of the service provider. In this context, an internal contact representative has been identified within the organisation for the outsourced activities, with adequate professional requirements, responsible for monitoring the level of services provided by the outsourcer and set out in the respective outsourcing contracts and for reporting to Corporate Bodies on the status and performance of the outsourced functions.

The adoption of a Business Continuity Plan to protect the Bank against critical events that may affect its overall operations is also part of the measures to mitigate these risks. In this regard, the operating procedures to be activated to deal with the crisis scenarios were established, assigning, for this purpose, roles and responsibilities of the various players involved.

Although it is not necessary, in general, to change the underlying business continuity strategy, the references adopted were revised and supplemented in light of the requirements established in Chapter 5 of Title IV as part of Part One of Bank of Italy Circular 285/13, to support compliance with the reference provisions. In particular, the business continuity plan was updated with reference to the risk scenarios which, although generally compatible with those already outlined previously, are now more precautionary, also with respect to those set forth in the current provisions. In addition, a classification of incidents and rapid escalation procedures were introduced, and the necessary integrations with the procedure for the management of IT security incidents soon to be activated in compliance with the regulatory references provided for in Chapter 4, Title IV, Part One of Circular 285/13 were brought forward.

## Supervisory review and assessment process and MREL requirement

With reference to the results of the supervisory review and evaluation process (SREP), the Supervisory Authority communicated to the Parent Company, by letter dated 25 November 2019, the consolidated SREP requirements of the Group, in force from 1 January 2020.

The Group is required to meet, on a consolidated basis, a total SREP capital requirement (TSCR) of 10.25%, including an additional requirement with regard to Pillar 2 (P2R) own funds of 2.25%, to be held in the form of Common Equity Tier 1 (CET1) capital.

The Supervisory Authority also expects the Group to meet the Pillar 2 Guidance (P2G) of 1% on a consolidated basis, which should consist entirely of Common Equity Tier 1 capital and be held in addition to the total capital requirement.

Subsequently, on 12 March 2020, the Single Supervisory Mechanism (SSM) for significant banks and on 20 March 2020 the Bank of Italy for less significant banks took action, allowing intermediaries to temporarily operate below certain capital and liquidity buffers. More specifically, banks are allowed to make full use of the capital and liquidity reserves, operating below the Capital Conservation Buffer (CCB, equal to 2.5% starting from 1 January 2019), the Pillar 2 Guidance (P2G) and the Liquidity Coverage Ratio (LCR).

In addition, the rules for the diversification of Pillar 2 Requirement (P2R) contained in CRD V (art. 104) and initially planned for January 2021 were brought forward, allowing Banks to meet part of the Pillar II requirement also through AT1 (Additional Tier 1) and T2 (Tier 2), respectively, to the maximum extent of 18.75% and 25% of P2R.

With reference to the requests of the Resolution Authority in application of the European Directive that establishes a framework for the recovery and resolution of credit institutions and investment companies (so-called BRRD), in 2019 activities were launched with the SRB (Single Resolution Board) aimed at defining the MREL (Minimum Requirement of Eligible Liabilities) target to be assigned to the Group. These activities continued in the first half of 2020.

## Completion of the so-called "Bank package"

On 7 June 2019, Regulation (EU) no. 876/2019, Directive (EU) no. 878/2019, Regulation no. 877/2019, Directive (EU) no. 879/2019 of the European Parliament and of the Council of 20 May 2019, an integral and final part of the so-called "banking package" were published in the Official Journal of the European Union, aimed at raising the resilience of the European banking and financial system by adapting the European prudential framework to the guidelines shared, at international level, by the Basel Committee (hereinafter also "BCBS") and the Council for Financial Stability (hereinafter also "FSB").

The afore-mentioned provisions have entered into effect on 27 June 2019 with the Regulation (EU) no. 876/2019 (so-called "CRR 2"), whose provisions will apply with some exceptions from 28 June 2021. The standards issued by the BCBS have been transposed into Community law in relation to (i) total loss absorbing capacity (TLAC) of global systemically important entities; (ii) new methodologies for calculating capital requirements for market risk; (iii) new methodologies for calculating capital requirements for counterparty risk; (iv) prudential treatment of exposures to central counterparties; (v) net stable funding ratio (NSFR); (vi) financial leverage ratio.

In addition, the provisions concerning the so-called "Pillar III disclosure", have been amended to adapt their contents to the changes referred to, as well as the reporting obligations of banks to the competent authorities.

As part of its ordinary activities to monitor capital adequacy and the quality of prudential and reporting treatments, the Group carefully monitors the changes introduced by the banking package both with regard to the appropriate consideration of these changes in the definition of prospective operating policies and the timely start of compliance activities.

## Regulatory expectations regarding the minimum coverage of losses on impaired exposures

In March 2018, the ECB published an Addendum to the impaired loan management guidelines on prudential provisions (the so-called "Calendar Provisioning"), which, in summary, provides for increasing levels of provisions depending on the date of the classification as impaired.

On 25 April 2019, the European Parliament issued Regulation (EU) no. 630/2019 on minimum coverage of losses on impaired credit exposures, which, in summary, provides for increasing levels of provisions depending on the date of classification as impaired, taking account of the date of disbursement of the exposure.

On 22 August 2019 the ECB published the technical paper on supervisory expectations regarding provisions for non-performing exposure (hereinafter also 'NPEs'), adjustments and interactions between the ECB's Pillar 2 approach (hereinafter also 'ECB Addendum') and the prudential treatment of NPEs under Pillar 1 (EU Regulation). In other words, the technical document aims to align the requirements set out in the Addendum of March 2018 with Regulation (EU) no. 630/2019, in particular with reference to the quantitative table containing the prudential write-down percentages to be applied per vintage band.

Note that the ECB Addendum applies to loans classified as impaired (impaired past due and/or overrun exposures, unlikely to pay, non-performing loans) starting from 1 April 2018, while Regulation (EU) is applicable to new loans disbursed starting from 26 April 2019, which have become impaired at a later date.

In addition to the two regulatory requirements described above, there are supervisory expectations for the NPE stocks, i.e. exposures classified as impaired as at 31 March 2018, for which minimum levels of coverage are required from the end of 2020 as part of the Supervisory Review and Evaluation Process (SREP).

The Group is carrying out the activities necessary to implement the regulatory requirements described above, with continuous monitoring and supervision of the potential impacts on the main statement of financial position and income statement ratios and on credit processes.

## New default definition

The new default definition falls within the regulatory scope defined by Article 178 of Regulation (EU) no. 575/2013, which specifies the criteria according to which a debtor may be considered in default. On 28 September 2016, the European Banking Authority (hereinafter also "EBA") published the final version of the Default Definition Guidelines (EBA/GL/2016/07). This document reports the key aspects related to the new default definition and aims to harmonise implementation among European Banks.

The new materiality thresholds (which will change the current relative threshold of 5%) have been set for "significant" entities by Regulation (EU) no. 1845/2018 of the ECB in accordance with Delegated Regulation (EU) no. 171/2018.

The draft version of Bank of Italy Circular no. 272/2008 and subsequent updates is added to the above European legislation, which transposes, at national level, the requirements of the EBA Guidelines and Delegated Regulation (EU) no. 171/2018 by modifying the classification methods for the three classes of impaired loans (impaired past due and/or overrun, unlikely to pay and non-performing exposures, in addition to the methods for assigning the attribute of forborne).

Having said all this, the Group is further developing the infrastructure to support credit management activities in the various phases of its life cycle and implementing all the activities necessary to initiate the application of the rules against the new default definition, adapting the relevant applications and procedures accordingly in order to comply with the related legislative requirements within the set-forth deadlines.

## ICAAP and ILAAP

The Group has aligned its internal process for a self-assessment of its capital adequacy (so called "ICAAP") and the adequacy of its liquidity risk governance and management system (so-called "ILAAP") to the regulatory framework with specific reference to the prudential supervisory provisions (Basel 3 framework) and the provisions in relation to the internal control system, also in order to ensure consistency with the adopted Risk Appetite Framework.

Within the ICAAP/ILAAP process, procedures were defined for:

- the identification of all risks to which the Group is or could be exposed, in consideration of its operational specific nature. This risk mapping process, defined by a specific policy, represents the starting point of all the Group's strategic processes and is coordinated, at the centralised level, by the Parent Company's Risk Management Department, with the involvement of the Corporate Bodies and other Departments within their areas of competence (in order to ensure alignment with the development of and/or changes in the business model). The other Group companies are also involved, if deemed necessary, in order to enhance their role in relation to the individual operating characteristics. This analysis is carried out by assessing both the current operating conditions of the Group and the potential ones, in order to identify the risk profiles already present in the current context, which are not adequately covered by the pre-existing categories mapped, or to anticipate types of risk historically not relevant for the Group, but which may become such in a forward-looking scenario, as they are connected with foreseeable changes in the economic, financial and regulatory context, as well as in the company operations. This analysis also takes into account the principle of proportionality;
- the measurement/assessment of risks from a current, forward-looking perspective and under stress assumptions. In this context, the risk measurement methods with the quantification of capital absorption are consistent with the indications envisaged by the reference regulations, while for non-quantifiable risks, suitable measurement, control and mitigation systems have been defined;
- the self-assessment of capital adequacy, taking into account the results obtained separately with reference to the measurement of risks and capital from a current, forward-looking perspective and under stress conditions, while identifying the areas of the process that are susceptible to improvement as well as planning any interventions envisaged in the capital and organisational plan;
- the self-assessment of the adequacy of the liquidity and funding risk management process, taking into account the results obtained with regard to the measurement of liquidity risk from a current and forward-looking perspective and under stress conditions, while identifying the areas of the process that are susceptible to improvement as well as planning any interventions in terms of governance and management of the liquidity and organisational risks.

# Internal control system

The Cassa Centrale Group has created a structured system of internal controls which, on a daily basis and proportionally to the complexity of the activities carried out, involves the entire organisational structure and conforms to the legislation governing the 'Internal Control System', reported in Part One, Title IV, Chapter 3 of Bank of Italy Circular 285/2013 and subsequent updates.

The Cassa Centrale Group assigns strategic importance to the integrated management of controls and related risks in that they represent, among other things:

- an element to ensure that all activities are carried out in accordance with the principles of sound and prudent management and defined strategic guidelines;
- a clear and complete representation for the corporate bodies of the internal control system to monitor risks, the critical elements to which the Group is exposed and the interventions in progress;
- an important element for monitoring compliance with the relevant provisions by the competent authorities, as well as spreading the use of integration parameters.

The Parent Company has adopted a unitary and integrated system of internal controls that allows effective control over both the strategic choices of the Group as a whole and the managerial balance, organisation, technical situation and financial position of the individual Group Companies. This System consists of a set of rules, functions, structures, resources, processes and procedures that aim to ensure, in compliance with sound and prudent management, the achievement of the following objectives:

- verification of the implementation of company strategies and policies;
- containment of risks within the limits indicated in the Risk Appetite Framework (RAF);
- safeguarding the value of assets and protection against losses;
- effectiveness and efficiency of business processes;
- reliability and security of company information and IT procedures;
- prevention of the risk that the Group may be involved, even

involuntarily, in illegal activities (with particular reference to those connected with money laundering and terrorist financing);

- compliance of the company's operations with the law and supervisory regulations, as well as with internal policies, regulations and procedures.

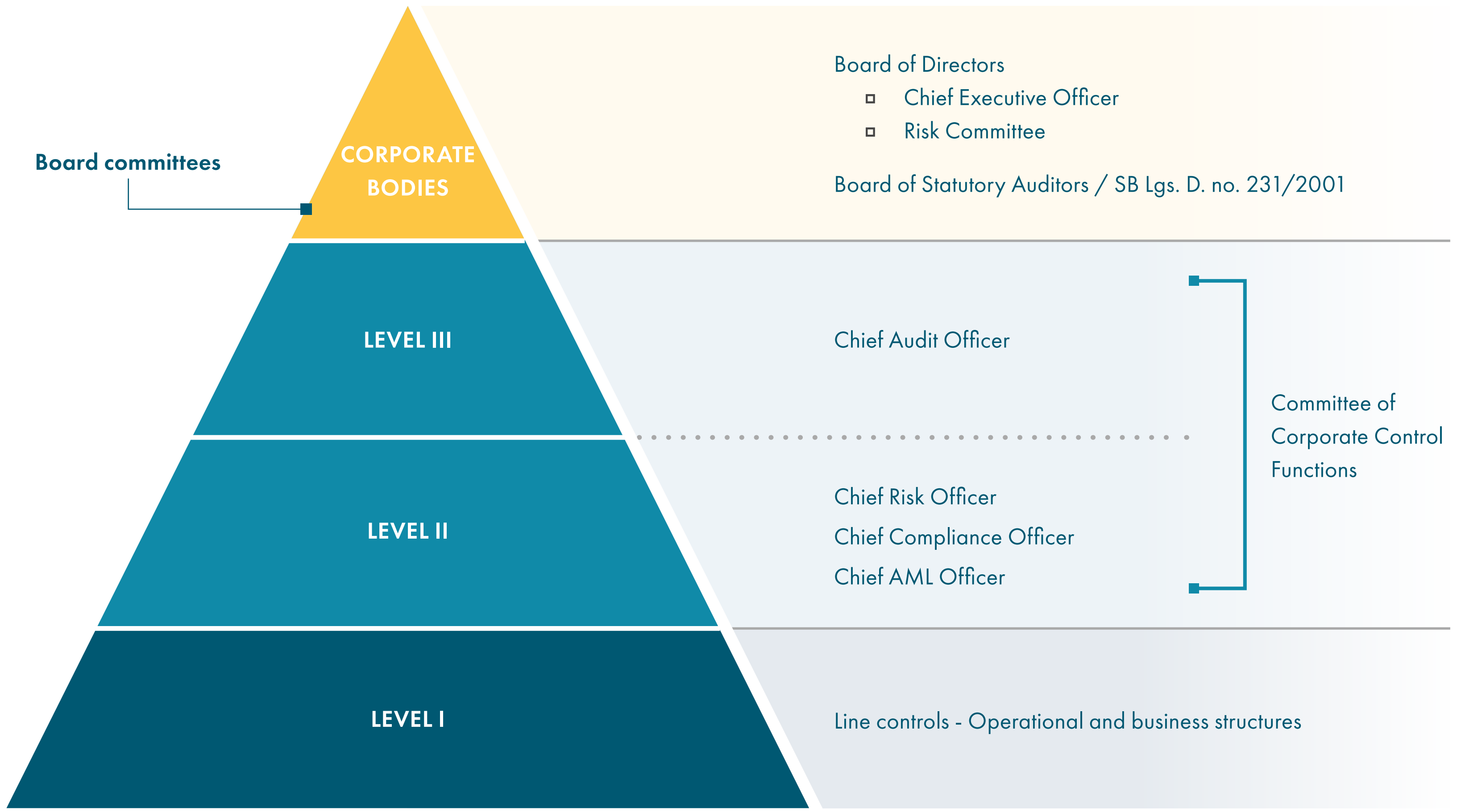
The central role of the internal control system within the Group's corporate organisation means that:

- it takes on strategic importance. In this regard, the "control culture" holds a prominent position on the scale of the Group's values, affecting not only the Corporate Control Functions, but the entire corporate organisation of the Parent Company and all Group Companies (e.g. corporate bodies, structures, hierarchical levels, personnel);
- it represents a primary element of the corporate governance system of the Parent Company and of Group companies and plays a key role in the identification, measurement, assessment and mitigation of the Group's significant risks, ensuring the sound and prudent management and financial stability of the Group itself.

The Group's Internal Control System entails the following types of control, in line with the legislative and regulatory provisions in force:

- **Line Controls** (so-called first-level controls): controls designed to ensure the proper conduct of operations (e.g. hierarchical, systematic and spot checks) and which, as far as possible, are incorporated into computerised procedures. They are carried out by the same operating and business structures (so-called First-Level Functions"), including through units dedicated exclusively to control tasks. They report back to the managers of the structures themselves, i.e. performed within the back office scope.
- **Controls on risks and compliance** (so-called "second-level controls"): controls designed to ensure, inter alia:
  - the proper implementation of the risk management process;
  - compliance with the operational limits assigned to the various functions;
  - compliance of the company's operations with regulations, including self-regulation. The functions responsible for these controls are separate from the operational functions and contribute to the definition of risk management policies and the risk management process.
- **Internal Audit** (so-called "third-level controls"): internal audit controls aimed at identifying breaches of procedures and regulations and periodically assessing the completeness, adequacy, functionality (in terms of efficiency and effectiveness) and reliability of the organisational structure of the other components of the internal control system and information system (ICT audit) at Group level, at predetermined intervals in relation to the nature and intensity of the risks.






The corporate bodies of the Parent Company, the Risks Committee of the Parent Company, the Committee of Corporate Control Functions as well as the same Corporate Control Functions represent the main players of the Internal control system.

Specifically:

- the **Board of Directors** is responsible for strategic planning, organisational direction, assessment and monitoring. In particular, as a body with strategic supervision functions, it defines and approves the business model, strategic guidelines, risk appetite, tolerance threshold (where identified) and risk management policies at Group level, the guidelines of the internal control system, the criteria for identifying the most significant transactions to be submitted for prior review by the Risk Management Department and the general terms of the ICAAP process in order to ensure overall consistency with the RAF and the strategic guidelines;
- the **Risks Committee** is responsible for the tasks assigned to it by the regulations in force from time to time and by the Board of Directors, also with regard to the Affiliated Banks and, in particular, it performs support functions for the Parent Company's Corporate Bodies with regard to risks and the internal control system, paying particular attention to all activities that are instrumental and necessary for the Parent Company's Board of Directors to arrive at a correct and effective determination of the Risk Appetite Framework (RAF) and risk management policies;

- the **Board of Statutory Auditors**, as the body with control functions, is responsible for overseeing the completeness, adequacy, functionality and reliability of the internal control system and the RAF at Group level, in accordance with the provisions of current legislation, the Cohesion Contract and the Articles of Association of Cassa Centrale Banca. The Board of Statutory Auditors carries out the functions of the Supervisory Body - established in accordance with Legislative Decree no. 231/2001 on the administrative liability of entities - which monitors the functioning of and compliance with the organisational and management model set up by the Parent Company within the scope of the same Legislative Decree;
- the **Chief Executive Officer**, as a body with management functions, has an understanding of all business risks, including the possible risks of a malfunctioning of internal measurement systems (the so-called "model risk'), where present, and, within the scope of an integrated management, of the inter-relationships with each other and with the evolution of the external environment. In this context, they are able to identify and assess the factors, including the complexity of the organisational structure, from which risks may arise for the Group;
- the **Committee of Corporate Control Functions**, consisting of the Managers of the Corporate Control Functions, carries out the coordination and integration activities of the Functions overseeing the internal control system.

The Group's Corporate Control Functions are represented by the following structures:

- Internal audit function **(Internal Audit Department)**;
- Standards compliance function **(Compliance Department)**
- Risk control function **(Risk Management Department)**
- Anti-Money Laundering Function **(Anti-Money Laundering Department)**

## The model adopted for the Group

The supervisory provisions for Banks in relation to the Cooperative Banking Group issued by the Bank of Italy establish that the Corporate Control Functions for affiliated cooperative credit banks are carried out under an outsourcing regime by the Parent Company or other Companies of the Cooperative Banking Group.

The Parent Company performs its duties in compliance with the following criteria:

- the Corporate Bodies of the members of the Group are aware of the choices made by the Parent Company and are responsible, each according to their own competencies, for the implementation, within their respective business realities, of the strategies and policies pursued in the field of controls, favouring their integration within the scope of Group controls;
- within the beneficiary companies, specific internal representatives are appointed; i) they carry out support tasks for the outsourced Corporate Control Function; ii) they report functionally to the outsourced Corporate Control Function; iii) they promptly report on special events or situations that could change the risks generated by the subsidiary.

Each single Group Company must have an effective information exchange system that ensures, on an ongoing basis:

- that the Corporate Bodies and related committees will be able to fulfil their roles and responsibilities within the internal control system;
- that the Corporate Control Functions pursue, in compliance with their respective competences, principles of collaboration and integration of controls, including:
  - mutual alignment on the basis of annual activity plans/ programmes;
  - the sharing of any critical elements highlighted;
  - the constant updating of the committees in support of the main corporate functions established within the Group (and the participation of the relevant Managers of the aforesaid Corporate Control Functions) on matters relating to the integrated internal control system;
- the exchange of information preliminary to the implementation of specific coordination activities among the Managers of the Corporate Control Functions in order to ensure a productive collaboration and coordination of the major initiatives at Group level attributable to the Internal control system.

In order to ensure guidance and coordination, the Parent Company oversees the Group Companies through the continuous exchange of flows, information and data so as to carry out management control useful for ensuring balanced maintenance of economic, financial and equity conditions, of the level of risk and, more generally, of the Integrated Internal Control System at Group level as a whole.

The Board of Directors of the companies in question carries out its duties, with specific reference to that defined by the Parent Company and in particular:

- appoints the internal representative who carries out support tasks for the outsourced control functions;
- approves the Audit Plan and Activity Programmes for the Compliance, AML and Risk Management Departments;
- takes action to eliminate the deficiencies found during the verification activities.

The Board of Statutory Auditors of the individual user companies carries out the activities required by current legislation with a view to monitoring the completeness, adequacy, functionality and reliability of the integrated internal control system, collaborating with the respective Parent Company Body.

The Supervisory Body, established pursuant to Legislative Decree no. 231/2001, supervises the functioning and observance of the organisational and management model adopted by the company itself to prevent the offences relevant to the purposes of the same legislative decree.

The General Manager of the user companies supports the Board of Directors in the management function. As part of the internal control system, he/she supports the Company in the initiatives and corrective actions highlighted by the Corporate Control Functions and brought to the attention of the Corporate Bodies.

The internal representatives of the individual user companies perform support tasks for the outsourced Corporate Control Function, report functionally to the same and promptly report particular events or situations, which are likely to modify the risks generated by the subsidiary.

The bodies of the Group companies that are not beneficiaries are assigned the same responsibilities as those assigned to the bodies of the Beneficiary Companies, as they are compatible. These bodies are also the assignees of all the powers attributed to them by the regulations and regulatory provisions applicable to the company to which they belong. The internal Corporate Control Functions, where present, in compliance with the rules applicable to them, carry out their activities in line with the principles established by the Parent Company.

## Internal audit function

The Internal Audit Department oversees, according to a risk-based approach, on the one hand, the control of the regular performance of operations and development of risks and, on the other hand, the evaluation of the completeness, adequacy, functionality and reliability of the organisational structure and other components of the internal control system, bringing possible improvements to the attention of Corporate Bodies, with particular reference to the Risk Appetite Framework (RAF), the risk management process and the instruments for measuring and controlling risks and making recommendations to Corporate Bodies.

The Department is organisationally separate from the other corporate control functions, reports directly to the Board of Directors of Cassa Centrale Banca and meets specific requirements such as independence, authority and professionalism, necessary to ensure effectiveness and efficiency in carrying out its duties. It operates according to principles based on the diligence and professionalism of its employees, in light of the awareness that an effective preventive activity can be viably implemented only on the basis of an adequate compliance of all personnel with a culture based on the value of integrity (honesty, fairness, responsibility) and on a set of values to be adopted and shared at all organisational levels.

The Internal Audit Department operates, for the Affiliated Banks, on an outsourcing basis in compliance with the service levels established and formalised in the Function's Outsourcing Agreement and makes use of the collaboration and support of the internal Contact Persons who report functionally to the Manager of the Parent Company's Internal Audit Department. With similar operating methods, the Internal Audit Department also operates for the Group Companies that sign an outsourcing agreement for the Function. The Function also carries out any further activities aimed at assessing and reporting the various risk profiles brought to the Group by the

Companies and the overall risks of the Group.

The main activities of the Internal Audit Department are the following:

- assessing the completeness, adequacy, functionality, reliability of the other components of the ICS, the risk management process and other business processes, also taking into account the ability to identify errors and irregularities. In this context, it reviews, among other things, the second level Corporate Control Functions (Risk Management, Compliance, Anti-Money Laundering);
- annually submitting an Audit Plan to the Corporate Bodies for approval, which reports the planned audit activities, taking into account the risks of the various corporate activities and structures; the Plan contains a specific section relating to the audit activity of the information system (the so-called "ICT Audit");
- assessing the effectiveness of the RAF definition process, the internal consistency of the overall scheme and the compliance of the company's operations with it and, in the case of particularly complex financial structures, their compliance with the strategies approved by the Corporate Bodies;
- assessing the consistency, adequacy and effectiveness of the governance mechanisms according to the business model of reference and carries out periodic tests on the functioning of the operating and internal control procedures;
- regularly checking the business continuity plan;
- carrying out detection tasks with regard to specific irregularities as well;
- carrying out also on request verifications in particular cases (so-called "Special Investigations") for the reconstruction of facts or events considered to be of particular importance;
- coordinating with the other Corporate Control Functions in order to adopt consistent and integrated risk measurement and assessment methodologies, sharing priorities for risk-based intervention and providing a common and integrated representation of the areas of greatest risk;
- if, as part of the collaboration and exchange of information with the Independent Auditors, they become aware of any critical issue that has emerged during the audit of the accounts, they take action to ensure that the competent Corporate Functions carry out the necessary controls to overcome these critical issues.

In order to fulfil the responsibilities assigned to it, the Internal Audit Department has access to all the central and peripheral activities of Cassa Centrale Banca and of the Group Companies and to any relevant information, also through direct interviews conducted with the personnel.

## Risk control function

As part of the Group's Internal Control System, the Risk Management Department fulfils the responsibilities and carries out the tasks set out in the Bank of Italy Circular 285/2013 as regards the risk management function. It provides useful elements to the corporate bodies in defining the guidelines and policies on risk management and ensuring the measurement and control of the exposure to the various types of risk of the Group.

The Risk Management Department is also responsible for identifying, measuring and monitoring the risks assumed or to be assumed, establishing control activities and ensuring that the anomalies identified are brought to the attention of the corporate bodies so that they can be properly managed.

It operates, for the Affiliated Banks, on an outsourcing basis in compliance with the service levels established and formalised in the Outsourcing Agreement of the Risk Management Function and makes use of the collaboration and support of the internal Contact Persons who report functionally to the Manager of the Parent Company's Risk Management Department.

In this area, the Risk Management Department:

- ensures the effective and correct implementation of the process for the identification, assessment, management and monitoring of the risks assumed, both current and prospective;
- coordinates the process for defining, updating and managing the Risk Appetite Framework (hereinafter "RAF"), within which it has the task of proposing the qualitative and quantitative parameters necessary for defining the RAF;
- defines common metrics for the assessment of operating risks in line with the RAF and methods for assessing and controlling reputational risks, coordinating with the Compliance Department and the competent structures;
- contributes to ensuring the consistency of the remuneration and incentive system with the reference framework for determining the bank's risk appetite ("RAF");
- is responsible for assessing the adequacy of internal capital (ICAAP) and liquidity reserves (ILAAP);
- is responsible for preparing disclosures to the public (Pillar III);
- is involved in the definition of the risk governance policies and the phases of the risk management process by means of the determination of a system of policies, regulations and documents for the implementation of risk limits for the Group;
- is responsible for defining the operating limits to the assumption of various types of risk, as well as verifying their adequacy on an ongoing basis;
- defines the metrics and methodologies for the measurement and monitoring of risks and the related guidelines to be adopted at Group level;
- verifies, on an ongoing basis, the presence of adequate risk management processes;
- is responsible for the development, validation, maintenance and updating of risk measurement and control systems ensuring that they are subject to periodic backtesting activities, that an appropriate number of scenarios are analysed and that conservative assumptions are used on dependencies and correlations;
- develops and applies indicators capable of highlighting anomalous and inefficient situations in the existing risk measurement and control systems;
- analyses and assesses the risks deriving from new products and services and from the entry into new operating and market segments;
- measures and monitors current and forward-looking risk exposure, including at Group level;
- ensures, through the preparation of reports, a constant and continuous flow of information to the corporate bodies and other corporate control functions regarding the exposures to the risks and the results of the activities carried out;
- provides preventive opinions on the consistency of OMRs with the RAF, including those originated by Beneficiary Companies, also contributing to defining the parameters for their identification;
- carries out second level checks on credit exposures;
- ensures the adequacy and effectiveness of the measures adopted to remedy the shortcomings identified in the risk management process;
- ensures the proper monitoring of the performance of individual credit exposures;
- oversees the process of assigning and updating the ratings used to assess the creditworthiness of the counterparties;
- oversees the preparation of the classification of the risk-based model and, together with the Human Resources Department, the activation of the appropriate corrective actions (i.e. Relaunch Plan, Recovery Plan, Combination Plan);
- informs the Chief Executive Officer/General Manager about any overrun of targets/thresholds/limits relating to the assumption of risks;
- is responsible for activating the monitoring of activities carried out in the event of exceeding targets/thresholds/limits, and for communicating any critical issues until said thresholds/limits have been restored;
- ensures the consistency of the risk measurement and control systems with the processes and methodologies for assessing corporate activities, coordinating with the relevant corporate structures;
- prepares and submits to the corporate bodies the report on the activities carried out by the Department, in line with the provisions of the reference regulations;
- contributes to the dissemination of a culture of control within the Group.

As part of the integrated internal control system, the Risk Management Department coordinates with the other corporate control functions in order to::

- adopt consistent and integrated risk measurement and assessment methods, providing a common and integrated representation of the higher risk areas;

- define risk-based intervention priorities;
- develop the sharing of operational and methodological aspects and the actions to be taken in case of significant and/or critical events in order to identify possible synergies and avoid potential overlaps and duplications of activities.

As part of the activities listed above, the Risk Management Department prepares a risk-based approach on an annual basis and submits an activity plan to the corporate bodies, prepared on the basis of:
- the main risks to which the Group is exposed;
- any deficiencies resulting from the controls carried out;
- the findings made by Internal Audit or the Validation Service;
- the risk objectives defined by the Group; any evidence that emerged from the discussions with the Supervisory Authorities.

## Compliance function

The Compliance Department takes a risk-based approach to managing the risk of non-compliance with regard to the entire business activity. This is done through the assessment of the adequacy of internal procedures aimed at preventing the violation of applicable external rules (laws and regulations) and self-regulation (e.g. Articles of Association, Cohesion Contract and code of ethics).

In particular, in its role as Parent Company, it exercises control over the risks impending on the activities carried out by all Group Companies in order to assess the various risk profiles contributed by these Companies and the overall risks of the Group. This translates into the performance of specific monitoring and verification activities pertaining to the Group as a whole and/or individual Group companies, which furthermore guarantee adequate information flows, prompt responses to specific requests and collaboration in the event of remote or on-site audits.

The Compliance Department is organisationally separate from the other corporate control functions, reports directly to the Board of Directors of Cassa Centrale Banca and meets specific requirements such as independence, authority and professionalism, necessary to ensure effectiveness and efficiency in carrying out its duties.

The Compliance Department operates, for the Affiliated Banks, on an outsourcing basis in compliance with the service levels established and formalised in the Function's Outsourcing Agreement and makes use of the collaboration and support of the internal contact persons who report hierarchically to the Board of Directors of the respective Company and, at the same time, reports functionally to the Manager of the Function. With similar operating methods, the Compliance Department also operates for the other Group Companies that sign an outsourcing agreement for the Function. The Function also carries out any further activities aimed at assessing and reporting the various risk profiles brought to the Group by the Companies and the overall risks of the Group.

For the monitoring of certain regulatory areas for which it is permitted by applicable regulations or for the performance of specific obligations in which the Compliance Department's activities are articulated, the same may make use of specialist compliance control units and/or support, remaining in any case responsible for the definition of risk assessment methodologies. In particular, the task of Specialised Monitoring is assigned to the Tax Service and to the Office for the Prevention and Protection of the workplace, in compliance with the respective regulations indirectly overseen by the Function.

The main activities of the Compliance Department are the following:
- continuously identifying the applicable rules and assessing their impact on corporate processes and procedures;
- collaborating with the corporate structures for the definition of methodologies for the assessment of the risks of non-compliance with standards;
- identifying suitable procedures and/or organisational changes for the prevention of the detected risk, with the possibility of requesting their adoption;
- verifying the adequacy and correct application of the procedures for the prevention of the detected risk;
- ensuring ongoing and continuous monitoring of the adequacy and effectiveness of the measures, policies and procedures relating to investment services and activities;
- preparing information flows directed to the Corporate Bodies and structures involved (e.g.: operating risk management and internal audit);
- verifying the effectiveness of the organisational adjustments (structures, processes, procedures, including operational and commercial) suggested for the prevention of the risk of non-compliance with standards;
- involvement in the ex-ante assessment of the compliance with applicable regulations of all innovative projects (including the operation of new products or services) that the company intends to undertake as well as in the prevention and management of conflicts of interest between the different activities carried out by the company and also with regard to employees and company representatives;
- providing consultancy and assistance to the corporate bodies on all matters in which the risk of non-compliance is significant;
- collaborating in the training of staff on the provisions applicable to the activities carried out;
- coordinating with the other Corporate Control Functions in order to adopt consistent and integrated risk measurement and assessment methodologies and sharing priorities for risk-based intervention and providing a common and integrated representation of the areas of greatest risk;
- disseminating a corporate culture based on principles of honesty, integrity and respect for the spirit and letter of the law.

## Anti-money laundering function

The Anti-Money Laundering Function adopts a risk based approach in overseeing the management of the risks of money laundering and terrorist financing with regard to the company's activities by evaluating the adequacy of internal procedures intended to prevent the violation of applicable external standards (laws and regulations) and self-regulation (e.g. Articles of Association and Codes of Ethics).

The Anti-Money Laundering Department operates in accordance with the responsibilities assigned to it as the Company's second-level control function of the Parent Company and fulfilling the contractual obligations deriving from the role of supplier to the Affiliated Banks and the Beneficiary Companies.

The Anti-Money Laundering Department operates, for the Affiliated Banks and the Beneficiary Companies, on an outsourcing basis, in compliance with the service levels established and formalised in the Function's Outsourcing Agreement and makes use of the collaboration and support of the internal Contact Persons, who, operating in close functional coordination with the Anti-Money Laundering Department, oversee the processes related to the anti-money laundering regulations at the Affiliated Bank/Beneficiary Company.

The Parent Company's Anti-Money Laundering Department formulates and prepares specific directives and instructions with which the Anti-Money Laundering Contact Persons must comply, in order to ensure the Group's operational consistency in relation to the management and measurement of money laundering and terrorist financing risks.

If a Group Company is subject to anti-money laundering obligations and has not outsourced this function to the Parent Company, specific information flows are sent to the Parent Company's Anti-Money Laundering Department (the Annual Anti-Money Laundering Report, the annual planning of activities, any significant critical issues identified in the execution of AML activities).

The Anti-Money Laundering Department aims to:
- contributing to the definition of strategic guidelines and policies for the overall governance of risks related to money laundering and terrorist financing, the preparation of communications and periodic reports to Corporate Bodies and the feeding of the Risk Appetite Framework, collaborating with other Corporate Control Functions in order to achieve an effective integration of the risk management process;
- developing a global risk approach on the basis of strategic decisions made by the Parent Company, defining the Group methodology for assessing money laundering and terrorist financing risks, the procedures for coordinating and sharing information among the Group Companies and general standards on customer due diligence, maintaining documentation and information and identifying and reporting suspicious transactions;
- ensuring adequate Group oversight, continuously verifying the suitability, functionality and reliability of the structure of anti-money laundering controls, procedures and processes adopted within the

Group, as well as their degree of adequacy and compliance with legal provisions;

- performing a management and coordination role with regard to the Group Companies, promoting and disseminating a culture of prevention of money laundering and terrorist financing risk.

The Anti-Money Laundering Department oversees and coordinates the management of money laundering and terrorist financing risks, through the execution of a series of activities that may be related to the following types of processes:

- main processes, i.e. the set of activities aimed at the correct fulfilment of the obligations of proper customer due diligence, data and information retention and reporting of suspicious transactions;
- cross-cutting processes, i.e. the set of activities functional to mitigate and contrast the risk of money laundering.

In the performance of its duties, the Anti-Money Laundering Department has access, in the manner deemed most appropriate, to all activities and to all central and peripheral structures of the Group, as well as to any information that it deems relevant for the performance of its duties and is equipped with tools that are useful for carrying out the controls for which it is responsible.

As regards the integrated internal control system, the Anti-Money Laundering Department contributes to:

- the definition of a common risk taxonomy for analysis and evaluation activities;
- the constant exchange of information;
- the establishment of uniform risk measurement and reporting methods;
- the management of any misalignments in the level of risk assessments that have emerged during the planning of activities;
- the examination of the findings that have emerged and the related corrective actions proposed, examining any conflicting assessments in order to reach a single and satisfactory solution for all the Corporate Control Functions that have highlighted the same significance.



# Human Resources

The total number of employees of the Cassa Centrale Group as at 30 June 2020 was 11,259, substantially in line with the workforce at the end of 2019 which was equal to 11,281.

In a constantly evolving market environment and in an industry where profound change is increasingly a decisive competitiveness factor, it is essential to protect the most important asset of every company: its people. Strong investments were carried out to strengthen the Group, focusing in particular on the Corporate Control Functions and the areas of high technological and functional content managed within the Group's instrumental companies.

The long-term strategy of the Group remains our focus on the quality of human resources, with a primary commitment in promoting the constant development of individual and group capabilities and skills.

The main guidelines followed by the Group are valuing initiative and flexibility, supporting growth opportunities through adequate development paths and promoting active participation in the implementation of projects, providing instruments and methods for the emergence of innovative contributions to be made available to the company.

## The development of a Group culture during the pandemic and the employer branding

In the particularly difficult and still on-going Covid-19 health emergency, messages of cohesion, support, sense of belonging and solidarity were strengthened with respect to the employees of the Banking Group and the forms of communication in place were also strengthened. In the space dedicated to all the employees of the Group, "The Square", a specific section named "Covid-19 Emergency Section" was implemented, which gathers all the documentation sent during the emergency (from the posters with the behaviours to be adopted to safeguard one's health, to legislative references such as the President of the Minister Council Decrees), with the aim of providing each employee with all the information available on Covid-19 through a smart and user-friendly platform.

There were numerous infographics and messages sent to employees to support the organisational management of smart working or to address other concerns and worries resulting from the spreading of the pandemic (from the Decalogue of the five rules to better manage working times and spaces at home, to suggestions useful to maintain a good level of work-life balance).

Starting from March, special empowerment training sessions were set up ("Once a week: thirty minutes of empowerment) consisting of thirty minutes talks, managed by experts in personal growth, coaching, as well as online working methods and remote management of teams. In particular, dedicated sessions were reserved to the managers of the Parent Company given the delicate role of suddenly leading work teams remotely and, replicating the approach taken by large companies, some psychological issues linked to worries and fears felt by the employees and collaborators were also addressed.

A pilot project was launched at the Parent Company and Allitude with Mindwork, a platform of psychologists and therapists who were available to the employees of the two Companies. The service, presented before the summer of 2020, involved a trial period, with the plan of subsequently extending it, on a voluntary basis, to the Affiliated Banks.

The building of a Group culture consists of small actions, such as those described above, capable of communicating the identity values of the Cassa Centrale Group. "Placing people at the centre" also means to act quickly in order to provide tools that support people in dealing with the present, with the final purpose of making the Group's collaborators autonomous and aware of the management, also at a personal level, of the emergency by communicating solidarity and empathy, two fundamental elements at such time of great uncertainty.

Strengthening its employer branding strategy is an effective method of attracting talent to the company: if the company succeeds in spreading its values and mission, including through its collaborators, the potential for finding the ideal candidate may be increased. Developing the visibility of the company in the labour market, differentiating it from competitors, is of fundamental importance.

For the Group, external events are an excellent opportunity for employer branding and recruiting: the Group strengthened its partnership with the academic world in order to promote itself more effectively with young university talent, make itself known to a wider audience and thus build a solid communication strategy. The Cassa Centrale Group has launched a "career day" university course, with the corporate stand and public presentations in order to represent all the Group Companies. In particular, it recently participated in the first "career fair" of the University of Trento, completely digitalised, presenting the Cooperative Banking Group concept and approach and raising a great interest from young participants (graduates or degree candidates) and it also launched a new partnership with "Jest", the Junior Enterprise of the University of Padua, with which we will be involved in an event in autumn 2020.

Even during the health emergency, recruiting activity was not halted. Thanks to the use of the "SAP SuccessFactors" platform and webcalling tools as "MS Teams", it was possible to continue with job posting activities, candidate analysis and interviews. Technology, in this area, demonstrated its entire efficiency in support of experts and managers in talent recruitment activities.

### Partnerships to innovate and compete

Despite the pandemic, the consolidated partnership with SDA Bocconi School of Management led to the creation of new high-level professional training courses and the continuation of existing courses with new methods in full compliance with the Covid-19 safety measures.

The partnership with CeTif, Research Centre on Technologies, Innovation and Financial Services of the Cattolica del Sacro Cuore University, contributed to giving expertise to our Banking Care Academy and enabled us to participate in the "Smart Working Group", a special CeTif project within the Digital HUB 2020 research programme. The project was launched to support institutions in the compulsory transition to remote working methods during the health emergency due to the spreading of Covid-19. In the course of the project, a contribution was given to a publication, in which large national banking groups also participated, as regards smart working in the Italian financial sector. The contents of the document are useful for the development of a new internal plan within the Banking Group with respect to this issue.

The partnership with Talent Garden for the development of a digital transformation project which will involve, starting from the second half of the year, the Group Affiliated Banks, was added in the first half of this year to the consolidated partnerships such as the one with Politecnico University of Milan (in particular, with the Innovative Payments Observatory which studies the innovative payment systems for consumers and the additional services connected to them). Talent Garden is a highly lively combination of experimentation and innovation able to catalyse the most innovative debates within the Italian and international scenarios; joining the Talent Garden network will be an important step to consolidate the open and smart vision that we intend to implement in the Banking Group.

### Development of skills and training in the Cassa Centrale Group

The Banking Care Academy, a brand for the development of Group skills, deals with the design, promotion and implementation of training courses for the Banking Group. Through the SAP Success Factors Learning Management System (LMS) platform, the training proposals reach all Group employees, with awareness and participation objectives for the individual growth of employees within the Affiliated Banks.

In this particularly difficult period, the Banking Care Academy activated, for the Group banks and companies, a number of projects aimed at facilitating continuity of training through digital tools provided by technology and aimed at training and developing new skills.

In particular, during the lockdown and smart working period, through the "Remote Learning" project, which involved all Group employees, the training process, traditionally carried out in the classroom, was organised into interactive webinars (using the MS Teams system platform) which made it possible to reach all the recipients of the training implementing the planning designed at the beginning of the year.

The certification of skills, an essential element in some of the Academy's paths, was also guaranteed through a new "proctoring" tool already tested in universities around the world and essential for the management of the process of verifying the acquired knowledge and skills.

Among the particularly innovative projects that were launched, to be noted are:

- *drive the change (digital transformation);*
- *digital confidence (cybersecurity).*

Digital transformation is an extraordinary opportunity for the development of the Group and drive the change is a path to help generate the engagement and participation necessary for the change of mindsets with respect to the existing digital evolution. The Banking Care Academy is convinced that starting digital innovation will pull down cultural and organisational borders, dismantle strict barriers, remove people's resistance to changes, create new ways of interacting and managing one's activities. This promise must be supported by a culture of leadership that strengthens the connections between people and their sense of belonging. In this sense, the objective of the drive the change project is to promote a mindset able to make people feel free to take initiatives and bring value through their ideas.

The "digital confidence" project is a cyber-security project that includes training initiatives and communication/awareness-building activities aimed at disseminating a culture on safety in the digital world, through the involvement of each individual within the Banking Group.

In relation to the Banking Care Academy, training is a real challenge: the most important learning is not developed by absorbing technicalities administered with resolute solutions, suitable for all situations, but through personal and collective re-thinking of actions that require reflection.

Today, those working in the Bank must have renewed commercial relationship capacity, must master regulations and procedures that involve responsibilities and risks, must be recognised by households and businesses as consultants, and must respond to increasingly complex questions.

In the first six months of 2020, a total of around 175,000 hours of training were provided, also through 124 highly interactive webinars, which were well received by the participants, as resulting from the administered questionnaires.

### Remuneration policies

On 23 July 2020, the Ordinary Shareholders' Meeting of the Parent Company - on the proposal of the Board of Directors - approved the Group's remuneration and incentive policies for all personnel, including the most important personnel, as well as members of corporate bodies.

With reference to the Group companies included in the scope, the remuneration policies (hereinafter also the "Policies") approved by the Shareholders' Meeting of the Parent Company were adopted through the formal resolution of the respective Shareholders' Meetings for Banks and by various bodies responsible for other companies.

The remuneration and incentive policies were defined on the basis of:

- the supervisory provisions on "Remuneration and incentive policies and practices" updated by the Bank of Italy in October 2018 with the 25th update of Circular no. 285 of 17 December 2013 in implementation of EU Directive 2013/36/EU of 26 June 2013 (the so-called CRD IV);
- the Delegated Regulation (EU) no. 604/2014 containing the new "Regulatory Technical Standards" (RTS), relating to the appropriate qualitative and quantitative criteria to identify the categories of staff whose professional activities have a material impact on the risk profile of the institution (the so-called "Risk Taker"), and intended to supplement the Directive 2013/36/EU of the European Parliament and the Council of 26 June 2013 (the so-called CRD IV).

The Policies describe in an organic manner: the principles on which the Cassa Centrale Group's remuneration and incentive system is based; the roles, timing and activities that define the governance of the process of drafting, reviewing and adopting Group remuneration policies; the remuneration and incentive system for the entire Group.

The objective is to achieve, in the interests of all stakeholders, remuneration systems that are consistent with the Group's values and the mutualistic aims of the Affiliated Banks, with the corporate objectives, long-term strategies and with the Group's prudent risk management policies, as defined in the provisions in force on the prudential control process, such as to avoid distorted incentives that could lead to regulatory violations or excessive risk taking for the bank and the financial system as a whole.

For further information and a detailed description of the policies in place, please refer to the document "Group remuneration and incentive policies" available on the Cassa Centrale Banca website at the address www.cassacentrale.it, in the Governance section.

### Welfare and Trade Union Relations

In the first half of 2020, the Welfare and Trade Union Relations Service was dealing with various trade union negotiations related to: extraordinary transactions for the combination of Group Banks and Companies, reorganisation and restructuring operations, as well as redundancy management and generational turnover. In particular, the Banks and Companies involved in these processes were as follows: Banca Prealpi San Biagio Credito Cooperativo, Cassa Padana Banca di Credito Cooperativo, Cassa Rurale Val di Fiemme, ZKB Credito Cooperativo di Trieste e Gorizia, Cassa Rurale ed Artigiana di Borgo San Giacomo, Cassa Rurale Giudicarie Valsabbia e Paganella, Cassa Rurale Adamello, Centroveneto Bassano Banca, Rovigobanca Credito Cooperativo, Banca di Credito Cooperativo Valdostana, Banca di Credito Cooperativo Spello e Bettona, Banca di Caraglio, Banca di Credito Cooperativo della Romagna Occidentale, Banca Alto Vicentino, Allitude S.p.A.

With the start of the pandemic, the Welfare and Trade Union Relations Service became heavily involved in trade union negotiations regarding the measures to be taken to deal with the Covid-19 pandemic as well as for providing assistance and legal consulting services to the Affiliated Banks with regard to the correct application of the regulations.

In addition, national negotiations were launched for the renewal of the national collective labour agreement for executives.



# Other information on operations

## Consolidation and development of corporate identity activities

In the first half of 2020, the Group continued its rebranding process applied to both the Affiliated Banks and the Group Companies and aimed at building a common identity that will stand out for the shareholders and the customers, with a distinctive character with respect to the competitors and to the most important Groups of the national credit scenario.

To date, almost all of the Banks (96%) have transitioned to the new identity by adopting the new mark and pictogram. Therefore, the brand becomes a reflection of the Group's strategic-value positioning, as a different and distinctive entity with respect to the credit sector.

As part of the broader scope of activities pertaining to the introduction and consolidation of the Group identity, was the project to develop a national advertising campaign "Cassa Centrale Group": unfortunately the pandemic interrupted and blocked the activities that are expected to be resumed in the second half of 2020 with a redefinition consistent with the changed sensitivity of the context and a planned development of the campaign between the last part of the year and the beginning of 2021.

Activities related to the MyCMS (Content Management System) service, an easy-to-manage multi-site shared platform that allows the individual bank to configure and customise its website in just a few steps, continued. Almost 70% of the Group Banks participated in this platform, ensuring a coordinated, consistent and timely communication.

The first half of 2020 was characterised by a series of extraordinary activities due to the Covid-19 emergency, which led to new projects being undertaken.

In a context affected by the pandemic, the Cassa Centrale Group has signalled its support to the households and businesses that represent it by implementing ABI's indications, by adopting the directives of the President of the Minister Council Decrees and by providing communication guidelines to manage the emergency. Some dedicated and customised advertising campaigns (e.g. "Proteggiamoci Insieme" and "Vicini a distanza") were launched, websites were updated with pages describing in-depth some economic initiatives aimed at private parties and businesses (mortgage moratoria, redundancy fund, Liquidity Decree) and several tools aimed at facilitating the new method for accessing branches were made available to the Banks.

In order to facilitate the Affiliated Banks in the performance of the new shareholders' meeting methods (not in presence but with the Designated Representative), both in the Group's corporate website and for MyCMS sites, a specific section called "2020 Shareholders' Meeting" was launched, which allowed the Banks to easily and promptly transmit information to ensure an adequate participation therein. In addition to the legislative aspect, communications support was also provided for all Affiliated Banks (video, infographics, etc.) and a reserved area dedicated to Shareholders was made available to send pre-meeting documents.

In the first half of 2020, the Marketing Service carried out the editorial coordination and completed the graphic design and the layout of the first Consolidated Financial Statements of the Group and of the consolidated NFS (Non-Financial Statement). Dedicated onepages were created on the institutional website www.cassacentrale.it in addition to other communication materials. As regards the NFS, a new brand (CRS – Corporate Social Responsibility) and a communication line dedicated to all non-financial activities were created.

The institutional website www.cassacentrale.it won the 21st edition of the "Interactive Key Award": the Jury granting the award, consisting of 40 experts of the web and of new technologies, communication professionals and journalists in the sector, awarded Cassa Centrale Banca the 1st prize in "Finance, Insurance, Consultancy and Research" category, a recognition for the creativity, quality, innovation and ease of use of the new Group website.

At the end of 2019, in collaboration with NEF, a prize competition ("Il

Risparmio ti premia") was launched for shareholders, customers and prospects of the Affiliated Banks and of those banks that have indicated Cassa Centrale Banca as the "payment agent", aimed at fostering savings and investment formulas that allow for risk mitigation, such as the Capital Accumulation Plans (CAP). The underlying principle of the competition is eco-sustainability, also found in the prizes awarded: electric mopeds, eco-sustaining vacation stays, travel bags, an electric car, an electric scooter and an electric bike.

In support of the initiative, a national communication campaign was planned for the first time under the NEF brand coordinated with the new brand identity of the Cassa Centrale Group. The data of the campaign, from November 2019 to March 2020, can be summarised as follows: almost 40 releases on national print media, over 15 million of impressions (displays) and over 120 thousand hits on the dedicated website.

In the digital field, in collaboration with Allitude, work was carried out on the restyling project of the Digital Bank, the revision of the Inbank brand architecture and the communication of the various products and services. A series of activities and initiatives continued as regards the payment system with a communication campaign dedicated to e-commerce POS solutions and to the partnership with Bancomat for the dissemination of the P2P money exchange service. The graphic updating of the interface of all ATMs of the Affiliated Banks is underway and is consistent and coordinated with the new corporate identity.

## Relationships with related parties

Details of transactions with related parties are provided in Part H of the Explanatory Notes, to which reference should be made.

## Information on going concern, financial risks, impairment testing of assets and uncertainties in the use of estimates

With reference to the Bank of Italy, Consob and Isvap documents no. 2 of 6 February 2009 and no. 4 of 3 March 2010, concerning the information to be provided in the financial reports on the business outlook, with particular reference to business continuity, financial risks, impairment testing and uncertainties in the use of estimates, the Board of Directors confirms that it has a reasonable expectation that the Group can continue to operate in the foreseeable future and therefore certifies that the condensed half-yearly consolidated financial statements as at 30 June 2020 were prepared on a going concern basis.

The Group's equity and financial structure and operating performance do not present any elements or signs that could lead to uncertainties on the going concern.

For information on financial risks, impairment testing of assets and uncertainties in the use of estimates, reference should be made to the information provided in this report, comments on operating performance, and/or in specific sections of the condensed half-yearly consolidated financial statements.

## Own shares

The share capital of the Parent Company Cassa Centrale Banca amounts to EUR 952,031,808, made up of 18,158,304 ordinary shares and 150,000 preference shares, both with a nominal value of EUR 52.

As at 30 June 2020, 15,874,453 ordinary and preferred shares, with a par value of EUR 825,471,556 (corresponding to 86.71% of the share capital) are held by the Banks affiliated to the Cassa Centrale Group and therefore, in the consolidated financial statements, they are considered own shares held in the portfolio.

No shares of the Parent Company were sold during the year.

## Policies for business continuity management

Following the definition of the organisational and operating model of the Cassa Centrale Group on Business Continuity, resolved by the Board of Directors in the previous year, the following documents were consequently updated in April 2020:

- Cassa Centrale Banca's business continuity plan, containing the policies and strategies for the management of business continuity;
- The Disaster Recovery Plan.ì

These documents were updated as a result of the Business Impact Analysis carried out in the first few months of 2020, which enabled the identification of the critical processes of the Bank, the timing for restoring these processes and the human and technological resources needed to ensure business continuity. Thanks to the information gathered, it was possible to define and formalise specific continuity strategies which allow the Bank to ensure its operations also in the event of an emergency or crisis.

Starting from the work carried out to update the Cassa Centrale Banca's Business Continuity Plan, Business Impact Analysis activities were also extended to Allitude and to a significant scope of Group Banks in order to standardise the analysis method and the documentation on business continuity for the entire Group, with the aim of defining standardised and uniform procedures.

The results of the analysis led to the formalisation of Allitude's Business Continuity Plan and the definition of a "standard model of the Business Continuity Plan for Banks", which will be implemented by all Affiliated Banks by December 2020.

Over the next few months, the Cassa Centrale Group expects the completion of the following activities:

- implementation of the "standard model of the Business Continuity Plan for Banks" and approval by the Boards of Directors of all Affiliated Banks;
- execution of Disaster Recovery and Business Continuity tests of the Cassa Centrale Group.

## Organisational, management and control model for crime prevention pursuant to italian legislative decree no. 231/2001

In implementing the delegated act pursuant to art. 11 of Italian Law no. 300 of 29 September 2000, Legislative Decree no. 231 of 8 June 2001 (hereinafter also "Decree") was issued, whereby the legislator has aligned the national regulations to international conventions on the liability of legal persons, with which Italy complies.

In particular, it is the Brussels Convention of 26 July 1995 on the protection of the European Community's financial interests, the Convention signed in Brussels on 26 May 1997 on the fight against corruption involving European Community or Member States' officers and the Convention of the Organization for Economic Cooperation and Development (OECD) of 17 December 1997 on the fight against corruption of foreign public officers in economic and international transactions.

The Decree, containing the "governance of the administrative liability of legal persons, companies and associations, also without legal personality", introduced into the Italian law a system with administrative liability attributed to entities for offences underogably listed and committed in their own interest or benefit by: (i) natural persons who carry out representation, administration or management functions for the entities themselves or for one of their organisational unit with financial and functional autonomy, as well as natural persons who actually carry out management and control of the same entities or (ii) natural persons under the management and supervision of one of the above-mentioned subjects.

On the other hand, the entity is not liable if the aforesaid parties have acted in their own exclusive interest or in the interest of third parties (art. 5, paragraph 2 of the Decree) or when it voluntarily prevents the completion of the action or the occurrence of the event.

In any case, the administrative liability of entities is independent of the criminal liability of the natural person who committed the offence.

The offences for which the administrative liability of entities is configurable, with specific indication of the applicable sanctions, are listed in Section III of the Decree. The Decree provides for forms of exemption from the administrative liability of entities. In particular, it establishes that, in the event of a crime committed by a top management party, the entity is not liable if it proves that:

- the management body has adopted and effectively implemented, prior to the commission of the offence, organisational and management models suitable for preventing offences of the type that occurred;
- the task of supervising the functioning and observance of the models and their updating has been entrusted to a corporate body with autonomous powers of initiative and control;
- individuals have committed the offence by fraudulently circumventing organisational and management models;
- there has been no lack of or insufficient supervision by the body responsible.

Therefore, in the case of a crime committed by top management, there is a presumption of liability on the part of the entity due to the fact that such parties express and represent the policy and, therefore, the will of the entity itself: this presumption, however, can be overcome if the entity can demonstrate the existence of the four conditions indicated above, in compliance with the provisions of paragraph 1, art. 6 of the Decree.

In this case, even though there is personal liability of top management, the entity is not liable pursuant to the Decree.

In the same way, the administrative liability of the entity also exists for offences committed by subordinates, if their action was made possible by failure to comply with management or supervisory obligations. In any case, failure to comply with these management or supervisory obligations is excluded if the company demonstrates that it has adopted and effectively implemented, prior to the commission of the offence, an organisational and management model suitable for preventing offences of the type that has occurred.

The Model must meet the following requirements:

- identification of the activities within the scope of which there is the potential that offences provided for in the decree may be committed;
- provision of specific protocols aimed at planning the formation and implementation of the company's decisions in relation to the crimes to be prevented;
- identification of methods of managing financial resources suitable to prevent the commission of such offences;
- provision of information obligations towards the body responsible for supervising the functioning of and compliance with the Model;
- introduction of a disciplinary system suitable to sanction non-compliance with the measures indicated in the Model;
- provision of adequate information channels that, also through IT methods and guaranteeing the confidentiality of the identity of the reporting party, allow top management and those reporting to it to submit exhaustive reports of unlawful conduct or breach of the Model;
- securing the prohibition of retaliation or discrimination with regard to the reporting party for reasons directly or indirectly related to the reporting of potential breaches of the Model.

For some time now, the Parent Company has adopted a Model aimed at preventing the risk of incurring administrative liability of entities for the offences set forth in the Decree. The Cassa Centrale Model consists of two parts.

The "General Part" provides a description of the reference regulatory framework, the governance model and the organisational structure of the Bank, the duties and responsibilities of the Supervisory Body, the disciplinary system, the training and communication plan related to the Model. It also provides indications on the method used to define the Model itself. Lastly, it identifies the roles and responsibilities for the adoption and updating of the Model.

The Special Part, structured according to specific protocols for each category of offences set forth in the Decree, identifies the sensitive activities within which it is reasonably possible to assume the commission of such offences as well as the control and the organisational measures adopted by Cassa Centrale in order to prevent them.

In particular, through the adoption and constant updating of the Model, the Parent Company has proposed pursuing the following main objectives:

- contribution to the internal dissemination of knowledge of the offences provided for in the Decree and of the activities that may lead to their implementation;
- communication within the Bank of the knowledge of activities in the context of which there is a risk of offences being committed and the internal rules adopted by the Bank governing the same activities;
- communication of full awareness that conduct contrary to the law and internal provisions is condemned by the Bank, as, in carrying out its corporate mission, it intends to comply with the principles of legality, fairness, diligence and transparency;
- ensuring an organisation and control system adequate to the activities carried out by the Parent Company and guarantee the integrity of the conduct of top management, employees and collaborators.

With the establishment of the Cooperative Banking Group, the Parent Company has launched a project for the gradual alignment of its Model in order to ensure compliance with the new governance structure and the changed operating environment. The update was completed with its approval by the Board of Directors on 4 June 2020, also taking into account the regulatory changes that took place in 2019. With respect to these changes, the Parent Company also provided operational support to the Affiliated Banks for the updating of their Models.

At the same time, during the reporting period, the Parent Company continued the project aimed at streamlining and standardising the management of the administrative liabilities of entities by the Group companies, through the preparation of a draft document containing principles and criteria with which they must comply. In particular, the document will require, once adopted by the Board of Directors of the Parent Company, that all Italian subsidiaries adopt a Model and establish a Supervisory Body according to the indications contained therein, as well as to prepare specific information flows aimed at allowing the Parent Company to acquire knowledge of all relevant events concerning the companies themselves.

## Consolidated non-financial statement

The Cassa Centrale Group prepares, on an annual basis, the Consolidated non-financial statement pursuant to art. 5, paragraph 3 of Legislative Decree no. 254/2016. This document is published on the Cassa Centrale Banca website at www.cassacentrale.it in the "Investors" section.

# Significant events occurred after the end of the half year

It should be noted that, after 30 June 2020 and until the date of approval by the Board of Directors of this half-yearly consolidated financial report, no events, facts or circumstances have occurred that led to a change in the data approved on that occasion or that had subsequent significant impacts on the Group's statement of financial position and income statement.

The main events that occurred after the end of the half-year are reported below.

## Launch of the Comprehensive Assessment

The Comprehensive Assessment (hereinafter also "CA") represents an in-depth assessment, pursuant to the Regulation on the Single Supervisory Mechanism (EU Regulation no. 1024 of the Council dated 15 October 2013), aimed at ensuring that banks are adequately capitalised and can withstand macroeconomic and financial shocks. This assessment consists mainly of the following elements:

- an Asset Quality Review (hereinafter also referred to as "AQR") aimed at improving the transparency of bank exposures through an analysis of the quality of banks' assets;
- a stress test to verify the stability of bank financial statements in ordinary and adverse scenarios (Comprehensive Assessment of Stress Test, hereinafter also "CAST").

Since 2018, the Parent Company, in agreement with its Affiliated Banks, has carried out a series of preparatory activities for CA, strengthening data quality processes and implementing control tools useful for monitoring and overseeing both the Asset Quality Review process and the Stress Test, based on the methodology of the European Banking Authority ("EBA").

At the beginning of 2020, the European Central Bank officially launched the exercise of CA, referring to the initial situation as at 31 December 2019, composed of both AQR and CAST components.

However, due to the health emergency linked to the spread of the Covid-19 epidemic, AQR-related activities were interrupted by the European Supervisory Authority.

With regard to the CAST, at the beginning of February 2020 a comprehensive planning was defined and communicated by the European Supervisory Authority, from the Advance Data Collection ("ADC", consisting of the representation of the final data relating to the GBC) to the delivery of the different versions of the three-year projections in ordinary and adverse scenarios (so-called Full Data Collection, "FDC"). However, due to the health emergency triggered by the Covid-19 pandemic, the GBC was able to complete only the first phase, with the ADC submitted on 9 March 2020, since the exercise was then suspended by the ECB just a few days before the conclusion of the second phase, i.e. the transmission of the first FDC projections, with expiry originally set for 31 March 2020.

During August, the Supervisory Authority indicated the upcoming re-launch of the entire Comprehensive Assessment exercise, communicating both for the asset quality review (AQR) and the Stress Test of the new timelines. Therefore, as of today's date, the activities are ongoing and are expected to be concluded in the first few months of 2021, with the results achieved.

## CARIGE transaction

With reference to the Carige transaction, starting from 7 August 2020, following the communication of the latter to the market, the Virtual Data Room was opened for the launch by Cassa Centrale Banca of due diligence activities and verification of the conditions for the possible exercise of the call option for the purchase of all the equity investments pertaining to the Interbank Deposit Protection Fund and to the Voluntary Intervention Scheme, under the option agreement stipulated with the aforementioned parties on 9 August 2019. At the date of approval of this consolidated financial report, analyses are underway in view of the subsequent valuation.

## Reduction in impaired assets

After 30 June 2020, Cassa Centrale Banca continued its operational plan to reduce the non-performing loans of the Group, also launching an important multi-originator securitisation with GACS, the so-called Buonconsiglio 3, which will involve the sale of approximately 430 million gross non-performing loans belonging to the Cassa Centrale Banking Group.

The transaction, with a cut-off date set for 31 July 2020, which sees as arranger Centrale Credit Solutions S.r.l. and co-arranger Intesa SanPaolo, will be completed by December 2020. The above-mentioned transaction aims to improve the quality of the assets thanks to the derecognition from the financial statements of the banks of the impaired assets falling within the scope of sale.

## Business combinations between banks

During the second half of 2020, the European Central Bank authorised two further business combinations between the Group Affiliated Banks. In particular:

- Cassa Rurale Giudicarie Vals Veneta Paganella - Cassa Rurale Adamello: effective from 1 October 2020, Trentino-Alto Adige region;
- Centroveneto Bassano Banca – Rovigo Banca: effective from 1 November 2020, Veneto region.

These business combinations pursue stability, efficiency and competitiveness objectives and have no impact on the consolidated statement of financial position as they took place between entities under joint control.

## Rating

In October 2020, at the end of the audit period, the rating agency Moody's updated the ratings of Cassa Centrale Banca, Parent Company of the Cooperative Banking Group, raising its rating on long-term deposits from Baa3 to Baa1, confirming the long-term issuer rating at Ba1 and updating the long-term outlook from under observation to negative.

## Covid-19, developing context

The event with the greatest impact, also prospectively, for the first half of 2020 was the health emergency caused by the spread of Covid-19 and its consequences on the real economy.

The reference context in the second half of the year remains critical and fragile for both aspects.

The epidemics continues to represent a threat to public health. In September, there was a progressive new increase in cases in many areas of Europe, and several countries reintroduced social distancing measures as well as territorial and specific lockdowns in order to limit the spread of the virus. Also in Italy the contagion curve has started to rise again and in October 2020 the Government ordered the extension of the emergency status until 31 January 2021, introducing new measures aimed at protecting the health of citizens and imposing an extension of the obligation to use individual medical protection devices. The Government has subsequently introduced new provisions with harsher containment measures and new movement restrictions, with localised lockdowns and differentiated rules based on local risk areas, and even more restrictive measures may follow.

Also from an economic point of view, the situation is characterised by many uncertainties. Having observed the first direct effects of the economic recession deriving from the spread of Covid-19, the indirect effects remain uncertain and potentially destined to persist over time and with dissimilar impacts in the various sectors of the economy.

Taking the above into account, the Group is monitoring the phenomenon in order to adequately respond to the evolving situation while seeking the most appropriate solutions to safeguard and protect the health of workers, customers and suppliers, support customers and the territory and keep its risk profile constantly monitored.

# Business outlook

The year 2020 will be fully affected by the current health emergency that has generated significant impacts from a health perspective on the social, economic and financial fabric of vast areas in the world.

As a result of this pandemic, the banking sector must also face a difficult situation, having to manage the repercussions deriving from the expected effects of the recessionary scenario. In this context, the measures adopted by the European authorities together with the expected government interventions (in particular, the "Cura Italia", "Liquidity" and "Relaunch" decrees) are contributing to containing the recessionary effects.

Impaired credit reduction strategies aimed at a progressive improvement in asset quality will remain an option pursued by the banking industry, but will essentially have to take into account the changed economic environment and its impact on banks' profitability. Bank lending and borrowing interest rates are expected to decrease, leading to the erosion of primary margins.

Market volatility in the first part of the year did not result in a greater risk aversion for the households, so that liquidity investments in asset management instruments remained at the usual levels and continue to provide revenue support.

A lower contribution to profitability is coming from payment and liquidity management services, also due to the increased competitive pressure, especially from non-bank operators, and the digital transformation process. In a context of weakness in traditional banking activities, the improvement in operating efficiency, cost reduction and new business strategies, the main levers for the recovery of the sector's profitability, are confirmed.

The current health crisis situation is also impacting the operations of the Cassa Centrale Group, given that the activities of the Affiliated Banks are mainly focused on traditional lending to households and small and medium-sized businesses in the areas where they are located.

In this new economic and social context, the Group continues to focus its attention on the one hand on strongly supporting the economic fabric of the reference territories, which are facing a crisis never experienced in the past, and on the other on overseeing the overall risk profile.

Activities related to the Group's organisational and operational structure continue, also considering that the new context will require further investments in technology and human capital.

Given the sudden development of the external scenario, resulting from the current emergency and the possible economic repercussions, the Group is monitoring the situation in order to promptly identify potential impacts on the current financial year and on 2021.



# Independent Auditors' Report on the condensed half-yearly Consolidated Financial Statements of the Cassa Centrale Group

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

# Report on review of condensed interim consolidated financial statements

*To the Board of Directors of*
*Cassa Centrale Banca - Credito Cooperativo Italiano S.p.A.*

## Introduction

We have reviewed the accompanying condensed interim consolidated financial statements of the Cassa Centrale Banca Credito Cooperativo Italiano Cooperative Banking Group, comprising the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes thereto, as at and for the six months ended 30 June 2020. The parent's directors are responsible for the preparation of these condensed interim consolidated financial statements in accordance with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34), endorsed by the European Union. Our responsibility is to express a conclusion on these condensed interim consolidated financial statements based on our review.

## Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of condensed interim consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the condensed interim consolidated financial statements.







## Conclusions

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim consolidated financial statements of the Cassa Centrale Banca Credito Cooperativo Italiano Cooperative Banking Group as at and for the six months ended 30 June 2020 have not been prepared, in all material respects, in accordance with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34), endorsed by the European Union.

## Other matters

The condensed interim consolidated financial statements of the Cassa Centrale Banca Credito Cooperativo Italiano Cooperative Banking Group at 30 June 2020 present the corresponding figures for the six months ended 30 June 2019 for comparative purposes prepared in accordance with IAS 34, which were neither audited nor reviewed.

Verona, 2 December 2020

KPMG S.p.A.

(signed on the original)

Bruno Verona
Director of Audit

# Condensed half-yearly Consolidated Financial Statements of the Cassa Centrale Group

## CONSOLIDATED FINANCIAL STATEMENTS

# Consolidated statement of financial position

| | ASSET ITEMS | 30/06/2020 | 31/12/2019 |
|---|---|---|---|
| 10. | Cash and cash equivalents | 573 | 555 |
| 20. | Financial assets measured at fair value through profit or loss | 599 | 602 |
| | a) financial assets held for trading | 8 | 7 |
| | b) financial assets measured at fair value | 2 | 2 |
| | c) other financial assets obligatorily measured at fair value | 589 | 593 |
| 30. | Financial assets measured at fair value through other comprehensive income | 8,844 | 7,548 |
| 40. | Financial assets measured at amortised cost | 69,628 | 60,932 |
| | a) loans to banks | 3,124 | 1,539 |
| | b) loans to customers | 66,504 | 59,393 |
| 50. | Hedging derivatives | 2 | 3 |
| 60. | Adjustment of the financial assets subject to macro-hedging (+/-) | 46 | 31 |
| 70. | Equity investments | 72 | 89 |
| 80. | Reinsurers' share of technical provisions | - | - |
| 90. | Tangible assets | 1,270 | 1,272 |
| 100. | Intangible assets | 80 | 81 |
| | of which: | | |
| | - goodwill | 28 | 28 |
| 110. | Tax assets | 848 | 872 |
| | a) current | 134 | 140 |
| | b) deferred | 714 | 732 |
| 120. | Non-current assets and groups of assets held for disposal | 9 | 9 |
| 130. | Other assets | 736 | 811 |
| | **Total assets** | **82,707** | **72,805** |

| | LIABILITIES AND EQUITY ITEMS | 30/06/2020 | 31/12/2019 |
|---|---|---|---|
| 10. | Financial liabilities measured at amortised cost | 73,632 | 64,143 |
| | a) due to banks | 14,947 | 7,474 |
| | b) due to customers | 52,957 | 50,055 |
| | c) debt securities in issue | 5,728 | 6,614 |
| 20. | Financial liabilities held for trading | 8 | 7 |
| 30. | Financial liabilities measured at fair value | 35 | 51 |
| 40. | Hedging derivatives | 60 | 43 |
| 50. | Adjustment of the financial liabilities subject to macro-hedging (+/-) | - | - |
| 60. | Tax liabilities | 84 | 80 |
| | a) current | 27 | 23 |
| | b) deferred | 57 | 57 |
| 70. | Liabilities associated to assets held for disposal | - | - |
| 80. | Other liabilities | 1,891 | 1,611 |
| 90. | Provision for severance indemnity | 133 | 137 |
| 100. | Provisions for risks and charges | 294 | 249 |
| | a) commitments and guarantees issued | 112 | 102 |
| | b) retirement and similar obligations | - | - |
| | c) other provisions for risks and charges | 182 | 147 |
| 110. | Technical provisions | - | - |
| 120. | Valuation reserves | 45 | 55 |
| 130. | Repayable shares | - | - |
| 140. | Equity instruments | 6 | 6 |
| 150. | Reserves | 5,915 | 5,716 |
| 160. | Share premium | 75 | 75 |
| 170. | Share capital | 1,278 | 1,276 |
| 180. | Own shares (-) | (869) | (869) |
| 190. | Third party minority interests (+/-) | 3 | 4 |
| 200. | Profit (loss) for the year (+/-) | 117 | 221 |
| | **TOTAL LIABILITIES AND EQUITY** | **82,707** | **72,805** |

# Consolidated income statement

| | ITEMS | 30/06/2020 | 30/06/2019 |
|---|---|---|---|
| 10. | Interest income and similar revenues | 706 | 717 |
| | of which: interest income calculated with the effective interest method | 706 | 693 |
| 20. | Interest expenses and similar charges paid | (105) | (124) |
| **30.** | **Interest margin** | **601** | **593** |
| 40. | Commission income | 346 | 351 |
| 50. | Commission expenses | (35) | (40) |
| **60.** | **Net commissions** | **311** | **311** |
| 70. | Dividend and similar income | 1 | 2 |
| 80. | Net result from trading | 2 | 11 |
| 90. | Net result from hedging activities | (1) | (2) |
| 100. | Profit (loss) from disposal/repurchase of: | 100 | 43 |
| | a) financial assets measured at amortised cost | 74 | 28 |
| | b) financial assets measured at fair value through other comprehensive income | 26 | 15 |
| | c) financial liabilities | - | - |
| 110. | Net result of other financial assets and liabilities measured at fair value through profit or loss | (9) | 7 |
| | a) financial assets and liabilities measured at fair value | - | 1 |
| | b) other financial assets obligatorily measured at fair value | (9) | 6 |
| **120.** | **Net interest and other banking income** | **1,005** | **965** |
| 130. | Net value adjustments/write-backs due to credit risk relative to: | (171) | (85) |
| | a) financial assets measured at amortised cost | (166) | (93) |
| | b) financial assets measured at fair value through other comprehensive income | (5) | 8 |
| 140. | Profits/losses from contractual changes without derecognitions | (3) | (1) |
| **150.** | **Net income from financial activities** | **831** | **879** |
| 160. | Net premiums | - | - |
| 170. | Balance of other income and expenses of insurance management | - | - |
| **180.** | **Net income from financial and insurance activities** | **831** | **879** |
| 190. | Administrative expenses: | (707) | (737) |
| | a) personnel costs | (413) | (413) |
| | b) other administrative expenses | (294) | (324) |
| 200. | Net allocations to provisions for risks and charges | (36) | 3 |
| | a) commitments and guarantees issued | (9) | - |
| | b) other net allocations | (27) | 3 |
| 210. | Net value adjustments/write-backs to tangible assets | (49) | (46) |
| 220. | Net value adjustments/write-backs to intangible assets | (7) | (6) |
| 230. | Other operating charges/income | 115 | 116 |
| **240.** | **Operating costs** | **(684)** | **(670)** |
| 250. | Profits (losses) on equity investments | 1 | - |
| 260. | Net result of fair value measurement of tangible and intangible assets | - | - |
| 270. | Value adjustments to goodwill | - | - |
| 280. | Profit (loss) from disposal of investments | - | - |
| **290.** | **Profit (loss) before tax from current operating activities** | **148** | **209** |
| 300. | Income taxes for the year on current operating activities | (31) | (48) |
| **310.** | **Profit (loss) after tax from current operating activities** | **117** | **161** |
| 320. | Profit (loss) after tax from discontinued operations | - | - |
| **330.** | **Profit (loss) for the year** | **117** | **161** |
| 340. | Profit (loss) for the year for minority interests | - | (2) |
| **350.** | **Profit (loss) for the parent company** | **117** | **159** |

# Statement of consolidated comprehensive income

| | ITEMS | 30/06/2020 | 30/06/2019 |
|---|---|---|---|
| **10.** | **Profit (loss) for the year** | **117** | **161** |
| | **Other post-tax components of income without reversal to the income statement** | **(17)** | **-** |
| 20. | Equities measured at fair value through other comprehensive income | (18) | - |
| 30. | Financial liabilities measured at fair value through profit or loss (changes in credit rating) | - | - |
| 40. | Hedging of equities measured at fair value through other comprehensive income | - | - |
| 50. | Tangible assets | - | - |
| 60. | Intangible assets | - | - |
| 70. | Defined benefit plans | 1 | - |
| 80. | Non-current assets and groups of assets held for disposal | - | - |
| 90. | Quotas of valuation reserves relative to shareholdings measured with the equity method | - | - |
| | **Other post-tax components of income with reversal to the income statement** | **6** | **(17)** |
| 100. | Hedging of foreign investments | - | - |
| 110. | Exchange rate differences | - | - |
| 120. | Cash flow hedging | - | - |
| 130. | Hedging instruments (non designated elements) | - | - |
| 140. | Financial assets (other than equities) measured at fair value through other comprehensive income | 6 | (17) |
| 150. | Non-current assets and groups of assets held for disposal | - | - |
| 160. | Quotas of valuation reserves relative to shareholdings measured with the equity method | - | - |
| **170.** | **Total other post-tax components of income** | **(11)** | **(17)** |
| **180.** | **Comprehensive income (Item 10+170)** | **106** | **144** |
| **190.** | **Consolidated comprehensive income pertaining to minority interests** | **(1)** | **2** |
| **200.** | **Consolidated comprehensive income pertaining to the parent company** | **107** | **142** |

# Statement of changes in consolidated equity

| | Balances as at 31/12/19 | Adjustment to opening balances | Balances as at 01/01/20 | Allocation of result from previous year | | Changes during the year | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Equity transactions | | | | | | | | | |
| | | | | Reserves | Dividends and other allocations | Changes to reserves | Issue of new shares | Purchase of own shares | Distribution of extraordinary dividends | Change in equity instruments | Derivatives on own shares | Stock Options | Changes in equity investments | 2020 Comprehensive income | Group equity as at 30/06/20 | Equity pertaining to minority interests as at 30/06/20 |
| Share capital: | | | | | | | | | | | | | | | | |
| a) ordinary shares | - | X | 1,261 | - | X | X | 1 | - | X | X | X | X | - | X | 1,262 | - |
| b) other shares | - | X | 15 | - | X | X | 1 | - | X | X | X | X | - | X | 16 | - |
| Share premium | - | X | 75 | - | X | - | - | - | X | X | X | X | - | X | 75 | - |
| Reserves: | | | | | | | | | | | | | | | | |
| a) of profit | - | - | 5,704 | 197 | X | 1 | - | - | - | X | X | X | - | X | 5,902 | 3 |
| b) other | - | - | 12 | | X | 1 | - | X | - | X | - | - | - | X | 13 | - |
| Valuation reserves | - | - | 55 | X | X | - | X | X | X | X | X | X | - | (10) | 45 | - |
| Equity instruments | - | X | 6 | X | X | X | X | X | X | - | X | X | - | X | 6 | - |
| Own shares | - | X | (869) | X | X | X | | | X | X | X | X | X | X | (869) | - |
| Profit (loss) for the year | - | - | 221 | (197) | (24) | X | X | X | X | X | X | X | X | 117 | 117 | - |
| **Group equity** | | | **6,480** | | **(24)** | **2** | **2** | **-** | **-** | **-** | **-** | **-** | **-** | **107** | **6,567** | **-** |
| **Equity pertaining to minority interests** | | | **4** | **4** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(1)** | **-** | **3** |

| | Balances as at 31/12/18 | Adjustment to opening balances | Balances as at 01/01/19 | Allocation of result from previous year | | Changes during the year | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Equity transactions | | | | | | | | | |
| | | | | Reserves | Dividends and other allocations | Changes to reserves | Issue of new shares | Purchase of own shares | Distribution of extraordinary dividends | Change in equity instruments | Derivatives on own shares | Stock Options | Changes in equity investments | 2019 Comprehensive income | Group equity as at 30/06/19 | Equity pertaining to minority interests as at 30/06/19 |
| Share capital: | | | | | | | | | | | | | | | | |
| a) ordinary shares | - | X | 1,263 | - | X | X | - | - | X | X | X | X | - | X | 1,263 | 9 |
| b) other shares | - | X | 15 | - | X | X | - | - | X | X | X | X | - | X | 15 | - |
| Share premium | - | X | 75 | - | X | (1) | - | - | X | X | X | X | - | X | 74 | - |
| Reserves: | | | | | | | | | | | | | | | | |
| a) of profit | - | - | 5,467 | 253 | X | (4) | - | - | - | X | X | X | - | X | 5,716 | 19 |
| b) other | - | - | 11 | - | X | - | - | X | - | X | - | - | - | X | 11 | - |
| Valuation reserves | - | - | 40 | X | X | - | X | X | X | X | X | X | - | (17) | 23 | 3 |
| Equity instruments | - | X | 6 | X | X | X | X | X | X | - | X | X | - | X | 6 | - |
| Own shares | - | X | (874) | X | X | X | - | - | X | X | X | X | X | X | (874) | - |
| Profit (loss) for the year | - | - | 281 | (253) | (28) | X | X | X | X | X | X | X | X | 159 | 159 | 2 |
| **Group equity** | | | **6,284** | **-** | **(28)** | **(5)** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **142** | **6,393** | **-** |
| **Equity pertaining to minori-ty interests** | | | **30** | **-** | **-** | **1** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **2** | **-** | **33** |

The column "balances as at 01/01/19" includes the equity contributions for the entire scope of consolidation of the Cassa Centrale Group at the date of its incorporation.

# Consolidated cash flow statement

| | Amount | |
|---|---|---|
| | 30/06/2020 | 30/06/2019 |
| A. OPERATING ACTIVITIES | | |
| 1. Operations | 412 | 344 |
| - income for the period (+/-) | 117 | 161 |
| - gains/losses on financial assets held for trading and other assets/liabilities measured at fair value through profit or loss (-/+) | - | (1) |
| - gains/losses on hedging activities (-/+) | 1 | 2 |
| - net value adjustments/write-backs due to credit risk (+/-) | 171 | 85 |
| - net value adjustments/write-backs to tangible and intangible assets (+/-) | 56 | 52 |
| - net allocations to provisions for risks and charges and other costs/revenues (+/-) | 36 | (3) |
| - uncollected net premiums (-) | - | - |
| - other uncollected insurance revenue/charges (-/+) | - | - |
| - taxes, duties and tax credits not settled (+/-) | 31 | 48 |
| - net value adjustments/write-backs from discontinued operations net of tax (-/+) | - | - |
| - other adjustments (+/-) | - | - |
| 2. Cash flows generated/used by the financial assets | (9,900) | (147) |
| - financial assets held for trading | (1) | 174 |
| - financial assets measured at fair value | - | (1) |
| - other financial assets obligatorily measured at fair value | 4 | 62 |
| - financial assets measured at fair value through other comprehensive income | (1,307) | 1,200 |
| - financial assets measured at amortised cost | (8,697) | (1,544) |
| - other assets | 101 | (38) |
| 3. Cash flows generated/used by the financial liabilities | 9,546 | 304 |
| - financial liabilities measured at amortised cost | 9,489 | 691 |
| - financial liabilities held for trading | 1 | (7) |
| - financial liabilities measured at fair value | (16) | (19) |
| - other liabilities | 72 | (361) |
| Net cash flow generated/used by operating activities | 58 | 501 |

| | Amount | |
|---|---|---|
| | 30/06/2020 | 30/06/2019 |
| B. INVESTMENT ACTIVITIES | | |
| 1. Cash flows generated by | 25 | 9 |
| - sales of equity investments | 12 | - |
| - dividends collected on equity investments | 1 | 2 |
| - sales of tangible assets | 12 | 7 |
| - sales of intangible assets | - | - |
| - sales of business units | - | - |
| 2. Cash flows used by | (41) | (42) |
| - equity investment acquisitions | - | - |
| - tangible asset acquisitions | (35) | (33) |
| - intangible asset acquisitions | (6) | (9) |
| - purchases of subsidiaries and business units | - | - |
| Net cash flow generated/used by investment activities | (16) | (33) |
| C. FUNDING ACTIVITIES | | |
| - issues/purchases of own shares | - | - |
| - issues/purchases of equity instruments | - | - |
| - dividend distribution and other | (24) | (26) |
| - sale/purchase of third parties' controlling interests | - | - |
| Net cash flow generated/used by funding activities | (24) | (26) |
| NET CASH FLOW GENERATED/USED DURING THE YEAR | 18 | 442 |

KEY:

(+) generated
(–) used

## Reconciliation

| ITEMS | Amount | |
|---|---|---|
| | 30/06/2020 | 30/06/2019 |
| Cash and cash equivalents at the beginning of the year | 555 | - |
| Total net cash flow generated/used during the year | 18 | 442 |
| Cash and cash equivalents: impact of exchange differences | - | - |
| Cash and cash equivalents at year-end | 573 | 442 |

# Condensed half-yearly Consolidated Financial Statements of the Cassa Centrale Group

## EXPLANATORY NOTES

# Part A - Accounting policies

## A.1 - General part

### Section 1 - Statement of compliance with international accounting standards

The Cassa Centrale Banca Credito Cooperativo Italiano Cooperative Banking Group (hereinafter also the "Cassa Centrale Group" or the "Group") is required to prepare the condensed half-yearly consolidated financial statements based on the international accounting standards IAS/IFRS issued by the International Accounting Standards Board (IASB) and approved by the European Union according to the procedure set forth in art. 6 of Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002.

These condensed half-yearly consolidated financial statements were prepared in compliance with the international accounting standards issued by IASB and endorsed by the European Union according to the procedure per Article 6 of Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002 and in force at the date of this document, including the interpretative documents of the International Financial Reporting Interpretations Committee (IFRIC) and Standing Interpretations Committee (SIC), limited to those applied for the drafting of the condensed half-yearly consolidated financial statements as at 30 June 2020.

In interpreting and applying the new international accounting standards, reference was also made to the Conceptual Framework (or the Framework) for the Preparation and Presentation of Financial Statements issued by IASB. In terms of interpretation, also considered were the documents on the application of IAS/IFRS in Italy, prepared by the Italian Accounting Body (OIC) and the Italian Banking Association (ABI).

In the absence of a standard or an interpretation specifically applicable to a particular transaction, the Group uses the professional judgement of its departments in developing accounting recognition rules which make it possible to provide a reliable financial disclosure, necessary for guaranteeing that the financial statements give a true and fair view of the Group's equity and financial position, reflecting the economic substance of the transaction as well as the relevant related aspects.

In formulating these accounting recognition rules, reference was made, as must as possible, to the provisions contained in the international accounting standards and the associated interpretations that address similar cases. Lastly, the communications of the Supervisory Authorities (Bank of Italy, Consob, ESMA, EBA, ECB) were considered to the extent applicable. They provide recommendations on the information to be reported in the consolidated half-yearly Financial Report, on the most significant aspects or on the accounting treatment of particular transactions.

### Section 2 - General preparation criteria

The condensed half-yearly consolidated financial statements of the Cassa Centrale Group as at 30 June 2020 comprise the consolidated statement of financial position, the consolidated income statement, the statement of consolidated comprehensive income, the statement of changes in consolidated equity, the consolidated cash flow statement and these consolidated explanatory notes.

The aforementioned condensed half-yearly consolidated financial statements were prepared in accordance with IAS 34 "Interim Financial Reporting" and, given the possibility granted by the aforementioned accounting standard, they are presented in condensed form without including the complete information required for the annual financial statements and must be read together with the consolidated financial statements of the Cassa Centrale Group prepared for the year ended as at 31 December 2019.

The explanatory notes contained in the condensed half-yearly consolidated financial statements were drafted with reference to the structure of the explanatory notes required by Bank of Italy Circular no. 262 of 22 December 2005, as amended (hereinafter also "Circular no. 262/2005"), for the consolidated financial statements, albeit with a limited information content, since they are half-yearly financial statements drawn up in a condensed form. In addition, for easier reading, the numbering envisaged by the aforementioned Circular no. 262/2005 was maintained, although some parts, sections or tables may be omitted since, as mentioned above, this is a document drawn up in condensed form.

In addition to the accounting data as at 30 June 2020, the consolidated financial statements provide comparative information for the corresponding period of the previous year, with the exception of the statement of financial position, which is compared with the latest approved consolidated financial statements as at 31 December 2019.

In compliance with the provisions of art. 5 of Legislative Decree 38/2005, the condensed half-yearly consolidated financial statements have been prepared using the Euro as the accounting currency. The consolidated statement of financial position and the consolidated income statement, as well as the statement of consolidated comprehensive income, the statement of changes in consolidated equity, the consolidated cash flow statement and the explanatory notes have been prepared in millions of euros. Any differences between the information provided in the explanatory notes and the condensed half-yearly consolidated financial statements are attributable to rounding off.

The consolidated statement of financial position and the consolidated income statement comprise items, sub-items and additional detailed information. Items not valued either in the current or the previous year are not reported. In the consolidated income statement and the explanatory notes, revenues are recorded without sign, while costs are indicated in brackets. In the statement of consolidated comprehensive income the negative amounts are stated in brackets.

The condensed half-yearly consolidated financial statements have been prepared on the basis of the going concern assumption for the Cassa Centrale Group, as the directors reasonably expect that the Group will continue operating in the foreseeable future. In fact, the directors believe that the risks and uncertainties the Group may be subject to in handling its operations, also considering the effects of the Covid-19 pandemic, are not significant and are thus not such to cast doubt upon the company's ability to continue as a going concern.

Estimation processes are based on past experience and other factors considered reasonable in this case and were adopted to estimate the carrying amount of assets and liabilities that cannot be easily inferred from other sources. In particular, estimation processes were adopted that support the carrying amount of some of the most important valuation items posted in the accounts, according to reference regulations. These processes are mainly based on estimates of future recoverability of the values in the accounts and were carried out on a going concern basis. The main cases for which subjective evaluations are required to be made by the Board of Directors include:

- the quantification of losses due to the reduction of loan values and, in general, of other financial assets;
- the determination of the fair value of financial instruments;
- the assessment of congruity in the value of goodwill and other intangible assets;
- the measurement of personnel funds and provisions for risks and charges;
- the estimates and assumptions regarding recoverability of deferred tax assets.

The information provided on the accounting policies applied for the main aggregate values of the consolidated financial statements includes the necessary details for identifying the main assumptions and subjective evaluations made in preparing the consolidated financial statements. For further detailed information on the breakdown and the relative carrying amounts of the items concerned by the aforementioned estimates, please refer to the specific sections of these explanatory notes. The processes adopted support the carrying amounts on the date of preparing the consolidated financial statements. The measurement process turned out to be particularly complex in consideration of the persisting uncertainty of the macroeconomic and market context, characterised by the considerable volatility of the financial parameters determined for the measurement as well as indicators of impairment of the credit quality that remain high. These parameters and the information used to check the mentioned values are thus significantly affected by these factors, which could lead to rapid and currently unforeseeable changes.

The condensed half-yearly consolidated financial statements also make reference to the general preparation criteria listed below, where applicable:

- principle of truth and fairness and completeness in the presentation of the statement of financial position, income statement and financial position (true and fair view);
- accrual principle;
- principle of consistent presentation and classification from one year to another (comparability);
- principle of prohibited offsetting of entries, except where expressly permitted;
- principle of prevalence of substance over form;
- principle of prudence in exercising the necessary judgement to make the estimates required in conditions of uncertainty so that the assets or revenues are not overestimated and the liabilities or costs are not underestimated, without this implying the creation of hidden reserves or excessive allocations;
- principle of neutral nature of information;
- principle of relevance/significance of the information.

Lastly, with reference to the main implications connected with the methods of application of the international accounting standards (in particular IFRS 9) within the context of the Covid-19 pandemic, please refer to the specific paragraph included in "A.1 - General Part, Section 5 - Other matters" of this Part A.

## Section 3 - Scope and methods of consolidation

The condensed half-yearly consolidated financial statements as at 30 June 2020 refer to a scope of consolidation better defined below. In this regard, the provisions of IFRS 10, 11, 12 and IFRS 3 have been taken into account, including in the scope of consolidation - as specifically provided for by IAS/IFRS - including companies operating in sectors of activity different from that of the Parent Company. Similarly, structured companies are also included if the control requirements are met, regardless of their mere shareholding.

Furthermore, with regard to the consolidation of cooperative banking groups, it should be noted that Law no. 145 of 30 December 2018, "State Budget for the 2019 financial year and multi-annual budget for the three-year period 2019-2021" (so-called 2019 Budget Law), in transposing into Italian law Article 2, paragraph 2, letter b) of Directive 86/635/EEC relating to the treatment for the purposes of the consolidated accounts of central bodies, introduced the obligation to prepare the consolidated financial statements for the set consisting of the central body and its affiliates (so-called single consolidating entity). This Community provision had so far not been transposed in our country, given the absence, before the reform of cooperative credit, of central bodies in Italy, which are widespread in other European countries. Among other things, in the explanatory report to the 2019 Budget Law it is pointed out that the effects of the regulatory change are twofold:

a. "*for the purposes of preparing the consolidated financial statements, the Parent Company and the banks belonging to the cooperative banking group constitute a single consolidating entity*";
b. "*in preparing the consolidated financial statements, the accounting items relating to the Parent Company and the Affiliated Banks are recorded on a consistent basis*".

In this regard, it seems reasonable to believe that the Italian legislator, as part of the amendments introduced by the 2019 Budget Law, has taken into account the interpretation provided by the European Commission in 2006 according to which, even in the case of IAS adopters, the obligation to prepare consolidated financial statements must be assessed in accordance with the provisions of the national transposition of European directives.

In light of the interpretation of the European Commission and considering that, as a result of the transposition into Italian law of Article 2, paragraph 2, letter b) of Directive 86/635/EEC, in the case of cooperative banking groups, the entity required to prepare consolidated financial statements (so-called reporting entity) is represented by the aggregation of the central body and the Affiliated Banks (so-called single consolidating entity), it is considered that the rules of IFRS 10 Consolidated Financial Statements apply only for the purposes of identifying the scope of consolidation of the reporting entity. That is, only for the purposes of assessing the existence of situations of control between the reporting entities and third parties (e.g. the subsidiaries of the Parent Company or the individual Affiliated Banks).



Recognition of the reporting entity nature within the sole consolidating entity also implies that IFRS 3 would apply only to the accounting of business combinations involving the latter and third parties (e.g. in the case of acquisition of new subsidiaries).

The provision of the Testo Unico Bancario (Consolidated Banking Act - TUB), according to which the Cohesion Contract ensures the existence of a situation of control as defined by international accounting standards, must also be interpreted in light of the subsequent amendments made to national accounting regulations by the 2019 Budget Law.

In this context, on the one hand, the 2019 Budget Law defines the procedures with which to comply with the consolidation obligations in the case of central bodies, on the other hand, the TUB's provisions are important in order to circumscribe the central body's governance powers over its affiliates.

The aforementioned approach is consistent, among other things, with the approach already adopted in other European jurisdictions with regard to the manner in which central bodies and their affiliated entities are consolidated, as for example in France.

Having said this, in line with the indications above, the condensed half-yearly consolidated financial statements were prepared through a process of aggregation of:

- financial statements of the Parent Company Cassa Centrale Banca and its subsidiaries/associates over which it exercises control on the basis of the majority of voting rights and/or the connection on the basis of significant influence;
- financial statements of the Affiliated Banks and their subsidiaries/associates over which the Parent Company exercises direction and coordination on the basis of the Cohesion Contract.

This process was followed by a subsequent phase of reclassification to own shares of the same shares of Cassa Centrale Banca held by the Affiliated Banks and the elimination of the asset and economic balances attributable to intra-group transactions.

### Subsidiaries

Without prejudice to that stated in the previous paragraph regarding the peculiarities of the consolidation method of the Cooperative Banking Group, the scope of consolidation is determined in compliance with the provisions contained in international accounting standard IFRS 10 Consolidated Financial Statements. Based on the mentioned principle, the control requirement forms the basis of the consolidation of all types of entities and is realised when an investor simultaneously:

- has the power to determine the relevant activities of the entity;
- is exposed to or benefits from the variable returns deriving from its involvement with the entity;
- has the ability to exercise its power to influence the amount of its returns (link between power and returns).

IFRS 10 establishes that, to have control, the investor must have the ability to direct the relevant activities of the entity, based on a legal right or mere de facto situation, and also be exposed to the variability of the results stemming from this power.

The subsidiaries are consolidated from the date on which the Group acquires control, according to the 'acquisition method' - as defined by IFRS 3, and cease to be consolidated when control is no longer held.

The existence of control is subject to a continuous valuation process if there are events and circumstances that indicate the presence of a change in one or more of the three elements forming the control requirement, presented in the following paragraph "Evaluations and assumptions for determining the scope of consolidation".

The full consolidation consists of the so-called 'line-by-line' acquisition of the aggregates of the statement of financial position and the income statement of the entities controlled, as counter-entry to the cancellation of the investment held by the Group in the entity and the recognition, in the appropriate items, of the shares held by minority interests.

The differences emerging from this offsetting were subject to the provisions of IFRS 3; if they were allocated to the appropriate items, they are subject to the accounting treatment of the reference standard; if they were not specifically allocated, they are booked to goodwill under intangible assets and subject to impairment testing. Negative differences (so-called bargain purchase or badwill) are recognised in the consolidated income statement.

In addition, for entities controlled through an investment relationship, the share of equity pertaining to minority interests, the result for the year and comprehensive income is represented separately in the consolidated financial statements (under consolidated statement of financial position liability item 190. Third party minority interests, 340. Profit (loss) for the year of minority interests in the consolidated income statement and 190. Consolidated comprehensive income pertaining to minority interests in the statement of consolidated comprehensive income.

Costs and revenues relating to the controlled entity are included in the consolidated financial statements from the date of acquisition of control. The costs and revenues of the subsidiary transferred are included in the consolidated income statement until the transfer date; the difference between the consideration of the transfer and the carrying amount of the net assets of the same is recognised in the consolidated income statement item 280. Profit (loss) from disposal of investments. In the presence of a partial disposal of the controlled entity which does not determine the loss of control, the difference between the consideration of the transfer and the associated carrying amount is booked as a contra-entry to equity.

Controlling interests held for sale are consolidated on a line-by-line basis and stated separately in the financial statements as a group held for disposal valued as at the reporting date at the lower of the carrying amount and the fair value less disposal costs.

Controlling shareholdings with total assets of less than EUR 10 million are accounted for using the equity method, as line-by-line consolidation would require a considerable effort in terms of production, collection and consolidation of data, against negligible benefits in relation to financial reporting. This right is also expressly set forth in art. 19 of Regulation (EU) no. 575/2013 (CRR) on consolidation methods for prudential supervisory purposes.

In special purpose vehicles, the circumstances that need to be examined for the purposes of any existence of a situation of control pursuant to IFRS 10 are:

- the involvement/role of Group companies in the structuring of the transaction (originator/investor/servicer/facility provider);
- the subscription of a large portion of Asset Backed Securities (ABS) issued by the special purpose vehicle on the part of Group companies;
- the scope/objective of the transaction.

The vehicle company for the securitisation consolidated for accounting purposes is Claris Lease 2015 S.r.l., whose transaction was originated by the company Claris Leasing S.p.A. (hereinafter also referred to as "Claris Leasing" or "Claris") in April 2015.

The objective of this securitisation transaction was to ensure greater correlation of maturities between funding and lending, as well as diversification of sources of financing. Therefore, in respect of a portfolio of securitised loans of EUR 473 million, senior notes for EUR 342 million, mezzanine notes for EUR 45 million and junior notes for EUR 86 million were issued. The entire junior and mezzanine issue was subscribed by Claris Leasing. This circumstance determined the non-derecognition of the portfolio loans by Claris and the de facto consolidation of the assets and liabilities of the vehicle already in the separate financial statements of Claris Leasing. It is worth noting that, aside from the subscription of the securities in question, Claris Leasing acts as servicer.

The following business combinations between subsidiaries took place in the first half of 2020:

- with effect from 1 January 2020, the merger by incorporation of Informatica Bancaria Finanziaria S.p.A. ("IBFin"), Centro Sistemi Direzionali S.r.l. ("CSD") and Servizi Bancari Associati S.p.A. ("SBA") into Allitude (former Phoenix Informatica bancaria S.p.A.);
- with effect from 1 January 2020, Cassa Rurale di Lavis was merged by incorporation into Cassa Rurale di Trento.

These transactions had no impact on the Group's consolidated statement of financial position and income statement as they took place between entities under common control.

The full scope of the subsidiaries that are part of the Cassa Centrale Group as at 30 June 2020 is shown below:



| COMPANY NAME | Operating headquarters | Registered office | Relationship type (1) | Investment relationship | | Votes available % |
|---|---|---|---|---|---|---|
| | | | | Investing company | % Share | |
| A. ENTITIES CONSOLIDATED ON A LINE-BY-LINE BASIS | | | | | | |
| A.1 ENTITIES CONSOLIDATED ON A LINE-BY-LINE BASIS - COHESION CONTRACT | | | | | | |
| CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.pA. | Trento | Trento | 4 | | | |
| BANCA DI CREDITO COOPERATIVO DEL CIRCEO E PRIVERNATE - COOPERATIVE COMPANY | Sabaudia (LT) | Sabaudia (LT) | 4 | | | |
| BANCA DI CREDITO COOPERATIVO DI MONOPOLI - COOPERATIVE COMPANY | Monopoli (BA) | Monopoli (BA) | 4 | | | |
| BANCA DELL'ALTA MURGIA CREDITO COOPERATIVO - COOPERATIVE COMPANY | Altamura (BA) | Altamura (BA) | 4 | | | |
| BANCA DI CREDITO COOPERATIVO DEI CASTELLI E DEGLI IBLEI - COOPERATIVE COMPANY | Mazzarino (CL) | Mazzarino (CL) | 4 | | | |
| CREDITO ETNEO - BANCA DI CREDITO COOPERATIVO - LIMITED LIABILITY COOPERATIVE COMPANY | Catania | Catania | 4 | | | |
| BANCA MALATESTIANA - CREDITO COOPERATIVO - COOPERATIVE COMPANY | Rimini | Rimini | 4 | | | |
| BANCA DI CREDITO COOPERATIVO DEI CASTELLI ROMANI E DEL TUSCOLO - COOPERATIVE COMPANY | Castel Gandolfo (Roma) | Rocca Priora (Roma) | 4 | | | |
| BANCA DEL GRAN SASSO D'ITALIA, BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | Pineto (TE) | Pineto (TE) | 4 | | | |
| CASSA RURALE VALLAGARINA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | Ala (TN) | Ala (TN) | 4 | | | |
| CASSA RURALE ALTO GARDA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | Arco (TN) | Arco (TN) | 4 | | | |
| CASSA RURALE ADAMELLO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | Tione di Trento (TN) | Pinzolo (TN) | 4 | | | |
| CASSA RURALE DI LEDRO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | Ledro (TN) | Ledro (TN) | 4 | | | |
| CASSA RURALE GIUDICARIE VALSABBIA PAGANELLA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | Storo (TN) | Storo (TN) | 4 | | | |

| COMPANY NAME | Operating headquarters | Registered office | Relationship type (1) | Investment relationship | | Votes available % |
|---|---|---|---|---|---|---|
| | | | | Investing company | % Share | |
| CASSA RURALE VALSUGANA E TESINO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | Borgo Valsugana (TN) | Borgo Valsugana (TN) | 4 | | | |
| CASSA RURALE ROTALIANA E GIOVO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | Mezzolombardo (TN) | Mezzolombardo (TN) | 4 | | | |
| CASSA RURALE DOLOMITI DI FASSA PRIMIERO E BELLUNO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | Moena (TN) | Moena (TN) | 4 | | | |
| CASSA RURALE VAL DI SOLE - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | Malè (TN) | Malè (TN) | 4 | | | |
| CASSA RURALE ALTA VALSUGANA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | Pergine Valsugana (TN) | Pergine Valsugana (TN) | 4 | | | |
| CASSA RURALE VAL DI FIEMME - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | Cavalese (TN) | Cavalese (TN) | 4 | | | |
| CASSA RURALE RENON - COOPERATIVE COMPANY | Collalbo RENON (BZ) | Collalbo RENON (BZ) | 4 | | | |
| CASSA RURALE NOVELLA E ALTA ANAUNIA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | Fondo (TN) | Revò (TN) | 4 | | | |
| CASSA RURALE DI ROVERETO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | Rovereto (TN) | Rovereto (TN) | 4 | | | |
| CASSA RAIFFEISEN DI SAN MARTINO IN PASSIRIA - COOPERATIVE COMPANY | S. Martino in Passiria (BZ) | S. Martino in Passiria (BZ) | 4 | | | |
| CREDITO COOPERATIVO CENTRO CALABRIA - COOPERATIVE COMPANY | Cropani Marina (CZ) | Cropani Marina (CZ) | 4 | | | |
| CASSA RURALE VAL DI NON - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | Cles (TN) | Cles (TN) | 4 | | | |
| CASSA RURALE DI TRENTO, LAVIS, MEZZOCORONA E VALLE DI CEMBRA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | Trento | Trento | 4 | | | |
| CASSA RURALE ALTA VALLAGARINA E LIZZANA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | Volano (TN) | Volano (TN) | 4 | | | |
| BANCA DI CREDITO COOPERATIVO DI ALBEROBELLO E SAMMICHELE DI BARI - COOPERATIVE COMPANY | Alberobello (BA) | Alberobello (BA) | 4 | | | |



| COMPANY NAME | Operating headquarters | Registered office | Relationship type (1) | Investment relationship | | Votes available % |
|---|---|---|---|---|---|---|
| | | | | Investing company | % Share | |
| CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | Leno (BS) | Leno (BS) | 4 | | | |
| BANCA DI CREDITO COOPERATIVO DI AQUARA - COOPERATIVE COMPANY | Aquara (SA) | Aquara (SA) | 4 | | | |
| BANCA DI CREDITO COOPERATIVO DI ANAGNI - COOPERATIVE COMPANY | Anagni (FR) | Anagni (FR) | 4 | | | |
| BANCA DI CREDITO COOPERATIVO DELL'ALTO TIRRENO DELLA CALABRIA VERBICARO - COOPERATIVE COMPANY | Verbicaro (CS) | Verbicaro (CS) | 4 | | | |
| BANCA DI CREDITO COOPERATIVO DI BARLASSINA - COOPERATIVE COMPANY | Barlassina (MB) | Barlassina (MB) | 4 | | | |
| BENE BANCA CREDITO COOPERATIVO DI BENE VAGIENNA (CUNEO) - COOPERATIVE COMPANY | Bene vagienna (CN) | Bene vagienna (CN) | 4 | | | |
| CASSA RURALE ED ARTIGIANA DI BORGO SAN GIACOMO (BRESCIA) - CREDITO COOPERATIVO - COOPERATIVE COMPANY | Borgo San Giacomo (BS) | Borgo San Giacomo (BS) | 4 | | | |
| CASSA RURALE ED ARTIGIANA DI BOVES - BANCA DI CREDITO COOPERATIVO (BOVES-CUNEO) - COOPERATIVE COMPANY | Boves (CN) | Boves (CN) | 4 | | | |
| BANCA DI CARAGLIO, DEL CUNEESE E DELLA RIVIERA DEI FIORI - CREDITO COOPERATIVO - COOPERATIVE COMPANY | Caraglio (CN) | Caraglio (CN) | 4 | | | |
| BANCA DI CREDITO COOPERATIVO DI CASSANO DELLE MURGE E TOLVE - COOPERATIVE COMPANY | Cassano delle Murge (BA) | Cassano delle Murge (BA) | 4 | | | |
| BANCA DI CREDITO COOPERATIVO DI CASTAGNETO CARDUCCI - COOPERATIVE COMPANY | Donoratico (LI) | Castagneto Carducci (LI) | 4 | | | |
| BANCA DI CREDITO COOPERATIVO DELLA ROMAGNA OCCIDENTALE - COOPERATIVE COMPANY | Castel Bolognese (RA) | Castel Bolognese (RA) | 4 | | | |
| BCC FELSINEA - BANCA DI CREDITO COOPERATIVO DAL 1902 - COOPERATIVE COMPANY | San Lazzaro di Savena (BO) | San Lazzaro di Savena (BO) | 4 | | | |
| BANCA DI CREDITO COOPERATIVO DI CHERASCO - COOPERATIVE COMPANY | Rovereto di Cherasco (CN) | Rovereto di Cherasco (CN) | 4 | | | |
| BANCO MARCHIGIANO CREDITO COOPERATIVO | Civitanova Marche (MC) | Civitanova Marche (MC) | 4 | | | |
| BANCA DI CREDITO COOPERATIVO DI CONVERSANO - COOPERATIVE COMPANY | Conversano (BA) | Conversano (BA) | 4 | | | |

| COMPANY NAME | Operating headquarters | Registered office | Relationship type (1) | Investment relationship | | Votes available % |
|---|---|---|---|---|---|---|
| | | | | Investing company | % Share | |
| BANCA CENTRO EMILIA - CREDITO COOPERATIVO - COOPERATIVE COMPANY | Corporeno (FE) | Corporeno (FE) | 4 | | | |
| CASSA RURALE ED ARTIGIANA DI CORTINA D'AMPEZZO E DELLE DOLOMITI - CREDITO COOPERATIVO - COOPERATIVE COMPANY | Cortina d'Ampezzo (BL) | Cortina d'Ampezzo (BL) | 4 | | | |
| BANCA DI CREDITO COOPERATIVO DI FLUMERI - COOPERATIVE COMPANY | Flumeri (AV) | Flumeri (AV) | 4 | | | |
| BANCA DI CREDITO COOPERATIVO VALDOSTANA - COOPERATIVE DE CREDIT VALDOTAINE - COOPERATIVE COMPANY | Aosta | Gressan (AO) | 4 | | | |
| CENTROVENETO BASSANO BANCA - CREDITO COOPERATIVO - COOPERATIVE COMPANY | Longare (VI) | Longare (VI) | 4 | | | |
| BANCA DI CREDITO COOPERATIVO DI LOCOROTONDO CASSA RURALE E ARTIGIANA - COOPERATIVE COMPANY | Locorotondo (BA) | Locorotondo (BA) | 4 | | | |
| CREDITO COOPERATIVO - CASSA RURALE ED ARTIGIANA DEL FRIULI VENEZIA GIULIA - COOPERATIVE COMPANY | Gorizia (GO) | Gorizia (GO) | 4 | | | |
| BANCATER CREDITO COOPERATIVO FVG - COOPERATIVE COMPANY | Udine | Udine | 4 | | | |
| PRIMACASSA - CREDITO COOPERATIVO FVG - COOPERATIVE COMPANY | Martignacco (UD) | Martignacco (UD) | 4 | | | |
| BANCA ALTO VICENTINO - CREDITO COOPERATIVO DI SCHIO, PEDEMONTE E ROANA - COOPERATIVE COMPANY | Schio (VI) | Schio (VI) | 4 | | | |
| BANCA DI CREDITO COOPERATIVO DI BRESCIA - COOPERATIVE COMPANY | Nave (BS) | Brescia | 4 | | | |
| BANCA CENTRO LAZIO CREDITO COOPERATIVO - COOPERATIVE COMPANY | Palestrina (Roma) | Palestrina (Roma) | 4 | | | |
| BANCA DEL TERRITORIO LOMBARDO CREDITO COOPERATIVO - COOPERATIVE COMPANY | Brescia | Brescia | 4 | | | |
| BANCA DI CREDITO COOPERATIVO DEL VELINO - COOPERATIVE COMPANY | Rieti | Posta (RI) | 4 | | | |
| BANCA DI CREDITO COOPERATIVO DI PIANFEI E ROCCA DE' BALDI - COOPERATIVE COMPANY | Pianfei (CN) | Pianfei (CN) | 4 | | | |
| BANCA MONTE PRUNO - CREDITO COOPERATIVO DI FISCIANO, ROSCIGNO E LAURINO - COOPERATIVE COMPANY | Roscigno (SA) | Roscigno (SA) | 4 | | | |



| COMPANY NAME | Operating headquarters | Registered office | Relationship type (1) | Investment relationship | | Votes available % |
|---|---|---|---|---|---|---|
| | | | | Investing company | % Share | |
| BANCA DI CREDITO COOPERATIVO LAUDENSE - LODI - COOPERATIVE COMPANY | Lodi | Lodi | 4 | | | |
| FRIULOVEST BANCA - CREDITO COOPERATIVO - COOPERATIVE COMPANY | San Giorgio della Richinvelda (PN) | San Giorgio della Richinvelda (PN) | 4 | | | |
| BANCA DI CREDITO COOPERATIVO DI SAN GIOVANNI ROTONDO - COOPERATIVE COMPANY | San Giovanni Rotondo (FG) | San Giovanni Rotondo (FG) | 4 | | | |
| BANCA DI CREDITO COOPERATIVO DI SAN MARZANO DI SAN GIUSEPPE - TARANTO - COOPERATIVE COMPANY | San Marzano di San Giuseppe (TA) | San Marzano di San Giuseppe (TA) | 4 | | | |
| BANCA DI CREDITO COOPERATIVO DI CASALGRASSO E SANT'ALBANO STURA - COOPERATIVE COMPANY | Carmagnola (TO) | Sant'Albano Stura (CN) | 4 | | | |
| BANCA DI CREDITO COOPERATIVO DI SARSINA - COOPERATIVE COMPANY | Sarsina (FC) | Sarsina (FC) | 4 | | | |
| ROMAGNABANCA CREDITO COOPERATIVO ROMAGNA EST E SALA DI CESENATICO - COOPERATIVE COMPANY | Bellaria-Igea Marina (RN) | Rubicone (FC) | 4 | | | |
| BANCA DI CREDITO COOPERATIVO DI SPELLO E BETTONA - COOPERATIVE COMPANY | Spello (PG) | Spello (PG) | 4 | | | |
| BANCA DI BOLOGNA CREDITO COOPERATIVO - COOPERATIVE COMPANY | Bologna | Bologna | 4 | | | |
| BANCA DI CREDITO COOPERATIVO DI TURRIACO - COOPERATIVE COMPANY | Turriaco (GO) | Turriaco (GO) | 4 | | | |
| BANCA PREALPI SAN BIAGIO CREDITO COOPERATIVO - COOPERATIVE COMPANY | Tarzo (TV) | Tarzo (TV) | 4 | | | |
| CASSA RURALE ED ARTIGIANA DI VESTENANOVA - CREDITO COOPERATIVO - COOPERATIVE COMPANY | Vestenanova (VR) | Vestenanova (VR) | 4 | | | |
| ZKB CREDITO COOPERATIVO DI TRIESTE E GORIZIA - COOPERATIVE COMPANY | Opicina (TS) | Opicina (TS) | 4 | | | |
| BANCA LAZIO NORD CREDITO COOPERATIVO - COOPERATIVE COMPANY | Viterbo | Viterbo | 4 | | | |
| BANCA DI CREDITO COOPERATIVO LA RISCOSSA DI REGALBUTO - COOPERATIVE COMPANY | Regalbuto (EN) | Regalbuto (EN) | 4 | | | |
| BANCA DI CREDITO COOPERATIVO SANGRO TEATINA DI ATESSA | Atessa (CH) | Atessa (CH) | 4 | | | |

| COMPANY NAME | Operating headquarters | Registered office | Relationship type (1) | Investment relationship | | Votes available % |
|---|---|---|---|---|---|---|
| | | | | Investing company | % Share | |
| BANCA ADRIA COLLI EUGANEI - CREDITO COOPERATIVO - COOPERATIVE COMPANY | Adria (RO) | Adria (RO) | 4 | | | |
| BANCA SICANA - CREDITO COOPERATIVO DI SOMMATINO, SERRADIFALCO E SAMBUCA DI SICILIA - COOPERATIVE COMPANY | Caltanissetta | Caltanissetta | 4 | | | |
| ROVIGOBANCA CREDITO COOPERATIVO - COOPERATIVE COMPANY | Rovigo | Rovigo | 4 | | | |
| **A.2 ENTITIES CONSOLIDATED ON A LINE-BY-LINE BASIS OTHER THAN COHESION CONTRACT** | | | | | | |
| AZIENDA AGRICOLA ANTONIANA S.r.l. | Leno (BS) | Leno (BS) | 1 | CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | 100.00 | 100.00 |
| BENACO GESTIONI IMMOBILIARI S.r.l. | Leno (BS) | Leno (BS) | 1 | CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | 100.00 | 100.00 |
| NORD EST ASSET MANAGEMENT SA | Lussemburgo | Lussemburgo | 1 | CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.p.A. | 100.00 | 100.00 |
| ALLITUDE S.p.A. | Trento | Trento | 1 | CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.p.A. | 86,62 | 86,62 |
| | | | | CESVE SPA CONSORTILE | 8,87 | 8,87 |
| | | | | OTHER MINORITY INTERESTS | 2,89 | 2,89 |
| | | | | | 98,38 | 98,38 |
| CESVE SPA CONSORTILE | Padova | Padova | 1 | CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.p.A. | 71.43 | 71.43 |
| | | | | ALLITUDE S.p.A. | 25.07 | 25.07 |
| | | | | OTHER MINORITY INTERESTS | 1.81 | 1.81 |
| | | | | | 98.31 | 98.31 |
| ASSICURA AGENZIA S.r.l. | Udine | Udine | 1 | CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.p.A. | 100.00 | 100.00 |
| ASSICURA BROKER S.r.l. | Trento | Trento | 1 | ASSICURA AGENZIA S.r.l. | 100.00 | 100.00 |
| CENTRALE CREDIT SOLUTIONS S.r.l. | Trento | Trento | 1 | CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.p.A. | 100.00 | 100.00 |
| CLARIS LEASING S.p.A. | Treviso | Treviso | 1 | CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.p.A. | 100.00 | 100.00 |
| CENTRALE SOLUZIONI IMMOBILIARI S.r.l. | Trento | Trento | 1 | CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.p.A. | 100.00 | 100.00 |
| BANCA DI BOLOGNA REAL ESTATE S.p.A. | Bologna | Bologna | 1 | BANCA DI BOLOGNA CREDITO COOPERATIVO - COOPERATIVE COMPANY | 100.00 | 100.00 |



| COMPANY NAME | Operating headquarters | Registered office | Relationship type (1) | Investment relationship | | Votes available % |
|---|---|---|---|---|---|---|
| | | | | Investing company | % Share | |
| IMMOBILIARE VILLA SECCAMANI S.r.l. | Leno (BS) | Leno (BS) | 1 | CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | 100.00 | 100.00 |
| **A.3 ENTITIES CONTROLLED BUT CONSOLIDATED AT EQUITY FOR MATERIALITY LIMITS** | | | | | | |
| CA' DEL LUPO | Leno (BS) | Leno (BS) | 1 | CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | 100.00 | 100.00 |
| AGORA' S.r.l. | Leno (BS) | Narbolia (OR) | 1 | CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | 100.00 | 100.00 |
| TAVERNOLE IDROELETTRICA S.r.l. | Tavernole sul Mella (BS) | Tavernole sul Mella (BS) | 1 | CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | 55.00 | 55.00 |
| DOMINATO LEONENSE | Leno (BS) | Leno (BS) | 1 | CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | 50.00 | 50.00 |
| IS ARENAS CAMPING VILLAGE S.r.l. | Leno (BS) | Narbolia (OR) | 1 | CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | 90.00 | 90.00 |
| BOLOGNA SERVIZI BANCARI S.r.l. | Bologna | Bologna | 1 | ALLITUDE S.p.A. | 57.14 | 57.14 |
| BTV GESTIONI S.r.l. | Brescia | Brescia | 1 | BANCA DEL TERRITORIO LOMBARDO CREDITO COOPERATIVO - COOPERATIVE COMPANY | 100.00 | 100.00 |
| CENTRALE CASA S.r.l. | Trento | Trento | 1 | CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.p.A. | 100.00 | 100.00 |
| IMMOBILIARE BCC DI BRESCIA S.r.l. | Nave (BS) | Nave (BS) | 1 | BANCA DI CREDITO COOPERATIVO DI BRESCIA - COOPERATIVE COMPANY | 100.00 | 100.00 |
| LOB SOFTWARE S.r.l. | Leno (BS) | Leno (BS) | 1 | CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | 100.00 | 100.00 |
| RAIFFEISEN IMMOBILIEN S.r.l. | Renon (BZ) | Renon (BZ) | 1 | CASSA RURALE RENON - COOPERATIVE COMPANY | 100.00 | 100.00 |
| VERDEBLU IMMOBILIARE | Cherasco (CN) | Cherasco (CN) | 1 | BANCA DI CREDITO COOPERATIVO DI CHERASCO - COOPERATIVE COMPANY | 100.00 | 100.00 |
| CASSA RURALE ALTA VALSUGANA SOLUZIONI IMMOBILIARI S.r.l. | Pergine Valsugana (TN) | Pergine Valsugana (TN) | 1 | CASSA RURALE ALTA VALSUGANA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | 100.00 | 100.00 |
| QUADRIFOGLIO 2018 S.r.l. | Castenaso (BO) | Castenaso (BO) | 1 | BCC FELSINEA - BANCA DI CREDITO COOPERATIVO DAL 1902 - COOPERATIVE COMPANY | 100.00 | 100.00 |
| SOCIETA' AGRICOLA TERRE DELLA ROCCA S.r.l. | Bologna | Bologna | 1 | BANCA DI BOLOGNA REAL ESTATE | 100.00 | 100.00 |

| COMPANY NAME | Operating headquarters | Registered office | Relationship type (1) | Investment relationship | | Votes available % |
|---|---|---|---|---|---|---|
| | | | | Investing company | % Share | |
| ASSICURA S.r.l. | Udine | Udine | 1 | BANCATER CREDITO COOPERATIVO FVG - COOPERATIVE COMPANY | 22.80 | 22.80 |
| | | | | PRIMACASSA - CREDITO COOPERATIVO FVG - COOPERATIVE COMPANY | 19.68 | 19.68 |
| | | | | CREDITO COOPERATIVO - CASSA RURALE ED ARTIGIANA DEL FRIULI VENEZIA GIULIA - COOPERATIVE COMPANY | 12.34 | 12.34 |
| | | | | ZKB CREDITO COOPERATIVO DI TRIESTE E GORIZIA - COOPERATIVE COMPANY | 11.35 | 11.35 |
| | | | | OTHER MINORITY INTERESTS | 11.46 | 11.46 |
| | | | | | 77.63 | 77.63 |
| TEMA S.r.l. | Bologna | Bologna | 1 | BANCA DI BOLOGNA REAL ESTATE | 71.43 | 71.43 |
| PRESTIPAY SPA | Udine | Udine | 1 | CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.p.A. | 60.00 | 60.00 |
| ANTICA VALLE DEL PO S.r.l. | Motta Baluffi (CR) | Motta Baluffi (CR) | 1 | CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | 100.00 | 100.00 |
| CLARIS RENT S.p.A. | Treviso | Treviso | 1 | CLARIS LEASING | 100.00 | 100.00 |
| DOMINATO LEONENSE S.r.l. | Milano | Milano | 4 | CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | 0.00 | 0.00 |
| FONDO LEONIDA | Verona | Verona | 4 | BANCA DEL TERRITORIO LOMBARDO CREDITO COOPERATIVO - COOPERATIVE COMPANY | 0.00 | 0.00 |

(1) Relationship type:
1 = majority of voting rights in the ordinary shareholders' meeting
2 = dominant influence in the ordinary shareholders' meeting
3 = agreements with other shareholders
4 = other forms of control
5 = unitary management pursuant to Article 39, paragraph 1, of "Legislative Decree 136/2015"
6 = unitary management pursuant to Article 39, paragraph 2, of "Legislative Decree 136/2015"

## Structured entities

In accordance with IFRS 12 paragraph B21, there are defined entities structured so that voting or similar rights are not the predominant factor in determining who controls the entity.

Structured entities have all or some of the following characteristics:

- limited activities;
- a limited and well-defined social purpose;
- insufficient equity to allow the structured entity to finance its activities without subordinated financial support;
- loans by investors that create concentrations of credit risk or other risks (tranches).

Structured entities subject to consolidation are those over which the Cassa Centrale Group has the power over the entity's relevant activities and is exposed to the variability of their returns, by virtue of the financial instruments underwritten.

As at the reporting date, the Cassa Centrale Group consolidated at equity, because it was below materiality limit, the Fondo Leonida (closed-end alternative real estate investment fund) by virtue of the financial instruments subscribed (fund units), financial support to the fund and exposure to the variability of returns on the fund's relevant activities.

## Associates

An associate is a company in which the investing company has significant influence and which is not a subsidiary or part of a joint venture. Significant influence is presumed when the investing company holds, directly or indirectly, at least 20% of the capital of another company. Further indicators of significant influence are as follows:

- representation on the company's governance body;
- participation in the process of defining policies, including therein participation in decisions relating to dividends or other profit distributions;
- the existence of significant transactions between the investor and the investee company;
- the exchange of managerial personnel;
- provision of essential technical information.

Equity investments in associates are consolidated according to the equity method. The equity method provides for the initial recognition of the investment at cost and its subsequent value adjustment based on the share of the investee company's equity. The equity investment in associates includes goodwill (net of any impairment) paid for the acquisition. Participation in the post-acquisition profits and losses of associates is booked to the consolidated income statement under item 250. Profits (losses) on equity investments.

Any distribution of dividends is used to reduce the carrying amount of the equity investment.

If the interest in the losses of an associate is equal to or exceeds the carrying amount of the investee, no further losses are recognised, unless specific obligations have been undertaken in favour of the associate or payments have been made to said entity.

The valuation reserves of the associates are shown separately in the consolidated statement of comprehensive income.

The full scope of the investments in associates belonging to the Cassa Centrale Group as at 30 June 2020 is shown below.

| NAME | Registered office | Operating Headquarters | Relationship type | Investment relationship | | Votes available % |
|---|---|---|---|---|---|---|
| | | | | Investing company | % Share | |
| **B. COMPANIES SUBJECT TO A SIGNIFICANT INFLUENCE** | | | | | | |
| LE CUPOLE | Manerbio (BS) | Manerbio (BS) | 4 | CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | 22.00 | 22.00 |
| FINANZIARIA TRENTINA DELLA COOPERAZIONE | Trento | Trento | 4 | CASSA RURALE ALTA VALSUGANA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | 7.19 | 7.19 |
| | | | | CASSA RURALE ALTO GARDA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | 6.53 | 6.53 |
| | | | | CASSA RURALE DI TRENTO, LAVIS, MEZZOCORONA E VALLE DI CEMBRA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | 8.48 | 8.48 |
| | | | | CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.p.A. | 4.08 | 4.08 |
| | | | | CASSA RURALE DOLOMITI DI FASSA PRIMIERO E BELLUNO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | 3.26 | 3.26 |
| | | | | CASSA RURALE VAL DI FIEMME - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | 3.12 | 3.12 |
| | | | | CASSA RURALE VAL DI NON - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | 2.96 | 2.96 |
| | | | | CASSA RURALE VALSUGANA E TESINO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | 2.88 | 2.88 |
| | | | | CASSA RURALE ADAMELLO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | 2.45 | 2.45 |
| | | | | OTHER MINORITY INTERESTS | 6.56 | 6.56 |
| | | | | | 47.51 | 47.51 |
| PARTECIPAZIONI COOPERATIVE S.r.l. | Trento | Trento | 4 | CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.p.A. | 13.92 | 13.92 |
| | | | | CASSA RURALE ALTA VALSUGANA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | 5.1 | 5.1 |
| | | | | CASSA RURALE DI TRENTO, LAVIS, MEZZOCORONA E VALLE DI CEMBRA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | 6.96 | 6.96 |
| | | | | CASSA RURALE VAL DI NON - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | 3.71 | 3.71 |
| | | | | CASSA RURALE ALTO GARDA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | 3.48 | 3.48 |
| | | | | CASSA RURALE DOLOMITI DI FASSA PRIMIERO E BELLUNO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | 2.32 | 2.32 |
| | | | | CASSA RURALE DI ROVERETO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | 2.32 | 2.32 |
| | | | | CASSA RURALE VAL DI FIEMME - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | 2.32 | 2.32 |
| | | | | CASSA RURALE VALLAGARINA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | 2.09 | 2.09 |
| | | | | OTHER MINORITY INTERESTS | 6.27 | 6.27 |
| | | | | | 48.49 | 48.49 |
| CENTRALE TRADING | Trento | Trento | 4 | CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.p.A. | 32.5 | 32.5 |
| | | | | ALLITUDE S.p.A. | 10 | 10 |
| | | | | | 42.5 | 42.5 |
| SCOUTING S.p.A. | Bellaria - Igea Marina (RN) | Bellaria - Igea Marina (RN) | 4 | CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.p.A. | 8.26 | 8.26 |
| | | | | ROMAGNABANCA CREDITO COOPERATIVO ROMAGNA EST E SALA DI CESENATICO - COOPERATIVE COMPANY | 6 | 6 |
| | | | | CASSA RURALE ALTA VALSUGANA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | 6.29 | 6.29 |
| | | | | BANCA MALATESTIANA - CREDITO COOPERATIVO - COOPERATIVE COMPANY | 4.65 | 4.65 |

| NAME | Registered office | Operating Headquarters | Relationship type | Investment relationship | | Votes available % |
|---|---|---|---|---|---|---|
| | | | | Investing company | % Share | |
| | | | | BANCA PREALPI SAN BIAGIO CREDITO COOPERATIVO - COOPERATIVE COMPANY | 4.65 | 4.65 |
| | | | | | 29.85 | 29.85 |
| FORMAZIONE LAVORO SOCIETA' CONSORTILE PER AZIONI | Trento | Trento | 4 | CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.p.A. | 22.21 | 22.21 |
| | | | | CASSA RURALE ALTA VALSUGANA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | 1.64 | 1.64 |
| | | | | CASSA RURALE VAL DI NON - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | 1.52 | 1.52 |
| | | | | CASSA RURALE ALTO GARDA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | 1.27 | 1.27 |
| | | | | CASSA RURALE VALLAGARINA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | 1.23 | 1.23 |
| | | | | OTHER MINORITY INTERESTS | 7.58 | 7.58 |
| | | | | | 35.45 | 35.45 |
| CABEL HOLDING S.p.A. | Empoli (FI) | Empoli (FI) | 4 | BANCA DI CREDITO COOPERATIVO DI CASTAGNETO CARDUCCI - COOPERATIVE COMPANY | 19.5 | 19.5 |
| | | | | CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.p.A. | 7.66 | 7.66 |
| | | | | BANCA LAZIO NORD CREDITO COOPERATIVO - COOPERATIVE COMPANY | 2.01 | 2.01 |
| | | | | | 29.17 | 29.17 |
| SERENA S.r.l. | Manzano (UD) | Manzano (UD) | 4 | BANCATER CREDITO COOPERATIVO FVG - COOPERATIVE COMPANY | 29.06 | 29.06 |
| RITTNERHORN SEILBAHNEN AG | Renon (BZ) | Renon (BZ) | 4 | CASSA RURALE RENON - COOPERATIVE COMPANY | 26.51 | 26.51 |
| SENIO ENERGIA S.r.l. | Faenza (RA) | Faenza (RA) | 4 | BANCA DI CREDITO COOPERATIVO DELLA ROMAGNA OCCIDENTALE - COOPERATIVE COMPANY | 22.22 | 22.22 |
| RENDENA GOLF S.p.A. | Bocenago (TN) | Bocenago (TN) | 4 | CASSA RURALE ADAMELLO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | 24.76 | 24.76 |



| NAME | Registered office | Operating Headquarters | Relationship type | Investment relationship | | Votes available % |
|---|---|---|---|---|---|---|
| | | | | Investing company | % Share | |
| SERVIZI E FINANZA FVG S.r.l. | Udine | Udine | 4 | CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.p.A. | 24.51 | 24.51 |
| CONNESSIONI - IMPRESA SOCIALE S.r.l. | Brescia | Brescia | 4 | CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | 30 | 30 |
| CHIESE 2015 S.r.l. | Brescia | Brescia | 4 | BANCA DEL TERRITORIO LOMBARDO CREDITO COOPERATIVO - COOPERATIVE COMPANY | 33.33 | 33.33 |

1 - majority of voting rights in the ordinary shareholders' meeting
2 - dominant influence in the ordinary shareholders' meeting
3 - agreements with other shareholders
4 - company subject to a significant influence
5 - unitary management pursuant to Article 26, paragraph 1, of "Legislative Decree 87/92"
6 - unitary management pursuant to Article 26, paragraph 2, of "Legislative Decree 87/92"
7 - joint ventures
8 - Other type of relationship.

## Jointly controlled companies

A joint arrangement is a contractual agreement in which two or more counterparties have joint control.

Joint control is the sharing, on a contractual basis, of control of an agreement, which exists solely when the unanimous consent of all parties that share control is required for decisions relating to significant assets. According to IFRS 11, joint arrangements must be classified as joint operations or joint ventures based on the contractual rights and obligations held by the Group.

A joint operation is a joint arrangement in which the parties have rights over the assets and obligations with respect to the liabilities of the agreement. A joint venture is a joint arrangement in which the parties have rights over the net assets of the agreement.

The full scope of the investments in jointly controlled companies forming part of the Cassa Centrale Group as at 30 June 2020 is shown below.

| NAME | Registered office | Operating Headquarters | Relationship Type | Investment relationship | | Votes available % |
|---|---|---|---|---|---|---|
| | | | | Investing company | % Share | |
| **A. JOINTLY CONTROLLED COMPANIES** | | | | | | |
| CASSE RURALI RAIFFEISEN FINANZIARIA S.p.A. | Bolzano | Bolzano | 7 | CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.p.A. | 50.00 | 50.00 |
| FRONTE PARCO IMMOBILIARE S.r.l. | Bologna | Bologna | 7 | BANCA DI BOLOGNA CREDITO COOPERATIVO - COOPERATIVE COMPANY | 50.00 | 50.00 |

1 - majority of voting rights in the ordinary shareholders' meeting
2 - dominant influence in the ordinary shareholders' meeting
3 - agreements with other shareholders
4 - company subject to a significant influence
5 - unitary management pursuant to Article 26, paragraph 1, of "Legislative Decree 87/92"
6 - unitary management pursuant to Article 26, paragraph 2, of "Legislative Decree 87/92"
7 - joint ventures
8 - Other type of relationship.

## Significant valuations and assumptions for determining the scope of consolidation

The scope of consolidation is determined in compliance with the provisions contained in international accounting standard IFRS 10 Consolidated Financial Statements, which came into force in 2014. Based on this principle, the control requirement forms the basis of the consolidation of all types of entities, including structured entities when the conditions are met, and is realised when an investor simultaneously has:

- the power to determine the relevant activities of the entity;
- is exposed to or benefits from the variable returns deriving from its involvement with the entity;
- the ability to exercise its power to influence the amount of its returns (link between power and returns).

IFRS 10 establishes that, to have control, the investor must have the ability to direct the relevant activities of the entity, based on a legal right or mere de facto situation, and also be exposed to the variability of the results stemming from this power.

The Cassa Centrale Group therefore consolidates all types of entities when all three elements of control are present.

Generally, when an entity is directed through voting rights, control derives from holding more than half of the voting rights.

In other cases, determination of the scope of consolidation calls for consideration of all factors and circumstances that give the investor the practical ability to unilaterally manage the relevant activities of the entity (de facto control). To this end, it is necessary to consider a collection of factors, such as, merely by way of an example:

- the scope and design of the entity;
- the identification of the relevant activities and how they are managed;
- any right held through contractual agreements which confer the power to govern the relevant activities, such as the power to determine the financial and operating policies of the entity, the power to exercise the majority of voting rights in the decision-making body or the power to appoint or remove the majority of the body with decision-making functions;
- any potential voting rights exercisable and considered substantial;
- involvement in the entity in the role of agent or principal;
- the nature and the dispersion of any rights held by other investors.

With reference to the Group's situation at the date of these consolidated financial statements, all companies in which the majority of voting rights in the ordinary shareholders' meeting are held are considered wholly-owned subsidiaries, given that no evidence has been highlighted that the other investors have the practical ability to direct the relevant activities.

For companies in which half or less of voting rights are held, at the date of these consolidated financial statements, no agreement, statutory clause or situation able to attribute the Cassa Centrale Group the practical capacity to unilaterally govern the relevant activities were identified.

## Equity investments in wholly-owned subsidiaries with significant third-party interests

At the date of these condensed half-yearly consolidated financial statements, there are no subsidiaries through an equity relationship with significant third-party interests.

## Significant restrictions

At the date of these consolidated financial statements, there are no legal or substantive obligations or restrictions able to obstruct the rapid transfer of capital resources within the Group. The only restrictions are those attributable to regulatory provisions which may require a minimum amount of regulatory capital to be retained, or to the provisions of the Italian Civil Code on distributable profits and reserves.

It should be noted that there are no protective rights held by minorities able to limit the Group's capacity to access or transfer assets between Group companies or settle the Group's liabilities, including in relation to the fact that, as at 30 June 2020, there are no subsidiaries with significant third-party interests, as stated in the previous paragraph.

## Other Information

The accounting positions forming the basis of the line-by-line consolidation process are those relating to 30 June 2020, as approved by the competent bodies of the consolidated companies adjusted, where necessary, to bring them into line with the homogeneous accounting standards of the Group.

The most recent (annual or interim) financial statements approved by the companies were used for the consolidation of jointly controlled companies and equity investments in associates. In cases where the companies do not apply IAS/IFRS, it is verified that any application of IAS/IFRS would not have had a significant impact on the consolidated financial statements of the Cassa Centrale Group.

# Section 4 - Subsequent events

In the period between the date of the condensed half-yearly consolidated financial statements as at 30 June 2020 and their approval by the Board of Directors, no events occurred which result in an amendment of the figures approved.

Given the above, below is a description of the main events that occurred after 30 June 2020.

### Launch of the Comprehensive Assessment

The Comprehensive Assessment (hereinafter also "CA") represents an in-depth assessment, pursuant to the Regulation on the Single Supervisory Mechanism (EU Regulation no. 1024 of the Council dated 15 October 2013), aimed at ensuring that banks are adequately capitalised and can sustain macroeconomic and financial shocks. This assessment consists mainly of the following elements:

- an Asset Quality Review (hereinafter also referred to as AQR) aimed at improving the transparency of bank exposures through an analysis of the quality of banks' assets;

- a stress test to verify the stability of banking financial statements in ordinary and adverse scenarios (Comprehensive Assessment Stress Test, hereinafter also "CAST").

Since 2018, the Parent Company, in agreement with its Affiliated Banks, has carried out a series of preparatory activities for CA, strengthening data quality processes and implementing control tools useful for monitoring and overseeing both the Asset Quality Review process and the Stress Test, based on the methodology of the European Banking Authority ("EBA").

At the beginning of 2020, the European Central Bank officially launched the exercise of CA, referring to the initial situation as at 31 December 2019, composed of both AQR and CAST components.

However, due to the health emergency linked to the spread of the Covid-19 epidemic, AQR-related activities were interrupted by the European Supervisory Authority.

With regard to the CAST, at the beginning of February 2020 a comprehensive planning was defined and communicated by the European Supervisory Authority, from the Advance Data Collection ("ADC", consisting of the representation of the final data relating to the GBC) to the delivery of the different versions of the three-year projections in ordinary and adverse scenarios (so-called Full Data Collection, "FDC"). However, due to the health emergency triggered by the Covid-19 pandemic, the GBC was able to complete only the first phase, with the ADC submitted on 9 March 2020, since the exercise was then suspended by the ECB just a few days before the conclusion of the second phase, i.e. the transmission of the first FDC projections, with expiry originally set for 31 March 2020.

During August, the Supervisory Authority indicated the upcoming re-launch of the entire Comprehensive Assessment exercise, communicating both for the asset quality review (AQR) and the Stress Test of the new timelines. Therefore, as of today's date, the activities are ongoing and are expected to be concluded in the first few months of 2021, with the results achieved.

### CARIGE transaction

With reference to the Carige transaction, starting from 7 August 2020, following the communication of the latter to the market, the Virtual Data Room was opened for the launch by Cassa Centrale Banca of due diligence activities and verification of the conditions for the possible exercise of the call option for the purchase of all the equity investments pertaining to the Interbank Deposit Protection Fund and to the Voluntary Intervention Scheme, under the option agreement stipulated with the aforementioned parties on 9 August 2019. At the date of approval of this consolidated financial report, analyses are underway in view of the subsequent valuation.

### Impaired asset reduction

After 30 June 2020, Cassa Centrale Banca continued its operational plan to reduce the non-performing loans of the Group, also launching an important multi-originator securitisation with GACS, the so-called Buonconsiglio 3, which will involve the sale of approximately 430 million gross non-performing loans belonging to the Cassa Centrale Banking Group.

The transaction, with a cut-off date set for 31 July 2020, which sees as arranger Centrale Credit Solutions S.r.l. and co-arranger Intesa SanPaolo, will be completed by December 2020. The above-mentioned transaction aims to improve the quality of the assets thanks to the derecognition from the financial statements of the banks of the impaired assets falling within the scope of sale.

### Business combinations between banks

During the second half of 2020, the European Central Bank authorised two further business combinations between Affiliated Banks of the Group. In particular:

- Cassa Rurale Giudicarie Vals Veneta Paganella - Cassa Rurale Adamello: effective from 1 October 2020, Trentino-Alto Adige region;
- Centroveneto Bassano Banca - Rovigo Banca: effective from 1 November 2020, Veneto region.

These business combinations pursue stability, efficiency and competitiveness objectives and have no impact on the consolidated financial position as they are mergers of entities under common control.

### Rating

In October 2020, at the end of the audit period, the rating agency Moody's updated the ratings of Cassa Centrale Banca, Parent Company of the Cooperative Banking Group, raising its rating on long-term deposits from Baa3 to Baa1, confirming the long-term issuer rating at Ba1 and updating the long-term outlook from under observation to negative.



### Covid-19, developing context

The event with the greatest impact, also prospectively, for the first half of 2020 was the health emergency caused by the spread of Covid-19 and its consequences on the real economy.

The reference context in the second half of the year remains critical and fragile for both aspects.

The epidemics continues to represent a threat to public health. In September, there was a progressive new increase in cases in many areas of Europe, and several countries reintroduced social distancing measures as well as territorial and specific lockdowns in order to limit the spread of the virus. Also in Italy the contagion curve has started to rise again and in October 2020 the Government ordered the extension of the emergency status until 31 January 2021, introducing new measures aimed at protecting the health of citizens and imposing an extension of the obligation to use individual medical protection devices. As a result of the increase in the number of cases and the consequent pressure on the Italian health system, on 25 October 2020 a President of the Minister Council Decree was issued, which imposes certain new restrictive measures, with particular reference to certain economic sectors such as catering and amateur sports associations.

Also from an economic point of view, the situation is characterised by many uncertainties. Having observed the first direct effects of the economic recession deriving from the spread of Covid-19, the indirect effects remain uncertain and potentially destined to persist over time and with dissimilar impacts in the various sectors of the economy.

Taking the above into account, the Group is monitoring the phenomenon in order to adequately respond to the evolving situation while seeking the most appropriate solutions to safeguard and protect the health of workers, customers and suppliers, support customers and the territory and keep its risk profile constantly monitored.

## Section 5 - Other matters

### a) Newly applied accounting standards in the first half of 2020

During the first half of 2020, the following standards and interpretations entered into effect:

- amendments to IFRS 3: definition of a business (Regulation (EU) 2020/551), in order to address the concerns highlighted by the post-implementation review of IFRS 3 Business combinations regarding the difficulties encountered in the practical application of the definition of a "business";
- amendments to IFRS 9, IAS 39 and IFRS 7 on hedge accounting with a view to regulating the effects of the Interest Rate Benchmark reform on existing hedges and the designation of new hedging relationships (Regulation (EU) no. 2020/34);
- amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors with the aim of clarifying the definition of material information and improving its understanding (Regulation no. 2104/2019);
- amendments to the references to IFRS Conceptual Framework aimed at updating the existing references to the previous Conceptual Framework in various accounting standards and interpretations, replacing them with references to the revised Conceptual Framework (Regulation (EU) 2075/2019).

The above-mentioned amendments had no impact on the Group's statement of financial position and income statement as at 30 June 2020.

### b) Approved accounting standards that will become effective after the reference date of these financial statements

There are no standards and interpretations approved after 30 June 2020.

### c) Accounting standards still not endorsed which will enter into force in the next few years

The following amended accounting principles, instead, have not yet been endorsed by the European Commission:

- IAS 1 Presentation of financial statements Classification of liabilities as current or non-current (January 2020);
- IAS 16 Property, plant and equipment;
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets as

Annual Improvements Cycle (May 2020);

- IFRS 3 Business combinations;
- IFRS 4 Insurance Contracts - changes to IFRS 9 (June 2020);
- IFRS 14 Regulatory deferral accounts (January 2014);
- IFRS 16 Covid-19-Related Rent Concessions (May 2020);
- IFRS 17 Insurance contracts (May 2017);

### d) Methods of application of the international accounting standards in the context of the Covid-19 pandemic

The European regulatory and supervisory bodies, as well as the standard setters, have published a series of interventions also aimed at clarifying the methods of application of the international accounting standards, with particular reference to IFRS 9, in the current context of the COVID 19 pandemic.

Particularly with reference to the European regulatory and supervisory bodies, the main interventions are reported below.

At the monetary policy meeting held on 12 March 2020, the Governing Council of the ECB decided to adopt a structured set of monetary policy measures to support the liquidity and financing conditions for households, businesses and banks, as well as to contribute to preserving the fluid disbursement of credit to the real economy.

On 1 April 2020, with the letter "IFRS 9 in the context of the coronavirus (COVID 19) pandemic", ECB invites banks to opt for the application of the transitional provisions of IFRS 9 envisaged by the CRR and provides some important indications aimed at avoiding the use of excessively pro-cyclical assumptions in determining expected losses on loans pursuant to IFRS 9.

In particular, in the above letter of 1 April 2020, the ECB draws attention to the need to consider the significant increase in credit risk on a collective basis if the entity is unable to identify the credit risk indicators with reference to the individual financial instruments, thus seeking, in accordance with the provisions of the accounting standard (IFRS 9 B5.5.1-6), to best approximate the effects that would have been obtained with a specific valuation. With reference to the definition of macroeconomic scenarios for the forward looking conditioning of the expected loss, the ECB highlighted, among other things, some key aspects mentioned below:

- expansion of the time horizon relating to macroeconomic forecasts, using information that covers at least one or more economic cycles;
- identification of an adequate weighting factor in order to reflect in the model the probability of occurrence of each scenario used (best, baseline, worst);
- the smoothing process of the weighting factor, which is carried out by applying a higher weighting to short-term prospects and then systematically reducing it based on the loss of importance in longer time horizons.

With regard to macroeconomic projections, the ECB recommends using as a reference point (so-called "Anchor Point") the projections formulated by its staff on 12 March 2020 and subsequently updated on 4 June 2020 for accounting closures as at 31 March 2020 and 30 June 2020, respectively. The projections as at 4 June 2020 show, with reference to the baseline scenario, a drastic reduction in the GDP of the Euro Area in 2020 by 8.7% and a subsequent rebound of 5.2% and 3.3% in 2021 and 2022, respectively. On 5 June 2020, the Bank of Italy issued the baseline forecasts included in the above-mentioned projections issued by the ECB on 4 June 2020, highlighting a more marked reduction in Italian GDP by 9.2% in 2020 and a subsequent rebound of 4.8% and 2.5% in 2021 and 2022, respectively.

From a different perspective, on 25 March 2020, with the document "Statement on the application of the prudential framework relating to default, forbearance and IFRS 9 on the basis of COVID 19 measures", the EBA provides guidelines and clarifications on loans subject to moratorium, whether legal or private, in relation to the aspects of their classification as default, forbearance measures and, lastly, staging pursuant to IFRS 9. In particular, in the afore-mentioned document, the EBA clarifies that the moratorium event, by itself, does not automatically imply the debtor's classification as defaulting and excludes that the moratoria granted on a large scale to performing customers at the date of the moratorium and with financial equivalence can be considered as forbearance measures. Again in the document in question, the EBA also clarifies that moratoria of this type do not by themselves indicate a significant increase in credit risk, thus leading to a confinement to stage 2 of the loan.

Lastly, on 2 April 2020, with the document "Final Report on Payment Moratoria 'Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID 19 crisis', the EBA detailed the criteria that must be met by the afore-mentioned moratoria for these not to apply the forbearance classification.

On 25 March 2020, with the public statement "Accounting implications of the COVID 19 outbreak on the calculation of expected credit losses in accordance with IFRS 9", the ESMA, in line with the guidelines and clarifications provided by the other supervisory bodies (ECB) and regulatory authorities (EBA), clarified that the measures for the suspension of payments granted to debtors in response to the pandemic crisis do not automatically result in a significant increase in credit risk and thus the related confinement to stage 2 of the position. With the document in question, the ESMA also highlighted some crucial issues regarding the measurement of impairment losses such as: the impacts on the expected loss connected with the sudden change in the macroeconomic scenario; uncertainty in the estimates due to the lack of available and reliable information; the inclusion in the valuations of the measures launched by the governments to support the real economy.

With regard to the transparency of the financial statements, with the document of 11 March 2020 "ESMA recommends action by financial market participants for COVID-19 impact", ESMA provided guidelines and recommendations so that the financial disclosure of the issuers provides the current and potential qualitative and - "as far as possible" - quantitative impacts of the pandemic scenario on the respective financial and economic situations. These disclosures must be provided on the basis of the information available at the date of approval of the half-yearly financial statements by the management body.

Lastly, ESMA ordered issuers to consider whether the effects of the pandemic represented a trigger event for the purpose of carrying out the impairment test on goodwill and other intangible assets with an indefinite useful life in the interim financial statements as at 30 June 2020. IAS 36 provides for the performance of the test at least on an annual basis, at the time of preparation of the financial statements.

With reference to the main interventions by standard setters, the IFRS Foundation, with the document of 27 March 2020 "Accounting for expected credit losses applying IFRS 9 Financial Instruments in the light of current uncertainty resulting from the COVID 19 pandemic", while not amending the current standard, confirms, in line with the EBA guidelines, that the government measures to support the real economy do not represent a trigger event of a significant increase in credit risk and that, therefore, it is necessary for the entities that draft the financial statements to run an analysis of the conditions in which these measures are implemented. Lastly, the IFRS Foundation, while recognising the difficulties in incorporating the effects of the pandemic and the related support measures in the models, invites to also take into consideration any top-down adjustments to the IFRS 9 impairment model used.

In preparing the financial reporting as at 30 June 2020, the Cassa Centrale Group adopted the guidelines and recommendations coming from the above-mentioned European regulatory bodies, supervisory bodies and standard setters. The support measures put in place by the Government in favour of households and businesses were also considered in the assessments of the relevant corporate activities.

The main areas of the financial statements most affected by the effects of the pandemic and the related accounting choices made by the Cassa Centrale Group as at 30 June 2020 are shown below.

### Classification and measurement of loans to customers based on the IFRS 9 general impairment model

For the purpose of calculating the Expected Loss as at 30 June 2020, the Cassa Centrale Group incorporated macroeconomic scenarios into its IFRS 9 impairment model, supplementing the effects of the Covid-19 health emergency, as per the indications of the European Central Bank in the aforementioned letter of 1 April 2020.

In particular, the macroeconomic forecasts relating to the growth prospects of the Euro Area countries developed by the ECB together with the individual central banks, including the Bank of Italy, and published on 4 June 2020 as "anchor point" of the internal forecasts were used.

The forecasts produced by the central authorities mainly refer to a "baseline" scenario, but they were issued to make an alternative "adverse" scenario available at the same time, while only a few general indications were provided on a "mild" scenario. In this regard, the "mild" scenario was implemented following the information contained in the ECB and Bank of Italy documents, applying the GDP growth profile of the Euro Area indicated while maintaining the unemployment and inflation rates for Italy on values compatible with those specified for the Euro Area.

In order to limit the volatility inherent in the short-term forecasts, as recommended by the ECB, the forecast period was extended to the 2023-2024 two-year period, incorporating the information included in the aforementioned ECB/Bank of Italy forecasts, limited to the 2020-2022 three-year period, as a restriction in the set of forecast data developed internally, the latter being consistent with the Prometeia Forecast Report of May 2020. In particular, the change at the end of 2022 between the ECB/Bank of Italy scenario and that of Prometeia is maintained constant.

For the purposes of calculating the expected loss as at 30 June 2020, the Cassa Centrale Group used the three aforementioned scenarios («mild», «baseline», «adverse»), suitably averaging their contribution.

In order to address the need to assign different weights to short and medium/long-term scenarios, preferring medium/long-term scenarios over time, the Cassa Centrale Group adopted a weighting mechanism between the short-term forecast component and the medium/long-term one to encourage convergence towards the long-term average.

Lastly, given the extraordinary nature of the events that occurred in the second quarter of 2020 due to the health emergency, the Cassa Centrale Group deemed it necessary to define appropriate temporary actions aimed at avoiding distortions on the Expected Loss, through a correct treatment of moratoria, reducing the volatility deriving from the update of the macroeconomic scenario. In particular, with reference to the latter point, suitable mitigation actions were identified with respect to exposures that benefited from COVID-19 moratoria that were not overrun before on the first lockdown date and on the moratorium date. However, if, for moratorium positions, the rating worsens and reaches creditworthiness classes that go beyond a specific threshold, the positions themselves are included in the category of loans under observation ("watchlist") and are thus migrated to stage 2.

Although the already performing positions that are subject to the COVID 19 moratorium, pursuant to the law or privately, are not normally considered forborne, if a moratorium position is classified as forborne, this is migrated to stage 2 regardless of other factors.

The update of the economic forecasts incorporated in the IFRS 9 impairment model of loans to customers, as described above, had a significant impact, under equal conditions, on net value adjustments to loans in the first half of 2020.

### Accounting treatment of Covid-19 moratoria

The Cassa Centrale Group has adopted a policy that, among other things, governs the accounting treatment of contractual changes relating to financial assets. According to the aforementioned policy, the changes made to exposures for which a situation of financial difficulty of the debtor has been identified (so-called "Forborne") lead to a change in the carrying amount of the financial asset, causing the need to recognise a profit or a loss under item 140. "Profits/losses from contractual changes without derecognitions" of the income statement (so-called modification accounting).

Based on the indications provided by the EBA in the document "Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the Covid-19 crisis" of 4 April 2020, the moratoria granted to customers pursuant to the law and in application of the trade agreements (ABI agreements) were not considered as an expression of the debtor's financial difficulty. Therefore, the aforementioned positions were not classified as "Forborne" exposures. Similar considerations apply to moratoria other than those stipulated in application of trade agreements, granted to customers as Covid-19 intervention of the Cassa Centrale Group following specific requests from customers.

In relation to the above, taking into account the provisions of the above-mentioned policy of the Cassa Centrale Group, all of the moratoria granted to customers in relation to the Covid-19 pandemic were not treated according to the modification accounting as they cannot be classified as forbearance measures.

### Goodwill impairment test

The Cassa Centrale Group deemed the effects of the pandemic to be a sufficient trigger event to carry out the goodwill impairment test on a half-yearly basis rather than on an annual basis.

For this reason, goodwill recognised in the consolidated financial statements as at 30 June 2020 was tested for impairment in light of the new financial projections of the CGUs included in the Group business plan approved as at 30 June 2020.

The impairment test confirmed that the recoverable value of the Group's CGUs is higher than their carrying amount. Therefore, the goodwill recorded in the consolidated financial statements as at 30 June 2020 was not written down. For further details on the impairment test on goodwill, please refer to "Part B - Statement of financial position - Section 10, Intangible assets - Item 100".

### Measurement of securities at fair value

The securities portfolio at fair value of the Cassa Centrale Group consists mainly of listed government securities with fair value level 1, which do not give rise to measurement issues arising from the effects of the pandemic.

The remaining investments in unlisted minority equity investments recorded in the portfolio of financial assets measured at fair value through other comprehensive income, exceeding certain thresholds, were subject to measurement as at 30 June 2020. Considering that, for these securities, the prevailing measurement methods are those of the market (market approach), they are believed to reflect the current market context. In this regard, in order to normalise the impact of significant short-term fluctuations in stock market prices due to the context of high market volatility, in applying the market approaches (stock market multiples and regression analyses), it was deemed appropriate to extend to at least 6 months the time horizon of the stock market capitalisations of the comparable companies used as reference for the measurement.

## e) Audit of the annual accounts

These condensed half-yearly consolidated financial statements are subject to a limited audit by the independent auditors KPMG S.p.A.

# A.2 – Part regarding the main items in the accounts

The accounting standards adopted for the preparation of these condensed half-yearly consolidated financial statements are shown below.

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

### Classification criteria

Financial assets measured at fair value through profit or loss include:

- financial assets which, according to the business model of the Group, are held for trading purposes, i.e. debt and equities and the positive value of derivative contracts held for trading purposes. These assets are included in the consolidated financial statements under asset item 20. Financial assets measured at fair value through profit or loss, sub-item "a) financial assets held for trading";
- the financial assets measured at fair value at the moment of initial recognition where the conditions are satisfied (that happens if, and only if, on designation at fair value an accounting asymmetry is eliminated or significantly reduced). These assets are included in the consolidated financial statements under asset item 20. Financial assets measured at fair value through profit or loss, sub-item "b) financial assets measured at fair value";
- the financial assets do not pass the so-called SPPI test (financial assets whose contractual terms do not make exclusive provision for the repayments of principal and interest payments on the amount of principal to be repaid) or that in any case, are measured at fair value as per mandatory requirements. These assets are included in the consolidated financial statements under asset item 20. Financial assets measured at fair value through profit or loss, sub-item "c) other financial assets obligatorily measured at fair value".

Therefore, the Group recognises the following in this item:

- debt securities and loans included in an Other business model (not attributable to Hold to Collect or Hold to Collect and Sell business models) or that do not pass the SPPI test (including therein UCITS units);
- equity instruments, excluded from those addressed by IFRS 10 and IAS 27 (controlling interests, associates or joint ventures), not measured at fair value through other comprehensive income. In fact, IFRS 9 provides for the possibility of exercising, at the time of initial recognition, the irreversible option (so-called OCI option) to recognise an equity security at fair value through other comprehensive income.

This item also includes derivative contracts held for trading that have a positive fair value. The offsetting between the positive and negative present values deriving from transactions with the same counterparty is only possible if there is a legal right to offset the amounts recognised in the accounts and if there is an intention to settle on a net basis the items subject to offsetting.

The reclassification of a financial asset to a different accounting category is permitted only in the event of a change in the business model. Exceptions to this rule are equities for which no reclassification is permitted. More specifically, changes in business model - which in any case should very rarely happen - must be decided by senior management as a result of external or internal changes, must be relevant to the Group's operations and must be demonstrable to external parties. A change in business model could, for example, occur in the case of the acquisition, termination or disposal of a business line or business unit. In the rare cases of changes to the business model, financial assets measured at fair value through profit or loss may be reclassified to financial assets measured at amortised cost or to financial assets measured at fair value through other comprehensive income.

The reclassification is applied prospectively from the reclassification date, which, in fact, coincides with the first day of the first year following the one in which the change to the business model was resolved.

In the event of reclassification from this category to the amortised cost category, the fair value at the date of reclassification represents the new gross carrying amount on the basis of which the effective interest rate is determined.

If, on the other hand, the category in question is reclassified to the category of financial assets measured at fair value through other comprehensive income, the fair value at the date of reclassification is the new gross carrying amount and the effective interest rate is determined on the basis of this value at the date of reclassification. In addition, for the purposes of the application of the impairment provisions from the reclassification date, the latter is considered as the initial recognition date.

### Recognition criteria

The initial recognition of financial assets takes place at the settlement date if settled with the time intervals set by market practices (regular way), otherwise at the trade date. In the case of recognising the financial assets at the settlement date, the profits and losses recorded between the trade date and the settlement date are recognised in the income statement. Upon initial recognition the financial assets held for trading are recorded at the fair value; unless otherwise indicated, this is represented by the amount paid or by the amount disbursed for executing the transaction, without considering the costs or income referring to it and attributable to the same instrument, which are recorded directly in the income statement.

### Measurement criteria

Following initial recognition, the financial assets measured at fair value through profit or loss are valued at fair value with recognition of the related changes in the income statement. If the fair value of a financial asset becomes negative, this entry is booked as a financial liability. The change in the fair value of derivative contracts with "customers" counterparties takes their credit risk into account.

To calculate the fair value of the financial instruments listed in an active market, the market listings are used. In the absence of an active market, commonly adopted estimation methodologies are used to factor in all relevant risk factors related to the instruments.

For further details on how fair value is determined, please refer to paragraph "A.4 - Information on fair value" of this part A.

### Derecognition criteria

The financial assets measured at fair value through profit or loss are derecognised when the contractual rights on the cash flows deriving from the same expire or when the financial asset is sold substantially transferring all the associated risks and rewards.

When it is not possible to ascertain the substantial transfer of the risks and benefits, the financial assets are derecognised from the financial statements if control over them has been maintained. Conversely, if control is not maintained, even only partial, it is necessary to retain the assets in the financial statements to the extent of the continuing involvement, measured by the exposure to changes in value of the assets transferred and the changes in their cash flows.

The securities delivered as part of a transaction that contractually envisages their repurchase are not reversed from the financial statements.

### Criteria for the recognition of the income components

The positive income components represented by the interest income on securities and relating similar income, as well as the differentials and margins accrued until the date of the financial statements relating to the derivative contracts classified to the item, but managerially connected to the assets or liabilities measured at fair value (so-called fair value option), are entered in the income statement items relating to interest on an accrual basis. The profits and losses from the disposal or repayment and the profits and losses not realised deriving from the changes in the fair value of the trading book are classified in the consolidated income statement under item 80. Net result from trading for instruments held for trading and in item 110. Net result of other financial assets and liabilities measured at fair value through profit or loss for instruments mandatorily measured at fair value and for instruments measured at fair value.

## 2 - Financial assets measured at fair value through other comprehensive income

### Classification criteria

The financial assets recorded under this item include:

- debt securities, loans and receivables for which:
  - the business model associated to financial assets aims at

collecting both the cash flows envisaged contractually and the flows deriving from sale (Hold to Collect and Sell business model);

- the SPPI Test is passed as the contractual terms only provide for repayments of principal and interest payments on the amount of principal to be repaid;

- equities for which the so-called OCI option has been exercised as an irrevocable choice to present subsequent changes in the fair value of these instruments in other comprehensive income. In this respect, it should be noted that the exercise of the so-called OCI option:
  - shall be made at the time of initial recognition of the instrument;
  - must be carried out at the level of the individual financial instrument;
  - is irrevocable;
  - is not applicable to instruments that are held for trading or represent contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies.

The reclassification of a financial asset to a different accounting category is permitted only in the event of a change in the business model. Exceptions to this rule are equities for which no reclassification is permitted. More specifically, changes in business model - which in any case should very rarely happen - must be decided by senior management as a result of external or internal changes, must be relevant to the Group's operations and must be demonstrable to external parties. A change in business model could, for example, occur in the case of the acquisition, termination or disposal of a business line or business unit. In the rare cases of changes to the business model, financial assets measured at fair value through other comprehensive income may be reclassified to financial assets measured at amortised cost or to financial assets measured at fair value through profit or loss.

The reclassification is applied prospectively from the reclassification date, which, in fact, coincides with the first day of the first year following the one in which the change to the business model was resolved.

In the event of reclassification from this category to the amortised cost category, the fair value at the date of reclassification becomes the new gross value for the purposes of amortised cost. The cumulated profits and losses recorded in the OCI reserve are eliminated from equity and adjusted for the fair value of the financial assets at the date of reclassification. Consequently, the financial asset is valued at the date of reclassification as if it had always been valued at amortised cost. The effective interest rate and the valuation of expected losses are not recalculated as a result of the reclassification.

If, on the other hand, this category is reclassified to the category of financial assets measured at fair value through profit or loss, the fair value at the date of reclassification becomes the new gross carrying amount. The cumulated profits and losses recognised in the OCI reserve are reclassified to the income statement at the date of reclassification.

### Recognition criteria

The initial recognition of financial assets takes place at the settlement date if settled with the time intervals set by market practices (regular way), otherwise at the trade date. In the event of recognising financial assets at the settlement date, the profits and losses recorded between the trade date and the settlement date are recognised in the equity. Upon initial recognition, the financial assets are recognised at fair value; it is represented, unless otherwise indicated, by the amount paid for executing the transaction, including the transaction costs or income directly attributable to the same instrument.

### Measurement criteria

Following initial recognition, the debt securities, loans and receivables classified in this item continue to be measured at fair value. For the aforementioned financial assets, the following are recognised:

- in the income statement, the interest calculated with the effective interest rate method, which considers the depreciation of both the transaction costs and the differential between the cost and the repayment value;
- in equity, in a specific reserve, changes in fair value (net of tax) until the asset is derecognised. When the instrument is fully or partially disposed, the cumulated profit or loss in the OCI reserve are booked to the income statement (so-called recycling).

Equities classified under this item also continue to be measured at fair value after initial recognition. In this case, however, unlike in the case of debt securities, loans and receivables, the cumulated profit or loss included in the OCI reserve must never be reversed to the income statement (in this case there will be no recycling). In fact, in case of transfer, the OCI reserve may be transferred to a specific available equity reserve. For these equities, only the component relating to dividends received is recorded in the income statement.

With reference to the methods used to determine the fair value of financial assets, please refer to paragraph "A.4 - Information on fair value" of this Part A.

It should also be noted that financial assets measured at fair value through other comprehensive income, both in the form of debt securities loans and receivables, are subject to impairment in accordance with IFRS 9 in the same way as financial assets measured at amortised cost. Therefore, for the aforementioned instruments, a value adjustment to cover expected losses will be recognised in the income statement. The estimate of the expected loss using the expected credit loss (hereinafter also referred to as "ECL") method is based on the allocation of each position to the three reference stages as explained in more detail in the paragraph "Impairment of financial assets".

Equity instruments are not subject to the impairment process.

### Derecognition criteria

The financial assets measured at fair value through other comprehensive income are derecognised when the contractual rights on the cash flows deriving from the same expire or when the financial asset is sold substantially transferring all the associated risks and rewards.

When it is not possible to ascertain the substantial transfer of the risks and benefits, the financial assets are derecognised from the financial statements if control over them has been maintained. Conversely, if control is not maintained, even only partial, it is necessary to retain the assets in the financial statements to the extent of the continuing involvement, measured by the exposure to changes in value of the assets transferred and the changes in their cash flows.

The securities delivered as part of a transaction that contractually envisages their repurchase are not reversed from the financial statements.

### Criteria for the recognition of the income components

Interest income on debt securities, loans and receivables - calculated on the basis of the effective interest rate - is recognised in the income statement on an accruals basis. For these instruments, the effects of impairment and any changes in exchange rates are also recognised in the income statement, while other gains or losses deriving from changes in fair value are recognised in a specific equity reserve. At the moment of full or partial disposal, the cumulated profit or loss in the valuation reserve are reversed, wholly or partly to the income statement (recycling).

With reference to equity instruments, the only component that is recognised in the income statement is dividends. The latter are recognised in the income statement only when (para. 5.7.1A of IFRS 9):

- the right of the entity to receive the dividend payment arises;
- it is likely that the economic benefits from the dividend will flow to the entity; and
- the amount of the dividend may be reliably estimated.

Normally the aforementioned conditions occur at the time of collection of the dividend following the shareholders' resolution approving the financial statements and distribution of the result for the year by the investee company.

In the case of equities, changes in fair value are recognised as a contra-entry to equity and must not be subsequently transferred to the income statement even if they are realised (no recycling).

## 3 - Financial assets measured at amortised cost

### Classification criteria

Financial assets measured at amortised cost include debt securities, loans and receivables that jointly meet the following conditions:

- the business model associated to financial assets aims at collecting the cash flows envisaged contractually (Hold to Collect business model);
- the SPPI Test is passed as the contractual terms only provide for

repayments of principal and interest payments on the amount of principal to be repaid.

Therefore, in the presence of the aforementioned conditions, the Group recognises in this item:

- loans to banks (current accounts, security deposits, debt securities, etc.). This includes operating receivables related to the provision of financial activities and services as defined by the TUB and the TUF (e.g. distribution of financial products). Also included are loans to Central Banks (e.g. compulsory reserve), other than deposits on demand included in the consolidated statement of financial position item 10. Cash and cash equivalents;
- loans to customers (mortgages, finance lease transactions, factoring transactions, debt securities, etc.). Also included are loans to post offices and the Cassa Depositi e Prestiti, variation margins with compensation bodies for transactions on derivative contracts and operating receivables related to the provision of financial activities and services as defined by the TUB and the TUF (e.g. servicing activities).

The reclassification of a financial asset to a different accounting category is permitted only in the event of a change in the business model. Exceptions to this rule are equities for which no reclassification is permitted. More specifically, changes in business model - which in any case should very rarely happen - must be decided by senior management as a result of external or internal changes, must be relevant to the Group's operations and must be demonstrable to external parties. A change in business model could, for example, occur in the case of the acquisition, termination or disposal of a business line or business unit. In the rare cases of changes to the business model, financial assets measured at amortised cost may be reclassified to financial assets measured at fair value through other comprehensive income or to financial assets measured at fair value through profit or loss.

The reclassification is applied prospectively from the reclassification date, which, in fact, coincides with the first day of the first year following the one in which the change to the business model was resolved.

In the event of reclassification from this category to the fair value category through other comprehensive income, any differences between the previous amortised cost and the fair value at the date of reclassification are recognised in the OCI reserve. The effective interest rate and the valuation of expected losses are not recalculated as a result of the reclassification.

If, on the other hand, the category in question is reclassified to the category of financial assets measured at fair value through profit or loss, any difference between the previous amortised cost and the fair value at the date of reclassification is recognised in the income statement.

## Recognition criteria

Financial assets are first recognised on the disbursement date (in the case of loans or receivables) or on the settlement date (in the case of debt securities) based on the fair value of the financial instrument. The fair value is normally equal to the amount disbursed or the subscription price, including income and charges directly attributable to the individual instrument and determinable from the origin of the transaction, even when liquidated at a subsequent time. Those costs that, despite having the above characteristics, are subject to reimbursement by the debtor or can be classified under normal internal administrative costs are excluded.

In the case of assets for which the net amount of the loan disbursed or the price paid on subscription of the security does not correspond to the fair value of the asset, for example due to the application of an interest rate significantly lower than the market rate, initial recognition is made on the basis of the fair value determined using valuation techniques (e.g. discounting future cash flows at an appropriate market rate).

In some cases, the financial asset is considered impaired at the time of initial recognition (so-called impaired financial assets acquired or originated), for example because the credit risk is very high and, in the case of purchase, it is acquired with large discounts. In these cases, at the time of initial recognition, an effective interest rate adjusted for the receivable is calculated, which includes in the cash flow estimates, the expected losses calculated over the entire life of the loan. The above rate will be used for the application of the amortised cost criterion and the related calculation of interest to be recognised in the income statement.

## Measurement criteria

After initial recognition, financial assets are measured at amortised cost using the effective interest rate method. Amortised cost is the amount at which the financial asset is measured on initial recognition less repayments of principal, plus or minus the cumulated amortisation, according to the effective interest criterion, of any difference between that initial amount and the amount at maturity and, for financial assets, adjusted for any provision to cover losses. The effective interest rate is the rate that equals the current value of the future flows of the assets, for capital and interest, to the disbursed amount including the costs/income attributable to the financial asset.

The exceptions to the application of the amortised cost method concern short-term assets, assets that do not have a defined maturity date and receivables subject to revocation. For the above cases, the application of the amortised cost criterion is considered not significant and the valuation is maintained at cost.

It should also be noted that financial assets measured at amortised cost, both in the form of debt securities and loans and receivables, are subject to impairment in accordance with IFRS 9. Therefore, for the aforementioned instruments, a value adjustment to cover expected losses will be recognised in the income statement. The estimate of the expected loss using the ECL method is based on the allocation of each position to the three reference stages as explained in more detail in the paragraph "Impairment of financial assets".

In such cases, for the purpose of calculating amortised cost, the entity is required to include in its cash flow estimates, the expected losses on initial receivables when calculating the credit-adjusted effective interest rate for financial assets that are considered impaired financial assets acquired or originated on initial recognition (IFRS 9 para. B5.4.7).

## Derecognition criteria

The financial assets measured at amortised cost are derecognised when the contractual rights on the cash flows deriving from the same expire or when the financial asset is sold by substantially transferring all the risks and rewards connected to it.

When it is not possible to ascertain the substantial transfer of the risks and benefits, the financial assets are derecognised from the financial statements if control over them has been maintained. Conversely, if control is not maintained, even only partial, it is necessary to retain the assets in the financial statements to the extent of the continuing involvement, measured by the exposure to changes in value of the assets transferred and the changes in their cash flows.

The securities delivered as part of a transaction that contractually envisages their repurchase are not reversed from the financial statements.

If the contractual cash flows of a financial asset are subject to renegotiation or, in any case, to an amendment, in accordance with IFRS 9, it is necessary to assess whether or not these amendments have the characteristics to determine the derecognition of the financial asset. More specifically, the contractual amendments determine the derecognition of the financial asset and the recognition of a new asset when deemed substantial. In order to assess the substantiality of the change, a qualitative analysis of the reasons why the changes were made is necessary. Distinguishments can be made between:

- renegotiations made for commercial purposes with performing customers for reasons other than the economic and financial difficulties of the debtor. These refer to renegotiations which are granted at market conditions, in order to avoid losing customers in cases where they require the cost of the loan to be adjusted to the conditions applied by other banking institutions. These types of contractual changes are considered substantial as they are aimed at avoiding a decrease in future revenues that would occur if the customer decides to turn to another operator. They result in the recognition in the income statement of any differences between the carrying amount of the derecognised financial asset and the carrying amount of the new asset;
- renegotiations due to financial difficulties of the counterparty: this scenario includes concessions made to counterparties in financial difficulty (forbearance measures) that aim to maximise the repayment of the original loan by the customer and thus avoid or contain any future losses, by granting contractual conditions that are potentially more favourable to the counterparty. In these cases, as a rule, the change is closely related to the debtor's inability to repay the cash flows originally established and, therefore, in the absence of other factors, this indicates that there was in substance no extinction of the original cash flows such as to lead to the derecognition of the asset. As a result, the above renegotiations or contractual amendments can be classified as immaterial. Therefore, they do not generate derecognition of the financial asset and, according to para. 5.4.3 of

IFRS 9, involve the recognition in the income statement of the difference between the pre-amendment carrying amount and the value of the financial asset recalculated by discounting the renegotiated or modified cash flows at the original effective interest rate.

In order to assess the materiality of the contractual amendment, in addition to understanding the reasons underlying it, it is necessary to assess the possible presence of elements that entail an alteration of the original nature of the contract as they introduce new risk elements or have an impact deemed significant on the original contractual flows of the asset that is such to lead to its derecognition and the consequent recognition of a new financial asset. This includes, for example, the introduction of new contractual clauses that change the reference currency of the contract, allowing for the conversion/ replacement of the receivable into equity instruments of the debtor or that determine the failure of the SPPI test.

### Criteria for the recognition of the income components

Interest on loans to banks and customers is classified under consolidated income statement item 10. Interest income and similar revenues and are recorded on an accruals basis, based on the effective interest rate, i.e. applying the latter to the gross carrying amount of the financial asset, except for:

- impaired financial assets acquired or originated. As noted above, for these financial assets, the effective interest rate adjusted for the receivable at the amortised cost of the financial asset from initial recognition is applied;
- financial assets that are performing financial assets acquired or originated but have become impaired financial assets in a second phase. For these financial assets, the effective interest rate is applied to the amortised cost of the financial asset in subsequent years.

If there is an improvement in the credit risk of the financial instrument, as a result of which the financial asset is no longer impaired, and the improvement can be objectively linked to an event occurring after the application of the requirements in letter b) above, interest income shall be calculated in subsequent years by applying the effective interest rate to the gross carrying amount.

It should be noted that the Group applies the criterion referred to in letter b) above only to impaired assets valued with a specific analytical method. Therefore, stage 3 financial assets valued on a flat-rate analytical basis, for which interest is calculated on the gross value of the exposure, are excluded.

Adjustments and write-backs are recorded at each reporting date in the consolidated income statement under item 130. Net value adjustments/ write-backs due to credit risk. Profits and losses resulting from the sale of receivables are recorded in the consolidated income statement under item 100. Profit (loss) from disposal/repurchase.

The positive income components represented by the interest income and similar revenues relating to securities are entered on an accrual basis, based on the effective interest rate, in the income statement items relating to interest.

Profits and losses relating to securities are recognised in the consolidated income statement under item 100. Profit (loss) from disposal/repurchase at the time the assets are sold.

Any impairment of securities is recognised in the consolidated income statement under item 130. Net value adjustments/write-backs due to credit risk. If the reasons that led to the evidence of the decline in value are removed, the write-back is included with recognition in the income statement in the same item.

## 4 - Hedging transactions

With regard to hedging transactions, the Group avails itself of the option, provided by the introduction of IFRS 9, to continue to apply IAS 39 in full with regard to both specific hedges and macro hedges.

### Classification criteria

This item includes derivative contracts designated as effective hedging instruments. In this regard, hedging transactions are designed to neutralise any losses, that may be incurred on a specific item or group of items, linked to a specific risk should the aforementioned risk actually occur.

The types of hedges envisaged by IAS 39 are:

- fair value hedge, aimed at hedging against the exposure to the change in fair value of a statement of financial position entry (asset or liability) attributable to a particular risk. The objective of macro fair value hedges is to reduce fluctuations in fair value, attributable to interest rate risk, by a monetary amount arising from a portfolio of financial assets or liabilities;
- cash flow hedge, aimed at hedging against the exposure to the change in future cash flows attributable to a particular risk associated to a highly probable present or future statement of financial position entry;
- hedging instruments of a net investment in a foreign company for which the assets were or are managed in a non-euro country or currency.

Only instruments involving a counterparty outside the Cassa Centrale Group may be designated as hedging instruments.

### Recognition criteria

The hedging derivative financial instruments are initially entered at fair value and classified in the statement of financial position asset or liability item, depending on whether, as at the reporting date, they show a positive or negative fair value.

The hedging is pursuant to a predefined strategy set by risk management and must be coherent with the management policies adopted for risk; it is designated as a hedge if there exists formal documentation of the relation between the hedged instrument and the hedging instrument, including the high initial and prospective efficacy of the hedged during its entire life cycle.

The effectiveness of the hedge depends on the extent to which the changes in fair value of the hedged instrument or the related expected cash flows are offset by those of the hedging instrument. Thus the effectiveness is measured by comparison between these changes.

The hedging is assumed as highly effective when the expected and effective changes in fair value or the cash flows of the hedging financial instrument neutralise almost completely the changes in the hedged element, within the limits set by the interval 80%-125%.

Effectiveness is evaluated at the end of each reporting period and interim reporting period using:

- perspective tests, which justify the application of the hedge accounting, since they show its expected effectiveness;
- retrospective tests, which show the level of effectiveness of the hedging reached in the period they refer to.

If the checks do not confirm that the hedging is highly effective, the accounting of the hedging transactions, according to the above, is interrupted and the hedging derivative contract is reclassified among the trading instruments, while the financial instrument subject to hedging goes back to being measured according to the criterion of the original pertinence class and, in case of cash flow hedge, any reserve is reclassified in the income statement along the residual duration of the instrument.

Hedging relationships also cease when the derivative expires or is sold or exercised and the hedged element is sold or expires or is repaid.

### Measurement criteria

After initial recognition, hedging derivatives are measured at fair value. The calculation of the fair value of the derivatives is based on the prices inferred from regulated markets or supplied by operators, on option measurement models or future cash flow discounting models.

For further details on how fair value is determined, please refer to paragraph "A.4 - Information on fair value" of this part A.

### Derecognition criteria

The hedging derivatives are cancelled when the right to receive the cash flows from the asset/liability has expired, or where the derivative is sold, or when the conditions for continuing to book the financial instrument under the hedging derivatives no longer apply.

### Criteria for the recognition of the income components

#### Fair value hedge

In the case of a fair value hedge, the change in the fair value of the hedged item is offset by the change in the fair value of the hedging instrument. This offsetting actually takes place through the recognition in the income statement of changes in value, referring both to the hedged item and the hedging instrument. Any difference represents the ineffectiveness of the hedge and is reflected in the income statement in terms of net effect. In the case of macro fair value hedges, changes in fair value with reference to the hedged risk of the hedged assets and liabilities are recognised in the statement of financial position, respectively, in the consolidated financial statements item 60. Adjustment of the financial assets subject to macro-hedging or 50. Adjustment of the financial liabilities subject to macro-hedging.

If the hedging relationship no longer satisfies the conditions for the application of hedge accounting and the hedging relationship is revoked, the difference between the carrying amount of the hedged element at the time when the hedge ceases and that which would have been its carrying amount if the hedge had never existed, is amortised in the income statement along the residual lifespan of the hedged element based on the effective rate of return in case of instruments entered at amortised cost. In the event that it is excessively costly to redetermine the internal rate of return, it is deemed in any case acceptable to amortise the fair value delta relating to the risk hedged over the residual life of the instrument, on a straight-line basis or in relation to the residual capital units.

If this difference refers to non-interesting bearing financial instruments, it is recorded immediately in the Income Statement. If the hedged element is sold or repaid, the portion of fair value not yet amortised is recognised immediately in the income statement.

#### Cash flow hedges and hedging instruments of a net investment in a foreign company

In the case of cash flow hedges, changes in the fair value of the derivative are recognised, limited to the effective portion of the hedge, in an equity reserve. The above changes are recognised in the income statement only when, with reference to the hedged item, there is a change in the cash flows to be offset or if the hedge is ineffective.

When the hedging relationship no longer meets the conditions for the application of hedge accounting, the relationship is terminated and all losses and gains recognised in the equity reserve up to that date remain suspended within it and reversed to the income statement when the flows relating to the risk originally hedged occur.

## 5 - Equity investments

### Classification criteria

This item includes interests held in associates and jointly controlled companies.

The following definitions in particular apply:

- associate: equity investments in companies for which, despite the conditions of control not being satisfied, the Group, directly or indirectly, is able to exercise a significant influence as it has the power to participate in determining the financial and management policies of the investing company. This influence is presumed (relative assumption) to exist for companies in which the Group holds at least 20% of the voting rights of the investee;
- jointly controlled companies (joint venture): an equity interest in a company that is achieved through a contractual agreement that collectively grants all parties or a group of parties control of the agreement.

### Recognition criteria

Equity investments are initially entered at cost, including the directly attributable ancillary charges.

### Measurement criteria

Investments in associates and investments in jointly controlled companies are valued using the equity method. This means that, after initial recognition, the carrying amount is subsequently increased or decreased to record the Group's share of the profits and losses of the investee companies realised after the acquisition date, as a contra-entry to consolidated income statement item 250. Profits (losses) on equity investments.



The dividends received from an investee are deducted from the carrying amount of the equity investment.

If there is objective evidence of impairment, an estimate is made of the recoverable value of the same investment, considering the current value of the future cash flows the same may generate, including the final disposal value of the investment. If the recoverable value of the asset is lower than the related carrying amount, the impairment is recorded in the income statement under item 250. Profits (losses) on equity investments in the consolidated financial statements.

### Derecognition criteria

Equity investments are derecognised when the right to receive the cash flow from the asset has expired, or where the equity investment is sold by substantially transferring all the risks and benefits connected to it.

### Criteria for the recognition of the income components

Dividends from investee companies are recorded under the consolidated statement of financial position item 70. Dividend and similar income. The latter are recognised in the income statement only when (para. 5.7.1A of IFRS 9):

- the right of the entity to receive the dividend payment arises;
- it is likely that the economic benefits from the dividend will flow to the entity;
- the amount of the dividend may be reliably estimated.

Normally the aforementioned conditions occur at the time of collection of the dividend following the shareholders' resolution approving the financial statements and distribution of the result for the year by the investee company.

In the consolidated financial statements, dividends received are deducted from the carrying amount of the investee company.

Any value adjustments/write-backs connected to the valuation of the equity investments as well as profits or losses deriving from the disposal are recognised under item 250. Profits (losses) on equity investments in the consolidated financial statements.

## 6 - Tangible assets

### Classification criteria

This item mainly includes land, properties for business use (IAS 16) and properties held for investment purposes (IAS 40), the plants, vehicles, furniture, furnishings and equipment of any type for long-lasting use.

Property for business use is defined as those tangible fixed assets that are functional to the pursuit of the corporate purpose (including those held for use in the provision of services or for administrative purposes). On the other hand, property held for investment purposes includes property held for the purpose of receiving rental fees and/or for the appreciation of the invested capital.

The item also includes tangible assets classified under IAS 2 Inventories, which refer both to assets arising from the enforcement of guarantees or the purchase at auction that the company intends to sell in the near future, without carrying out major renovation work, and which do not qualify for classification in the previous categories, and to the real estate portfolio including buildable areas of land, properties under construction, completed properties for sale and real estate development initiatives, held with a view to disposal.

The rights of use acquired under lease and relating to the use of a tangible asset (for lessees), the assets granted under operating leases (for lessors) as well as the improvements and incremental expenses incurred on third-party assets are included, provided that they relate to identifiable and separable tangible assets.

### Recognition criteria

The tangible assets are initially entered at purchase or construction cost, including any ancillary charges directly attributable to the purchase and commissioning of the asset.

The unscheduled maintenance expenses and the costs of an increasing nature that imply increased benefits being generated by the asset, if these can be identified and separated, are attributed to the assets they refer to and depreciated in relation to the residual possibility of using the same. If these improvements cannot be identified and separated, they are entered under

‘Other Assets’ in the consolidated financial statements and subsequently amortised based on the length of the contracts they refer to for the third-party assets, or along the residual life of the asset, if owned.

Expenses for repairs, maintenance or other interventions to ensure the ordinary operation of the assets are instead charged to the income statement in the year in which they are incurred.

According to IFRS 16, leases are accounted for on the basis of the right of use model for which, at the initial date, the lessee has a financial obligation to make payments due to the lessor to offset its right to use the underlying asset during the lease term. When the asset is made available to the lessee for its use (initial date), the lessee recognises both the liability and the asset consisting of the right of use.

### Measurement criteria

After initial recognition, the tangible assets, including non-instrumental properties, notwithstanding the specifications below, are entered in the accounts at cost, net of accumulated depreciation and any write-downs for the long-lasting reductions in value, in compliance with the ‘cost model’.

Tangible assets are systematically amortised each year on a straight-line basis over their useful life. The following are not subject to depreciation:

- land, whether purchased individually or incorporated in the value of the buildings, since considered to have an undefined useful life. If their value is incorporated in the value of the building, assets which are separate from the building are only the ‘free-standing’ property assets; the subdivision between the value of the land and a value of the building is based on the appraisal of independent appraisers;
- works of art, whose useful life cannot be estimated, also since their value normally increases over time;
- real estate investments measured at fair value in compliance with accounting standard IAS 40;
- inventories of tangible assets, in accordance with IAS 2;
- angible assets classified as held for disposal in accordance with IFRS 5.

The depreciation process starts when the asset is available for use. For the assets acquired during the year, the depreciation is calculated on a daily basis starting from the date of using the asset.

A write-down for value impairment is recorded for an amount corresponding to the excess in the carrying amount compared to the recoverable value. The recoverable value of an asset is equal to the higher of the fair value, net of any sales costs, and the related value of using the asset, meant as the current value of the future flows originating from the asset. Any adjustments are recognised in the income statement.

If the reasons leading to recording the loss cease to apply, a write-back is accounted for, which may not exceed the value that the asset would have had, net of depreciation calculated in the absence of previous impairment losses.

Tangible assets recognised in accordance with IAS 2 are valued at the lower of cost and net realisable value, it being understood that the carrying amount of the asset is compared with its recoverable value if there is any indication that the asset may have suffered an impairment. Any adjustments are recognised in the income statement.

With reference to the asset consisting of the right of use, accounted for in accordance with IFRS 16, it is measured using the cost model in accordance with IAS 16 Property, plant and equipment; in this case the asset is subsequently depreciated and subject to impairment testing if indicators of impairment emerge.

### Derecognition criteria

Tangible assets are eliminated from the statement of financial position at the time of disposal or when they are permanently withdrawn from use and, as a consequence, no future economic benefits are expected which derive from their sale or use.

Capital gains and losses deriving from the release or disposal of the tangible assets are determined as the difference between the net sale payment and the carrying amount of the asset; they are recorded in the income statement at the same date when they are eliminated from the accounts.



### Criteria for the recognition of the income components

Depreciation, value adjustments and write-backs of tangible assets are recorded in the income statement, in consolidated financial statements item 210. Net value adjustments/write-backs to tangible assets.

In the first year the depreciation is recorded proportionally to the effective period of using the asset.

The assets subject to depreciation are adjusted for possible impairment losses each time events or changes in situations indicate that the carrying amount might not be recoverable. These impairment losses are recognised in the income statement, as are any reversals to be recognised if the reasons for the impairment no longer apply.

In the consolidated income statement item 280. Profit (Loss) from disposal of investments, the positive or negative balance between the profits and losses on investments is recognised.

## 7 - Intangible assets

### Classification criteria

Accounting standard IAS 38 defines intangible assets as non-monetary assets without physical substance owned for use in a multi-year or undefined period, which meet the following characteristics:

- identifiability;
- the company holds the control;
- it is probable that the expected future economic benefits attributable to the asset will flow into the company;
- the cost of the asset may be reliably measured.

In the absence of one of these characteristics, the expense to acquire or generate the same internally is recorded as a cost in the year when it was incurred.

Intangible assets include, in particular, the application software with multi-year use and the other identifiable intangible assets that originate from legal or contractual rights.

Intangible assets also include goodwill, which represents the positive difference between the purchase cost and the fair value of the assets and liabilities of the acquired company.

### Recognition criteria

Intangible assets are entered at cost, adjusted for any ancillary costs incurred to arrange the use of the asset, only if it is probable that the future economic benefits attributable to the asset will be realised and if the cost of the same asset may be determined reliably. Otherwise, the cost of the intangible asset is recognised in the income statement in the year in which it was incurred.

### Measurement criteria

After initial recognition, intangible assets with finite useful life are recognised at cost, net of the accumulated amortisation and impairment losses.

The amortisation process starts when the asset is available for use, or when it is in the place and conditions suitable to be able to work in the set manner.

Amortisation is carried out with the straight line method, in a way to reflect the multi-year use of the assets based on the estimated useful life. In the first year the amortisation is recorded proportionally to the effective period of using the asset. Amortisation ends from the date when the asset is eliminated from the accounts.

At each year-end, given the presence of evidence of impairment losses, an estimate is made of the recoverable value of the asset. The amount of the impairment, recorded in the income statement, is equal to the difference between the carrying amount of the asset and its recoverable value.

## Derecognition criteria

Intangible assets are eliminated from the statement of financial position at the time of their disposal or when future economic benefits are not expected. Capital gains and losses from the release or disposal of an intangible asset are calculated as the difference between the net sale payment and the carrying amount of the asset and entered in the income statement.

## Criteria for the recognition of the income components

In the first year the amortisation is recorded proportionally to the effective period of using the asset.

In the consolidated income statement item 220. Net value adjustments/ write-backs to intangible assets, the positive or negative balance between the value adjustments, amortisation and write-backs relating to the intangible assets is indicated. In the item 280. Profit (loss) from disposal of investments, in the consolidated income statement, the balance, positive or negative between the profits and losses on disposal of investments is recognised.

# 8 - Non-current assets and groups of assets held for disposal

## Classification criteria

This item includes the non-current assets held for sale and the associated groups of assets and liabilities held for disposal, according to the provisions of IFRS 5.

More specifically, assets and groups of assets are classified in this item whose carrying amount will be mainly recovered with a sale rather than their continuous use.

For the recovery of a non-current asset or a group held for disposal through a sale to materialise, two conditions must be met:

- the asset must be available for immediate sale in its current condition, subject to conditions, which are usual and customary, for the sale of such assets (or groups held for disposal);
- the sale of the non-current asset (or group held for disposal) must be highly probable.

Since the sale is highly probable, Management at a suitable level must be committed to an asset disposal programme, and activities must be started to identify a buyer and complete the programme. In addition, the asset must be actively exchanged in the market and put up for sale, at a reasonable price compared to its current fair value. The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Non-current assets and groups of assets held for disposal, as well as discontinued operations, and the related liabilities are shown in specific items of consolidated assets (120. Non-current assets and groups of assets held for disposal) and consolidated liabilities (70. Liabilities associated to assets held for disposal).

## Recognition criteria

The non-current assets and groups of assets held for disposal are initially recognised at the lower between the carrying amount and the fair value net of costs to sell. With the exception of certain types of assets (e.g. financial assets falling within the scope of IFRS 9), IFRS 5 specifically provides that the measurement criteria of the relevant accounting standard must be applied.

## Measurement criteria

In the measurements subsequent to initial recognition, non-current assets and groups of assets held for disposal continue to be valued at the lower of their carrying amount and their fair value net of costs to sell, with the exception of certain types of assets (e.g. financial assets falling within the scope of IFRS 9) for which IFRS 5 specifically provides that the measurement criteria of the relevant accounting standard must be applied.

If the assets held for disposal can be amortised, the amortisation process is discontinued from the moment of classification under non-current assets held for disposal.



## Derecognition criteria

The non-current assets and groups of assets held for disposal are eliminated from the statement of financial position at the time of disposal.

If an asset (or group held for disposal) classified as held for sale loses the criteria for inclusion in accordance with accounting standard IFRS 5, the asset (or group held for disposal) must no longer be classified as held for sale.

It is necessary to assess a non-current asset that ceases to be classified as held for sale (or ceases to be part of a group held for disposal and classified as held for sale) at the lower between:

- the accounting value before the asset (or group held for disposal) was classified as held for sale, adjusted for all the amortisation, write-downs or write-backs that would have otherwise been recorded if the asset (or group held for disposal) had not been classified as held for sale;
- its recoverable value at the date of the subsequent decision to not sell.

The items include the current and deferred tax assets and current and deferred tax liabilities recognised in application of IAS 12.

The income taxes, calculated in compliance with current taxation regulations, are recorded in the income statement on an accrual basis, in line with the recognition in the accounts of the costs and revenues that generated them, except for those relating to the entries charged or credited directly in the equity, for which the recognition of the related taxation takes place in the equity.

## Criteria for the recognition of the income components

Income and expenses, valuation results and profits/losses on sale (net of the tax effect) attributable to groups of assets held for disposal or recognised as such during the year are shown in the relevant consolidated income statement item 320. Profit (loss) after tax from discontinued operations

# 9 - Current and deferred taxes

## Current taxes

Current tax assets and liabilities are recorded at the value due or recoverable against the tax profit (loss) by applying the rates and the current taxation regulations. Current taxes that are entirely or partially unpaid at the reference date are posted under 'Current tax liabilities' of the consolidated statement of financial position.

In the event of overpayment, which gave rise to a recoverable receivable, this is accounted for among the 'Current tax assets' of the consolidated statement of financial position.

In accordance with IAS 12, the Group compensates current tax assets and liabilities if, and only if, it:

- has an enforceable right to offset the amounts recognised;
- intends to settle for the net residual, or realise the asset and simultaneously settle the liability.

## Deferred taxes

Deferred tax assets and liabilities are booked by using the so-called balance sheet liability method, taking into account the temporary differences between the carrying amount of an asset or a liability and its value recognised for tax purposes. They are calculated using the applicable tax rates according to current laws, in the year when the deferred tax asset will be realised or the deferred tax liability will be settled.

Tax assets are recorded only if it is deemed probable that in the future a taxable income will be realised, against which this asset may be used.

In particular, tax regulations may lead to differences between taxable income and statutory income that, if temporary, only cause a temporal mismatch that implies the advance or deferment of the time of taxation compared to the period of accrual, thus determining a difference between the carrying amount of an asset or a liability in the statement of financial position and its value recognised for tax purposes. These differences are distinguished into deductible temporary differences and taxable temporary differences.

## Deferred tax assets

Deductible temporary differences indicate a future reduction in taxation, against a prepayment of tax compared to the economic-statutory accrual. They generate deferred tax assets since they will determine a lower tax burden in the future, on the condition that in the following years, taxable profits are realised in a sufficient measure to cover the realisation of the taxes paid in advance.

Deferred tax assets are recognised for all deductible temporary differences if it is probable that taxable income will be realised against which deductible temporary differences can be used. However, the probability of recovering advance taxes relative to goodwill, other intangible assets and adjustments to receivables is to be considered automatically fulfilled pursuant to the provisions of the law that provide for their transformation into a tax credit in the event of a statutory and/or tax loss.

The transformation enters into effect from the date of the approval of the shareholders' meeting of the separate financial statements in which the loss is recognised.

The origin of the difference between the higher fiscal income and the statutory one is mainly due to negative income components fiscally deductible in years that are subsequent to those of recognition in the financial statements.

## Deferred tax liabilities

Taxable temporary differences indicate a future increase in taxation and consequently generate deferred tax liabilities, since these differences give rise to taxable amounts in the following years to those when they are attributed to the statutory income statement, determining a deferment of the taxation compared to the economic-statutory accrual.

Deferred tax liabilities are recognised for all taxable temporary differences except for reserves subject to tax suspension, as transactions that determine their taxation are not expected to take place.

The origin of the difference between the lower fiscal income and the statutory one is due to:

- positive income components taxable in years after those when they were entered in the accounts;
- deductible negative income components in years prior to the one when they will be entered in the accounts according to statutory criteria.

Assets and liabilities entered for advance and deferred taxes are systematically measured to take into account any amendments taking place in the regulations or in the rates.

Advance taxes and deferred taxes are accounted for at capital level with open balances and without offsetting and are booked in consolidated statement of financial position item 110. Tax assets, sub-item "b) deferred " and 60. Tax liabilities, sub-item "b) deferred".

If the deferred tax assets and liabilities refer to components which concerned the income statement, the contra-entry is represented by income tax. In case the advance and deferred taxes concern transactions which directly regard the equity without influencing the income statement (such as the valuation of financial instruments measured at fair value through other comprehensive income), they are recorded as a contra-entry to equity, affecting the specific reserve when applicable.

# 10 - Provisions for risks and charges

## Classification criteria

In compliance with the provisions of IAS 37, the provisions for risks and charges include the provisions relating to current (legal or implicit) obligations originating from a past event, for which the use of economic resources is probable to fulfil the same obligation, as long as a reliable estimate of the related amount can be made.

## Recognition criteria

Therefore, this item includes the following:

- provision for credit risk relative to commitments and financial guarantees issued: the value of the total provisions for credit risk is recognised in respect of the commitments to disburse funds and financial guarantees issued which are subject to the impairment rules of IFRS 9 (see paragraph 2.1, letter e); paragraph 5.5; appendix A), including therein the financial guarantees issued and the commitments to disburse funds which are measured at the first-time recognition value, net of the total revenues booked in compliance with IFRS 15;
- provision for other commitments and guarantees issued: the value of the total provisions in respect of other commitments and other guarantees issued which are not subject to the impairment rules of IFRS 9 is recognised (see IFRS 9, paragraph 2.1, letters e) and g));
- provisions for retirement and similar obligations includes the provisions in respect of benefits provided to the employee after terminating the employment relationship in the form of defined contribution plans or defined benefit plans;
- other provisions for risks and charges: these includes other provisions for risks and charges established in compliance with the provisions of the international accounting standards (e.g. personnel expenses, tax disputes).

## Measurement criteria

The amount recorded as allocation represents the best estimate possible of the charge requested to fulfil the existing obligation at the reference date.

Where the time element is significant, the provisions are discounted by using current market rates.

The allocated funds are periodically reviewed and adjusted, if necessary, to reflect the best current estimate. If, following the review, the charge becomes unlikely to be incurred, the provision is cancelled. With regard to provisions for employee benefits, please refer to paragraph "15.2 - Provision for severance indemnity and seniority bonuses" below.

## Derecognition criteria

If it is unlikely that the use of resources to produce economic benefits to fulfil the obligation will be necessary, the provision must be cancelled. A provision must be used only for those expenses for which it was originally entered.

## Criteria for the recognition of the income components

The provision is recognised in the income statement, in consolidated financial statements item 200. Net allocations to provisions for risks and charges.

The item includes the positive or negative balance between the allocations and any re-attributions to the income statement of funds deemed redundant.

The net allocations also include the decreases in funds for the discounting effect as well as the corresponding increases due to the passing of time (accrual of the interest implicit in discounting).

# 11 - Financial liabilities measured at amortised cost

## Classification criteria

Financial liabilities measured at amortised cost include amounts due to banks and customers, whatever their technical form (deposits, current accounts, loans, leases), other than Financial liabilities held for trading and Financial liabilities measured at fair value.

The item also includes securities issued for funding purposes (e.g. certificates of deposit, bonds) measured at amortised cost. Securities that, at the reference date, are expired but still not repaid are included.

## Recognition criteria

The initial recognition of these financial liabilities takes place upon receiving the sums collected or issuing the debt securities. The value at which they are entered corresponds to the related fair value, normally equal to the amount collected or the issue price, increased by any additional costs/income directly attributable to the individual funding or issue transaction and not repaid by the creditor counterparty. Internal administrative costs are excluded.

The fair value of the financial liabilities, possibly issued at different conditions from market conditions, is subject to a suitable estimate and the difference compared to the amount collected is, where appropriate, directly recognised in the income statement.

### Measurement criteria

Following initial recognition, carried out at fair value, on the date of signing of the contract, the financial liabilities are measured at the amortised cost, using the effective interest rate method.

Excluded are the short-term liabilities, where the time factor is negligible, which remain recorded at their collected value, and whose costs and income directly attributable to the transaction are entered in the relevant items of the income statement.

### Derecognition criteria

The financial liabilities are derecognised from the financial statements when settled or expired, or when securities issued by the Group are reacquired, with a consequent redefinition of the debt entered for debt securities in issue.

### Criteria for the recognition of the income components

The negative income components represented by the interest expense are entered on an accrual basis in the items in the income statement relating to interest.

Any difference between the value of repurchasing own securities and the corresponding carrying amount of the liability is entered in the income statement, under the consolidated financial statements item 100. Profit (loss) from disposal/repurchase of: c) Financial liabilities.

## 12 – Financial liabilities held for trading

### Classification criteria

Subject to recognition in this item are the financial liabilities, whatever their technical form (debt securities, loans, etc.) classified in the trading book.

The item includes, where present, the negative value of the trading derivative contracts. Derivatives connected to the fair value option are also included in this category (as defined in IAS 9, paragraph 4.2.2) which are operationally related to the assets and liabilities measured at fair value which on the statement of financial position date have a negative fair value, except for derivatives which are designated as effective hedging instruments and recognised in a separate liability item in the statement of financial position; if the fair value of a derivative subsequently becomes positive, it shall be recognised among "Financial assets measured at fair value through profit or loss".

### Recognition criteria

The derivative financial instruments are entered at the subscription date and measured at fair value through profit or loss.

### Measurement criteria

Subsequently to the initial recognition, the financial liabilities are measured at fair value through profit or loss.

For further details on how fair value is determined, please refer to paragraph "A.4 - Information on fair value" of this part A.

### Derecognition criteria

Financial liabilities held for trading are derecognised from the financial statements when the contractual rights to the relevant cash flows expire or when the financial liability is transferred with the substantial transfer of all the risks and rewards deriving from its ownership.

### Criteria for the recognition of the income components

Profits and losses deriving from changes in fair value and/or from the disposal of financial liabilities held for trading are recognised in the income statement under consolidated financial statements item 80. Net result from trading.



## 13 - Financial liabilities measured at fair value

### Classification criteria

Classified in this item are those financial liabilities measured at fair value with valuation results entered in the income statement as a result of the exercise of the fair value option provided by IFRS 9, i.e. when:

- an inconsistency in the valuation or recognition is eliminated or significantly reduced (sometimes defined as an accounting mismatch), which would otherwise result from the measurement of assets or liabilities or the recognition of the associated profits and losses on a different basis;
- there is an embedded derivative;
- a group of financial liabilities or financial assets and liabilities is managed and its return is measured at fair value according to a documented risk management or investment strategy and the information relating to the group is provided internally on said basis to executives with strategic responsibilities.

### Recognition criteria

Financial liabilities measured at fair value are initially recognised at fair value on the issue date, which normally corresponds to the amount collected without considering the transaction costs or income directly attributable to the same instrument, which are instead attributed to the income statement.

### Measurement criteria

Liabilities are measured at fair value. The income components are reported according to the provisions of IFRS 9, as below:

- changes in fair value attributable to the change of its creditworthiness are stated in the appropriate equity reserve ('Statement of consolidated comprehensive income');
- the remaining changes in fair value are recognised in the income statement, under consolidated financial statements item 110. Net result of other financial assets and liabilities measured at fair value through profit or loss.

For further details on how fair value is determined, please refer to paragraph "A.4 - Information on fair value" of this part A.

### Derecognition criteria

The financial liabilities measured at fair value are derecognised from the financial statements when they have expired or are extinct.

Derecognition also takes place in case of repurchasing previously issued securities. The difference between the carrying amount of the liability and the amount paid to purchase it is recorded in the income statement.

The re-placement on the market of own shares after their repurchase is considered as a new issue with entry at the new placement price, without any effect on the income statement.

### Criteria for the recognition of the income components

The cost for interest on debt instruments is classified among the interest expense and similar charges of the consolidated income statement.

The income components relating to this financial statements item are reported according to the provisions of IFRS 9, as below:

- changes in fair value attributable to the change of its creditworthiness are stated in the appropriate equity reserve ('Statement of consolidated comprehensive income');
- the remaining changes in fair value are recognised in the income statement, under consolidated financial statements item 110. Net result of other financial assets and liabilities measured at fair value through profit or loss.

# 14 - Foreign exchange transactions

## Classification criteria

Among the assets and liabilities in foreign currencies, in addition to those explicitly expressed in a currency other than the Euro, are also those to which financial indexing clauses apply, connected to the Euro exchange rate with a certain currency or a given basket of currencies.

For the purpose of the conversion method to be used, the assets and liabilities in foreign currencies are subdivided into monetary items (classified among the current items) and non-monetary items (classified among the non-current items).

The monetary elements consist of cash at hand and the assets and liabilities to be received or paid, in cash amounts that are fixed or to be determined. In non-monetary elements, the right to receive or the obligation to deliver a cash amount that is fixed or to be determined is absent.

## Recognition criteria

Transactions in foreign currencies are recorded, at the time of initial recognition, in a currency account, by applying the exchange rate in force at the transaction date to the amount in a foreign currency.

## Measurement criteria

At the time of closing the financial statements or the interim period, the elements originally denominated in foreign currencies are valued as follows:

- the monetary items are converted at the exchange rate at year-end;
- the non-monetary items valued at the historical cost are converted at the exchange rate in force at the transaction date;
- the non-monetary items carried at fair value are converted at the spot exchange rate at year-end.

## Criteria for the recognition of the income components

The exchange rate differences found between the transaction date and the related payment date, on the monetary elements, are booked in the income statement in the year when they arise, together with those which derive from the conversion of monetary elements at different rates from the initial conversion rates or the conversion rates at the previous year-end.

When a profit or loss relating to a non-monetary element is recorded in Equity, the exchange rate difference relating to this element is also recorded in Equity.

When a profit or loss is recorded in the income statement, the related exchange rate difference is also recorded in the income statement.

# 15 - Other information

## 15.1 SALES AND REPURCHASE CONTRACTS (REPOS)

Securities sold and subject to a repurchase agreement are classified as committed financial instruments when the purchaser has the right to resell or re-commit the underlying asset by contract or agreement; the liability of the counterparty is included in the liabilities to other banks, other deposits or customer deposits.

The securities purchased in relation to a resale contract are accounted for as loans or down payments to other banks or customers.

The difference between the sales price and the purchase price is booked as interest and recorded on an accrual basis along the lifespan of the transaction.

## 15.2 PROVISION FOR SEVERANCE INDEMNITY AND SENIORITY BONUSES

Provision for severance indemnity (TFR) is similar to a post-employment benefit of the defined benefit plan type the value of which IAS 19 requires to be determined using actuarial methodologies.

Consequently, the valuation at the end of the year is made on the basis of the benefits accrued using the projected unit credit method.



This method provides for a projection of future outflows based on historical, statistical and probability analysis as well as by virtue of adopting the appropriate basic demographic techniques.

It makes it possible to calculate the TFR accrued on a certain day in actuarial terms, distributing the expense for all the years of expected residual permanence of the existing employees and no longer as an expense to be settled in the event that the company ceases its operations on the reference date.

Employee TFR is measured by an independent actuary in compliance with the method indicated above.

Following the entry into effect of the supplementary pension reform, pursuant to Italian Legislative Decree 252/2005, the portions of the provision for severance indemnity (TFR) accrued to 31 December 2006 will remain in the company, while the portions that accrue from 1 January 2007 have been, at the option of the employee, applied to complementary pension plans or the INPS fund.

The latter were therefore recognised in the income statement based on the contributions due in each year; no discounted was applied to the obligation to the supplementary fund or the INPS as its maturity is less than 12 months.

Based on IAS 19, the TFR paid to the Pension Fund Treasury (INPS) is considered as a defined contribution plan, as is the amount paid into the supplementary fund.

The portions accrued and paid into the supplementary pension funds are recognised in the consolidated income statement sub-item 190. a) personnel costs.

These cases are configured as a defined contribution plan since the obligation of the company towards the employee ends with the payment of the accrued amounts. Therefore, for these cases, only the portion of the debt can be recorded under the liabilities (among 'Other liabilities') for payments still to be made to the INPS or the supplementary funds, on the reference date.

IAS 19 requires all actuarial gains and losses accrued on the reference date to be immediately recognised in the "Statement of consolidated comprehensive income".

The 'other long-term benefits' described by IAS 19 include the seniority bonuses to employees. These benefits must be valued, in compliance with IAS 19, with the same methodology used to determine the provision for severance indemnity, as these are compatible.

The liability for the seniority bonus is recorded under the provisions for risks and charges of the statement of financial position.

The allocation, as the reattribution to the income statement of any excesses of the specific fund (due for example to changes to the actuarial assumptions) are recognised in the income statement among the "personnel costs".

## 15.3 RECOGNITION OF REVENUES AND COSTS

Revenues are recognised when control of the goods or services is transferred to the customer at an amount that represents the amount of the consideration to which the customer is deemed to be entitled.

Revenues are recorded through a process of analysis that involves the following steps:

- identification of the contract, defined as an agreement in which the parties have undertaken to fulfil their respective obligations;
- identification of the individual performance obligations contained in the contract;
- determination of the transaction price, i.e. the expected consideration for the transfer of the goods or services to the customer;
- allocation of the transaction price to each performance obligation, based on the sales prices of the individual obligation;
- recognition of revenues when (or as) the obligation to do is fulfilled by transferring the promised good or service to the customer.

That said, the recognition of revenues may occur:

- at a given time, when the entity meets its obligation to do so by transferring the promised good or service to the customer; or
- over a period of time, as the entity meets its obligation to do by transferring the promised good or service to the customer.

With reference to point b) above, a 'performance obligation' is satisfied over a period of time if at least one of the following conditions is met:

- the customer controls the asset involved in the contract at the moment in which it is created or enhanced;
- the customer simultaneously receives or consumes the benefits provided by the entity's performance as the entity performs;
- the company's performance creates a personalised asset for the customer and the company has a payment right for the services completed at the date of transfer of the asset.

If none of the above criteria are met, then the revenue is recognised at a given moment.

The indicators of the transfer of control are:

- the obligation to pay;
- the legal title of the right to the consideration accrued;
- the physical possession of the asset;
- the transfer of risks and benefits related to ownership;
- the acceptance of the asset.

With regard to revenues generated over a period of time, the Group adopts a time accounting criterion. In relation to the above, the main approaches adopted by the Group are summarised below:

- the interest is recognised on a temporal basis, based on the contractual interest rate or the effective rate in the case of applying the amortised cost;
- the overdue interest, possibly set contractually, is booked in the income statement only at the time of its actual collection;
- the dividends are recorded in the income statement in the period in which their distribution is resolved, which coincides with the period when they are collected;
- the commissions for revenues from services are entered, based on the existence of contractual agreements, in the period when the same services were rendered.

The revenues from the sale of non-financial assets are recorded at the time of finalising the sale, unless most of the risks and benefits associated with the asset have been maintained.

The costs are booked to the income statement according to the accrual principles; the costs relating to the obtainment and fulfilment of the contracts with the customer are recognised in the income statement in the periods in which the associated revenues are recognised.

## 15.4 IMPROVEMENTS TO THIRD-PARTY ASSETS

The restoration costs on third-party properties are capitalised in consideration of the fact that, throughout the duration of the lease, the using company has the control of the goods and may gain future economic benefits from them. The aforementioned costs are classified among the 'Other assets' and are amortised for a period not exceeding the duration of the lease.

## 15.5 METHODS OF RECOGNITION OF IMPAIRMENT LOSSES

### Impairment of financial assets

Financial assets other than those measured at fair value through profit or loss, in accordance with IFRS 9, are subject to an assessment - to be carried out at each reporting date - to verify whether there are any indicators that these assets may be impaired (so-called impairment indicators).

If the above-mentioned indicators exist, the financial assets in question are considered impaired (stage 3) and value adjustments must be recognised against them equal to the expected losses relating to their entire residual life.

For financial assets for which there are no impairment indicators (stage 1 and stage 2), it is necessary to verify whether there are indicators such that the credit risk of the individual transaction is significantly increased compared to the time of initial recognition and apply, consequently, the criteria underlying the IFRS 9 impairment model.

### The IFRS 9 impairment model

The scope of application of the IFRS 9 impairment model adopted by the Group, on which the requirements for the calculation of allocations are based, includes financial instruments such as debt securities, loans, trade receivables, assets deriving from contracts and receivables originating from lease transactions, measured at amortised cost or fair value through other comprehensive income, as well as off-balance sheet exposures (financial guarantees and commitments to disburse funds).

The aforementioned impairment model is characterised by a forward looking approach and in given circumstances, may require the immediate recognition of all expected losses over the life of a loan. This estimate will also need to be continuously adjusted to take account of the credit risk of the counterparty. In order to prepare this estimate, the impairment model must not only consider past and present data, but also information relating to future events.

As a result of the Covid-19 pandemic, in the first half of 2020 the Group implemented a number of refinements to the IFRS 9 impairment model to reflect, as at 30 June 2020, the guidelines contained in the EBA guidelines (GL-2020-02), in the ECB publication (SSM-2020-0154) as well as the update of the macroeconomic scenarios published by the ECB and by the Bank of Italy in the first few days of June 2020. For further details on the aforementioned refinements, please refer to paragraph "d) Methods of application of the international accounting standards in the context of the Covid-19 pandemic" included in "A.1 - General Part, Section 5 - Other matters" of this Part A.

For credit exposures falling within the scope of application of the impairment model, the accounting standard provides for the allocation of the individual positions in one of the 3 stages listed below:

- in stage 1, positions that do not present, at the valuation date, a significant increase in credit risk or which can be identified as 'low credit risk';
- in stage 2, positions that, at the reference date, present a significant increase of the credit risk or that do not present the characteristics to be identified as 'low credit risk';
- in stage 3, non-performing positions.

More specifically, the Group made provision for the allocation of the individual credit, cash and off-balance sheet positions, in one of the three stages listed below, based on the following criteria:

- in stage 1, positions with generation date of less than three months from the measurement date or that do not present any of the characteristics described in the previous point;
- in stage 2, the positions, which at the reference date, showed a significant increase in credit risk:
    - positions which, at the valuation date, are classified to 'watch list', i.e. 'performing under observation';
    - positions that, at the valuation date, show an increase in PD compared to the origination one that exceeds certain thresholds calculated with quantile regression methods;
    - presence of a 'forborne performing' attribute;
    - presence of past due amounts and/or overrun by more than 30 days;
    - positions (without 'lifetime PD' at the disbursement date) that, at the measurement date, do not present the characteristics to be identified as 'low credit risk' (as described below);
- in stage 3, non-performing loans. These concern individual positions relating to counterparties classified in one of the impaired loan categories set forth by Bank of Italy Circular no. 272/2008 and subsequent updates. Falling into this category are impaired past due and/or overrun, 'unlikely to pay' and non-performing exposures.

Performing positions that possess the following characteristics at the measurement date are considered 'low credit risk':

- absence of 'PD lifetime' at the disbursement date;
- rating class of less than or equal to 4.

Positions are allocated automatically to the stages set out in IFRS 9 according to the criteria defined above.

The estimate of expected loss using the ECL methodology, for the classes defined above, takes place on the basis of the allocation of each position into the three reference stages, as detailed below:

- stage 1, expected loss is calculated on a time horizon of one year;
- stage 2, the expected loss is calculated by considering all the losses that it is presumed will be incurred during the entire life of the financial asset (lifetime expected loss);
- stage 3, expected loss must be calculated from a lifetime perspective, but unlike the positions in stage 2, the calculation of lifetime expected loss will be analytical. In addition, where appropriate, forward looking elements will be introduced to the measurement of the aforementioned positions represented, in particular, by the inclusion of different scenarios (e.g. sale), weighted for the relevant probability of occurrence. More specifically, as part of estimating the recoverable value of the positions (in particular those classified as non-performing loans), the inclusion of a sale scenario, as an alternative to an internal management scenario, usually involves the recognition of higher value adjustments connected with the application of weighted sale prices for the relative probability of occurrence of the sale scenario.

With specific reference to loans to banks, the Group has adopted a model for determining the significant increase in credit risk that differs slightly from that applied to loans to customers, although the stage allocation logic adopted for loans to banks has been defined as consistently as possible with those implemented for loans to customers.

More specifically, with reference to loans to banks, the low credit risk ratios are performing ratios which at the valuation date have the following characteristics:

- absence of 'PD lifetime' at the disbursement date;
- PD Point in Time lower than 0.3%.

Interbank positions are allocated automatically to the stages set out in IFRS 9 according to the criteria defined above. Now, therefore, for loans to banks, the Group adopts the IFRS 9 impairment model developed on an ad hoc basis for the specific counterparty type and, therefore, different from the model used for loans to customers.

Also for loans to banks, the estimate of expected loss using the ECL methodology, for the classes defined above, takes place on the basis of the allocation of each position into the three reference stages, as detailed below:

- stage 1: expected loss is calculated on a time horizon of 12 months;
- stage 2: expected loss is calculated on a time horizon that incorporates the entire duration of the position until maturity (so-called lifetime expected loss or LEL);
- stage 3, expected loss must be calculated from a lifetime perspective, but unlike the positions in stage 2, the calculation of lifetime expected loss is analytical.

The probability of default and exposure at default (hereinafter also "PD" and "EAD") risk parameters are calculated by the impairment model.

The loss given default (hereinafter also "LGD") parameter is prudentially set at the regulatory level of 45% valid in the IRB Foundation model, for portfolios composed of risk assets other than subordinated and guaranteed instruments.

With reference to the portfolio of securities, the use of the approach for loans is confirmed, i.e. allocation of securities into one of the three stages set forth by IFRS 9, which correspond to the three different expected loss calculation methodologies.

In stage 1, expected loss is measured within a time horizon of one year, therefore with a probability of default at 12 months.

In the first stage of creditworthiness, securities were placed:

- at the moment of purchase, regardless of their risk;
- which, at the measurement date, have not experienced a significant increase in credit risk with respect to the moment of purchase;
- which have experienced a significant decrease in credit risk.

In the second stage, the ECL is calculated by using the probability of lifetime default. This stage will include those securities that possess the following characteristics:

- at the measurement date, the instrument presents an increase in credit risk with respect to the purchase date as such to request the recognition of an expected loss until maturity;
- instruments that fall under stage 3 on the basis of a significant decrease in risk.

The third and final stage includes exposures for which the ECL is calculated using a probability of default of 100%.

The decision to place instruments in stage 1 or in stage 2 is connected with the quantification of the thresholds that identify a significant increase in the credit risk of the individual tranche subject to valuation. These thresholds are calculated from the characteristics of the portfolio. As regards stage 3, an analysis is conducted as to whether the increase in risk was high enough, from the moment of initial recognition, to consider the assets 'impaired', i.e. whether events were verified as such to negatively impact future cash flows. As outlined previously, an incremental loss from stage 1 to stage 3 will have to be recognised. More specifically:

- the 12-month ECL represents the expected value of the loss estimated on an annual basis;
- the lifetime ECL is the estimate of expected loss until maturity of the security;
- the ECL estimation parameters are PD, LGD and EAD of the individual tranche.

## Analytical impairment of receivables in stage 3

With reference to the analytical valuation of loans, the model used by the Group to determine allocations for non-performing loans (stage 3) measured at amortised cost or at fair value through other comprehensive income requires, depending on their characteristics, the use of a specific analytical valuation or a flat-rate analytical valuation.

The specific analytical valuation method is aimed at determining the correct quantification of the provisions for each relationship, considering both the characteristics of the individual relationship subject to valuation and the characteristics of the counterparty holding it.

The flat-rate analytical valuation is aimed at determining the correct quantification of the provisions for each relationship and is carried out by estimating the risk parameters defined by a statistical model, in line with the provisions for the collective valuation of performing exposures with reference to credit exposures in stage 2.

The flat-rate analytical valuation applies to credit exposures that have the following characteristics:

- impaired past due and/or overrun exposures;
- impaired off-balance sheet exposures (e.g. endorsement exposures, available margins on credit);
- cash exposures classified as unlikely to pay that do not exceed an amount threshold defined at the individual debtor level (so-called size threshold);
- cash exposures classified as non-performing that do not exceed the size threshold.

The specific analytical valuation applies to credit exposures that have the following characteristics:

- cash exposures classified as unlikely to pay that exceed the size threshold;
- cash exposures classified as non-performing that exceed the size threshold.

For the purposes of applying the size threshold, the overall credit exposure is taken as a reference at the level of the individual debtor, thus determining, alternatively, a flat-rate or specific analytical valuation for all cash relationships in the name of the same debtor. The threshold for counterparties classified as unlikely to pay and non-performing amounts to € 200,000.

The assessment of expected losses, in particular with regard to non-performing exposures, shall be carried out taking into account the probability that different credit realisation scenarios will occur, such as the assignment of the exposure or, conversely, internal management.

With reference to the specific analytical valuation to determine the recoverable value (measurement component), the Group adopts two alternative approaches that reflect the characteristics and risk of the individual credit exposures:

- going concern approach, which applies only to business counterparties, operating in sectors other than real estate, that have objective prospects of going concern that are assumed when:
  - the debtor's future operating cash flows are pertinent and can be reliably estimated from documentable sources, such as:
    - updated, complete and regular official financial statements;

- the business plan, the use of which for estimating cash flows is subject to (i) verification of the reliability and feasibility of the assumptions underlying the plan and (ii) full compliance with the plan, if it is already in progress;
- the plan provided for in relation to agreements pursuant to the Bankruptcy Law such as, for example, pursuant to Article 67 letter d), Article 182 bis and septies, Article 186 bis, Article 160 et seq., it being understood that as long as the plans have only been submitted and not sworn in by the external professional appointed, the participating banks must carry out the same checks as those provided for with reference to the business plans;

  - the future operating cash flows of the debtor are adequate to repay the financial debt to all creditors.

- going concern approach, which applies mandatorily to credit exposures in the name of individuals and for companies with a view to business cessation or where it is not possible to estimate operating cash flows.

The discounting of the recoverable value (financial component), applied for non-performing loans and unlikely to pay, is based on the determination of the discount rate and the recovery time.

## Impairment of equity investments

At each reporting date, investments in associates or jointly controlled companies are subject to an impairment test to verify whether there is objective evidence that the carrying amount of the assets in question is not fully recoverable.

The presence of impairment indicators (such as an economic performance of the investee that is missing expectations, significant changes in the environment or in the market where the company operates or in market interest rates, etc.) entails the recognition of a write-down to the extent that the recoverable value of the equity investment is lower than the carrying amount.

The recoverable value is represented by the higher of the fair value, net of costs to sell and the value in use of the equity investment. As a consequence, the need to estimate both values does not apply if one of them has been valued above the carrying amount.

For the valuation methods used to determine fair value, reference should be made to paragraph "A.4 - Information on fair value" in this part A.

The value in use of the investment is the present value of the expected cash flows from the asset. This quantity responds to a general logic according to which the value of an asset is a direct expression of the cash flows it is able to generate over the period of its use. The determination of value in use therefore presupposes the estimate of the cash flows expected from the use of the assets or their final disposal expressed in terms of present value through the use of appropriate discount rates.

When an equity investment does not generate cash flows that are largely independent from other assets, it is subject to an impairment test not independently, but at the level of the cash generating unit (hereinafter also referred to as "CGU"). Therefore, when assets attributable to a subsidiary are included in a CGU larger than the investment itself, the impairment test can only be carried out at the latter level and not at the level of the individual investee company for which a value in use cannot be correctly estimated.

If the outcome of the impairment test shows that the recoverable value is higher than the carrying amount of the equity investment, no impairment is recognised; otherwise, impairment is recognised in the consolidated income statement under item 250. Profits (losses) on equity investments.

Should the recoverable value subsequently be higher than the new carrying amount because it can be demonstrated that the elements that led to the write-down are no longer present, a write-back is permitted up to the amount of the previously recorded adjustment.

## Impairment of other fixed assets

### Tangible assets

IAS 36 establishes that, at least once a year, the company must verify whether the tangible assets held show one or more indicators of impairment. If such indicators are found, the enterprise must carry out a valuation in order to detect any impairment loss (so-called impairment test).



The impairment test does not apply to the tangible assets that constitute:

- real estate investments measured at fair value (IAS 40);
- inventories (IAS 2);
- assets within the scope of IFRS 5.

The impairment indicators to be considered are those defined by para. 12 of IAS 36. In this regard, impairment indicators specific to tangible assets may occur, for example, in the presence of obsolescence that prevents normal use of the same such as fire, collapse, unusability and other structural defects.

Although IAS 36 is applicable to individual assets, it is often very difficult or, in some cases, impossible to calculate the value in use of an individual tangible asset. For example, it is not always possible to attribute specific incoming or outgoing cash flows to a property that houses the Management (so-called corporate asset) or to a plant or machinery. In these cases, IAS 36 states that the CGU, i.e. the smallest grouping of assets that generates independent cash flows, must be identified and tested at this higher level (rather than on the individual asset). This is precisely because it is often a group of assets - and not a single asset - that generates cash flow and for this reason it is not possible to calculate the value in use of the individual asset.

Without prejudice to the above, the impairment test involves the need to compare the recoverable value (which in turn is the higher of value in use and fair value net of costs to sell) of the tangible asset or the CGU with the relative carrying amount.

If and only if the recoverable value of an asset or of the CGU is lower than the carrying amount, the latter must be reduced to the recoverable value, constituting an impairment loss.

### Intangible assets

Pursuant to IAS 36, the Group is required to perform an impairment test at least once a year, irrespective of the presence of impairment indicators, on the following assets:

- intangible assets with an indefinite useful life (including goodwill);
- intangible assets not yet available for use (including those in progress).

Other intangible assets (e.g. those with a defined useful life such as core deposits acquired in a business combination) must be subject to an impairment test only if there is an indicator of impairment.

In this regard, the impairment indicators to be considered for intangible assets are those defined by para. 12 of IAS 36. Specific impairment indicators for intangible assets (and in particular for goodwill) may occur, for example, in the event of actual results significantly below budget forecasts (which suggests a downward revision of the projections used for the test) or in the event of an increase in the discount rate or a reduction in the long-term growth rate.

Intangible assets with a definite life, such as any value of the asset management portfolio acquired as part of business combinations, in the presence of impairment indicators are subject to a new assessment process to verify the recoverability of the values recorded in the financial statements. The recoverable value is determined on the basis of the value in use, i.e. the current value, estimated by using a rate representing the time value of money and the specific risks of the asset, the income margins generated by existing relationships at the measurement date along a time horizon that expresses their expected residual duration.

Intangible assets with an indefinite useful life, mainly represented by goodwill, as mentioned above, are subject to an impairment test annually. As there are no independent cash flows, the impairment test is carried out for the above mentioned assets with reference to the CGU to which the values have been attributed.

The CGU represents the smallest identifiable group of assets generating cash inflows (revenues) that are largely independent of the flows generated by other assets or groups of assets. It identifies the lowest possible level of aggregation of assets provided that it is, at that level, possible to identify cash inflows that are objectively independent and autonomous from other assets.

Once the CGUs have been identified, it is necessary to determine their recoverable value, which will be compared with their carrying amount in order to quantify any impairment. The recoverable value is defined as the greater of:

- value in use;
- fair value less costs to sell.

IAS 36 para. 19 states that if one of the two values (value in use or fair value less costs to sell) is higher than the carrying amount of the CGU, it is not necessary to estimate the other.

Value in use represents the present value of future cash flows expected to arise from a CGU. The value in use, therefore, responds to a general logic according to which the value of an asset is a direct expression of the cash flows it is able to generate over the period of its use. The determination of value in use requires an estimate of the expected cash inflows and outflows from the CGU and the appropriate discount rate depending on the level of risk of these flows.

Fair value is the amount obtainable from the sale of an asset or cash generating unit in a free transaction between knowledgeable and independent counterparties. Costs to sell include those directly associated with the potential sale (e.g. legal fees).

A CGU is written down when its carrying amount is higher than its recoverable value. In substance, it is necessary to write down the asset or the CGU because it suffers an impairment loss either because the cash flows deriving from the use of the asset are not sufficient to recover the carrying amount of the asset, or because the asset would be sold at a value lower than its carrying amount.

### 15.6 BUSINESS COMBINATIONS

A business combination consists of the bringing together of companies or company activities into a single entity required to prepare financial statements.

A business combination may give rise to an investment link between the parent company (acquiror) and the subsidiary (acquiree). A business combination may also make provision for the purchase of the net assets of another company, including any goodwill, or the acquisition of the capital of another company (mergers and contributions).

Based on the provisions of IFRS 3, business combinations must be accounted for by applying the purchase method which envisages the following phases:

- identification of the purchaser;
- determination of the cost of the business combination;
- allocation, at the acquisition date, of the cost of the business combination to the assets acquired and liabilities assumed, including therein any contingent liabilities.

In particular, the cost of a business combination is determined as the sum of the fair value, at the date of the exchange, of the assets transferred, the liabilities incurred or assumed and the equity instruments issued, in exchange for control of the acquiree. augmented by any cost directly attributable to the business combination.

The acquisition date is the date when control over the acquired business is actually obtained. When the acquisition is carried out via a single exchange, the exchange date coincides with the acquisition date.

When the business combination is achieved through several exchange transactions:

- the cost of the combination is the total cost of the individual transactions;
- the exchange date is the date of each exchange transaction (i.e. the date on which each investment is recognised in the financial statements of the acquiring company), while the acquisition date is the date on which control of the business acquired is obtained.

The cost of a business combination is allocated by recognising the identifiable assets, liabilities and contingent liabilities of the acquiree at the related fair values at the acquisition date.

The identifiable assets, liabilities and contingent liabilities of the acquiree are recognised separately at the acquisition date only if, at said date, they satisfy the following criteria:

- in the event of an asset other than an intangible asset, it is likely that any future related economic benefits flow to the acquiror and it is possible to reliably measure its fair value;
- in the event of a liability other than a contingent liability, it is likely that, to extinguish the obligation, the use of resources aimed at generating economic benefits will be necessary and it is possible to reliably measure its fair value;
- in the event of an intangible asset or a contingent liability, the relevant fair value can be reliably measured.



The positive difference between the cost of the business aggregation and the acquiror's interest at the net fair value of the identifiable assets, liabilities and contingent liabilities must be accounted for as goodwill.

Following initial recognition, the goodwill acquired in a business combination is measured at the relevant cost, and is subject to an impairment test at least annually. In the event of a negative difference, a new measurement is performed. This negative difference, if confirmed, is booked immediately as revenue in the income statement.

### 15.7 ACCRUALS AND DEFERRALS

Accruals and deferrals that include expenses and income pertaining to the period accrued on assets and liabilities are booked to the financial statements as an adjustment to the assets and liabilities to which they refer.

### 15.8 OWN SHARES

Any own shares held are deducted from equity. Similarly, the original cost of the same and the profits or losses arising from their subsequent sale are recognised as movements in equity. Similarly, shares issued by the Parent Company and subscribed by the Affiliated Banks as part of the sole consolidating entity are also deducted from Group's equity.

### 15.9 SHARE BASED PAYMENTS

This case does not apply to the Group, as it does not have a so-called 'stock option plan' in place on Group-issued shares.

## A.3 - Information on transfers between portfolios of financial assets

The Group has not performed any transfer between the portfolios of the financial instruments during the current year. Thus the compilation of the envisaged tables is omitted.

## A.4 - Information on fair value

The accounting standard IFRS 13 defines fair value as the price that would be received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value policy of the Cassa Centrale Group has defined the principles and methods for determining the fair value of financial instruments and the criteria for determining the fair value hierarchy.

A fair value measurement assumes that the sale of the asset or transfer of the liability takes place:

- in the main market for the asset or liability;
- in the absence of a main market, in the most advantageous market for the asset or liability.

In the absence of a main market, all reasonably available information is taken into consideration in order to identify an active market among the available markets where the fair value of an asset/liability can be measured: in general, a market is active in relation to the number of contributors and the type of the same (dealer, market maker), the frequency of price updating and deviation, the presence of an acceptable bid-offer spread. These prices are immediately executable and binding and express the actual and regular exchange levels at the valuation date.

In order to identify these markets, the Group has equipped itself with tools to identify and monitor whether or not a market can be considered active, in particular with regard to bonds, shares and funds.

In this respect, in general, a financial instrument is considered to be quoted on an active market if prices are readily and regularly available, are immediately executable and binding and represent actual market transactions that occur regularly in normal trading on a regulated market or Multilateral Trading Facilities (MTF).

The presence of official prices in an active market is the best evidence of fair value; these prices therefore represent the prices to be used in priority for fair value measurements.

In the absence of an active market, fair value is determined using prices recorded on non-active markets, valuations provided by info providers or techniques based on valuation models.

When using such models, the use of relevant observable inputs shall be maximised where possible and the use of non-observable inputs shall be minimised. Observable inputs refer to prices formed within a market and used by market participants in determining the exchange price of the financial instrument being valued. This includes prices of the same asset/liability in a non-active market, parameters supported and confirmed by market data and valuation estimates based on daily observable inputs.

The non-observable inputs, on the other hand, are those not available on the market, processed on the basis of assumptions that the operators/assessors would use in determining the fair value for the same instrument or similar instruments of the same type.

IFRS 13 defines a fair value hierarchy that classifies the inputs of the valuation techniques adopted to measure fair value into three separate levels. In particular, there are three levels of fair value:

a. Level 1: fair value is determined on the basis of quoted prices observed on active markets. The Group has equipped itself with tools to identify and monitor whether or not a market can be considered active with regard to bonds, shares and funds. The prices that are recorded on these markets to which the Group has access are considered level 1 prices. For example, the following are classified at this level of fair value:
    - bonds listed on Bloomberg MTF and valued with composite prices or, limited to Italian government securities, with MOT reference price;
    - shares and ETFs listed on markets where in the last five sessions the volumes traded are not zero and the prices recorded are not identical;
    - UCITS mutual funds.
b. Level 2: fair value is determined on the basis of valuation techniques that envisage:
    - reference to market values that do not reflect the stringent active market requirements envisaged for Level 1;
    - valuation models using inputs observable on active markets.

More specifically, with regard to financial instruments for which it is not possible to identify a fair value in active markets, the Group refers to prices in markets where the stringent requirements of the active market are not met or to valuation models - also developed by info providers - aimed at estimating the price at which a regular sale or transfer of a liability between market operators would take place on the valuation date. These models for determining fair value (e.g. discounting cash flow model, option pricing models) include the representative risk factors that condition the valuation of a financial instrument (cost of money, credit risk, volatility, exchange rates, etc.) and that are observed in active markets such as:

- prices of similar financial assets/liabilities;
- interest rates and yield curves observable at commonly quoted intervals;
- implied volatility;
- credit spread;
- inputs corroborated by the market based on observable market data.

The fair value thus determined is assigned a level of 2. Some examples of securities classified at this level are:

- non-governmental bonds for which a price is available on a non-active market;
- securities for which the valuation is provided by a third-party provider using inputs observable on active markets;
- securities for which valuation is provided using internal models based on inputs observable on active markets (e.g. bonds measured at fair value option);
- shares that are not listed on an active market;
- OTC (Over the counter) financial derivatives concluded with institutional counterparties measured mainly through observable market data.

c. Level 3: the estimate of fair value is carried out using valuation techniques that make significant use of inputs that are not observable on the market and assumptions made by operators using historical evidence or statistical assumptions. Where present, for example, the following are classified at this level:
    - unlisted minority equity investments;
    - insurance investment products;
    - unlisted non-UCITS funds;
    - junior securitisation securities;
    - unlisted Additional Tier 1 bonds.

The classification of fair value is a figure that may vary over the life of a financial instrument. Consequently, it is necessary to verify on an ongoing basis the significance and observability of market data in order to proceed with any change in the level of fair value attributed to an instrument.

## Information of a qualitative nature

### A.4.1 FAIR VALUE LEVELS 2 AND 3: VALUATION TECHNIQUES AND INPUTS USED

In the absence of an active market, fair value is determined using valuation techniques appropriate to the circumstances. Below is an illustration of the main valuation techniques adopted for each type of financial instrument, where an internal model is used to determine fair value.

The valuation models are reviewed periodically to ensure their full and constant reliability and are updated to the most up-to-date techniques used on the market.

### Unlisted bonds not contributed by info providers

The procedure for estimating the fair value of bonds is based on a discounted cash flow model.

The yield curve used in the discounting is constructed from liquid bonds, with the same seniority and currency of the instrument being valued, issued by companies belonging to the same sector and with a similar rating class.

As part of the fair value measurement of bonds issued by the issuer, the estimate of fair value takes into account changes in the issuer's creditworthiness. In particular, for securities issued by Affiliated Banks or other cooperative credit banks, the rating class is determined on the basis of the creditworthiness of the parent company. Changes in the rating may also lead to changes in the fair value calculated according to the characteristics of the security and the discount curve used.

Given the predominant use of observable inputs, the fair value thus determined is classified at level 2.

### Derivatives

The fair value of OTC derivatives, for which there is no price quoted on regulated markets, is determined using different quantitative models depending on the type of instrument. In detail, for non-optional instruments the valuation techniques adopted belong to the discount cash flow model category (e.g. interest rate swaps, FX swaps). For instruments of an optional rate nature, the Black model is used.

The models are supplied using market-observable inputs such as rate curves, exchange rates and volatility.

With regards to the determination of the fair value of OTC derivatives in statement of financial position assets, IFRS 13 confirmed the rule of applying the credit valuation adjustment - CVA. With regard to financial liabilities involving OTC derivatives, IFRS 13 introduces the so-called Debt Valuation Adjustment (DVA), that is an adjustment to fair value which aims to reflect its own default risk on those instruments.

The Group therefore considered it reasonable not to recognise a correction in the fair value of derivatives for CVA and DVA in the cases in which agreements had been made and remained operative for collateralisation of the positions and derivatives with the following characteristics:

- a bilateral exchange of guarantees with a high frequency (daily or at the most weekly);
- the type of guarantee provided in cash or highly liquid government securities with a high credit rating, subject to an appropriate spread;
- absence of a threshold of the fair value of the derivative under which an exchange of guarantees is not required or setting the level to such a threshold which is adequate to allow for effective and significant mitigation of the counterparty risk;
- MTA - minimum transfer amount (that is the difference between the fair value of the contract and the value of the guarantee) under which there is no adjustment of the collateralisation of the positions, identified contractually at a level that allows for essential mitigation of the counterparty risk.

## Unlisted minority equity investments

The main valuation methods adopted by the Group, in accordance with the provisions of IFRS 13, in the valuation of unlisted minority equity investments are set out below:

- market methodologies (market approach): these are based on the idea of comparability with other market participants assuming that the value of an asset can be determined by comparing it to similar assets for which market prices are available. In particular, in practice, two reference sources of market prices are taken into account: stock market prices in active markets and observable information from merger transactions, acquisition or sale of share packages (direct transaction method, transaction multiples, market multiples);
- income approach: these are based on the assumption that future cash flows (e.g. cash flows or dividends) are convertible into a single (discounted) current value. In particular, the main methodologies that fall into this category include i) discounted cash flow (DCF); ii) dividend discount model (DDM); iii) appraisal value;
- adjusted net asset value or ANAV: this method is based on the principle of expressing, at current values, the individual elements of the assets (represented, essentially, by equity investments, whether controlling or not) and liabilities with the emergence also of any items not recorded in the financial statements. This method is normally used to determine the economic value of equity investment and investment company holdings whose value is strictly attributable to the portfolio of equity investments held.

In accordance with the provisions of IFRS 13, the Group verifies, depending on the specific case, whether it is necessary to apply certain adjustments to the economic value resulting from the application of the aforementioned valuation methods to determine the fair value of the investment under analysis (e.g. liquidity discount, control premium, minority discount).

The choice of the measurement approach is left to the judgement of the auditor, provided that the methods that maximise the use of inputs observable on the market and minimise the use of non-observable inputs are preferred, in accordance with available information.

Lastly, it should be noted that the Group uses the net asset value or cost method (as a proxy for fair value) for minority interests below certain materiality thresholds for which no fair value measurement based on the aforementioned methods is available, based on specific parameters defined within the Fair Value Policy approved by the Board of Directors.

## Unlisted mutual investment funds

Mutual investment funds such as unlisted real estate funds, private equity funds and alternative investment funds (hereinafter also referred to as 'AIFs') are characterised by a portfolio of assets generally valued with subjective inputs and provide for the redemption of the subscribed portion only at a certain maturity.

For this reason, the net asset value (NAV) used as a fair value estimation technique is considered to be level 3.

## Insurance investment products

The valuation of these assets provides for the discounting of expected future cash flows from the investment. In this regard, the estimate of cash flows is based on the use of risk-free financial scenarios in which a Monte-Carlo simulative approach is used for the projection of future returns from the separate holding. The input data of the functional model for the estimation of flows consist of:

- historical information on the performance of the separate holdings involved;
- risk-free rates;
- the average asset allocation of the Italian separate holdings taken from market data (source: ANIA) at the last available survey compared to the valuation date.

Cash flow projections are made using a financial-actuarial model that incorporates the data of the policyholder, the financial structure of the insurance investment product (minimum guaranteed rates, management fees), demographic assumptions and financial data in order to consider the value of the financial options included in the insurance investment product. Finally, these cash flows are discounted using the same risk-free curve specific to the individual scenario.

## Loans and receivables

The fair value measurement of loans mainly takes place in cases where the relationship fails the SPPI test or in cases of hedge accounting or application of the fair value option.

The valuation method consists of discounting the contractual cash flows net of the expected loss calculated in accordance with the IFRS 9 model used to estimate value adjustments.

## Unlisted Additional Tier 1 (AT1) subordinated bank securities issued by Affiliated Banks

The procedure for estimating the fair value of Additional Tier 1 securities is based on a discounted cash flow model. The yield curve used in discounting is constructed from liquid bonds, taking into account the seniority of the instrument, the sector and the rating class of the issuer. Taking into account the presence, within the model, of assumptions on the evolution of future cash flows, the fair value thus determined is classified at level 3.

## A.4.2 PROCESSES AND SENSITIVITIES OF THE VALUATIONS

The Group generally carries out a sensitivity analysis of non-observable inputs, through a stress test on non-observable inputs that are significant for the evaluation of the different types of financial instruments belonging to level 3 of the fair value hierarchy.

Based on this analysis, the potential changes in fair value, by type of instrument, attributable to plausible changes in non-observable inputs are determined. The sensitivity analysis was developed for the financial instruments for which the valuation techniques adopted made it possible to carry out this exercise.

That said, financial instruments with a fair value level 3 represent a residual portion (approximately 8%) of the total portfolio of financial assets. They consist mainly of unlisted minority equity investments and insurance investment products (typically life insurance policies).

With reference to unlisted minority equity investments, in terms of significance, the equity investment in Iccrea Banca S.p.A. (hereinafter also "Iccrea"), equal to approximately EUR 142 million as at the reporting date, is shown. This was not subject to sensitivity analysis considering that the fair value was determined on the basis of the price defined in the agreement signed in October 2019 between the Parent Company and Iccrea regarding the definition of reciprocal participation arrangements. Given that the value of the equity investment will be realised at the price already established in the agreement, which cannot therefore be subject to change, the sensitivity analysis was deemed to have no significant value in terms of reporting.

With reference to insurance investment products, as highlighted above, these are valued on the basis of a calculation model that provides for the discounting of future cash flows expected from the same investment, taking into account financial, demographic and contractual assumptions.

For the above instruments, considering that the financial and demographic assumptions are derived from observable market data (e.g. Italian risk-free interest rate maturity structure with volatility adjustment, ISTAT mortality table, etc.), the sensitivity analysis was carried out with reference to the non-observable inputs underlying the contractual assumptions (relatively less relevant for valuation purposes).

In particular, the sensitivity analysis concerned the spread (obtained by weighting the historical returns of the reference Separate Holdings) added to the Euroswap rate in order to determine the capitalisation rate used to calculate, starting from the last insured capital communicated by the insurance companies, the insured capital at the valuation date. The above analysis was conducted on a sample of instruments of this type and showed that there were scarcely significant effects on the fair value of insurance investments deriving from the change in the non-observable inputs in question, also due to the circumstance mentioned above that the non-observable inputs underlying the contractual assumptions are in relative terms less relevant for the purposes of the valuation.

With reference to the other fair value level 3 instruments, the sensitivity analysis is not produced because the effects deriving from the change in non-observable inputs are not deemed relevant.

With reference to the equity investment in Banca Carige S.p.A. - Cassa di Risparmio di Genova e Imperia (hereinafter also referred to as "Carige"), given the valuation model adopted, no analysis of sensitivity to non-observable inputs was considered relevant.

## A.4.3 FAIR VALUE HIERARCHY

For a description of the fair value hierarchy levels envisaged by the Group, please refer to paragraph "A.4 - Information on fair value" above.

With reference to assets and liabilities measured at fair value, classification at the correct level is carried out with reference to the rules and methods set out in internal regulations.

Any transfers to a different level of hierarchy are identified on a monthly basis. The transition from level 3 to level 2 occurs when the relevant parameters used as input to the valuation technique are, at the reference date, observable on the market. The transition from level 2 to level 1 takes place when the presence of an active market, as defined by IFRS 13, has been successfully verified. The transition from level 2 to level 3 occurs when, at the reference date, several of the significant parameters in determining fair value are not directly observable on the market.

## A.4.4 OTHER INFORMATION

The Group does not hold groups of financial assets and liabilities based on its net exposure to market risks or credit risk.

The Group, with reference to derivatives concluded with financial counterparties with which it stipulated framework offsetting agreements, availed itself of the possibility to measure the fair value at overall portfolio exposure level in order to take account of the offsetting of counterparty risk.



## Information of a quantitative nature

## A.4.5 FAIR VALUE HIERARCHY

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

| | 30/06/2020 | | | 31/12/2019 | | |
|---|---|---|---|---|---|---|
| FINANCIAL ASSETS/LIABILITIES MEASURED AT FAIR VALUE | L1 | L2 | L3 | L1 | L2 | L3 |
| 1. Financial assets measured at fair value through profit or loss | 167 | 51 | 381 | 160 | 54 | 388 |
| a) financial assets held for trading | - | 8 | - | - | 7 | - |
| b) financial assets measured at fair value | - | - | 2 | - | - | 2 |
| c) other financial assets obligatorily measured at fair value | 167 | 43 | 379 | 160 | 47 | 386 |
| 2. Financial assets measured at fair value through other comprehensive income | 8,372 | 181 | 291 | 7,161 | 105 | 282 |
| 3. Hedging derivatives | - | 2 | - | - | 3 | - |
| 4. Tangible assets | - | - | 10 | - | - | 18 |
| 5. Intangible assets | - | - | - | - | - | - |
| **Total** | **8,539** | **234** | **682** | **7,321** | **162** | **688** |
| 1. Financial liabilities held for trading | - | 8 | - | - | 7 | - |
| 2. Financial liabilities measured at fair value | - | 35 | - | - | 51 | - |
| 3. Hedging derivatives | - | 60 | - | - | 43 | - |
| **Total** | **-** | **103** | **-** | **-** | **101** | **-** |

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

During the year, there were no significant transfers of assets and liabilities between level 1 and level 2 as defined by IFRS 13 para. 93, letter c).

### A.4.5.2 Changes in the period in 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 | Tangible assets | 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 obligatorily measured at fair value | | | | |
| **1. OPENING BALANCES** | **388** | **-** | **2** | **386** | **282** | **-** | **18** | **-** |
| **2. INCREASES** | **13** | **-** | **-** | **13** | **16** | **-** | **-** | **-** |
| 2.1. Purchases | 7 | - | - | 7 | 2 | - | - | - |
| 2.2. Profit attributed to: | 3 | - | - | 3 | - | - | - | - |
| 2.2.1. Income Statement | 3 | - | - | 3 | - | - | - | - |
| - of which capital gains | 1 | - | - | 1 | - | - | - | - |
| 2.2.2. Equity | - | X | X | X | - | - | - | - |
| 2.3. Transfers from other levels | - | - | - | - | - | - | - | - |
| 2.4. Other increases | 3 | - | - | 3 | 14 | - | - | - |
| **3. DECREASES** | **20** | **-** | **-** | **20** | **7** | **-** | **8** | **-** |
| 3.1. Sales | - | - | - | - | - | - | - | - |
| 3.2. Repayments | 10 | - | - | 10 | 4 | - | - | - |
| 3.3. Losses attributed to: | 3 | - | - | 3 | 3 | - | - | - |
| 3.3.1. Income Statement | 3 | - | - | 3 | 2 | - | - | - |
| - of which capital losses | 2 | - | - | 2 | 1 | - | - | - |
| 3.3.2. Equity | - | X | X | X | 1 | - | - | - |
| 3.4. Transfers to other levels | - | - | - | - | - | - | - | - |
| 3.5. Other decreases | 7 | - | - | 7 | - | - | 8 | - |
| **4. CLOSING BALANCES** | **381** | **-** | **2** | **379** | **291** | **-** | **10** | **-** |



### A.4.5.3 Changes in the period in liabilities measured at fair value on a recurring basis (level 3)

As at the reporting date, the Group does not hold any liabilities measured at fair value on a recurring basis classified to level 3.

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

| ASSETS AND LIABILITIES WHICH ARE NOT MEASURED AT FAIR VALUE OR WHICH ARE MEASURED AT FAIR VALUE ON A NON-RECURRING BASIS | 30/06/2020 | | | | 31/12/2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | CA | L1 | L2 | L3 | CA | L1 | L2 | L3 |
| 1. Financial assets measured at amortised cost | 69,628 | 25,242 | 2,052 | 44,164 | 60,932 | 18,590 | 1,463 | 41,417 |
| 2. Tangible assets held for investment purposes | 98 | - | - | 94 | 96 | - | - | 93 |
| 3. Non-current assets and groups of assets held for disposal | 9 | - | - | 7 | 9 | - | - | 7 |
| **Total** | **69,735** | **25,242** | **2,052** | **44,265** | **61,037** | **18,590** | **1,463** | **41,517** |
| 1. Financial liabilities measured at amortised cost | 73,632 | - | 2,699 | 70,928 | 64,143 | - | 3,418 | 60,703 |
| 2. Liabilities associated to assets held for disposal | - | - | - | - | - | - | - | - |
| **Total** | **73,632** | **-** | **2,699** | **70,928** | **64,143** | **-** | **3,418** | **60,703** |

KEY:

CA = Carrying amount

L1 = Level 1

L2 = Level 2

L3 = Level 3

# A.5 - Information on day one profit/loss

The Group did not carry out any transactions for which, at the moment of first-time recognition of a financial instrument, a difference emerges between the purchase value and the value of the instrument obtained using internal valuation techniques.

# Part B - Information on the consolidated statement of financial position

## Assets

## Section 2 – Financial assets measured at fair value through profit or loss - Item 20

### 2.1 Financial assets held for trading: breakdown by category

| ITEMS/VALUES | Total 30/06/2020 | | | Total 31/12/2019 | | |
|---|---|---|---|---|---|---|
| | L1 | L2 | L3 | L1 | L2 | L3 |
| **A. Cash assets** | | | | | | |
| 1. Debt securities | - | - | - | - | - | - |
| 1.1 Structured securities | - | - | - | - | - | - |
| 1.2 Other debt securities | - | - | - | - | - | - |
| 2. Equities | - | - | - | - | - | - |
| 3. UCITS units | - | - | - | - | - | - |
| 4. Loans | - | - | - | - | - | - |
| 4.1 Repos | - | - | - | - | - | - |
| 4.2 Other | - | - | - | - | - | - |
| **Total (A)** | - | - | - | - | - | - |
| **B. DERIVATIVE INSTRUMENTS** | | | | | | |
| 1. Financial derivatives | - | 8 | - | - | 7 | - |
| 1.1 trading | - | 7 | - | - | 6 | - |
| 1.2 connected to the fair value option | - | 1 | - | - | 1 | - |
| 1.3 other | - | - | - | - | - | - |
| 2. Credit derivatives | - | - | - | - | - | - |
| 2.1 trading | - | - | - | - | - | - |
| 2.2 Connected to the fair value option | - | - | - | - | - | - |
| 2.3 other | - | - | - | - | - | - |
| **Total (B)** | - | 8 | - | - | 7 | - |
| **Total (A+B)** | - | 8 | - | - | 7 | - |

**KEY:**
L1 = Level 1
L2 = Level 2
L3 = Level 3

This item contains the financial assets (debt securities, equities, UCITS units, and derivatives) classified in the trading book.

## 2.3 Financial assets measured at fair value: breakdown by category

| ITEMS/VALUES | Total 30/06/2020 | | | Total 31/12/2019 | | |
|---|---|---|---|---|---|---|
| | L1 | L2 | L3 | L1 | L2 | L3 |
| **1. DEBT SECURITIES** | - | - | - | - | - | - |
| 1.1 Structured securities | - | - | - | - | - | - |
| 1.2 Other debt securities | - | - | - | - | - | - |
| **2. LOANS** | - | - | 2 | - | - | 2 |
| 2.1 Structured | - | - | - | - | - | - |
| 2.2 Other | - | - | 2 | - | - | 2 |
| **Total** | - | - | 2 | - | - | 2 |

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

## 2.5 Other financial assets obligatorily measured at fair value: breakdown by category

| ITEMS/VALUES | Total 30/06/2020 | | | Total 31/12/2019 | | |
|---|---|---|---|---|---|---|
| | L1 | L2 | L3 | L1 | L2 | L3 |
| 1. Debt securities | - | 43 | 17 | - | 47 | 17 |
| 1.1 Structured securities | - | - | - | - | - | - |
| 1.2 Other debt securities | - | 43 | 17 | - | 47 | 17 |
| 2. Equities | 19 | - | - | 18 | - | - |
| 3. UCITS units | 148 | - | 83 | 142 | - | 85 |
| 4. Loans | - | - | 279 | - | - | 284 |
| 4.1 Repos | - | - | - | - | - | - |
| 4.2 Other | - | - | 279 | - | - | 284 |
| **Total** | **167** | **43** | **379** | **160** | **47** | **386** |

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

Sub-item "1.2. Other debt securities" includes junior securities relating to securitisation transactions for about EUR 4 million classified at fair value level 3.

Loans include approximately EUR 230 million in life insurance policies issued by insurance companies, linked to the return on a separate holding, and obligatorily measured at fair value following the failure of the SPPI test.

The item 'UCITS units' is composed of the following main categories of funds:

- bonds totalling EUR 88 million;
- stocks totalling EUR 42 million;
- balanced totalling EUR 38 million;
- real estate totalling approximately EUR 33 million;
- NPLs totalling EUR 28 million;
- private equity totalling approximately EUR 2 million.

# 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 by category

| ITEMS/VALUES | Total 30/06/2020 | | | Total 31/12/2019 | | |
|---|---|---|---|---|---|---|
| | L1 | L2 | L3 | L1 | L2 | L3 |
| 1. Debt securities | 8,365 | 181 | 1 | 7,157 | 105 | 3 |
| 1.1 Structured securities | - | - | - | - | - | - |
| 1.2 Other debt securities | 8,365 | 181 | 1 | 7,157 | 105 | 3 |
| 2. Equities | 7 | - | 290 | 4 | - | 279 |
| 3. Loans | - | - | - | - | - | - |
| **Total** | **8,372** | **181** | **291** | **7,161** | **105** | **282** |

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

The item "Equities", as for the previous year, includes residual Iccrea Banca S.p.A. securities held by the Affiliated Banks for about EUR 142 million. These securities are part of the agreement that allowed the Cassa Centrale Group's stake in Iccrea Banca S.p.A. to be reduced below the 10% threshold. The remainder will be sold in full in annual and proportional instalments by 31 December 2022.

This item also includes equities relating to Cassa Centrale Banca's participation in Banca Carige for an amount of around EUR 52 million (8.34% of the share capital).

### 3.3 Financial assets measured at fair value through other comprehensive income: gross value and total value adjustments

| | GROSS VALUE | | | | Total value adjustments | | | Overall partial write-offs* |
|---|---|---|---|---|---|---|---|---|
| | First stage | of which: Instruments with low credit risk | Second stage | Third stage | Primo stadio | Secondo stadio | Third stage | |
| Debt securities | 8,550 | 41 | 3 | 1 | 6 | - | 1 | - |
| Loans | - | - | - | - | - | - | - | - |
| **Total 30/06/2020** | **8,550** | **41** | **3** | **1** | **6** | **-** | **1** | **-** |
| **Total 31/12/2019** | **7,266** | **6,391** | **3** | **1** | **4** | **-** | **1** | **-** |
| of which: impaired financial assets acquired or originated | X | X | - | - | X | - | - | - |

*Value to be displayed for information

The division by stage of risk of financial assets measured at fair value through other comprehensive income is applied in compliance with the provisions of the impairment model in application of IFRS 9.

For more detailed information, please refer to Part A - Accounting policies in paragraph "15.5 Methods of recognition of impairment losses" and Part E - Information on risks and related hedging policies.



## Section 4 - Financial assets measured at amortised cost - Item 40

### 4.1 Financial assets measured at amortised cost: breakdown by category of loans to banks

| TYPE OF TRANSACTIONS/ VALUES | Total 30/06/2020 | | | | | | Total 31/12/2019 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Carrying amount | | | Fair value | | | Carrying amount | | | Fair value | | |
| | First and second stage | Third stage | of which: impaired acquired or originated | L1 | L2 | L3 | First and second stage | Third stage | of which: impaired acquired or originated | L1 | L2 | L3 |
| **A. LOANS TO CENTRAL BANKS** | **2,176** | **-** | **-** | **-** | **-** | **2,176** | **455** | **-** | **-** | **-** | **-** | **455** |
| 1. Fixed-term deposits | - | - | - | X | X | X | - | - | - | X | X | X |
| 2. Compulsory reserve | 2,176 | - | - | X | X | X | 455 | - | - | X | X | X |
| 3. Repos | - | - | - | X | X | X | - | - | - | X | X | X |
| 4. Other | - | - | - | X | X | X | - | - | - | X | X | X |
| **B. LOANS TO BANKS** | **948** | **-** | **-** | **123** | **250** | **575** | **1,084** | **-** | **-** | **177** | **217** | **704** |
| **1. Loans** | **563** | **-** | **-** | **-** | **5** | **558** | **711** | **-** | **-** | **-** | **20** | **692** |
| 1.1 Current accounts and deposits on demand | 243 | - | - | X | X | X | 337 | - | - | X | X | X |
| 1.2. Fixed-term deposits | 151 | - | - | X | X | X | 281 | - | - | X | X | X |
| 1.3. Other loans: | 169 | - | - | X | X | X | 93 | - | - | X | X | X |
| - Repos receivables | - | - | - | X | X | X | - | - | - | X | X | X |
| - Financing for leases | - | - | - | X | X | X | 1 | - | - | X | X | X |
| - Other | 169 | - | - | X | X | X | 92 | - | - | X | X | X |
| **2. Debt securities** | **385** | **-** | **-** | **123** | **245** | **17** | **373** | **-** | **-** | **177** | **197** | **12** |
| 2.1 Structured securities | - | - | - | - | - | - | - | - | - | - | - | - |
| 2.2 Other debt securities | 385 | - | - | 123 | 245 | 17 | 373 | - | - | 177 | 197 | 12 |
| **Total** | **3,124** | **-** | **-** | **123** | **250** | **2,751** | **1,539** | **-** | **-** | **177** | **217** | **1,159** |

**KEY:**

L1 = Level 1

L2 = Level 2

L3 = Level 3

The balance of "Other debt securities" includes the subscription, by the Cassa Centrale Group, of the subordinated bond issued by Carige at an annual rate of 8.25%. This subordinated loan was subscribed by Cassa Centrale Banca and its Affiliated Banks for a nominal value of EUR 100 million.

## 4.2 Financial assets measured at amortised cost: breakdown by category of loans to customers

| TYPE OF TRANSACTIONS/ VALUES | Total 30/06/2020 | | | | | | Total 31/12/2019 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Carrying amount | | | Fair value | | | Carrying amount | | | Fair value | | |
| | First and second stage | Third stage | of which: impaired acquired or originated | L1 | L2 | L3 | First and second stage | Third stage | of which: impaired acquired or originated | L1 | L2 | L3 |
| **1. LOANS** | **39,681** | **1,811** | **-** | **-** | **1,681** | **41,205** | **39,059** | **1,885** | **-** | **-** | **1,115** | **40,052** |
| 1. Current accounts | 4,043 | 324 | - | X | X | X | 4,707 | 335 | - | X | X | X |
| 2. Repos receivables | - | - | - | X | X | X | - | - | - | X | X | X |
| 3. Mortgage loans | 30,881 | 1,403 | - | X | X | X | 29,429 | 1,459 | - | X | X | X |
| 4. Credit cards, personal loans and salary-backed loans | 715 | 14 | - | X | X | X | 759 | 13 | - | X | X | X |
| 5. Financing for leases | 582 | 25 | - | X | X | X | 586 | 29 | - | X | X | X |
| 6. Factoring | - | - | - | X | X | X | - | - | - | X | X | X |
| 7. Other loans | 3,460 | 45 | - | X | X | X | 3,578 | 49 | - | X | X | X |
| **2. DEBT SECURITIES** | **25,012** | **-** | **-** | **25,119** | **121** | **208** | **18,449** | **-** | **-** | **18,413** | **131** | **206** |
| 2.1. Structured securities | - | - | - | - | - | - | - | - | - | - | - | - |
| 2.2. Other debt securities | 25,012 | - | - | 25,119 | 121 | 208 | 18,449 | - | - | 18,413 | 131 | 206 |
| **Total** | **64,693** | **1,811** | **-** | **25,119** | **1,802** | **41,413** | **57,508** | **1,885** | **-** | **18,413** | **1,246** | **40,258** |

**KEY:**

L1 = Level 1

L2 = Level 2

L3 = Level 3

Loans to customers are shown net of value adjustments from write-downs. Impaired assets include the non-performing loans, unlikely to pay and past due exposures according to Bank of Italy Circular no. 272 of 30 July 2008 and subsequent updates. Details of these exposures, the amounts and the breakdown of the value adjustments, are shown in Part E of these explanatory notes - 'Credit quality'. The fair value of short-term or revocable receivables was conventionally assumed to be equal to the carrying amount. For the impaired positions it was deemed appropriate to assume the fair value equal to the net carrying amount.

The item "2.2. Other debt securities" mainly consist of government securities of EU countries, and includes senior securities relating to securitisation transactions for approximately EUR 173 million classified at fair value level 3.

Loans to customers include loans from third-party funds under administration with risk borne by the Group amounting to approximately EUR 107 million.

The increase in the item "Mortgage loans", partially offset by a decrease in current accounts, is related to restructuring on-demand exposures to forms of loan guaranteed by the State, as well as the effects relating to moratoria on mortgages loans that temporarily suspended the pre-established repayment plans. These measures are envisaged by government decrees issued as a result of the crisis triggered by Covid-19 pandemic.

## 4.4 Financial assets measured at amortised cost: gross value and total value adjustments

| | Gross value | | | | Total value adjustments | | | Overall partial write-offs* |
|---|---|---|---|---|---|---|---|---|
| | First stage | of which: Instruments with low credit risk | Second stage | Third stage | First stage | Second stage | Third stage | |
| Debt securities | 25,381 | 219 | 78 | 1 | 26 | 36 | 1 | - |
| Loans | 38,493 | 1 | 4,323 | 4,089 | 128 | 268 | 2,278 | 307 |
| **Total 30/06/2020** | **63,874** | **220** | **4,401** | **4,090** | **154** | **304** | **2,279** | **307** |
| **Total 31/12/2019** | **52,411** | **1,992** | **7,006** | **4,189** | **99** | **271** | **2,304** | **305** |
| of which: impaired financial assets acquired or originated | X | X | - | - | X | - | - | - |

*Value to be displayed for information purposes

The division by stage of risk of financial assets measured at amortised cost is applied in compliance with the provisions of the impairment model in application of IFRS 9.

For more detailed information on the impairment model, please refer to Part A - Accounting policies in paragraph "15.5 Methods of recognition of impairment losses" and Part E - "Information on risks and related hedging policies".

# Section 7 - Equity investments - Item 70

This section includes the equity investments in companies under joint control or subject to a significant influence (IAS 28 and IFRS 11).

As at the reporting date, the value of the equity investments amounted to EUR 72 million, relating:

- to 'significant' equity investments totalling EUR 48 million (as represented in the following table 7.2);
- to 'non significant' equity investments totalling EUR 24 million (as represented, on the whole, in the following table 7.4).

The scope of 'significant equity investments' was determined by considering the materiality of the carrying amount of the investment and the share of the investee's assets with respect to the homogeneous balances relating to the current financial statements.

## 7.1 Equity investments: information on investment ratios

| NAME | Registered office | Operating Headquarters | Relationship type | Investment relationship | | Votes available % |
|---|---|---|---|---|---|---|
| | | | | Investing company | % Share | |
| **A. JOINTLY CONTROLLED COMPANIES** | | | | | | |
| CASSE RURALI RAIFFEISEN FINANZIARIA S.p.A. | Bolzano | Bolzano | 7 | CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.p.A. | 50.00 | 50.00 |
| FRONTE PARCO IMMOBILIARE S.r.l. | Bologna | Bologna | 7 | BANCA DI BOLOGNA CREDITO COOPERATIVO - COOPERATIVE COMPANY | 50.00 | 50.00 |
| **B. COMPANIES SUBJECT TO A SIGNIFICANT INFLUENCE** | | | | | | |
| LE CUPOLE | Manerbio (BS) | Manerbio (BS) | 4 | CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | 22.00 | 22.00 |
| FINANZIARIA TRENTINA DELLA COOPERAZIONE | Trento | Trento | 4 | CASSA RURALE ALTA VALSUGANA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | 7.19 | 7.19 |
| | | | | CASSA RURALE ALTO GARDA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | 6.53 | 6.53 |
| | | | | CASSA RURALE DI TRENTO, LAVIS, MEZZOCORONA E VALLE DI CEMBRA - BANCA DI CREDITO COOPERATIVO - COOPERATI-VE COMPANY | 8.48 | 8.48 |
| | | | | CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.p.A. | 4.08 | 4.08 |
| | | | | CASSA RURALE DOLOMITI DI FASSA PRIMIERO E BELLUNO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | 3.26 | 3.26 |
| | | | | CASSA RURALE VAL DI FIEMME - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | 3.12 | 3.12 |
| | | | | CASSA RURALE VAL DI NON - BANCA DI CREDITO COOPERA-TIVO - COOPERATIVE COMPANY | 2.96 | 2.96 |
| | | | | CASSA RURALE VALSUGANA E TESINO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | 2.88 | 2.88 |
| | | | | CASSA RURALE ADAMELLO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | 2.45 | 2.45 |
| | | | | OTHER MINORITY INTERESTS | 6.56 | 6.56 |
| | | | | | 47.51 | 47.51 |



| NAME | Registered office | Operating Headquarters | Relationship type | Investment relationship | | Votes available % |
|---|---|---|---|---|---|---|
| | | | | Investing company | % Share | |
| PARTECIPAZIONI COOPERATIVE S.r.l. | Trento | Trento | 4 | CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.p.A. | 13.92 | 13.92 |
| | | | | CASSA RURALE ALTA VALSUGANA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | 5.1 | 5.1 |
| | | | | CASSA RURALE DI TRENTO, LAVIS, MEZZOCORONA E VALLE DI CEMBRA - BANCA DI CREDITO COOPERATIVO - COOPERATI-VE COMPANY | 6.96 | 6.96 |
| | | | | CASSA RURALE VAL DI NON - BANCA DI CREDITO COOPERA-TIVO - COOPERATIVE COMPANY | 3.71 | 3.71 |
| | | | | CASSA RURALE ALTO GARDA - BANCA DI CREDITO COOPERA-TIVO - COOPERATIVE COMPANY | 3.48 | 3.48 |
| | | | | CASSA RURALE DOLOMITI DI FASSA PRIMIERO E BELLUNO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | 2.32 | 2.32 |
| | | | | CASSA RURALE DI ROVERETO - BANCA DI CREDITO COOPERA-TIVO - COOPERATIVE COMPANY | 2.32 | 2.32 |
| | | | | CASSA RURALE VAL DI FIEMME - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | 2.32 | 2.32 |
| | | | | CASSA RURALE VALLAGARINA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | 2.09 | 2.09 |
| | | | | OTHER MINORITY INTERESTS | 6.27 | 6.27 |
| | | | | | 48.49 | 48.49 |
| CENTRALE TRADING | Trento | Trento | 4 | CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.p.A. | 32.5 | 32.5 |
| | | | | ALLITUDE S.P.A. | 10 | 10 |
| | | | | | 42.5 | 42.5 |
| SCOUTING S.p.A. | Bellaria - Igea Marina (RN) | Bellaria - Igea Marina (RN) | 4 | CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.p.A. | 8.26 | 8.26 |
| | | | | ROMAGNABANCA CREDITO COOPERATIVO ROMAGNA EST E SALA DI CESENATICO - COOPERATIVE COMPANY | 6 | 6 |

| NAME | Registered office | Operating Headquarters | Relationship type | Investment relationship | | Votes available % |
|---|---|---|---|---|---|---|
| | | | | Investing company | % Share | |
| | | | | CASSA RURALE ALTA VALSUGANA - BANCA DI CREDITO COO-PERATIVO - COOPERATIVE COMPANY | 6.29 | 6.29 |
| | | | | BANCA MALATESTIANA - CREDITO COOPERATIVO - COOPERATIVE COMPANY | 4.65 | 4.65 |
| | | | | BANCA PREALPI SAN BIAGIO CREDITO COOPERATIVO - COOPERATIVE COMPANY | 4.65 | 4.65 |
| | | | | | 29.85 | 29.85 |
| FORMAZIONE LAVORO SOCIETA' CONSORTILE PER AZIONI | Trento | Trento | 4 | CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.p.A. | 22.21 | 22.21 |
| | | | | CASSA RURALE ALTA VALSUGANA - BANCA DI CREDITO COO-PERATIVO - COOPERATIVE COMPANY | 1.64 | 1.64 |
| | | | | CASSA RURALE VAL DI NON - BANCA DI CREDITO COOPERATI-VO - COOPERATIVE COMPANY | 1.52 | 1.52 |
| | | | | CASSA RURALE ALTO GARDA - BANCA DI CREDITO COOPERA-TIVO - COOPERATIVE COMPANY | 1.27 | 1.27 |
| | | | | CASSA RURALE VALLAGARINA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | 1.23 | 1.23 |
| | | | | OTHER MINORITY INTERESTS | 7.58 | 7.58 |
| | | | | | 35.45 | 35.45 |
| CABEL HOLDING S.p.A. | Empoli (FI) | Empoli (FI) | 4 | BANCA DI CREDITO COOPERATIVO DI CASTAGNETO CARDUCCI - COOPERATIVE COMPANY | 19.5 | 19.5 |
| | | | | CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.p.A. | 7.66 | 7.66 |
| | | | | BANCA LAZIO NORD CREDITO COOPERATIVO - COOPERATIVE COMPANY | 2.01 | 2.01 |
| | | | | | 29.17 | 29.17 |
| SERENA S.r.l. | Manzano (UD) | Manzano (UD) | 4 | BANCATER CREDITO COOPERATIVO FVG - COOPERATIVE COMPANY | 29.06 | 29.06 |
| RITTNERHORN SEILBAHNEN AG | Renon (BZ) | Renon (BZ) | 4 | CASSA RURALE RENON - COOPERATIVE COMPANY | 26.51 | 26.51 |



| NAME | Registered office | Operating Headquarters | Relationship type | Investment relationship | | Votes available % |
|---|---|---|---|---|---|---|
| | | | | Investing company | % Share | |
| SENIO ENERGIA S.r.l. | Faenza (RA) | Faenza (RA) | 4 | BANCA DI CREDITO COOPERATIVO DELLA ROMAGNA OCCIDENTALE - COOPERATIVE COMPANY | 22.22 | 22.22 |
| RENDENA GOLF S.p.A. | Bocenago (TN) | Bocenago (TN) | 4 | CASSA RURALE ADAMELLO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | 24.76 | 24.76 |
| SERVIZI E FINANZA FVG S.r.l. | Udine | Udine | 4 | CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.p.A. | 24.51 | 24.51 |
| CONNESSIONI - IMPRESA SOCIALE S.r.l. | Brescia | Brescia | 4 | CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY | 30 | 30 |
| CHIESE 2015 S.r.l. | Brescia | Brescia | 4 | BANCA DEL TERRITORIO LOMBARDO CREDITO COOPERATIVO - COOPERATIVE COMPANY | 33.33 | 33.33 |

1 - majority of voting rights in the ordinary shareholders' meeting
2 - dominant influence in the ordinary shareholders' meeting
3 - agreements with other shareholders
4 - company subject to a significant influence
5 - unitary management pursuant to Article 26, paragraph 1, of "Legislative Decree 87/92"
6 - unitary management pursuant to Article 26, paragraph 2, of "Legislative Decree 87/92"
7 - joint ventures
8 - Other type of relationship.

For the criteria and methods of determination of the consolidation scope and the reasons for which there is recourse to joint control or significant influence, please refer to Part A - Accounting policies of these explanatory notes.

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

| NAME | Carrying amount | Fair value | Dividends received |
|---|---|---|---|
| **A. JOINTLY CONTROLLED COMPANIES** | | | |
| CASSE RURALI RAIFFEISEN FINANZIARIA S.p.A. | 16 | - | - |
| **B. COMPANIES SUBJECT TO A SIGNIFICANT INFLUENCE** | | | |
| CABEL HOLDING S.p.A. | 12 | - | - |
| FONDO LEONIDA | 7 | - | - |
| FINANZIARIA TRENTINA DELLA COOPERAZIONE | 7 | - | - |
| ASSICURA S.r.l. | 6 | - | - |
| **Total** | **48** | **-** | **-** |

## Section 9 - Tangible assets - Item 90

### 9.1 Tangible assets for business use: breakdown of the assets measured at cost

| ASSETS/VALUES | Total 30/06/2020 | Total 31/12/2019 |
|---|---|---|
| **1. ASSETS OWNED** | **953** | **950** |
| a) land | 144 | 150 |
| b) buildings | 684 | 675 |
| c) furniture | 46 | 46 |
| d) electronic systems | 25 | 25 |
| e) other | 54 | 54 |
| **2. RIGHTS OF USE ACQUIRED THROUGH LEASE** | **137** | **136** |
| a) land | - | - |
| b) buildings | 130 | 129 |
| c) furniture | - | - |
| d) electronic systems | 6 | 6 |
| e) other | 1 | 1 |
| Total | 1,090 | 1,086 |
| of which: obtained through the enforcement of guarantees received | 7 | 4 |

### 9.2 Tangible assets held for investment purposes: breakdown of the assets measured at cost

| ASSETS/VALUES | Total 30/06/2020 | | | | Total 31/12/2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | Carrying amount | Fair value | | | Carrying amount | Fair value | | |
| | | L1 | L2 | L3 | | L1 | L2 | L3 |
| **1. ASSETS OWNED** | **98** | **-** | **-** | **94** | **96** | **-** | **-** | **93** |
| a) land | 29 | - | - | 29 | 29 | - | - | 29 |
| b) buildings | 69 | - | - | 65 | 67 | - | - | 64 |
| **2. RIGHTS OF USE ACQUIRED THROUGH LEASE** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| a) land | - | - | - | - | - | - | - | - |
| b) buildings | - | - | - | - | - | - | - | - |
| Total | 98 | - | - | 94 | 96 | - | - | 93 |
| of which: obtained through the enforcement of guarantees received | 30 | - | 1 | 13 | 15 | - | - | 14 |

**KEY:**

L1 = Level 1

L2 = Level 2

L3 = Level 3

## 9.3 Tangible assets for business use: breakdown of the revalued assets

| ASSETS/VALUES | Total 30/06/2020 | | | Total 31/12/2019 | | |
|---|---|---|---|---|---|---|
| | L1 | L2 | L3 | L1 | L2 | L3 |
| **1. ASSETS OWNED** | - | - | 2 | - | - | 6 |
| a) land | - | - | 1 | - | - | 1 |
| b) buildings | - | - | 1 | - | - | 5 |
| c) furniture | - | - | - | - | - | - |
| d) electronic systems | - | - | - | - | - | - |
| e) other | - | - | - | - | - | - |
| **2. RIGHTS OF USE ACQUIRED THROUGH LEASE** | - | - | - | - | - | - |
| a) land | - | - | - | - | - | - |
| b) buildings | - | - | - | - | - | - |
| c) furniture | - | - | - | - | - | - |
| d) electronic systems | - | - | - | - | - | - |
| e) other | - | - | - | - | - | - |
| **Total** | - | - | 2 | - | - | 6 |
| of which: obtained through the enforcement of guarantees received | - | - | - | - | - | - |

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

## 9.4 Tangible assets held for investment purposes: breakdown of the assets measured at fair value

| ASSETS/VALUES | Total 30/06/2020 | | | Total 31/12/2019 | | |
|---|---|---|---|---|---|---|
| | L1 | L2 | L3 | L1 | L2 | L3 |
| **1. ASSETS OWNED** | - | - | 8 | - | - | 12 |
| a) land | - | - | - | - | - | 1 |
| b) buildings | - | - | 8 | - | - | 11 |
| **2. RIGHTS OF USE ACQUIRED THROUGH LEASE** | - | - | - | - | - | - |
| a) land | - | - | - | - | - | - |
| b) buildings | - | - | - | - | - | - |
| **Total** | - | - | 8 | - | - | 12 |
| of which: obtained through the enforcement of guarantees received | - | - | - | - | - | - |

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

## 9.5 Inventories of tangible assets disciplined by IAS 2: breakdown

| ASSETS/VALUES | Total 30/06/2020 | Total 31/12/2019 |
|---|---|---|
| **1. INVENTORIES OF TANGIBLE ASSETS OBTAINED THROUGH THE ENFORCEMENT OF GUARANTEES RECEIVED** | 39 | 31 |
| a) land | 28 | 27 |
| b) buildings | 11 | 4 |
| c) furniture | - | - |
| d) electronic systems | - | - |
| e) other | - | - |
| **2. OTHER INVENTORIES OF TANGIBLE ASSETS** | 33 | 41 |
| **Total** | 72 | 72 |
| of which: measured at fair value net of costs to sell | - | - |

## Section 10 - Intangible assets - Item 100

### 10.1 Intangible assets: breakdown by type of asset

| ASSETS/VALUES | Total 30/06/2020 | | Total 31/12/2019 | |
|---|---|---|---|---|
| | Definite duration | Indefinite duration | Definite duration | Indefinite duration |
| **A.1 GOODWILL** | **X** | **28** | **X** | **28** |
| A.1.1 pertaining to the Group | X | 28 | X | 28 |
| A.1.2 pertaining to minority interests | X | - | X | - |
| **A.2 OTHER INTANGIBLE ASSETS** | **51** | **1** | **53** | **-** |
| A.2.1 Assets valued at cost: | 51 | 1 | 53 | - |
| a) intangible assets generated internally | - | - | - | - |
| b) other assets | 51 | 1 | 53 | - |
| A.2.2 Assets measured at fair value: | - | - | - | - |
| a) intangible assets generated internally | - | - | - | - |
| b) other assets | - | - | - | - |
| Total | 51 | 29 | 53 | 28 |

In compliance with the relevant accounting regulations:

- all the intangible assets are valued at cost;
- no amortisation has been calculated for intangible assets with an indefinite life.

There are no intangible assets generated internally.

### Information on the impairment test of goodwill

As required by IAS 36 Impairment of Assets, goodwill is tested for impairment at least once a year, i.e., whenever there is an indication of impairment (trigger event). Specifically, it was deemed appropriate to carry out an impairment test on goodwill as at 30 June 2020, despite having carried out the same valuation analyses at the end of 2019, in order to verify the potential impacts on the recoverable value of the assets deriving from the "COVID-19" health emergency, which took place in the first half of 2020.

Consolidated goodwill, before carrying out the impairment test of EUR 28.3 million, mainly derives from the acquisitions of the company Nord Est Asset Management S.A. (hereinafter also "NEAM") and of the Assicura Group that took place between 2017 and 2018.

The procedures relating to the impairment test of goodwill include the following steps:

- identification of the CGUs (hereinafter "CGUs");
- determination of the carrying amount of the CGUs;
- determination of the recoverable value of the CGUs, after identifying the most appropriate valuation models and parameters for determining the fair value (hereinafter also "FV") and value in use of the CGUs;
- comparison between the carrying amount and recoverable value of the individual CGUs.

Sensitivity analyses were also carried out on the recoverable value of the CGUs to changes in certain parameters relevant to the valuation.

Detailed information on the impairment test of consolidated goodwill as at 30 June 2020 is provided below.

#### Identification of Cash Generating Units (CGUs)

According to IAS 36, if, as in the case of goodwill, it is not possible to determine directly the recoverable value of the specific asset recorded in the financial statements (because the asset itself does not produce autonomous cash flows), the recoverable value of the cash generating unit (CGU) to which the asset belongs must be determined.

The CGU is defined by IAS 36 as "the smallest identifiable group of assets that generates cash flows largely independent of the incoming cash flows generated by other assets, or groups of assets".

In order to identify the cash generating units to which to assign the assets to be tested for impairment, it is necessary that the identified CGUs generate cash flows that are largely independent of those deriving from other identified units. In this sense, with a view to identifying the CGUs, the internal organisation and the business management and control methods are extremely important.

In relation to the above, the following CGUs have been identified for the purpose of impairment testing of the Cassa Centrale Group's consolidated goodwill:

- **Asset management,** which includes the asset management services currently provided by the Luxembourg-based company NEAM;
- **Insurance**, which includes the offer of insurance services to customers and corresponds to the sum of the subsidiaries Assicura Agenzia S.r.l. and Assicura Broker S.r.l. (hereinafter also "Assicura");

The table below shows the values of goodwill as at 30 June 2020, subject to impairment testing, allocated to the CGUs in question.

(Figures in millions of Euro)

| CASH GENERATING UNIT (CGU) | Goodwill |
|---|---|
| - Asset management | 21.2 |
| - Insurance | 4.5 |
| **Total** | **25.7** |

It should also be noted that the goodwill item in the consolidated financial statements, amounting to EUR 28.3 million prior to the impairment test, includes residual goodwill of approximately EUR 2.5 million recorded in the separate financial statements of certain Affiliated Banks and mainly attributable to the merger by incorporation of other Affiliated Banks which took place before the launch of the Group and for which the impairment test in accordance with IAS 36, which did not give rise to impairment losses, was carried out independently by each of these Banks.

### Determination of the carrying amount of the CGUs

The carrying amount of the CGUs identified was determined by calculating their carrying amount in the consolidated financial statements as at 30 June 2020. The above carrying amount, in substance, was determined considering the contribution to the consolidation of the CGUs in terms of equity, goodwill and intangible assets with a definite life net of the related deferred tax liabilities.

The values as at 30 June 2020 are shown below.

(Figures in millions of Euro)

| CGU | Carrying amount in the consolidated financial statements |
|---|---|
| - Asset management | 38.0 |
| - Insurance | 18.4 |

In relation to the table above, please note that:

- the consolidated carrying amount of the Asset Management CGU includes, in addition to goodwill of EUR 21.2 million (already 100%), intangible assets with a definite life of EUR 2.5 million;
- the consolidated carrying amount of the Insurance CGU includes, in addition to goodwill of EUR 4.5 million (already 100%), intangible assets with a definite life of EUR 2.0 million.

In relation to the above, it emerges that, as part of the impairment test, in addition to consolidated goodwill, intangible assets with a definite life totalling EUR 4.6 million as at 30 June 2020 were also tested for recoverability.

### Determination of the recoverable value of the CGUs

The carrying amount of the identified CGUs was tested for impairment by comparing it with their recoverable value. According to IAS 36, para. 6, the recoverable value of an asset or CGU is the higher of its fair value less costs to sell and its value in use.

The Cassa Centrale Group has estimated the recoverable value of the two CGUs using the value in use method. In this regard, the value in use of the two CGUs was higher than their carrying amount and therefore, in accordance with IAS 36 para. 19, it was not necessary to estimate any other amount by way of fair value.

More specifically, in order to determine the value in use of the various CGUs identified, the following approaches were used:

- **for the Asset Management CGU: Analytical income method**

  According to the income method in the so-called levered version, the value of a company is derived from the income it is expected to be able to produce. In other words, the value attributable to the economic capital of the company (Equity Value) is assumed to be the series of current values of the company's future net income.

  In the analytical approach, the income method takes as reference, in addition to the expected net income over the explicit forecast period, the expected normal net income for the definition of the Terminal Value.

The analytical income method was flanked by the "regression analysis" method, which estimates the fair value of the CGU (although this was not strictly necessary, according to para. 19 of IAS 36, since the value in use is already higher than the carrying amount). This method estimates the economic capital of the company being valued on the basis of the correlation between the prospective return on capital and the related premium or discount expressed by stock market prices compared to equity for a sample of comparable listed companies.

The main determinants (cash flows, discount rate, long-term growth rate and Terminal Value) for the estimate of value in use are commented on below:

**a.** Cash flows

The analytical income method was constructed starting from the income statement budget as at 31 December 2020 approved by the Board of Directors of NEAM on 28 May 2020 and from the income statement and statement of financial position projections as at 31 December 2021 and 31 December 2022 approved by the Board of Directors of CCB on 30 June 2020.

The income method was developed on the basis of the adjusted net profit in order to exclude the profitability deriving from the portfolio management invested in NEAM by CCB and to prudentially exclude the profitability deriving from the assets managed on behalf of banks belonging to the ICCREA Banking Group.

**b.** Discount rate (Ke)

The rate used to discount cash flows is the estimated "Ke" (Cost of Equity) of 9.2%.

The above rate (calculated gross of taxes) was estimated using the Capital Asset Pricing Model ("CAPM"), according to which the return on a risky asset must be equal to the sum of the risk-free rate and a risk premium, depending on the specific level of risk of the asset according to the following formula: Ke = Rf + β * ERP + Add-on.

In detail, the Cost of Equity (as mentioned, equal to 9.2%) was determined on the basis of the following parameters:

- risk-free rate (Rf), equal to 1.4%, corresponding to the six-month average gross average rate of return on 10-year Treasury Bonds issued by the Italian State as of 30 June 2020;
- beta coefficient (β), equal to 1.2, measures the sensitivity of the company's share performance to changes in the market portfolio performance and is estimated on the basis of a sample of comparable companies;
- equity risk premium (ERP), i.e. the additional return required by a risk-averse investor over the return on risk-free assets of 5.5%, in line with valuation practice for the relevant market;
- premium for additional risk (Add-on), equal to 1.0%, or an additional return due to the high volatility of the markets that characterises the current economic situation.

**c.** Long-term growth rate (g) and Terminal Value (TV)

The normal net income expected to define the Terminal Value was identified on the basis of the normal net profit expected by NEAM in the last year of analytical forecast.

A long-term growth rate "g" of 0.7% was applied to the normalised income, in line with the International Monetary Fund's long-term inflation estimate.

With reference to the "Regression Analysis", this was set up by relating the P/AuM multiple to the RoAuM from a sample of comparable listed companies operating in the Asset Management sector and led to a higher value than the carrying amount of the CGU.

### Valuation outcome

On the basis of the analytical income method described above, the recoverable value of the Asset Management CGU is EUR 59.9 million.

- **for CGU Insurance: Analytical income method**

According to the income method in the so-called levered version, the value of a company is derived from the income it is expected to be able to produce. In other words, the value attributable to the economic capital of the company (Equity Value) is assumed to be the series of current values of the company's future net income. In the analytical approach, the income method takes as reference, in addition to the expected net income over the explicit forecast period, the expected normal net income for the definition of the Terminal Value.

The main determinants (cash flows, discount rate, long-term growth rate and Terminal Value) for the estimate of value in use are commented on below:

**a.** Cash flows

The analytical income method was constructed starting from the income statement budget as at 31 December 2020 approved by the Board of Directors of Assicura on 12 June 2020 and from the income statement and statement of financial position projections as at 31 December 2021 and 31 December 2022 approved by the Board of Directors of CCB on 30 June 2020.

**b.** Discount rate (Ke

The rate used to discount cash flows is the estimated "Ke" (Cost of Equity) of 7.2%.

The above rate (calculated gross of taxes) was estimated using the Capital Asset Pricing Model ("CAPM"), according to which the return on a risky asset must be equal to the sum of the risk-free rate and a risk premium, depending on the specific level of risk of the asset according to the following formula: Ke = Rf + β * ERP + Add-on.

In detail, the Cost of Equity (as mentioned, equal to 7.2%) was determined on the basis of the following parameters:

- risk-free rate (Rf), equal to 1.4%, corresponding to the six-month average gross average rate of return on 10-year Treasury Bonds issued by the Italian State as of 30 June 2020;
- beta coefficient (β), equal to 0.9, measures the sensitivity of the company's share performance to changes in the market portfolio performance and is estimated on the basis of a sample of comparable companies;
- equity risk premium (ERP), i.e. the additional return required by a risk-averse investor over the return on risk-free assets of 5.5%, in line with valuation practice for the relevant market;
- premium for additional risk (Add-on), equal to 1.0%, or an additional return due to the high volatility of the markets that characterises the current economic situation.

**c.** Long-term growth rate (g) and Terminal Value (TV)

The normal net income expected to define the Terminal Value was identified based on the normal net profit generated by Assicura in the last year of analytical forecast. A long-term growth rate "g" of 0.7% was applied to the normalised income thus determined, in line with the International Monetary Fund's long-term inflation estimate.



### Valuation outcome

On the basis of the method described above, the recoverable value for the Insurance CGU is EUR 69.8 million.

### Comparison between the carrying amount and recoverable value of the CGUs: results of the impairment test

Following the comparison between the carrying amount and the recoverable value (value in use) of the individual CGUs, the impairment test as at 30 June 2020 showed the following results:

(Figures in millions of Euro)

| CGU | Carrying amount (a) | Recoverable value (value in use) (b) | Difference (c)=(b)-(a) | Impairment attributable to the Cassa Centrale Group (d) |
|---|---|---|---|---|
| Asset management | 38.0 | 59.9 | 21.9 | - |
| Insurance | 18.4 | 69.8 | 51.4 | - |
| **Total** | | | | - |

As can be seen from the table above, since the recoverable value of the CGUs is higher than their carrying amount, no write-down of goodwill was necessary at the reference date of the consolidated financial statements.

### Sensitivity analysis

Finally, sensitivity analyses were carried out on the value in use of the CGUs identified with respect to the market parameters used ("Ke" and "g"). The analyses carried out show a variation:

- in the recoverable value of the Asset Management CGU as a result of changes in the parameters considered:
  - equal to -EUR 1.7 million in correspondence with an increase in "Ke" of +25 bps;
  - equal to +EUR 1.8 million in correspondence with a decrease in "Ke" of -25 bps;
  - equal to +EUR 1.6 million in correspondence with an increase in "g" of +25 bps;
  - equal to -EUR 1.5 million in correspondence with a decrease in "g" of -25 bps;
- in the recoverable value of the Insurance CGU as a result of changes in the parameters considered:
  - equal to -EUR 2.6 million in correspondence with an increase in "Ke" of +25 bps;
  - equal to +EUR 2.8 million in correspondence with a decrease in "Ke" of -25 bps;
  - equal to +EUR 2.6 million in correspondence with an increase in "g" of +25 bps;
  - equal to -EUR 2.4 million in correspondence with a decrease in "g" of -25 bps.

## Section 11 - Tax assets and tax liabilities - Item 110 of assets and Item 60 of liabilities

### 11.1 Deferred tax assets: breakdown

| THROUGH THE INCOME STATEMENT | 30/06/2020 | | | 31/12/2019 | | |
|---|---|---|---|---|---|---|
| | IRES | IRAP | TOTAL | IRES | IRAP | TOTAL |
| Loans | 515 | 72 | 587 | 538 | 77 | 615 |
| Tangible fixed assets | 12 | 1 | 13 | 13 | 1 | 14 |
| Provisions for risks and charges | 55 | 7 | 62 | 47 | 6 | 53 |
| Tax losses | 17 | - | 17 | 18 | - | 18 |
| Administrative expenses | 1 | - | 1 | - | - | - |
| Other items | 16 | 3 | 19 | 18 | 3 | 21 |
| **Total** | **616** | **83** | **699** | **634** | **87** | **721** |

| THROUGH EQUITY | 30/06/2020 | | | 31/12/2019 | | |
|---|---|---|---|---|---|---|
| | IRES | IRAP | TOTAL | IRES | IRAP | TOTAL |
| Negative reserves for HTCS financial assets | 8 | 3 | 11 | 5 | 2 | 7 |
| TFR | 2 | - | 2 | 2 | - | 2 |
| Other items | 2 | - | 2 | 2 | - | 2 |
| **Total** | **12** | **3** | **15** | **9** | **2** | **11** |

The item “Loans” in the table above shows Deferred Tax Assets (or “DTA”) mainly relating to:

- write-downs and losses on loans to customers not yet deducted from taxable income pursuant to paragraph 3 of Article 106 of the Consolidated Income Tax Act (TUIR) and Article 6, paragraph 1, letter c-bis) of IRAP Decree 446/1997 that may be converted into a tax credit, regardless of the future profitability of the company, both in the event of statutory loss and IRES tax loss or negative IRAP value of production pursuant to Law no. 214 of 22 December 2011 (so-called “qualified DTA”) of EUR 553 million;
- adjustments from the expected credit loss (ECL) model in IFRS 9 FTA on loans to customers that cannot be converted into a tax credit and can therefore only be recognised in the presence of probable and sufficient future taxable income of EUR 30 million (Article 1, paragraphs 1067-1069, Law no. 145 of 30 December 2018). Advance taxes, where recognised, corresponds to the future benefit relating to the deductibility in subsequent years of the reserve for the first-time application of IFRS 9 relating to expected losses recognised on loans to customers, following the approval of the 2019 Financial Manoeuvre, which envisaged the tax relevance of 10% in 2018 and for the remaining 90% in the following nine tax periods. As a result of the changes introduced by the 2020 Stability Law, the deductible portion pertaining to 2019, both for IRES and IRAP purposes, was postponed to the 2028 tax year.



“Other items” in the table above include:

- deferred tax assets relating to goodwill that can be converted into tax credit, regardless of the future profitability of the company, both in the event of a statutory loss and IRES tax loss or a negative IRAP value of production pursuant to Law no. 214 of 22 December 2011 of EUR 0.03 million;
- deferred tax assets arising from misalignments between statutory and tax items from IFRS 3 business combinations for EUR 10.65 million.

It should be noted that, with specific reference to the aforementioned qualified DTAs on write-downs and losses on loans to customers and goodwill, the maintenance of their convertibility into tax credits is subject to the payment of the fee, where due, pursuant to Law Decree no. 59 of 3 May 2016, amended and converted into law by Law no. 15 of 17 February 2017.

In addition, it should be noted that the tax regulations relating to the convertibility of advance taxes relating to adjustments to loans, goodwill and intangible assets into tax credits, in giving “certainty” to the recovery of qualified DTAs, affect the “probability test” provided for by IAS 12, making it automatically satisfied for this particular type.

Advance taxes through equity mainly refer to write-downs of financial assets measured at fair value through other comprehensive income. These changes have a contra-entry in the valuation reserve for financial assets measured at fair value through other comprehensive income.

**Information on the deferred tax assets probability test**

According to para. 5 of IAS 12, deferred tax assets are defined as the amount of income taxes for the year that may be recovered in future years with regard to the following scenarios:

- deductible temporary differences;
- carry-over of unused tax losses (and also of ACE);
- carry-over of unused tax credits.

With particular reference to “temporary differences”, these are defined as differences that are formed transiently between the carrying amount of assets (liabilities) and their tax value. These are defined as “deductible” when they generate amounts that can be deducted in determining future taxable income in connection with the realisation of assets (settlement of liabilities).

In the presence of a temporary deductible difference, para. 24 of IAS 12 provides for the recognition in the financial statements of a deferred tax asset - equal to the product of the deductible temporary difference and the expected tax rate in the year in which it will be paid - only if and to the extent that it is probable that there will be future taxable income against which the deductible temporary differences can be used (so-called probability test). In fact, the economic benefit of reducing future tax payments is only achievable if the taxable income is a large amount (IAS 12, para. 27).

Having said this, the Group has deferred tax assets (DTA) of EUR 714 million in its statement of financial position. Of these, roughly EUR 553 million fall within the scope of Law no. 214/2011 and, therefore, for that already described, are considered “qualified” DTA (and therefore of certain recoverability).

As at 30 June 2020, there are no elements that may lead to the assumption that the recoverability of the portion, amounting to EUR 166 million, of DTAs that cannot be transformed into tax credits is unlikely.

### 11.2 Deferred tax liabilities: breakdown

| THROUGH THE INCOME STATEMENT | 30/06/2020 | | | 31/12/2019 | | |
|---|---|---|---|---|---|---|
| | IRES | IRAP | TOTAL | IRES | IRAP | TOTAL |
| Tangible fixed assets | 10 | 2 | 12 | 10 | 2 | 12 |
| Capital gains by instalments | 0 | 0 | - | 0 | 0 | - |
| Other items | 20 | 2 | 22 | 20 | 2 | 22 |
| **Total** | **30** | **4** | **34** | **30** | **4** | **34** |

| THROUGH EQUITY | 30/06/2020 | | | 31/12/2019 | | |
|---|---|---|---|---|---|---|
| | IRES | IRAP | TOTAL | IRES | IRAP | TOTAL |
| Positive reserves for HTCS financial assets | 12 | 7 | 19 | 13 | 7 | 20 |
| Other items | 3 | 1 | 4 | 3 | 0 | 3 |
| **Total** | **15** | **8** | **23** | **16** | **7** | **23** |

Deferred tax liabilities as a contra-entry to the income statement mainly relate to:

- revaluations of tangible fixed assets made during the transition to international accounting standards;
- misalignments between statutory and tax items arising from the application of business combinations pursuant to IFRS 3 carried out in previous years.

Deferred taxes mainly refer to revaluations of Financial assets measured at fair value through other comprehensive income. These changes have a contra-entry in the valuation reserve for financial assets measured at fair value through other comprehensive income.



# Liabilities

## Section 1 - Financial liabilities measured at amortised cost - Item 10

### 1.1 Financial liabilities measured at amortised cost: breakdown by category of due to banks

| TYPE OF TRANSACTIONS/VALUES | Total 30/06/2020 | | | | Total 31/12/2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | CA | Fair value | | | CA | Fair value | | |
| | | L1 | L2 | L3 | | L1 | L2 | L3 |
| **1. DUE TO CENTRAL BANKS** | **13,063** | **X** | **X** | **X** | **4,803** | **X** | **X** | **X** |
| **2. DUE TO BANKS** | **1,884** | **X** | **X** | **X** | **2,671** | **X** | **X** | **X** |
| 2.1 Current accounts and deposits on demand | 386 | X | X | X | 293 | X | X | X |
| 2.2 Fixed-term deposits | 77 | X | X | X | 144 | X | X | X |
| 2.3 Loans | 1,401 | X | X | X | 2,218 | X | X | X |
| 2.3.1 Repos payables | 454 | X | X | X | 469 | X | X | X |
| 2.3.2 Other | 947 | X | X | X | 1,749 | X | X | X |
| 2.4 Liabilities for commitments to repurchase own equity instruments | - | X | X | X | - | X | X | X |
| 2.5 Payables for leases | 13 | X | X | X | 13 | X | X | X |
| 2.6 Other payables | 7 | X | X | X | 3 | X | X | X |
| **Total** | **14,947** | **-** | **-** | **14,947** | **7,474** | **-** | **-** | **7,474** |

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

The fair value valuation of the financial liabilities measured at amortised cost, included only for the purpose of fulfilling reporting requirements, is broken down into levels pursuant to the requirements set forth in IFRS 13 and depending on the characteristics and significance of the inputs used in the valuation process. For more detailed information, please refer to Part A - Accounting policies, A.4 - Information on fair value in the explanatory notes.

## 1.2 Financial liabilities measured at amortised cost: breakdown by category of due to customers

| TYPE OF TRANSACTIONS/VALUES | Total 30/06/2020 | | | | Total 31/12/2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | CA | Fair value | | | CA | Fair value | | |
| | | L1 | L2 | L3 | | L1 | L2 | L3 |
| 1. Current accounts and deposits on demand | 46,388 | X | X | X | 44,472 | X | X | X |
| 2. Fixed-term deposits | 3,062 | X | X | X | 3,301 | X | X | X |
| 3. Loans | 2,790 | X | X | X | 1,695 | X | X | X |
| 3.1 Repos payables | 2,621 | X | X | X | 1,524 | X | X | X |
| 3.2 Other | 169 | X | X | X | 171 | X | X | X |
| 4. Liabilities for commitments to repurchase own equity instruments | - | X | X | X | - | X | X | X |
| 5. Payables for leases | 120 | X | X | X | 115 | X | X | X |
| 6. Other payables | 597 | X | X | X | 472 | X | X | X |
| **Total** | **52,957** | **-** | **-** | **52,957** | **50,055** | **-** | **-** | **50,055** |

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

The sub-item "6. Other payables" mainly includes credit card and cheque debts.

## 1.3 Financial liabilities measured at amortised cost: breakdown by category of debt securities in issue

| TYPE OF SECURITIES/VALUES | Total 30/06/2020 | | | | Total 31/12/2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | CA | Fair value | | | CA | Fair value | | |
| | | L1 | L2 | L3 | | L1 | L2 | L3 |
| **A. SECURITIES** | | | | | | | | |
| 1. bonds | 2,566 | - | 2,556 | 6 | 3,258 | - | 3,267 | 6 |
| 1.1 structured | - | - | - | - | - | - | - | - |
| 1.2 other | 2,566 | - | 2,556 | 6 | 3,258 | - | 3,267 | 6 |
| 2. other securities | 3,162 | - | 143 | 3,018 | 3,356 | - | 151 | 3,168 |
| 2.1 structured | - | - | - | - | - | - | - | - |
| 2.2 Other | 3,162 | - | 143 | 3,018 | 3,356 | - | 151 | 3,168 |
| **Total** | **5,728** | **-** | **2,699** | **3,024** | **6,614** | **-** | **3,418** | **3,174** |

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

This item includes securities issued measured at amortised cost. Securities that as at the reporting date are expired but still not repaid are included. The portion of own issue debt securities not yet placed with third parties is excluded.

The fair value valuation of the debt securities in issue in the table above is presented solely for the purpose of fulfilling reporting requirements, is broken down into levels pursuant to the requirements set forth in IFRS 13 and depending on the characteristics and significance of the inputs used in the valuation process. For more detailed information, please refer to Part A - Accounting policies, A.4 - Information on fair value in the explanatory notes.

The sub-item A.2.2 "Securities - other" mainly comprises certificates of deposit.

The decrease in the item "Bonds - other" is mainly due to fixed-rate bonds repaid upon expiry.

# Section 2 - Financial liabilities held for trading - Item 20

## 2.1 Financial liabilities held for trading: breakdown by category

| TYPE OF TRANSACTIONS/ VALUES | Total 30/06/2020 | | | | | Total 31/12/2019 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | NV | Fair value | | | Fair Value* | NV | Fair value | | | Fair Value* |
| | | L1 | L2 | L3 | | | L1 | L2 | L3 | |
| **A. CASH LIABILITIES** | | | | | | | | | | |
| 1. Due to banks | - | - | - | - | - | - | - | - | - | - |
| 2. Due to customers | - | - | - | - | - | - | - | - | - | - |
| 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)** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **B. DERIVATIVE INSTRUMENTS** | | | | | | | | | | |
| 1. Financial derivatives | X | - | 8 | - | X | X | - | 7 | - | X |
| 1.1 Trading | X | - | 8 | - | X | X | - | 7 | - | X |
| *1.2 connected to the 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 Connected to the fair value option* | X | - | - | - | X | X | - | - | - | X |
| 2.3 other | X | - | - | - | X | X | - | - | - | X |
| **Total (B)** | **X** | **-** | **8** | **-** | **X** | **X** | **-** | **7** | **-** | **X** |
| **Total (A+B)** | **X** | **-** | **8** | **-** | **X** | **X** | **-** | **7** | **-** | **X** |

Fair value* = Fair value calculated excluding the changes in value due to change in credit quality of the issuer with respect to the date of issue.

**KEY:**

NV = nominal or notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3



# Section 3 - Financial liabilities measured at fair value - Item 30

## 3.1 Financial liabilities measured at fair value: breakdown by category

| TYPE OF TRANSACTIONS/ VALUES | Total 30/06/2020 | | | | | Total 31/12/2019 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | NV | Fair value | | | Fair Value* | NV | Fair value | | | Fair Value* |
| | | L1 | L2 | L3 | | | L1 | L2 | L3 | |
| **1. DUE TO BANKS** | - | - | - | - | - | - | - | - | - | - |
| 1.1 Structured | - | - | - | - | X | - | - | - | - | X |
| 1.2 Other | - | - | - | - | X | - | - | - | - | X |
| of which: | | | | | - | | | | | |
| - commitments to disburse funds | - | X | X | X | X | - | X | X | X | X |
| - financial guarantees issued | - | X | X | X | X | - | X | X | X | X |
| **2. DUE TO CUSTOMERS** | - | - | - | - | - | - | - | - | - | - |
| 2.1 Structured | - | - | - | - | X | - | - | - | - | X |
| 2.2 Other | - | - | - | - | X | - | - | - | - | X |
| of which: | | | | | - | | | | | |
| - commitments to disburse funds | - | X | X | X | X | - | X | X | X | X |
| - financial guarantees issued | - | X | X | X | X | - | X | X | X | X |
| **3. DEBT SECURITIES** | **35** | **-** | **35** | **-** | **35** | **50** | **-** | **51** | **-** | **51** |
| 3.1 Structured | - | - | - | - | X | 2 | - | 2 | - | X |
| 3.2 Other | 35 | - | 35 | - | X | 48 | - | 49 | - | X |
| **Total** | **35** | **-** | **35** | **-** | **35** | **50** | **-** | **51** | **-** | **51** |

Fair value* = Fair value calculated excluding the changes in value due to change in credit quality of the issuer with respect to the date of issue.

**KEY:**

NV = nominal value

L1 = Level 1

L2 = Level 2

L3 = Level 3

This item includes the financial liabilities for which the so-called Fair Value Option has been exercised. In this regard, it should be noted that the aforementioned Fair Value Option was exercised mainly in relation to debt instruments containing an implicit derivative for which it was considered that the fair value measurement of the entire instrument was less costly than the separate measurement and presentation in the financial statements of the main instrument and derivative.

The illustration of the criteria to determine the fair value is reported in Part A - Accounting policies.

## Section 10 - Provisions for risks and charges - Item 100

### 10.1 Provisions for risks and charges: breakdown

| ITEMS/COMPONENTS | Total 30/06/2020 | Total 31/12/2019 |
|---|---|---|
| 1. Provision for credit risk relative to commitments and financial guarantees issued | 108 | 97 |
| 2. Provision for other commitments and guarantees issued | 4 | 5 |
| 3. Company pension funds | - | - |
| 4. Other provisions for risks and charges | 182 | 147 |
| 4.1 legal and tax disputes | 43 | 45 |
| 4.2 personnel expenses | 32 | 34 |
| 4.3 other | 107 | 68 |
| **Total** | **294** | **249** |

The item 'Provision for credit risk relative to commitments and financial guarantees issued' includes the value of the total allocations for credit risk in respect of the commitments to disburse funds and financial guarantees issued which are subject to the impairment rules of IFRS 9 (paragraph 2.1, letter e); paragraph 5.5; appendix A), including therein the financial guarantees issued and the commitments to disburse funds which are measured at the first-time recognition value, net of the total revenues booked in compliance with IFRS 15 (see IFRS 9, paragraph 4.2.1, letters c) and d)).

Instead the item "Provision for other commitments and guarantees issued' includes the value of the total provisions in respect of other commitments and other guarantees issued which are not subject to the impairment rules of IFRS 9 (IFRS 9, paragraph 2.1, letters e) and g));

On 16 January 2020, the financial holding Malacalza Investimenti S.r.l. (hereinafter "Malacalza Investimenti") brought a civil action against Carige, the Interbank Deposit Protection Fund, the Voluntary Intervention Scheme and Cassa Centrale Banca, contesting the validity of the resolution to increase the share capital by EUR 700 million approved by the shareholders of Banca Carige at the Shareholders' Meeting held on 20 September 2019 and submitting a claim for damages of over EUR 480 million.

The reasons for the disputed validity of the shareholders' resolution consist essentially in the alleged illegitimate exclusion of option rights, failure to comply with the principle of accounting parity and a determination of the issue price of the new shares that does not comply with the criteria set out in the company's regulations.

Compensation for damages is requested on the basis of the explicit hyperdiluting nature of the resolution (with a reduction of the shareholding of Malacalza Investimenti from 27.555% to 2.016%), as the cancellation of the shareholders' resolution can no longer be requested as it has already been carried out with the subscription of the share capital increase (following which, Cassa Centrale Banca acquired a stake of 8.34%).

The first hearing originally set for 19 May 2020 was postponed following the health emergency.

The same defendants, including Cassa Centrale Banca, were then sued in two further disputes by the shareholder Vittorio Malacalza and 42 other shareholders of Carige, with a claim for compensation totalling a further EUR 11.4 million, plus revaluation and interest.



The grounds and the arguments underlying the claims for damages are substantially the same as those put forward by Malacalza Investimenti.

For these two further cases, the first hearings were set for 5 May 2020 and 6 May 2020 respectively, but they have also been postponed to a later date.

Following the redefinition of the terms, on 24 July 2020, Cassa Centrale Banca, like the other defendants, filed for a court appearance and response in order to ascertain and declare the lack of legitimate liability of Cassa Centrale Banca, as well as to reject all the claims made by the plaintiffs against it.

On 15 September 2020, the first hearing of all the class proceedings was held in Genoa, in which the parties requested the granting of the terms pursuant to art. 183, paragraph 6 of the Italian Code of Civil Procedure.

As a result of the assessments carried out with the support of solicitors, Cassa Centrale Banca, considering the risk of losing the case, decided not to make provisions for risks and charges.

### 10.3 Provision for credit risk relative to commitments and financial guarantees issued

| | Provision for credit risk relative to commitments and financial guarantees issued | | | |
|---|---|---|---|---|
| | First stage | Second stage | Third stage | Total |
| Commitments to disburse funds | 48 | 18 | 12 | 78 |
| Financial guarantees issued | 2 | 1 | 27 | 30 |
| **Total** | **50** | **19** | **39** | **108** |

As shown above, this table includes the value of the total allocations for credit risk in respect of the commitments to disburse funds and financial guarantees issued which are subject to the impairment rules of IFRS 9, including therein the financial guarantees issued and the commitments to disburse funds which are measured at the first-time recognition value, net of the total revenues booked in compliance with IFRS 15.

The breakdown by risk stages of the funds in question is applied in compliance with the provisions of the IFRS 9 impairment model. For more detailed information, please refer to Part A - Accounting policies in paragraph "15.5 Methods of recognition of impairment losses" and Part E - Information on risks and related hedging policies.

## Section 13 - Group equity - Items 120, 130, 140, 150, 160, 170 and 180

### 13.1 "Capital" and "Own shares": breakdown

As described in part A - Accounting policies, Section 3 - Scope and methods of consolidation, in application of Italian Law no. 145 of 30 December 2018 (so-called 2019 Budget Law), the Parent Company Cassa Centrale Banca and the Affiliated Banks under the terms of the Cohesion Contract constitute a single consolidating entity.

In the composition of the Group's equity, the share capital is consequently made up of the Parent Company's share capital and the share capital of the Affiliated Banks.

The share capital of the Parent Company, equal to EUR 952,031,808, comprises 18,158,304 ordinary shares and 150,000 preference shares, both with a nominal value of EUR 52.

As at the reporting date, the capital of the Affiliated Banks belonging to the Cassa Centrale Group amounted to approximately EUR 326 million. The share capital of the Affiliated Banks is, according to their Articles of Association, variable, and consists of shares that can be issued, in principle, without limit.

As at 30 June 2020, the own shares in circulation amounted to approximately EUR 869 million and are mainly attributable to the shares of Cassa Centrale Banca held by the Affiliated Banks belonging to the Group.



### 13.2 Capital - Number of parent company shares: annual changes

| ITEMS/TYPES | Ordinary | Other |
|---|---|---|
| **A. SHARES AT START OF YEAR** | **18,158,304** | **150,000** |
| - fully paid-up | 18,158,304 | 150,000 |
| - not fully paid-up | - | - |
| A.1 Own shares (-) | - | - |
| A.2 Outstanding shares: opening balances | 18,158,304 | 150,000 |
| **B. INCREASES** | **-** | **-** |
| B.1 New issues | - | - |
| - paid: | - | - |
| - business combinations | - | - |
| - conversion of bonds | - | - |
| - exercise of warrants | - | - |
| - other | - | - |
| - free of charge: | - | - |
| - in favour of employees | - | - |
| - in favour of directors | - | - |
| - other | - | - |
| B.2 Sale of own shares | - | - |
| B.3 Other changes | - | - |
| **C. DECREASES** | **-** | **-** |
| C.1 Cancellation | - | - |
| C.2 Purchase of own shares | - | - |
| C.3 Company transfers | - | - |
| C.4 Other changes | - | - |
| **D. OUTSTANDING SHARES: CLOSING BALANCES** | **18,158,304** | **150,000** |
| D.1 Own shares (+) | - | - |
| D.2 Shares at year-end | 18,158,304 | 150,000 |
| - fully paid-up | 18,158,304 | 150,000 |
| - not fully paid-up | - | - |

# Other Information

## 1. Commitments and financial guarantees issued

| | Nominal value of commitments and financial guarantees issued | | | Total 30/06/2020 | Total 31/12/2019 |
|---|---|---|---|---|---|
| | First stage | Second stage | Third stage | | |
| **1. COMMITMENTS TO DISBURSE FUNDS** | **11,322** | **468** | **122** | **11,912** | **11,067** |
| a) Central Banks | - | - | - | - | - |
| b) Public bodies | 263 | 4 | - | 267 | 270 |
| c) Banks | 791 | 1 | - | 792 | 808 |
| d) Other financial companies | 117 | 20 | - | 137 | 135 |
| e) Non-financial companies | 8,268 | 372 | 108 | 8,748 | 8,023 |
| f) Households | 1,883 | 71 | 14 | 1,968 | 1,831 |
| **2. FINANCIAL GUARANTEES ISSUED** | **1,582** | **97** | **58** | **1,737** | **1,722** |
| a) Central Banks | - | - | - | - | - |
| b) Public bodies | 3 | - | - | 3 | 5 |
| c) Banks | 292 | - | - | 292 | 305 |
| d) Other financial companies | 33 | 2 | - | 35 | 38 |
| e) Non-financial companies | 890 | 82 | 52 | 1,024 | 990 |
| f) Households | 364 | 13 | 6 | 383 | 384 |

This table shows the commitments to disburse funds and the financial guarantees issued which are subject to the impairment rules of IFRS 9. Commitments to disburse funds and financial guarantees issued that are considered derivatives are excluded, as are commitments to disburse funds and financial guarantees issued that are measured at fair value.

"Commitments to disburse funds" are commitments that may give rise to credit risks that are subject to the write-down rules of IFRS 9 (e.g. margins available on credit lines granted to customers or banks).



# PART C - Information on the consolidated income statement

## Section 1 - Interest - Items 10 and 20

### 1.1 Interest income and similar revenues: breakdown

| ITEMS/TECHNICAL FORMS | Debt securities | Loans | Other transactions | Total 30/06/2020 | Total 30/06/2019 |
|---|---|---|---|---|---|
| **1. Financial assets measured at fair value through profit or loss:** | **-** | **1** | **-** | **1** | **2** |
| 1.1 Financial assets held for trading | - | - | - | - | - |
| 1.2 Financial assets measured at fair value | - | - | - | - | - |
| 1.3 Other financial assets obligatorily measured at fair value | - | 1 | - | 1 | 2 |
| **2. Financial assets measured at fair value through other comprehensive income** | **16** | **-** | **X** | **16** | **25** |
| **3. Financial assets measured at amortised cost:** | **94** | **558** | **X** | **652** | **668** |
| 3.1 Loans to banks | 7 | 5 | X | 12 | 10 |
| 3.2 Loans to customers | 87 | 553 | X | 640 | 658 |
| **4. Hedging derivatives** | **X** | **X** | **-** | **-** | **-** |
| **5. Other assets** | **X** | **X** | **-** | **-** | **-** |
| **6. Financial liabilities** | **X** | **X** | **X** | **37** | **22** |
| **Total** | **110** | **559** | **-** | **706** | **717** |
| of which: interest income from impaired financial assets | - | 28 | - | 28 | 42 |
| of which: interest income from finance lease | - | 7 | - | 7 | 7 |

The item "6. Financial liabilities" include interest income accrued on funding transactions at negative rates with institutional counterparties and reflects the recent greater recourse to refinancing transactions through the Eurosystem represented by participation in TLTRO-II and PELTRO operations.

The line "of which: interest income from impaired financial assets" shows interest determined on the basis of the effective interest rate, including interest due to the passage of time. This interest relates exclusively to loans to customers. Interest income also includes interest from securities used in repo transactions.

### 1.3 Interest expenses and similar charges paid: breakdown

| ITEMS/TECHNICAL FORMS | Payables | Securities | Other transactions | Total 30/06/2020 | Total 30/06/2019 |
|---|---|---|---|---|---|
| **1. Financial liabilities measured at amortised cost** | (61) | (35) | | (96) | (115) |
| 1.1 Due to central banks | - | X | X | - | - |
| 1.2 Due to banks | (2) | X | X | (2) | (3) |
| 1.3 Due to customers | (59) | X | X | (59) | (66) |
| 1.4 Debt securities in issue | X | (35) | X | (35) | (46) |
| **2. Financial liabilities held for trading** | - | - | - | - | - |
| **3. Financial liabilities measured at fair value** | - | (1) | - | (1) | (1) |
| **4. Other liabilities and provisions** | X | X | - | - | - |
| **5. Hedging derivatives** | X | X | (3) | (3) | (3) |
| **6. Financial Assets** | X | X | X | (5) | (5) |
| **Total** | (61) | (36) | (3) | (105) | (124) |
| of which: interest expense on payables for leases | - | - | - | - | - |

Items "1.2 Due to banks" and "1.3 Due to customers" also include interest on repos, even if carried out against securities recorded as assets.



## Section 2 - Commissions - Items 40 and 50

### 2.1 Commission income: breakdown

| TYPE OF SERVICES/VALUES | Total 30/06/2020 | Total 30/06/2019 |
|---|---|---|
| a) guarantees issued | 7 | 7 |
| b) credit derivatives | - | - |
| c) management, trading and consulting services: | 114 | 111 |
| 1. trading of financial instruments | - | - |
| 2. foreign currency trading | - | 1 |
| 3. portfolio management | 46 | 44 |
| 3.1. individual | 25 | 25 |
| 3.2. collective | 21 | 19 |
| 4. custody and administration of securities | 2 | 3 |
| 5. custodian bank | - | - |
| 6. placement of securities | 18 | 18 |
| 7. order receipt and transmission | 9 | 8 |
| 8. consulting | 1 | 1 |
| 8.1. pertaining to investments | 1 | 1 |
| 8.2. pertaining to financial structures | - | - |
| 9. distribution of third-party services | 38 | 36 |
| 9.1. portfolio management | 1 | 2 |
| 9.1.1. individual | 1 | 2 |
| 9.1.2. collective | - | - |
| 9.2. insurance products | 29 | 27 |
| 9.3. other products | 8 | 7 |
| d) collection and payment services | 87 | 91 |
| e) servicing activities for securitisation operations | - | - |
| f) services for factoring operations | - | - |
| g) collection and receiving operations | - | - |
| h) activities for the management of multilateral trading systems | - | - |
| i) current account maintenance and management | 68 | 68 |
| j) other services | 70 | 74 |
| **Total** | 346 | 351 |

As at the reporting date, the Group does not have significant amounts of commission income (other than the amounts included in the calculation of the effective interest rate) from financial assets not measured at fair value through profit or loss in accordance with IFRS 7, paragraph 20, letter c(i).

It should also be noted that the Group does not have significant amounts relating to revenues recognised during the year included in the opening balance of liabilities deriving from contracts (IFRS 15, paragraph 116 b)).

Commission income decreased not significantly overall compared to 30 June 2019. The item "collection and payment services" decreased by around 4%, which was affected by the lower volumes linked to the effects of the Covid 19 pandemic.

## 2.2 Commission expense: breakdown

| SERVICES/VALUES | Total 30/06/2020 | Total 30/06/2019 |
|---|---|---|
| a) guarantees received | - | - |
| b) credit derivatives | - | - |
| c) management and trading services: | (8) | (9) |
| 1. trading of financial instruments | (1) | (1) |
| 2. foreign currency trading | - | - |
| 3. portfolio management: | (5) | (6) |
| 3.1 own portfolios | (5) | (6) |
| 3.2 delegated to third parties | - | - |
| 4. custody and administration of securities | (1) | (1) |
| 5. placement of financial instruments | - | - |
| 6. out-of-branch offer of financial instruments, products and services | (1) | (1) |
| d) collection and payment services | (18) | (20) |
| e) other services | (9) | (11) |
| **Total** | **(35)** | **(40)** |

As at the reporting date, the Group does not have significant amounts of commission expense (other than the amounts included in the calculation of the effective interest rate) arising from financial liabilities not measured at fair value through profit or loss (IFRS 7, paragraph 20, letter c (i)).

# Section 3 - Dividend and similar income - Item 70

## 3.1 Dividend and similar income: breakdown

| ITEMS/INCOME | Total 30/06/2020 | | Total 30/06/2019 | |
|---|---|---|---|---|
| | Dividends | Similar income | Dividends | Similar income |
| A. Financial assets held for trading | - | - | - | - |
| B. Other financial assets obligatorily measured at fair value | - | - | - | 1 |
| C. Financial assets measured at fair value through other comprehensive income | 1 | - | 1 | - |
| D. Equity investments | - | - | - | - |
| **Total** | **1** | **-** | **1** | **1** |

## Section 4 - Net result from trading - Item 80

### 4.1 Net result from trading: breakdown

| TRANSACTIONS/INCOME COMPONENTS | Capital gains (A) | Trading profits (B) | Capital losses (C) | Trading losses (D) | Net result [(A+B) - (C+D)] |
|---|---|---|---|---|---|
| **1. FINANCIAL ASSETS HELD FOR TRADING** | - | - | - | - | - |
| 1.1 Debt securities | - | - | - | - | - |
| 1.2 Equities | - | - | - | - | - |
| 1.3 UCITS units | - | - | - | - | - |
| 1.4 Loans | - | - | - | - | - |
| 1.5 Other | - | - | - | - | - |
| **2. FINANCIAL LIABILITIES HELD FOR TRADING** | - | - | - | - | - |
| 2.1 Debt securities | - | - | - | - | - |
| 2.2 Payables | - | - | - | - | - |
| 2.3 Other | - | - | - | - | - |
| **FINANCIAL ASSETS AND LIABILITIES: EXCHANGE RATE DIFFERENCES** | X | X | X | X | 1 |
| **3. DERIVATIVE INSTRUMENTS** | **13** | **2** | **(13)** | **(2)** | **1** |
| 3.1 Financial derivatives: | 13 | 2 | (13) | (2) | 1 |
| - On debt securities and interest rates | 13 | 2 | (13) | (2) | - |
| - On equities and stock market indices | - | - | - | - | - |
| - On currencies and gold | X | X | X | X | 1 |
| - Other | - | - | - | - | - |
| 3.2 Credit derivatives | - | - | - | - | - |
| of which: natural hedges connected to the fair value option | X | X | X | X | - |
| **Total** | **13** | **2** | **(13)** | **(2)** | **2** |

## Section 5 - Net result from hedging - Item 90

### 5.1 Net result from hedging: breakdown

| INCOME COMPONENTS/VALUES | Total 30/06/2020 | Total 30/06/2019 |
|---|---|---|
| **A. INCOME RELATED TO:** | | |
| A.1 Fair value hedging derivatives | 1 | 1 |
| A.2 Hedged financial assets (fair value) | 16 | 27 |
| A.3 Hedged financial liabilities (fair value) | - | - |
| A.4 Cash flow hedge derivatives | - | - |
| A.5 Foreign currency assets and liabilities | - | - |
| **Total income from hedging (A)** | **17** | **28** |
| **B. CHARGES RELATED TO:** | | |
| B.1 Fair value hedging derivatives | (16) | (27) |
| B.2 Hedged financial assets (fair value) | (2) | (2) |
| B.3 Hedged financial liabilities (fair value) | - | (1) |
| B.4 Cash flow hedge derivatives | - | - |
| B.5 Foreign currency assets and liabilities | - | - |
| **Total charges from hedging (B)** | **(18)** | **(30)** |
| **C. NET RESULT FROM HEDGING (A - B)** | **(1)** | **(2)** |
| of which: result of net positions hedging | - | |

The Group avails itself of the possibility, provided for in the introduction of IFRS 9, to continue to apply in full the provisions of IAS 39 on hedge accounting (in the carved out version approved by the European Commission) for each type of hedge. As a result, the table above does not include line "of which: result of net positions hedging" envisaged for those that apply IFRS 9 also for hedges.

# Section 6 - Profit (loss) from disposal/repurchase - Item 100

## 6.1 Profit (loss) from disposal/repurchase: breakdown

| ITEMS/INCOME COMPONENTS | Total 30/06/2020 | | | Total 30/06/2019 | | |
|---|---|---|---|---|---|---|
| | Profit | Loss | Net result | Profit | Loss | Net result |
| FINANCIAL ASSETS | | | | | | |
| 1. Financial assets measured at amortised cost | 80 | (6) | 74 | 76 | (48) | 28 |
| 1.1 Loans to banks | - | - | - | - | - | - |
| 1.2 Loans to customers | 80 | (6) | 74 | 76 | (48) | 28 |
| 2. Financial assets measured at fair value through other comprehensive income | 30 | (4) | 26 | 20 | (5) | 15 |
| 2.1 Debt securities | 30 | (4) | 26 | 20 | (5) | 15 |
| 2.2 Loans | - | - | - | - | - | - |
| Total assets (A) | 110 | (10) | 100 | 96 | (53) | 43 |
| FINANCIAL LIABILITIES MEASURED AT AMORTISED COST | - | - | - | - | - | - |
| 1. Due to banks | - | - | - | - | - | - |
| 2. Due to customers | - | - | - | - | - | - |
| 3. Debt securities in issue | - | - | - | 1 | - | 1 |
| Total liabilities (B) | - | - | - | 1 | - | 1 |

# Section 7 - Net result of other financial assets and liabilities measured at fair value through profit or loss - Item 110

## 7.1 Net change in value of other financial assets and liabilities measured at fair value through profit or loss: breakdown of financial assets and liabilities measured at fair value

| TRANSACTIONS/INCOME COMPONENTS | Capital gains (A) | Profit on sale (B) | Capital losses (C) | Loss on sale (D) | Net result [(A+B) - (C+D)] |
|---|---|---|---|---|---|
| 1. FINANCIAL ASSETS | - | - | - | - | - |
| 1.1 Debt securities | - | - | - | - | - |
| 1.2 Loans | - | - | - | - | - |
| 2. FINANCIAL LIABILITIES | - | - | - | - | - |
| 2.1 Debt securities in issue | - | - | - | - | - |
| 2.2 Due to banks | - | - | - | - | - |
| 2.3 Due to customers | - | - | - | - | - |
| 3. FINANCIAL ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCY: EXCHANGE RATE DIFFERENCES | X | X | X | X | - |
| Total | - | - | - | - | - |

## 7.2 Net change in value of other financial assets and liabilities measured at fair value through profit or loss: breakdown of other financial assets obligatorily measured at fair value

| TRANSACTIONS/INCOME COMPONENTS | Capital gains (A) | Profit on sale (B) | Capital losses (C) | Loss on sale (D) | Net result [(A+B) - (C+D)] |
|---|---|---|---|---|---|
| 1. FINANCIAL ASSETS | 9 | 1 | (17) | (2) | (9) |
| 1.1 Debt securities | - | - | (2) | - | (2) |
| 1.2 Equities | 1 | - | (4) | (2) | (5) |
| 1.3 UCITS units | 1 | 1 | (6) | - | (4) |
| 1.4 Loans | 7 | - | (5) | - | 2 |
| 2. FINANCIAL ASSETS: EXCHANGE RATE DIFFERENCES | X | X | X | X | - |
| Total | 9 | 1 | (17) | (2) | (9) |

Trading profits (losses) and capital gains (losses) from valuations are reported with balances opened by type of financial instrument.

This item includes capital gains and losses that are derived from the fair value measurement of financial assets/liabilities that are classified in the portfolio under item 20.c of Assets.

## Section 8 - Net value adjustments/write-backs due to credit risk - Item 130

### 8.1 Net value adjustments/write-backs due to credit risk relative to financial assets measured at amortised cost: breakdown

| TRANSACTIONS/INCOME COMPONENTS | Value adjustments (1) | | | Write-backs (2) | | Total 30/06/2020 | Total 30/06/2019 |
|---|---|---|---|---|---|---|---|
| | First and second stage | Third stage | | First and second stage | Third stage | | |
| | | Write-offs | Other | | | | |
| **A. LOANS TO BANKS** | **(10)** | **-** | **-** | **8** | **-** | **(2)** | **3** |
| - Loans | (9) | - | - | 1 | - | (8) | 3 |
| - Debt securities | (1) | - | - | 7 | - | 6 | - |
| of which: impaired loans acquired or originated | - | - | - | - | - | - | - |
| **B. LOANS TO CUSTOMERS** | **(193)** | **(12)** | **(334)** | **116** | **259** | **(164)** | **(96)** |
| - Loans | (183) | (12) | (333) | 116 | 259 | (153) | (98) |
| - Debt securities | (10) | - | (1) | - | - | (11) | 2 |
| of which: impaired loans acquired or originated | - | - | - | - | - | - | - |
| **Total** | **(203)** | **(12)** | **(334)** | **124** | **259** | **(166)** | **(93)** |

Value adjustments within the column 'Third stage - Other' refer to analytical write-offs while those reported in the column 'Third stage - write-offs' derive from redemption events. In fact, due to the continuation of the economic crisis and as requested by the Bank of Italy, the Group carried out overall value adjustments to financial assets that are consistent with the current and forecast developments of risk in loan portfolios. In addition, the presence of guarantees collected by the Affiliated Banks as a guarantee of exposure, allows for additional guarantees for the recoverability of receivables. The write-backs, in the column 'First and second stage', correspond to the adjustments to performing positions.

For more detailed information pertaining to movements in net value adjustments to loans, refer to Part E of these explanatory notes.

Net value adjustments on loans to customers, as at June 2020, amounted to EUR 153 million (compared to EUR 98 million in June 2019). These adjustments, which were affected by a highly negative economic trend, characterised by the spread of the Covid-19 pandemic, mainly led to an increase in value adjustments attributable to performing loans classified within stage 1 and 2.

### 8.2 Net value adjustments due to credit risk relative to financial assets measured at fair value through other comprehensive income: breakdown

| TRANSACTIONS/ INCOME COMPONENTS | Value adjustments (1) | | | Write-backs (2) | | Total 30/06/2020 | Total 30/06/2019 |
|---|---|---|---|---|---|---|---|
| | First and second stage | Third stage | | First and second stage | Third stage | | |
| | | Write-offs | Other | | | | |
| **A. DEBT SECURITIES** | **(5)** | **-** | **-** | **-** | **-** | **(5)** | **8** |
| **B. LOANS** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| - To customers | - | - | - | - | - | - | - |
| - To banks | - | - | - | - | - | - | - |
| of which: impaired financial assets acquired or originated | - | - | - | - | - | - | - |
| **Total** | **(5)** | **-** | **-** | **-** | **-** | **(5)** | **8** |

# Section 12 - Administrative expenses - Item 190

## 12.1 Personnel costs: breakdown

| TYPE OF EXPENSES/SECTORS | Total 30/06/2020 | Total 30/06/2019 |
|---|---|---|
| **1) Employees** | **(396)** | **(396)** |
| a) salaries and wages | (274) | (274) |
| b) social security charges | (68) | (70) |
| c) severance indemnity | (14) | (14) |
| d) social security expenses | (5) | (3) |
| e) provision for severance indemnity | (3) | (3) |
| f) allocation to retirement and similar obligations: | - | - |
| - with defined contribution | - | - |
| - with defined benefit | - | - |
| g) payments to external supplementary pension funds: | (13) | (12) |
| - with defined contribution | (13) | (12) |
| - with defined benefit | - | - |
| h) costs deriving from payment agreements based on own equity instruments | - | - |
| i) other benefits in favour of employees | (19) | (20) |
| **2) Other operating personnel** | **(3)** | **(3)** |
| **3) Directors and Auditors** | | **(14)** |
| **4) Retired personnel** | **-** | **-** |
| **Total** | **(413)** | **(413)** |

## 12.5 Other administrative expenses: breakdown

| ITEMS | 30/06/2020 | 30/06/2019 |
|---|---|---|
| **ICT expenses** | **(44)** | **(42)** |
| Outsourced ICT expenses | (20) | (22) |
| ICT expenses other than outsourced ICT expenses | (24) | (20) |
| **Taxes and levies (other)** | **(70)** | **(67)** |
| **Expenses for professional and consulting services** | **(45)** | **(45)** |
| **Advertising and entertainment expenses** | **(12)** | **(15)** |
| **Expenses related to debt collection** | **(10)** | **(11)** |
| **Litigation expenses not covered by allocations** | **-** | **-** |
| **Expenses for real estate** | **(19)** | **(20)** |
| **Lease fees** | **(3)** | **(1)** |
| **Other administrative expenses - Other** | **(91)** | **(123)** |
| TOTAL OTHER ADMINISTRATIVE EXPENSES | (294) | (324) |

In June 2020, the item Other administrative expenses amounts to EUR 294 million (EUR -30 million compared to June 2019) and shows an annual reduction mainly attributable to the lower contributions paid to the DGS and SRF funds for a total of approximately EUR 13 million (they were also allocated as specified below) and to the benefits obtained from the greater use in 2020 by the Affiliated Banks of the services offered by the companies of the business Group with respect to the services purchased from outside the company.

The sub-item "Lease fees" includes short-term rentals (contracts with a residual useful life of less than 12 months) and rentals relating to leases of modest value (less than EUR 5 thousand) for an insignificant amount.

## Section 13 - Net allocations to provisions for risks and charges - Item 200

### 13.1 Net allocations for credit risk relative to commitments to disburse funds and financial guarantees issued: breakdown

| ITEMS | 30/06/2020 | | | 30/06/2019 | | |
|---|---|---|---|---|---|---|
| | Phase 1 | Phase 2 | Phase 3 | Phase 1 | Phase 2 | Phase 3 |
| | Allocations | | | Allocations | | |
| COMMITMENTS TO DISBURSE FUNDS | | | | | | |
| Commitments to disburse funds | (9) | (3) | (7) | (3) | (1) | (15) |
| FINANCIAL GUARANTEES ISSUED | | | | | | |
| Financial guarantee contracts | (2) | (1) | (4) | (2) | (1) | (5) |
| Total allocations (-) | (11) | (4) | (11) | (5) | (2) | (20) |
| | Reallocations | | | Reallocations | | |
| COMMITMENTS TO DISBURSE FUNDS | | | | | | |
| Commitments to disburse funds | 2 | 1 | 7 | 2 | 3 | 10 |
| FINANCIAL GUARANTEES ISSUED | | | | | | |
| Financial guarantee contracts | 1 | 1 | 5 | 1 | 1 | 10 |
| Total reallocations (+) | 3 | 2 | 12 | 3 | 4 | 20 |
| | Net allocation | | | Net allocation | | |
| Total | (8) | (2) | 1 | (2) | 2 | - |

### 13.2 Net allocations relative to other commitments and guarantees issued: breakdown

| PROVISION FOR OTHER COMMITMENTS AND GUARANTEES ISSUED | 30/06/2020 | 30/06/2019 |
|---|---|---|
| Allocations for other commitments to disburse funds | (1) | (2) |
| Allocations for other financial guarantees issued | (1) | - |
| TOTAL ALLOCATIONS | (2) | (2) |
| Reallocations for other commitments to disburse funds | 1 | 2 |
| Reallocations for other financial guarantees issued | 1 | - |
| TOTAL REALLOCATIONS | 2 | 2 |
| Net allocation | - | - |

### 13.3 Net allocations to other provisions for risks and charges: breakdown

| ITEMS | 30/06/2020 | | | 30/06/2019 | | |
|---|---|---|---|---|---|---|
| | Allocations | Reallocations | Net total | Allocations | Reallocations | Net total |
| Allocations and reallocations to other provisions for risks and charges | | | | | | |
| 1. for risks on revocatory actions | - | - | - | - | - | - |
| 2. for charity | - | - | - | - | - | - |
| 3. for personnel risks and charges | (1) | - | (1) | (1) | - | - |
| 4. for legal and tax disputes | (10) | 3 | (7) | (8) | 6 | (2) |
| 5. for other risks and charges | (19) | - | (19) | (2) | 3 | 1 |
| Total | (30) | 3 | (27) | (11) | 9 | (1) |

## Section 14 - Net value adjustments/write-backs to tangible assets - Item 210

As at the reporting date, net value adjustments to tangible assets amounted to EUR 49 million.

## Section 15 - Net value adjustments/write-backs to intangible assets - Item 220

As at the reporting date, net value adjustments to intangible assets amounted to EUR 7 million.

## Section 16 - Other operating income/charges - Item 230

### 16.1 Other operating charges: breakdown

| ITEMS | 30/06/2020 | 30/06/2019 |
|---|---|---|
| Amortisation of improvements to non-separable third-party assets | (2) | (2) |
| Charges for treasury contracts with public bodies | - | - |
| Charges for transactions and indemnities | - | - |
| Non-existent items and contingencies not ascribable to own items | (2) | (4) |
| Allowances payable and rounding down | - | - |
| Other operating charges - other | (6) | (5) |
| **Total other operating charges** | **(10)** | **(11)** |

### 16.2 Other operating income: breakdown

| ITEMS | 30/06/2020 | 30/06/2019 |
|---|---|---|
| Recovery of taxes | 57 | 55 |
| Charges to third parties for costs on deposits and current accounts | 3 | 3 |
| Recovery of insurance premiums | 2 | 1 |
| Receivable rents and payments | 2 | 2 |
| Recovery of other expenses | 8 | 11 |
| Non-existent items and contingencies not ascribable to own items | 3 | 4 |
| Badwill from Purchase Price Allocation | - | - |
| Bonuses and rounding down | - | - |
| Other operating income - other | 50 | 51 |
| **Total other operating income** | **125** | **127** |

As at the reporting date, the Group does not have significant amounts relating to revenues recognised during the year included in the opening balance of liabilities arising from contracts (IFRS 15 para. 116 b)) and revenues recognised during the year arising from obligations fulfilled in previous years (IFRS 15 para. 116 c)).

It should be noted that the following are not of a significant nature for the Group:

- income from sublease of assets consisting of the right of use (IFRS 16, para. 53, letter f));
- income related to variable finance lease payments not included in the measurement of the net investment in the lease (IFRS 16, para. 90 letter a), iii));
- operating lease income arising from variable payments that are not dependent on an index or rate (IFRS 16, para. 90, letter b)).

## Section 17 - Profits (losses) on equity investments - Item 250

### 17.1 Profits (losses) on equity investments: breakdown

| INCOME COMPONENTS/SECTORS | Total 30/06/2020 | Total 30/06/2019 |
|---|---|---|
| **1) JOINTLY-CONTROLLED COMPANIES** | | |
| **A. Income** | **1** | **-** |
| 1. Revaluations | 1 | - |
| 2. Gains from disposal | - | - |
| 3. Write-backs | - | - |
| 4. Other Income | - | - |
| **B. Charges** | **-** | **-** |
| 1. Write-downs | - | - |
| 2. Value adjustments for impairment | - | - |
| 3. Losses from disposal | - | - |
| 4. Other charges | - | - |
| **Net result** | **1** | **-** |
| **2) COMPANIES SUBJECT TO A SIGNIFICANT INFLUENCE** | | |
| **A. Income** | **1** | **-** |
| 1. Revaluations | 1 | - |
| 2. Gains from disposal | - | - |
| 3. Write-backs | - | - |
| 4. Other Income | - | - |
| **B. Charges** | **(1)** | **-** |
| 1. Write-downs | (1) | - |
| 2. Value adjustments for impairment | - | - |
| 3. Losses from disposal | - | - |
| 4. Other charges | - | - |
| **Net result** | **-** | **-** |
| **Total** | **1** | **-** |

## Section 25 - Earnings per share

### 25.1 Average number of ordinary shares with diluted capital

The information relating to this section is not reported in view of the particular characteristics of the Cassa Centrale Banca Credito Cooperativo Italiano Cooperative Banking Group.



# PART E - Information on risks and related hedging policies

## INTRODUCTION

The Group pays particular attention to risk management and governance in ensuring the constant evolution of its organisational/procedural controls and methodological solutions. These functions are carried out with tools to support effective and efficient governance of risk controls, also in response to changes in the reference operational and regulatory environment. As required by the regulations on the reform of cooperative credit, the outsourcing of control functions at the Parent Company by the Affiliated Banks of the Cooperative Banking Group has been made operational. It is therefore the task of the Parent Company to define the guidelines for risk measurement and management.

The risk management strategy is based on a holistic view of business risks, considering both the macroeconomic scenario and the individual risk profile, stimulating the growth of the risk control culture and reinforcing a transparent and accurate representation of risks.

The risk assumption strategies are summarised in the Risk Appetite Framework (hereinafter also referred to as "RAF") adopted by the Board of Directors of the Parent Company, i.e. the reference framework that defines - consistently with the maximum risk that can be assumed, the business model and the strategic plan - the risk appetite, the tolerance thresholds, the risk limits, the risk management policies, the reference processes necessary to define and implement them. The RAF, introduced to ensure that the risk assumption activities are in line with shareholders' expectations and respect for the overall regulatory and prudential reference framework, is defined in light of the overall company risk position and the economic/financial situation.

The framework is developed by the Parent Company and is divided into the following main areas:

- organisational, through (i) the definition of the tasks of the corporate bodies and functions involved in the RAF; (ii) the updating of organisational and governance documents with regard to the main risk profiles (credit and counterparty, concentration, interest rate, market, liquidity, operational) and references for the management of the related interrelationships (risk management policies, risk management process, internal processes for determining and assessing capital adequacy so-called ICAAP, strategic and operational planning, internal control system, incentive system, major operations, etc.) within a framework of overall consistency; (iii) the definition of the inherent information flows;
- methodological, through (i) the definition of indicators, of operational references for their evaluation and the setting of inherent thresholds; (ii) the declination of the objectives and indicators identified in the system of operational limits;
- application, through the reconnaissance of the areas of intervention on the application supports for risk management and supervisory processes (risk measurement, supervisory reporting, ICAAP, simulation/forecasting, alerting activities, reporting, etc.) and the definition of the functional requirements for the related development.

The framework defines both the general principles in terms of the company's risk appetite and the controls adopted with regard to the overall risk profile and the main specific risks.

The general principles that guide the Group's risk-taking strategy are set out below:

- the company's business model is focused on the traditional business of a commercial credit group, with a particular focus on financing small and medium-sized enterprises and households;
- the objective of the company's strategy is not to eliminate risks but to fully understand them in order to ensure their conscious assumption and management in order to guarantee the long-term solidity and continuity of the company;
- limited risk appetite; capital adequacy, income stability, solid liquidity position, attention to maintaining a positive corporate reputation, strong control over the main specific risks to which the company is exposed represent key elements on which the entire company's operations are based;
- formal and substantial compliance with the rules with the aim of not incurring sanctions and maintaining a solid relationship of trust with all company's stakeholders.

The RAF represents, therefore, the overall framework within which the overall management of the risks assumed is placed and the general principles of risk propensity are defined along with the consequent articulation of the controls against the overall corporate risk and the main specific risks.

The monitoring of the overall risk profile is broken down into a structure of limits characterised by the need to ensure, also under stress conditions, compliance with the minimum required levels of solvency, liquidity and profitability.

In particular, overall risk management aims to maintain adequate levels of:

- capitalisation, with reference to Pillar I and Pillar II risks, through the monitoring of the Common Equity Tier 1 ratio, the Tier 1 ratio, the Total Capital ratio and the financial leverage indicator;
- liquidity, such as to cope with periods of tension, even prolonged ones, on the various funding supply markets with reference to both the short-term situation and the structural situation, by monitoring the limits inherent in the Liquidity Coverage ratio, stable funding, loan-collection gap;
- profitability, through the monitoring of indicators such as cost-income and ROA.

The definition of the RAF and the resulting operational limits on the main specific risks mentioned above, the use of risk assessment tools within the credit management processes and the reference control and monitoring of operational and compliance risks, capital adequacy assessment measures and risk capital measures for the assessment of company performance, are the cornerstones of the operational declination of the risk strategy defined by the Board of Directors.

In the same context, reporting to corporate bodies is defined, which aims to provide on a periodic basis summary information on the evolution of the Banking Group's risk profile, taking into account the defined risk appetite. The relative system is designed to support the preparation of a holistic representation of the risk profiles to which the Group is exposed.

The definition of the RAF is based on an articulated and complex process, coordinated by the Parent Company. This process is developed in coherence with the ICAAP process and represents the framework within which the annual budget and the business plan are developed, ensuring coherence between risk taking strategies and policies on the one hand, and planning and budgeting processes on the other.

To strengthen the overall risk governance and management system, the policies and regulations common to the Group issued by the Parent Company were adopted.



The risk governance model, i.e. the set of corporate governance and management and control mechanisms aimed at tackling the risks to which the Group is exposed, is part of the broader framework of the company's internal control system, which is addressed by the Parent Company as part of the outsourcing contract, defined in accordance with the prudential supervisory provisions for banks set out in Bank of Italy Circular no. 285/2013 (Part One, Title IV, Chapter 3).

In line with these references, the set of corporate risks is monitored within an organisational model established to fully separate the control functions from the production functions, which integrates control methods and monitoring at various levels, all converging with the objectives of continuously identifying, measuring and verifying the typical risks of the business, safeguarding the integrity of the company's assets, protecting against losses, ensuring reliability and integrity of information, verifying the correct execution of activities in compliance with internal and external regulations.

The internal control system consists of the set of rules, functions, structures, resources, processes and procedures that aim to ensure that, in compliance with sound and prudent management, the following objectives are achieved:

- verification of the implementation of company strategies and policies;
- containment of the risk within the limits defined in the adopted RAF;
- safeguarding the value of assets and protection against losses;
- effectiveness and efficiency of operating processes;
- reliability and security of company information and IT procedures;
- prevention of the risk that the Group may be involved, even involuntarily, in illegal activities (with particular reference to those connected with money laundering and terrorist financing);
- compliance of operations with the law and supervisory regulations, as well as with internal policies, regulations and procedures.

The internal control system therefore involves the entire corporate organisation (administrative bodies, structures, hierarchical levels, personnel).

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In line with the provisions issued by the Bank of Italy, the model adopted by the Group outlines the main responsibilities of the governance and control bodies in order to ensure the overall effectiveness and efficiency of the internal control system.

A joint examination of the supervisory regulations and the Articles of Association shows that the strategic supervision function and the management function are founded within the organic and integrated action of the Board of Directors. The General Manager participates in the management function as top management of the internal structure. In the Parent Company there is the figure of the Chief Executive Officer who also incorporates the functions of the General Manager. The Chief Executive Officer is appointed by the Board of Directors by conferring certain powers and responsibilities pursuant to Article 2381, second paragraph of the Italian Civil Code. For the functions assigned to the Chief Executive Officer, reference should be made to Article 34.2 of Cassa Centrale Banca's Articles of Association.

The strategic supervision function is expressed in the guidance of the corporate management through the preparation of the strategic plan, within which the Risk Appetite Framework (RAF) is inserted through the approval of the ICAAP and the budget. This function is carried out by ensuring consistency between the internal control system and the organisation of the Group within the "business model" of cooperative credit.

The management function, to be understood as the set of decisions that a corporate body takes for the implementation of the guidelines resolved in the exercise of the strategic supervision function, is the responsibility of the Board of Directors with the technical contribution of the Chief Executive Officer, who attends the meetings of the Board of Directors as the proposer, with advisory opinion and without voting power, and is also the recipient of Board proxies. This function is mainly based on the following methods:

- resolutions passed by the Board of Directors, also on the proposal of Management, in compliance with the provisions of the Articles of Association;
- resolutions of the Executive Committee, normally on the proposal of Management, in the delegated areas;
- decisions of Management and the structure in the delegated areas.

In accordance with the Articles of Association, the Chief Executive Officer is then responsible for implementing the resolutions of the Board of Directors and the Executive Committee and has the task of supervising the organisational functioning, the performance of operations and the functioning of services, ensuring that the Group is managed as a single entity.

The Chief Executive Officer, as head of personnel, ensures constant attention to the training aspects of employees, also as a lever to spread the risk management and management culture and techniques. He/she also involves the governing body for the approval of training plans and supports it in identifying training methods and content from time to time useful for the development of the directors themselves.

The Board of Statutory Auditors represents the body with control functions and, as it is responsible for corporate control, supervises the correct application of the law and the Articles of Association and, specifically, the adequacy of the internal control system and the effectiveness of the work of the corporate control functions, also making use of the information flows that they carry out.

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The provisions in relation to the internal control system, information system and business continuity accentuate the need for a prior definition of the reference framework for carrying out banking activities in terms of risk appetite, setting a frame of reference that banking groups must apply consistently to operational contexts, size and degree of complexity. This reference framework is defined in the RAF, i.e. the system of risk objectives, and it involves the ex ante setting of the risk/return objectives that the Group intends to achieve. The process is directed by the Parent Company, in order to ensure the necessary consistency of application at consolidated level.

The main purpose of the RAF is to ensure that the activities of the intermediary are developed within the risk appetite limits established by the corporate bodies.

The RAF is an obligatory reference point for the implementation, within the strategic plan, of a reasoning that leads to establishing the Group's propensity to risk and that translates into risk management policies, expressed through the definition of quantitative parameters and qualitative indications consistent with it.

This reference framework is implemented through the fine-tuning of the strategic plan with a view to RAF, with which the budget, ICAAP and operational planning are reconciled.

The Risk Appetite Framework (RAF) and the related risk governance policies, summarised in the strategic plan, are consistently implemented in risk management, which takes the form of an implementation method that integrates approach phases (summarised in the so-called risk management process) and operational phases for the execution of the set objectives.



It involves both the Board of Directors (for resolutions under its competence), and the Management which - also with the support of the managers of the operational functions concerned from time to time and of the representatives of the second-level control functions for the tasks under their competence - develops the proposals to be submitted to the Board of Directors, prepares its own provisions and systematically oversees the operational risk management activities.

Consequently, risk management consists of a set of limits, powers, rules, procedures, resources and controls - line, second and third level - as well as operational activities through which risk governance policies are implemented.

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The supervisory regulations require banking groups to have adequate systems of risk detection, measurement and control, or an adequate internal control system as defined above.

The controls involve the entire structure, starting from the corporate bodies and the Management and are then articulated in:

- line controls, the main objective of which is to verify the correctness of operations with respect to external/self-regulation rules;
- second-level controls (Risk Management, Compliance and Anti-Money Laundering), aimed at implementing controls on risk management, the correct application of legislation and the management of the risk of money laundering and terrorist financing;
- third level controls (Internal Audit), aimed at identifying anomalous trends in procedures and regulations and assessing the functionality of the overall internal control system.

The Internal Audit Department, which oversees the third level of control, checks the other control systems, activating periodic sessions aimed at monitoring risk variables.

## Section 1 - Risks of the consolidated accounts

In this section, information is provided with reference to the companies included in the consolidated accounts.

### Information of a quantitative nature

### A. Credit quality

### A.1 Impaired and performing credit exposures: amounts, adjustments, trend and economic distribution

### A.1.1 Distribution of financial assets by portfolio and credit quality (carrying amounts)

| PORTFOLIOS/QUALITY | Non-performing | Unlikely to pay | Impaired past due exposures | Performing past due exposures | Other performing exposures | Total |
|---|---|---|---|---|---|---|
| 1. Financial assets measured at amortised cost | 574 | 1,125 | 112 | 890 | 66,927 | 69,628 |
| 2. Financial assets measured at fair value through other comprehensive income | - | - | - | - | 8,547 | 8,547 |
| 3. Financial assets measured at fair value | - | - | - | - | 2 | 2 |
| 4. Other financial assets obligatorily measured at fair value | - | - | 1 | 1 | 337 | 339 |
| 5. Financial assets held for disposal | - | - | - | - | - | - |
| **Total 30/06/2020** | **574** | **1,125** | **113** | **891** | **75,813** | **78,516** |
| **Total 31/12/2019** | **609** | **1,202** | **75** | **1,264** | **65,397** | **68,547** |

With regard to forborne exposures, reference should be made to Section 2, Table A.1.5.

### A.1.2 Distribution of financial assets by portfolio and credit quality (gross and net values)

| PORTFOLIOS/QUALITY | Impaired | | | | Performing | | | Total (net exposure) |
|---|---|---|---|---|---|---|---|---|
| | Gross exposure | Total value adjustments | Net exposure | Overall partial write-offs* | Gross exposure | Total value adjustments | Net exposure | |
| 1. Financial assets measured at amortised cost | 4,090 | 2,279 | 1,811 | 307 | 68,274 | 457 | 67,817 | 69,628 |
| 2. Financial assets measured at fair value through other comprehensive income | 1 | 1 | - | - | 8,553 | 6 | 8,547 | 8,547 |
| 3. Financial assets measured at fair value | - | - | - | - | X | X | 2 | 2 |
| 4. Other financial assets obligatorily measured at fair value | 1 | - | 1 | - | X | X | 338 | 339 |
| 5. Financial assets held for disposal | - | - | - | - | - | - | - | - |
| **Total 30/06/2020** | **4,092** | **2,280** | **1,812** | **307** | **76,827** | **463** | **76,704** | **78,516** |
| **Total 31/12/2019** | **4,191** | **2,305** | **1,886** | **305** | **66,686** | **374** | **66,661** | **68,547** |

| PORTFOLIOS/QUALITY | Assets with manifestly poor credit quality | | Other assets |
|---|---|---|---|
| | Cumulated capital losses | Net exposure | Net exposure |
| 1. Financial assets held for trading | - | - | 8 |
| 2. Hedging derivatives | - | - | 2 |
| **Total 30/06/2020** | **-** | **-** | **10** |
| **Total 31/12/2019** | **-** | **-** | **10** |

*Value to be displayed for information

## Section 2 - Risks of prudential consolidation

In this section, the figures are shown gross of transactions with other companies included in the scope of consolidation. These figures conventionally include, in proportion to the interest held, the assets and liabilities of the banking, financial and instrumental companies jointly controlled and consolidated proportionally for supervisory purposes. Where the contribution of the relationships between the companies belonging to the prudential consolidation and the other companies included in the scope of consolidation of the financial statements is significant, the relevant details are provided at the bottom of the information concerned.

## 1.1 CREDIT RISK

### Information of a qualitative nature

### 1. GENERAL ASPECTS

The objectives and strategies of the Group's lending activities are geared towards the pursuit of an efficient relationship between the characteristics of the distribution model typical of cooperative credit, based on mutuality and localism, and effective monitoring of credit risk. The Group's lending activity is also integrated in the organisational model of the Cassa Centrale Group, which by means of a progressive standardisation of the instruments intends to guarantee the application of uniform rules and criteria to undertake and manage credit risk. To this end, the Group is subject to the guidance and coordination role of the Parent Company Cassa Centrale Banca, in particular for the specific areas highlighted in this section. In particular, such objectives and strategies are targeted at:

- the achievement of a loan growth target that is sustainable and consistent with the defined risk appetite;
- an efficient selection of individual counterparties, through a complete and accurate analysis of their ability to meet their contractual commitments, aimed at containing credit risk;
- the diversification of credit risk, by identifying loans of limited amounts as the Group's natural operating area, as well as limiting the concentration of exposures to groups of connected customers or individual lines of business;
- the verification of the persistence of the creditworthiness of the financed clients as well as the performance monitoring of the individual reports carried out, with the help of the information system, both on regular positions as well as and especially on positions with anomalies and/or irregularities.

The commercial policy regarding loans is oriented towards the financial support of the local economy and is characterised by a high propensity to maintain trust and personnel relations with households, trades and small and medium enterprises in its territory of reference, as well as by a particular operational vocation in favour of customers-shareholders. However, no less significant is the support function carried out by the Group in favour of certain categories of economic and social operators which, due to their legal structure, their purely local scope of action or the reduced profitability that may lead to the Group, are generally excluded from accessing ordinary bank credit.

The important portion of loans represented by residential mortgages, offered according to different types of products, confirms the Group's special attention to the household segment.

The micro and small businesses and the craft segment is another sector of particular importance for the Group. In this context, the Group's strategies are aimed at establishing medium-long term credit and service relationships through the offer of targeted products and services and personal and collaborative relationships with the same customers. The conventions or partnership agreements reached with the provincial councils or with other subjects working in support of the development of the local economic fabric are also included in this perspective.

The granting of credit is mainly directed towards the lines of business most consistent with the Group's credit policies and the positive economic dynamics that historically and currently characterise the territory in which the Group operates.



## 2. POLICIES FOR MANAGING CREDIT RISK

### 2.1 Organisational factors

In carrying out its activities, the Group is exposed to the risk that receivables, for whatever reason, are not honoured by third-party debtors at maturity and, therefore, losses must be recorded in the financial statements.

This risk is mainly found in the traditional activity of granting secured or unsecured loans recorded in the financial statements, as well as in similar transactions not recorded in the financial statements (mainly, or endorsement credits) and the potential causes of default lie largely in the lack of liquidity of the counterparty and to a lesser extent in reasons independent of the financial condition of the counterparty, such as country risk or operating risks. Activities other than traditional lending activities also expose the Group to credit risk (e.g. subscription of non-speculative OTC derivative contracts).

Counterparties to such transactions may default due to lack of liquidity, operational weakness, economic events or other reasons. The organisational model adopted by the Group complies with the Group Credit Regulation approved by the Parent Company on 30 January 2019. In this document, also in compliance with the regulatory provisions on Internal Controls, a precise division of roles and responsibilities between the Credit Department and the Control Functions, including the Risk Management Department, has been defined.

The geographical distribution of the Group as at 30 June 2020 is characterised by the presence of 10 territorial branches of the Parent Company and 79 Affiliated Banks with approximately 1,500 branches located throughout Italy.

The Credit Department is the central body delegated to govern the entire performing credit process (granting and auditing; management and monitoring), as well as the coordination and development of credit transactions and loans in the territory.

The allocation of tasks and responsibilities within this Department aims - to the extent that is feasible - to separate activities that are in conflict of interest, particularly through an opportune ranking of authorisation profiles in the IT field.

The NPL Service Unit is the central body delegated to govern the non-performing loan process (resolution of forbearances, definition of recovery strategies, dispute management), the process of changing the classification from performing to non-performing and vice versa, the process of defining and implementing the Group's NPL strategy and the related operational plan.

In light of the provisions on the internal control system (contained in Circular no. 285/2013, Part One, Title IV, Chapter 3), the Group has adopted an organisational structure that is functional to achieving an efficient and effective credit risk management and control process consistent with the framework addressed by the Parent Company.

In addition to line controls, such as first-level activities, the functions outsourced to the Parent Company in charge of second and third-level control with the cooperation of their respective representatives are responsible for measuring and monitoring risk trends as well as the accuracy/adequacy of managerial and operational processes.

Credit risk management control activities (as well as financial risks and operating risks) are carried out by the Risk Management Department - outsourced to the Parent Company, which makes use of its internal contacts at Group banks.

Specifically, the department provides a preventive contribution in defining the RAF and the related risk governance policies, setting operational limits to the assumption of various types of risk.

Specifically, the function:

- ensures systematic monitoring of the degree of exposure to risks, the adequacy of the RAF and the consistency between operations and the actual risks assumed by the Group with respect to the risk/return objectives and the related pre-established limits or thresholds;
- contributes to preparing the ICAAP report, in particular verifying the adequacy of the variables used and the consistency with the risk objectives approved within the RAF;
- monitors compliance with regulatory requirements and prudential supervisory ratios, analysing and commenting on their characterisations and dynamics;
- formalises prior opinions on the consistency with the RAF of the most significant transactions, possibly acquiring the opinion of other functions involved;
- contributes to the organisational set up/maintenance and regulates the operational processes (credit, funding, finance, collection/payments, ICT) adopted for the management of the various types of risk, verifying the adequacy and effectiveness of the measures taken to remedy the deficiencies found;
- contributes to defining/auditing the methods for measuring quantitative risks and, by interacting with the accounting function and with reference to the system contributions to prepare the financial statements, contributes to the correct classification and measurement of corporate activities.

## 2.2 Management, measurement and control systems

With regard to lending activities, the Credit Department and the NPL Unit ensure the supervision and coordination of the operational phases of the lending process, making decisions within the scope of their powers and carrying out the controls for which they are responsible.

The Group adopted the Group Credit Regulations and the Group Policy for the classification and measurement of loans, issued by the Parent Company, and then:

- examine the loan portfolio by identifying problem positions, verifying their creditworthiness and consequently isolating those positions that are considered sustainable - albeit with the need for any management intervention - and those deemed insolvent;
- consequently, identify the need to intervene for positions that were deemed sustainable, in order to be able to assess the overall capacity to support them, also in relation to the effects on the loan/deposit ratio and capital absorptions;
- activate the appraisal process and identify the write-down percentages of the estimated value of properties, on which the Group intends to compensate to repay the exposures to insolvent counterparties, also with reference to the case of enforcement procedures, in accordance with the provisions of the policy.

The entire credit management and control process is governed by the Group Credit Regulations, which in particular:

- defines the criteria and methodologies for assessing creditworthiness;
- defines the criteria and methodologies for the revision of the credit lines;
- defines the criteria and methods of performance monitoring, as well as the steps to be taken in the event of anomalies being detected.

With reference to transactions with related parties, the Group has adopted specific deliberative procedures aimed at controlling the risk that the proximity of certain parties to the decision-making centres of the same may compromise the impartiality and objectivity of decisions relating to the granting of loans. In this perspective, the Group also adopted recognition tools and an IT procedure aimed at supporting the correct and complete survey of associated parties. These references have been supplemented by updating, where deemed necessary, the resolutions, regulations and proxies already in use. The Group Regulation for the management of transactions with related parties was also adopted.

In compliance with the provisions of the Group credit regulation and the Group's credit classification and assessment policy, specific procedures have been put in place for the investigation/deliberation, credit line revision and credit risk monitoring phases. In all the mentioned stages, qualitative-quantitative methodologies are used to assess the creditworthiness of the counterparty, based or supported by IT procedures subject to periodic verification and maintenance.

The investigation/deliberation and revision of the credit lines are regulated by a deliberative process in which the various competent bodies, belonging to both the central structures and the network, intervene, in accordance with the levels of delegation provided for. These stages are supported, also in order to use the data from external databases, by the management procedures that allow, at any time, to verify (by all the functions in charge of credit management) the status of each position already assigned or being granted, as well as to redesign the process that led to defining the creditworthiness of the borrower (through the recognition and archiving of the decision-making process and the types of analysis carried out).

During the preliminary investigation, for requests for significant loans, the assessment, including prospective, is structured on several levels and is mainly based on technical data, in addition to - as usual - on personal knowledge and in-depth analysis of the specific economic and financial situation of the counterparty and its guarantors. Diversified preliminary investigation/audit types were envisaged; some, simplified with minimal formalities, reserved for the preliminary investigation/audit of credit facilities of limited amounts referring to parties with a regular performance, other, of ordinary nature, for the remaining type of cases.

The IT procedures adopted by the Group allow for the periodic extrapolating of all the relationships that may show signs of a trends in anomalies. The constant monitoring of relationships provided by the procedures makes it possible, therefore, to intervene promptly when anomalous positions arise and to take appropriate measures in the event of problem loans.

The positions entrusted, as already mentioned, are also checked using the information provided by the Risk Centres.

All fiduciary positions are also subject to periodic review, carried out for each individual counterparty/economic group to which they belong by the relevant structures per credit limit.

Control of the activities carried out by the Credit Department is ensured by the Risk Management Department, which is established at the Parent Company.

In recent years, the revision of international prudential regulations as well as the evolution in the banking world have further pushed cooperative credit to develop methods and systems to control credit risk. With this in mind, a strong commitment has been maintained in the progressive development of IT tools for monitoring credit risk, which has led to the creation of an advanced system for assessing the creditworthiness of companies and the risk/return profile.

Consistently with the operational and governance specificities of the credit process, the system has been designed with a view to achieving an adequate integration between quantitative information (Financial Statements; Risk Centre; Relationship Performance; Socio-Demographic Profile) and qualitative information accumulated by virtue of the peculiar customer relationship and its roots in the territory. Therefore, this system meets the need to give greater effectiveness and efficiency to the credit management process, especially through a more objective selection of customers and a more structured process of monitoring positions.

The use of the advanced system for assessing the creditworthiness and control of clients entrusted and to be entrusted has significant organisational implications that must be carefully examined and addressed as part of an overall review of the internal control system and the related organisational and regulatory structures.

For the purposes of determining the minimum capital requirement for credit risk, the Group adopts the standardised methodology and, in this context, has decided to:

- make use of rating models, developed on a statistical basis and using credit scoring methodology, for the measurement and evaluation of creditworthiness and related provisions for ordinary and interbank customers [12];
- adopt the standardised methodology for the calculation of the capital requirement for credit risk (Pillar I).

Moreover, with reference to the internal capital adequacy assessment process (ICAAP) provided for in Pillar II of the new prudential regulations and in order to determine internal capital, the Group has opted for the adoption of simplified methodologies.

With regard to the performance of stress tests, the operational methods established by the Parent Company were adopted.

With reference to credit risk, stress tests are carried out as follows: in particular, the stress exercise is intended to measure the change in the exposures of the Regulatory portfolios due to the application of an adverse scenario compared to a baseline scenario.

The aggregates subject to stress tests are:

- gross volumes of performing loans to customers;
- rate of deterioration of performing loans to customers and related write-offs;
- coverage ratio of performing and impaired loans to customers;
- fair value of the HTCS securities portfolio.

For the identification of the two market scenarios, reference is made to the information provided by an external provider also based on the main assumptions established by the European Banking Authority for the purpose of the 2018 Stress Test.

With reference to operations on the securities markets, the Finance Departments of the Group's banks carry out valuation and control activities both during the purchase of financial instruments and at subsequent times when the composition of the segment by asset class or IAS/IFRS portfolio is periodically analysed, the level of specific risk or counterparty risk is determined and compliance with the limits and powers assigned is verified.

[12] The rating models developed are subject to annual review by the Parent Company. During the year, under the supervision of the Risk Management Department of the Parent Company, credit risk models were refined and updated. For more details see paragraph 2.3.



## 2.3 Methods for measuring expected losses

IFRS 9 introduced, for instruments measured at amortised cost and fair value through other comprehensive income (other than equity instruments), a model based on the expected loss concept, replacing the incurred loss approach provided by IAS 39.

The amendments introduced by IFRS 9 are characterised by a prospective view which, in given circumstances, may require the immediate recognition of all expected losses over the life of a loan. In particular, unlike IAS 39, it is necessary to recognise, immediately and regardless of the presence or not of a so-called trigger event, the initial amounts of expected future losses on own financial assets, and this estimate should be continuously adjusted also in consideration of the counterparty credit risk. In order to prepare this estimate, the impairment model must not only consider past and present data, but also information relating to future events.

This forward looking approach makes it possible to reduce the impact of the losses and enable loan adjustments to be posted in proportion to the increase in risks, allowing entities to avoid overloading the income statement on the occurrence of loss events and reducing the pro-cyclical effect.

The scope of application of the new impairment measurement model on loans and securities subject to impairment adopted refers to financial assets (loans and debt securities), commitments to disburse funds, guarantees and financial assets not subject to measurement through FVTPL. For credit exposures falling within the scope of application [13] of the new model, the accounting standard provides for the allocation of individual relationships to one of three stages based on changes in credit quality, defined on an expected credit loss model at 12 months or full life if a significant increase in credit risk (lifetime) has occurred. In particular, there are three different categories reflecting the credit quality deterioration model from initial recognition, which make up the stage allocation:

- in stage 1, positions that do not present, at the valuation date, a significant increase in credit risk (SICR) or which can be identified as 'low credit risk';
- in stage 2, positions that, at the reference date, present a significant increase of the credit risk or that do not present the characteristics to be identified as 'low credit risk';
- in stage 3, non-performing positions [14].

The estimate of expected loss using the Expected Credit Loss (ECL) criteria, for the classifications defined above, takes place on the basis of the allocation of each position into the three reference stages, as detailed below:

- stage 1, expected loss must be calculated on a time horizon of 12 months [15];
- stage 2, expected loss must be calculated by considering all the losses that are expected to be incurred over the entire life of the financial asset (lifetime expected loss): therefore, with respect to the calculation performed in accordance with IAS 39, there is a shift from the estimate of incurred loss over a time horizon of 12 months to an estimate that takes into consideration the entire residual life of the loan; in addition, given that IFRS 9 requires entities to also adopt forward-looking estimates for the calculation of the lifetime expected loss, it is necessary to consider the scenarios connected with macro-economic variables (e.g. GDP, unemployment rate, inflation, etc.) which, through a macro-economic statistical model, are able to estimate the forecasts over the residual duration of the loan;

[13] The application segments are ordinary customers, interbank segment and securities portfolio.

[14] Non-performing loans relate to: impaired past due and/or overrun, 'unlikely to pay' and non-performing exposures.

[15] The calculation of the expected loss for the purposes of calculating collective bad debt provisions for these exposures takes place on a 12-month point in time basis.

- stage 3, the expected loss must be calculated with a lifetime perspective, but unlike stage 2 positions, the calculation of the expected lifetime loss is carried out using an analytical valuation methodology; for certain exposures classified as non-performing or unlikely to pay of less than EUR 200,000, for impaired past due and/or overrun exposures and for off-balance sheet exposures, the calculation of the expected lifetime loss is normally carried out using a flat-rate analytical methodology.

With particular reference to positions classified as non-performing loans, the specific analytical valuations reflect, where appropriate, a probable scenario of realisation of these loans through the sale of the related exposures, in line with the impaired loan management strategy defined by the Group.

The risk parameters (PD, LGD and EAD) are calculated by the impairment models; to improve the coverage of the ratios not originally rated after 2006, the default rates made available by the Bank of Italy were used [16]. It should be underlined that the Group calculates the ECL based on the allocation stage, per individual position, with reference to cash and off-balance sheet exposures.

It should be noted that for the purposes of calculating the expected loss of loans to customers, as at 30 June 2020, the Cassa Centrale Group incorporated macroeconomic scenarios into its IFRS 9 impairment model, supplementing the effects of the Covid-19 health emergency, as per the indications of the European Central Bank in its letter of 1 April 2020. For further details, please refer to Part A "Accounting policies" of these explanatory notes, section 5 "Other matters" - d) Methods of application of the international accounting standards in the context of the Covid-19 pandemic.

### Ordinary customer segment

The drivers common to all the approaches identified for the construction of the PD to be used, concern:

- 12-month PD estimate developed on a statistical basis through the construction of a Group model, appropriately segmented according to the type of counterparty and the geographical area in which the Group operates;
- the inclusion of forward-looking scenarios, through the application of multipliers defined in a satellite model to PD point in time (so-called PiT) and the definition of a series of possible scenarios able to incorporate current and future macroeconomic conditions;
- the transformation of 12-month PD into lifetime PD, in order to estimate a PD term structure along the entire residual life class of loans.

The drivers common to all the approaches identified for the construction of the LGD to be used, concern:

- a Group model, appropriately segmented according to the geographical area in which the Group operates, which consists of two parameters: the danger rate (DR) and the non-performing LGD;
- the IFRS 9 danger rate parameter is estimated from a set of transition matrices between administrative states with an annual observation horizon. These matrices were calculated in relation to a set of counterparties with a segmentation in line with that used for the development of PD models. The DR parameter, like PD, is conditioned to the economic cycle, based on possible future scenarios, so as to incorporate assumptions about future macroeconomic conditions;
- the nominal non-performing LGD parameter is calculated as the arithmetic mean of the nominal non-performing LGD, segmented by type of guarantee, and then discounted based on the average of the observed recovery times per cluster of ratios consistent with those of the nominal non-performing LGD.

[16] During 2018, the Bank of Italy made available a historical series of default rates starting in 2006, broken down by a number of drivers (region, amount range, economic sector, etc.) and built on a broader definition of non-performing positions only.



The EAD IFRS 9 model adopted differs depending on the type of technical macro-form and on the stage to which the exposure belongs. For the estimation of the EAD parameter over the lifetime period of the instalment positions, it is necessary to consider the contractual repayment flows, for each year of the remaining life of the position. A further element that influences the future values of the EAD, i.e. the progressive repayment of the instalment loans on the basis of the contractual amortisation plan, is the prepayment rate (a parameter that collects the events of early and partial termination with respect to the contractual maturity date).

The Group made provision for the allocation of the individual cash and off-balance sheet positions, in one of the 3 stages listed below, based on the following criteria:

- in stage 1, positions with generation date of less than three months from the measurement date or that do not present any of the characteristics described in the previous point;
- in stage 2, positions which, at the reference date, present at least one of the characteristics described below:
  - a significant increase in credit risk from the disbursement date has been identified, defined in accordance with the operating methods and set out in the appropriate technical documentation;
  - positions relating to counterparties that at the valuation date are classified to 'watch list', i.e. 'performing under observation';
  - positions that, at the valuation date, show an increase in PD compared to the origination one that exceeds certain thresholds calculated with quantile regression methods;
  - presence of a 'forborne performing' attribute;
  - presence of past due amounts and/or overrun by more than 30 days;
  - positions (without PD lifetime at the origination date) that do not have the characteristics to be identified as low credit risk at the valuation date (i.e. performing positions that have the following characteristics at the valuation date: no PD lifetime at the origination date and rating class as at the reporting date less than or equal to 4 [17]);
- in stage 3, non-performing loans. These concern individual positions relating to counterparties classified in one of the impaired loan categories set forth by Bank of Italy Circular no. 272/2008 and subsequent updates. Falling into this category are impaired past due and/or overrun, 'unlikely to pay' and non-performing exposures.

### Interbank segment

For interbank segment positions the PD parameter is provided by an external provider and extrapolated from quoted credit spreads or quoted bonds. For institutions without quoted credit spreads, the PD parameter is always provided by an external provider, but calculated on the basis of comparable logics based on external information (financial statements, external ratings, economic sector).

The LGD parameter is set prudentially by basing the regulatory level for IRB at 45%.

[17] The rating model has 13 classes.

For EAD, similar logic is applied as for the ordinary customer model. It should be noted that a prepayment parameter has been applied to interbank positions consistent with the underlying technical forms and with the specificities of the underlying positions in this segment.

The Group has provided for the allocation of individual positions to the 3 stages, in the same way as to that provided for loans to customers. The application of the concept of low credit risk is defined on performing positions which at the valuation date have the following characteristics: no PD lifetime at the origination date and PD Point in Time less than 0.3%.

### Securities portfolio

The PD parameter is provided by an external provider based on two approaches:

- timeliness: the default probability term structure for each issuer is obtained from quoted credit spreads or quoted bonds;
- comparable: where market data does not allow for the use of specific credit spreads, because they are absent, illiquid or insignificant, the default probability term structure associated with the issuer is obtained using proxy methodology. This methodology provides for the reclassification of the rated issuer to a comparable issuer for which specific credit spreads are available or to a reference cluster for which a representative credit spread can be estimated.

The LGD parameter is assumed to be constant over the entire time period of the financial activity under analysis and is obtained on the basis of four factors: issuer and instrument type, instrument ranking, instrument rating and country of origin. The minimum level starts from a value of 45%, with subsequent increases to take into account the different degrees of seniority of the securities.

The Group has allocated the individual tranches for the purchase of securities in three stages.

In the first creditworthiness stage the following are placed: tranches that can be classified as low credit risk (i.e. that have PD as at the reporting date below 0.26%) and those that at the valuation date, have not experienced a significant increase in credit risk with respect to the time of purchase.

In the second stage, tranches are placed, which on the valuation date present an increase in credit risk compared to the date of purchase.

In the third and final stage, tranches are placed, for which the ECL is calculated following the application of a 100% probability (i.e. in default).

### Transitory regime

With regard to the economic and equity impacts of IFRS 9, it should be noted that, on first-time adoption of the same, the main impacts arose from the application of the new accounting model of impairment based, as mentioned above, unlike the loss approach of IAS 39, on the concept of expected loss, and from the application of the rules for the transfer of exposures to the various stages of classification.

It should be noted that Cassa Centrale Banca adopted the option introduced by Regulation (EU) no. 2395/2017 of the European Parliament and of the Council, with which amendments were made to Regulation (EU) no. 575/2013 on prudential requirements for banks and investment companies (so-called CRR), pertaining to the introduction of a specific transitional regulation, from 2018 to 2022, aimed at mitigating the impacts on own funds deriving from the application of the new impairment model based on the valuation of expected credit losses (ECL) introduced by IFRS 9.

The provisions in question have made it possible to reintroduce in the CET1 the impact recorded following the application of the new valuation model introduced by IFRS 9 for financial assets measured at amortised cost or at fair value through other comprehensive income.

The standard in question makes it possible to dilute over five years:

- the incremental impact of the write-down on performing and impaired exposures recognised at the date of transition to IFRS 9 following the application of the new impairment model (static filter component);
- any further increase in total write-downs relating only to performing exposures, recorded at each reference date with respect to the impact measured at the date of transition to the new standard (dynamic filter component).

The adjustment to CET1 results in the re-inclusion in the CET1 of the observed impact to the extent indicated below for each of the 5 years of the transitional period:

- 2018 - 95%;
- 2019 - 85%;
- 2020 - 70%;
- 2021 - 50%;
- 2022 - 25%.

The application of the transitional provisions to the CET1 requires a symmetric adjustment in the determination of capital requirements for credit risk through the adjustment of exposure values determined in accordance with Article 111 para. 1 of the CRR. In particular, specific adjustments to loans for which the value of the individual exposure is reduced shall be multiplied by a scaling factor determined on the basis of the complement at 1 of the impact of the adjustment made to the CET1 on the total amount of specific value adjustments to loans.

Participation in this option allows the postponement of the most significant component of the incidence on own funds of the impact deriving from the application of the new impairment model introduced by IFRS 9, bringing it, in particular in the first few years of the transitional regulations, to levels deemed completely not critical for the company solvency profile.

### Organisational and process impacts

In terms of organisational and process impacts, the approach to impairment introduced by IFRS 9 required a major effort to collect and analyse data; this in particular, in order to identify the exposures that have suffered a significant increase in credit risk with respect to the date of their assumption and, consequently, must be traced back to a measurement of the expected lifetime loss, as well as the support of significant investments for the evolution of the valuation models in use and related operating processes for the incorporation of the risk parameters produced in credit operations.

The introduction of forward-looking logic in accounting valuations also determines the need to revise credit policies, for example, with reference to customer selection parameters (in light of the different sectorial or geographical risk profiles) and collateral (orienting the preference of types exposed to lower volatility and sensitivity to the economic cycle). Similarly, it appeared necessary to adjust the company's rules on the granting of credit (and related delegated powers) taking into account, among other things, the different costs of medium/long-term technical forms in a scenario in which, as mentioned above, any migration to stage 2 entails the transition to an expected lifetime loss.

With regard to credit monitoring processes and controls, adjustments and strengthening are also envisaged, based, among other things, on the implementation of automated and proactive processes and the development and/or refinement of early warning and trigger tools that make it possible to identify the early symptoms of a potential step-up and to activate the resulting initiatives in good time.

Lastly, significant interventions concern the second-level controls of the Risk Management Department in charge, inter alia and pursuant to the provisions in force, of validating the internal risk measurement systems not used for regulatory purposes and of monitoring the substantial correctness of the indications deriving from the use of these models.

With reference to the main management control processes, while being aware that the cost of risk is one of the most important variables in determining current and future economic results, particular attention is dedicated to the necessary consistency of the assumptions underlying the estimates of the multi-year plan and of the annual budget (calculated on the basis of expected scenarios relating to macroeconomic and market factors), ICAAP and RAF and those used to determine the accounting provisions.

The project activities coordinated by the relevant technical structures of Cassa Centrale Banca have allowed the improvement of the declination of the methodological solutions for the correct estimation of the risk parameters for the calculation of the ECL and the management of the staging process according to IFRS 9 standards, as well as the development of the underlying technical/instrumental support by the relevant structures.

The Group has defined the guidelines relating to the adoption of organisational and process solutions aimed at enabling the correct and integrated use of the rating system in the main business processes (during investigation, pricing, monitoring and evaluation), as well as for the implementation of the related monitoring and control system.

## 2.4 Credit risk mitigation techniques

Risk mitigation techniques include those instruments that contribute to reducing the loss that the Group would incur in the event of counterparty insolvency. They include, in particular, guarantees and certain contracts that lead to a reduction in credit risk.

In accordance with the credit objectives and policies defined by the Board of Directors, the credit risk mitigation technique most commonly used by the Group is the acquisition of different types of collateral, personal and financial guarantees.

These forms of guarantees are required on the basis of the results of the assessment of the creditworthiness of customers and the type of credit requested by the same. As part of the credit granting and management process, the presence of mitigating factors is encouraged against counterparties with a less favourable credit rating or certain types of medium/long-term operations.

In order to limit the risks of non-existence or termination of protection, specific safeguards are provided, such as: the reinstatement of the pledge in the presence of a decrease in the initial value of the property or, for mortgage guarantees, the obligation of insurance coverage against fire damage, as well as the presence of adequate monitoring of the value of the property.

With reference to activities on securities markets, considering that the portfolio composition is oriented towards leading issuers with high creditworthiness, no particular forms of credit risk mitigation are currently required.

The main concentration of collateral (mainly mortgages) is related to loans to retail customers (medium and long term).

In recent years, a decisive impetus has been given to the implementation of structural and process configurations suitable to ensure full compliance with the organisational, economic, legal and information requirements of prudential regulations on credit risk mitigation (hereinafter also "CRM") techniques.

The Group has decided to use the following CRM instruments:

- financial real guarantees involving cash and financial instruments, provided through agreements for the pledging and transfer of ownership and repurchase agreements;
- residential and non-residential real estate mortgages;
- other forms of real protection such as deposits in cash with third parties;
- personal guarantees represented by sureties, warranty bonds, guarantees - within the realm of authorised guarantors - from monitored intermediaries or other subjects.

### Collateral

With reference to the acquisition, evaluation and management of the main forms of collateral, the company's policies and procedures ensure that such collateral is always acquired and managed in such a way as to ensure that it is enforceable in all relevant jurisdictions and can be enforced within a reasonable time.

In this regard, the Group complies with the following regulatory principles regarding:

- the non-dependence of the value of the property to a significant extent on the creditworthiness of the debtor;
- the independence of the entity appointed to estimate the property at a value not exceeding its market value;
- the presence of an insurance against the risk of damage to the property covered by the guarantee;
- the implementation of adequate monitoring of the value of the property, in order to verify the existence over time of the requirements that allow for less capital absorption on the guaranteed exposures;
- compliance with the maximum ratio between the required loan and the value of the property pledged as collateral (loan to value): 80% for residential properties and 50% for non-residential properties;
- the use of the property and the debtor's ability to repay.

The process of monitoring the value of the property under warranty is carried out using statistical methods. Performing or impaired credit exposures are subject to statistical revaluation every six months.

For significant performing exposures (i.e. amounts in excess of EUR 3 million or 5% of the Group bank's own funds) the valuation is in any case reviewed by an independent expert at least every 3 years.

For impaired exposures, the Policy adopted by the Group provides for a new appraisal for both residential and non-residential properties at the time of transition to impaired loans and an annual update for positions exceeding specific exposure thresholds.

With regard to financial collateral securities, on the basis of the policies and processes for managing credit risk and the limits and operational proxies defined, the Group intends to acquire only those that concern financial assets for which the company is able to calculate the fair value periodically (or whenever there are elements that assume that there has been a significant decrease in the fair value itself).

The Group has also implemented specific controls and procedures to guarantee the following important aspects for the eligibility, for prudential purposes, of the guarantees in question:

- absence of a material positive correlation between the value of the financial collateral and the creditworthiness of the debtor;
- specific safeguards to guarantee the external separation (between the depositary's assets and the asset under guarantee) and the internal separation (between assets belonging to different parties and deposited with third parties) if the asset under guarantee is held with third parties;
- residual duration of the guarantee not shorter than that of the exposure.

The monitoring of financial collateral, in the case of pledging of securities, takes place through periodic monitoring of the issuer/issue rating and the fair value assessment of the financial instrument as collateral. The adjustment of guarantees for which the market value is lower than the resolution value net of discount is required.

**Personal guarantees**

With reference to personal guarantees, the main types of guarantors are represented by entrepreneurs and corporate partners related to the debtor as well as, in the case of loans granted in favour of sole proprietorships and/or natural persons (consumers or not), also by relatives of the debtor. The risk of insolvency is covered less frequently by personal guarantees provided by other companies (generally companies belonging to the same economic group of the debtor) or by financial institutions and insurance companies.

In the case of loans to parties belonging to certain economic categories (craft workers, traders, etc.) the Group acquires specific guarantees (on first demand or subsidiary) provided by the credit consortia to which they belong.

An exception is made for personal guarantees which meet all the requirements, provided by credit consortia registered on the special list pursuant to Article 106 of the TUB.

Where a financing proposal provides for personal guarantees from third parties, the investigation shall also extend to the latter. In particular, in relation to the type of loan guaranteed and the amount, the following is subject to verification and analysis:

- the guarantor's statement of financial position and income statement, including by consulting the appropriate databases;
- exposure to the banking system;
- the information present in the Group's information system;
- potential membership of a group and the related overall exposure.

If necessary, at the discretion of the instructor in relation to the amount of the guarantee, the investigation will be extended to the Risk Center.

If the guarantor is represented by a company, and in any case when deemed necessary in view of the risk and the amount of the loan, in addition to the information produced by the network in the form reserved for the guarantor, the creditworthiness of the guarantor shall be developed in the same way as for the applicant.

**Offsetting agreements**

The Group adopts bilateral offsetting agreements for contracts relating to OTC derivatives and long-term settlement transactions concluded with primary counterparties through the Parent Company which, while not giving rise to any novation, provide for the formation of a single obligation, corresponding to the net balance of all the transactions included in the agreement itself, so that, in the event of default by the counterparty due to insolvency, bankruptcy, liquidation or any other circumstance, the Group has the right to receive or the obligation to pay only the net amount of the positive and negative values at current market prices of the individual transactions offset. With reference to OTC derivatives and long-term settlement transactions, Regulation (EU) no. 575/2013 includes these agreements within the scope of other bilateral netting agreements for an entity and its counterparty, i.e., written agreements between a bank and a counterparty on the basis of which the reciprocal credit and debit positions generated by these contracts are automatically offset so as to establish a single net balance, with no effects of novation.

The effect of a reduced counterparty risk (and, therefore, the lower capital absorption) is recognised on condition that the agreement has been communicated to the supervisory authority and the Group complies with the specific requirements set out in the regulations.

In this regard, the Group adopts a counterparty risk management system on a net basis in accordance with the bilateral netting clause, with no effects of novation, present in contracts involving OTC derivatives and long-term settlement transactions. These instruments are expected to be adopted also at the time of capital absorption, when considering that the new contracts all come from the Parent Company.

The legal right to offset is not legally enforceable at any time but only in the event of insolvency or bankruptcy of the counterparties. As a result, the conditions in paragraph 42 of IAS 32 for offsetting positions in the financial statements are not met as further detailed in IAS 32 in paragraph AG38.

The Group has entered into margining agreements that provide for the exchange of margins (guarantees) between the counterparties to the contract on a daily basis on the basis of the market values recorded on the reference day (i.e. the working day immediately prior to the valuation day). The valuation of the guarantees transferred from one party to the other takes into account the net value of the existing positions, the value of any guarantees previously set up by one of the two parties as well as the value (minimum transfer level). The system is managed by the Parent Company for exposures to affiliates, while for exposures to institutional market counterparties, the latter play the role of agent to calculate guarantees.

## 3. IMPAIRED CREDIT EXPOSURES

### 3.1 Management strategies and policies

The Group is organised with regulatory/IT structures and procedures for the management, classification and control of loans. Consistent with IAS/IFRS regulations, at each reporting date the presence of objective elements of impairment on each instrument or group of financial instruments is verified.

Impaired financial assets include loans which, following the occurrence of events happening after their disbursement, show objective evidence of possible impairment.

On the basis of the current regulatory framework, supplemented by internal implementing provisions, impaired financial assets are classified according to their critical status into three main categories:

- non-performing loans: credit exposures to counterparties in a state of insolvency (even if not judicially established), or in substantially comparable situations, regardless of the existence of any guarantees given to protect the exposures and the loss forecasts made;
- unlikely to pay: credit exposures, other than non-performing loans, for which it is considered unlikely that, without initiating actions like the enforcement of guarantees, the debtor will fully comply with his credit obligations (principal and/or interest), regardless of the presence of any amounts/instalments that are past due and not paid;

- impaired past due and/or overrun: credit exposures, other than those classified as non-performing or unlikely to pay, which are past due and/or overrun by more than 90 days and that reach or exceed the materiality threshold of 5%, according to the criteria established by the Supervisory Authority with Bank of Italy Circular no. 272 of 30 July 2008 and subsequent updates.

Positions are classified among impaired assets both at the proposal of the structures that own the commercial relationship and of the specialised central functions in charge of credit control and management.

Classification is also carried out automatically if predetermined default conditions are exceeded, in particular with regard to past due and/or overrun exposures, depending on the extent and seniority of continuous past due/overrun exposures.

Return to performing status of exposures classified under impaired past due and/or overrun is carried out automatically if the exposure returns below the thresholds that led to its classification as impaired.

The Parent Company plays a guiding and coordinating role in the definition and updating of regulations and processes relating to the management and recovery of impaired loans, in the preparation and implementation of the Group's NPL strategy and the related operational plan. Each Affiliated Bank is responsible for managing its impaired loans through the structures responsible for:

- monitor the aforementioned positions;
- take steps to restore the regularity of performance in order to include exposures among performing loans;
- propose to the competent decision-making bodies the granting of tolerance measures to make the reimbursement of the exposure sustainable;
- propose to the competent decision-making bodies the transfer to non-performing of insolvent counterparties;
- carry out judicial and extra-judicial activities aimed at recovering receivables classified as non-performing;
- determine the expected loss on positions and propose them to the decision-making body in charge.

The model used to determine provisions for impaired loans provides, depending on their characteristics, for the use of a specific analytical valuation or a flat-rate analytical valuation.

The amount of the adjustment to the value of each loan is determined as the difference between its carrying amount at the time of measurement (amortised cost) and the present value of expected future cash flows, calculated by applying the effective interest rate to the ratio at the time immediately prior to classification in one of the risk categories of impaired loans.

The specific analytical assessment is carried out at the time of classification among impaired credit exposures and is reviewed on a quarterly basis in compliance with the criteria and methods identified within the scope of the adopted credit policies.

The flat-rate analytical valuation is carried out and updated quarterly on the basis of the estimate of the expected loss calculated by the impairment model introduced by IFRS9.



### 3.2 Write-offs

During the year, the Group adopted specific internal regulations on write-off policies. The write-off is an event that results in an accounting derecognition and may occur before the legal action for recovery of the impaired debt is completed and does not necessarily imply a waiver of the legal right to recover the debt. The write-off may cover the entire amount of an impaired exposure or a portion of it and corresponds to:

- the reversal, in full or in part, of the total value adjustments, as a contra-entry to the gross value of the impaired exposure;
- for any portion exceeding the amount of the total value adjustments, to the impairment loss of the impaired exposure recognised directly in the income statement.

Any recoveries from collections in excess of the gross value of the impaired exposure following the write-off are recognised in the income statement under contingent assets.

In general, the write-off applies to impaired exposures for which:

- the occurrence of events has been found to lead to the irretrievability of all or part of the impaired exposure;
- all or part of the impaired exposure was deemed reasonably unrecoverable;
- it was considered appropriate, in the context of settlement agreements with the debtor, to waive all or part of the impaired loan.

### 3.3 Impaired financial assets acquired or originated

In accordance with IFRS 9, loans considered impaired from the time of initial recognition are referred to as Purchased or Originated Credit Impaired Assets (POCI). These loans, if they fall within the scope of application of impairment pursuant to IFRS 9, are measured by setting aside - from the date of initial recognition - provisions to cover losses covering the entire residual life of the loan (ECL lifetime). As these are impaired loans, initial recognition is envisaged as part of stage 3.

In this regard, it should be noted that the acquisition or origination of impaired financial assets is not part of the Group's typical business model, so the above mentioned cases are to be considered residual.

## 4. FINANCIAL ASSETS SUBJECT TO COMMERCIAL RENEGOTIATIONS AND FORBORNE EXPOSURES

The category of 'forborne non-performing exposures' does not constitute a separate and additional category of impaired exposures to those previously mentioned (non-performing, unlikely to pay and impaired past due and/or overrun exposures), but only a sub-set of each of them, which includes cash exposures and commitments to disburse funds that are forborne ('forborne exposures'), if both of the following conditions are met:

- the debtor is in a situation of economic-financial hardship that does not allow him fully to comply with the contractual commitments in his debt agreement and that puts him in a state of 'credit deterioration' (classification in one of the categories of impaired exposures: non-performing, unlikely to pay, impaired past due and/or overrun exposures), and
- the Group agrees to amend the terms and conditions of that agreement, or to refinance it in full or in part, to enable the debtor to comply with it (there would have been no such forbearance if the debtor had not been in a state of hardship).

Forborne exposures to debtors in a condition of economic-financial hardship that has not reached a state of 'credit impairment' are instead classified in the category of 'forborne performing exposures' and are included among the 'other performing exposures', or among the 'performing past due exposures' if they meet the requirements for this classification.

In terms of the Group's internal regulations, once it has been ascertained that a concession measure meets the requirements of forbearance, the forborne exposure attribute involves:

- forborne performing if both of the following conditions occur:
  - the debtor was classified as ordinary performing or under observation before the forbearance was granted;
  - the debtor was not reclassified as an impaired counterparty as a result of the forbearance granted;
- forborne non-performing if at least one of the following conditions occurs:
  - the debtor was classified as impaired prior to the granting of the forbearance;
  - the debtor has been reclassified among impaired exposures, due to the forbearance granted, including the assumption that (in addition to other regulatory cases), as a result of the valuation made, significant impairment losses will emerge.

In order for a credit exposure classified as forborne non-performing to change to forborne performing, the following conditions must be met simultaneously:

- at least 1 year has passed since the attribution of the forborne non-performing attribute (so-called care period);
- absence of the conditions to classify the debtor as impaired;
- absence of overdue payments on all the debtor's existing relationships with the respective Group banks;
- the debtor's presumed ability, on the basis of documentary evidence, to fully meet its contractual obligations under the repayment terms determined by the forbearance; this prospective ability to repay is deemed to have occurred when both of the following conditions are met:
  - the debtor reimbursed, through the regular payments paid on the renegotiated terms, an amount equal to the past due (or derecognised) amount at the time of the forbearance;
  - the debtor has complied with the post-forbearance payment terms over the last 12 months.

A credit exposure classified as forborne performing becomes forborne non-performing when even one of the following conditions occurs:

- the conditions for the classification of the counterparty as impaired loans are met;
- the credit exposure was previously classified as impaired with a forborne non-performing attribute and subsequently, if the conditions were met, the financed counterparty was brought back under observation (with the simultaneous transfer of the line in question to forborne performing), but: i) one of the credit lines of the financed counterparty has matured, during its stay in forborne performing, more than 30 days past due; or ii) the counterparty holding the line in question, during its stay in forborne performing, is subject to further forbearance measures.

For a credit exposure classified as forborne performing to lose this attribute, resulting in a return to only an ordinary performing or performing under observation status, the following conditions must be met simultaneously:

- at least 2 years have passed since the assignment of the forborne performing attribute (so-called probation period);
- the debtor has made, after the application of the forbearance, regular payments of principal or interest on the credit line subject to the forbearance for a total amount equal to at least 5% of the residual principal debt recorded at the time of application of the forbearance; these payments must have been made at such times and in such a way as to ensure full compliance with the contractual obligations for a period, even if not continuous, equal to at least half of the probation period;
- the debtor does not have any past due loan exceeding 30 days in relation to any of the relationships existing with the respective Group bank at the end of the probation period.

In relation to the quantitative information relating to the size and characteristics of the Covid-19 moratoria granted by the Cassa Centrale Group as at 30 June 2020, please refer to the content of the Group Pillar 3 reporting to the public as at 30 June 2020.

## Information of a quantitative nature

## A. CREDIT QUALITY

### A.1.4 Prudential consolidation - Cash and off-balance-sheet credit exposures to banks: gross and net values

| TYPES OF EXPOSURES/VALUES | Gross exposure | | Total value adjustments and total allocations | Net exposure | Overall partial write-offs* |
|---|---|---|---|---|---|
| | Impaired | Performing | | | |
| **A. CASH CREDIT EXPOSURES** | | | | | |
| a) Non-performing | - | X | - | - | - |
| - of which: forborne exposures | - | X | - | - | - |
| b) Unlikely to pay | - | X | - | - | - |
| - of which: forborne exposures | - | X | - | - | - |
| c) Impaired past due exposures | - | X | - | - | - |
| - of which: forborne exposures | - | X | - | - | - |
| d) Performing past due exposures | X | - | - | - | - |
| - of which: forborne exposures | X | - | - | - | - |
| e) Other performing exposures | X | 3,352 | 4 | 3,348 | - |
| - of which: forborne exposures | X | - | - | - | - |
| **Total (A)** | **-** | **3,352** | **4** | **3,348** | **-** |
| **B. OFF-BALANCE-SHEET CREDIT EXPOSURES** | | | | | |
| a) Impaired | - | X | - | - | - |
| b) Performing | X | 1,123 | 3 | 1,120 | - |
| **Total (B)** | **-** | **1,123** | **3** | **1,120** | **-** |
| **Total (A+B)** | **-** | **4,475** | **7** | **4,468** | **-** |

### A.1.5 Prudential consolidation - Cash and off-balance-sheet credit exposures to customers: gross and net values

| TYPES OF EXPOSURES/VALUES | Gross exposure | | Total value adjustments and total allocations | Net exposure | Overall partial write-offs* |
|---|---|---|---|---|---|
| | Impaired | Performing | | | |
| **A. CASH CREDIT EXPOSURES** | | | | | |
| a) Non-performing | 1,942 | X | 1,368 | 574 | 307 |
| - of which: forborne exposures | 423 | X | 277 | 146 | 34 |
| b) Unlikely to pay | 2,020 | X | 895 | 1,125 | - |
| - of which: forborne exposures | 1,178 | X | 497 | 681 | - |
| c) Impaired past due exposures | 130 | X | 17 | 113 | - |
| - of which: forborne exposures | 8 | X | 1 | 7 | - |
| d) Performing past due exposures | X | 942 | 51 | 891 | - |
| - of which: forborne exposures | X | 56 | 5 | 51 | - |
| e) Other performing exposures | X | 72,874 | 408 | 72,466 | - |
| - of which: forborne exposures | X | 965 | 75 | 890 | - |
| **Total (A)** | **4,092** | **73,816** | **2,739** | **75,169** | **307** |
| **B. OFF-BALANCE-SHEET CREDIT EXPOSURES** | | | | | |
| a) Impaired | 179 | X | 39 | 140 | - |
| b) Performing | X | 12,563 | 67 | 12,496 | - |
| **Total (B)** | **179** | **12,563** | **106** | **12,636** | **-** |
| **Total (A+B)** | **4,271** | **86,379** | **2,845** | **87,805** | **307** |

## 1.2 MARKET RISKS

### 1.2.1 Interest rate risk and price risk - regulatory trading book

### Information of a qualitative nature

### A. General aspects

The Finance and Treasury Committee of the Parent Company defines the investment choices relating to the trading book within the periodic strategy documents for the management of the proprietary portfolio approved by the Board of Directors of the Parent Company.

The current proprietary portfolio management strategy establishes that the trading book activity is limited to financial instruments held for intermediation with banking and non-banking customers and to derivatives entered into for hedging risks (such as, for example, forward foreign exchange transactions for intermediation with customers or derivatives linked to the fair value option).

## B. Management processes and measurement methods relative to interest rate and price risk

### Interest rate risk - Regulatory trading book

The measurement of interest rate risk on the regulatory trading book is supported by the daily reports provided by the Risk Management Department of the Parent Company, which highlights the value at risk of the investment (VaR, Value at Risk). This is calculated using RiskMetrics' applications and parametric methodology, over a ten-day period and with a 99% confidence interval, taking into account the volatilities and correlations between the various risk factors that determine the market risk exposure of the invested portfolio (including interest rate risk, equity risk, foreign exchange risk and inflation risk). Volatility and correlations are calculated by assuming selective changes in returns under the assumption of normal distribution. The estimation of volatility is made starting from historical market data updated daily, then giving more weight to the most recent observations thanks to the use of the exponential moving average with a decay factor of 0.94, obtaining an indicator more responsive to market conditions, and using a length of the basic historical series equal to 1 year of findings. The exponential moving average approach is also used to estimate correlations.

To support the definition of the structure of its internal limits, important strategic choices, or specific analyses, simulations of purchases and sales of financial instruments within its asset allocation are available, obtaining an updated calculation of the new risk exposure in terms of both VaR and effective duration.

The exposure to market risk is also monitored by checking on a weekly basis the various models available always over a time horizon of 10 days and a confidence interval of 99% (in addition to the parametric method described above, the historical simulation, carried out assuming a future distribution of the returns of the risk factors equal to the one shown at historical level in a given time horizon, and in particular the Montecarlo method, which uses a procedure for simulation of the returns of the risk factors based on past volatility and correlation data, generating 10,000 random scenarios consistent with the market situation).

Additional risk statistics derived from VaR (such as marginal VaR, incremental VaR and conditional VaR), measures of sensitivity of income instruments (effective duration) and analyses linked to the evolution of correlations between the various risk factors present are monitored through reporting.

The analyses are available at different levels of detail: on the entire trading book and within the latter on groupings by type of instrument (equities, funds, fixed-rate and variable-rate government securities, supranational securities and corporate securities), up to the individual securities present.

Of particular importance is also the backtesting of the VaR model used daily, carried out on the entire portfolio of securities owned by comparing the VaR - calculated at 99% and over the daily time period - with the actual changes in the theoretical market value of the portfolio.

Weekly stress tests are available on the theoretical market value of the own securities portfolio through which changes in the theoretical countervalue of the trading book and the various groupings of instruments (equities, funds, fixed-rate and variable-rate government securities, supranational securities and corporate securities) present in it are studied with respect to certain market scenarios. As part of risk governance strategies, for a complete and better analysis of the portfolio, various scenarios are monitored on the bond and equity front.

The reports described are monitored by the Risk Management and Finance Departments of the Parent Company and presented to the Risk Management Committee, which periodically assesses the Group's exposure to market risk.

In addition, an automatic email alert is active if the attention thresholds and/or limits in the Financial Risk Management Policy are exceeded.

The risk measurement model described is not utilised to determine capital requirements but represents a tool to support risk management and internal control.

### Price risk - Regulatory trading book

In line with the section on interest rate risk - regulatory trading book, the measurement of price risk on the regulatory trading book is supported by the reports provided by the Risk Management Department of the Parent Company, which highlights the value at risk of the investment (VaR). This is calculated using RiskMetrics' applications and parametric methodology, over a 10-day period and with a 99% confidence interval, taking into account the volatilities and correlations between the various risk factors that determine the market risk exposure of the invested portfolio (interest rate risk, equity risk, foreign exchange risk, inflation risk).

The risk measurement model described is not utilised to determine capital requirements but represents a tool to support risk management and internal control.

Information about the VaR calculations for the securities component of the regulatory trading book during the course of 2020 is reported below:

Figures rounded to nearest Euros

| VaR 30/06/2020 | VaR average | VaR minimum | VaR maximum |
|---|---|---|---|
| 0 | 0 | 0 | 0 |

As at 30 June 2020 and during the first half of the year, there were no securities in the trading book, according to the strategic indications established by the Parent Company.

## Information of a quantitative nature

## 3. Regulatory trading book: internal models and other methodologies for sensitivity analysis

The measurement of price risk on the banking book is supported by reports provided by the Risk Management Department of the Parent Company, which highlights the value at risk of the investment (VaR). This is calculated using RiskMetrics' applications and parametric methodology, over a ten-day period and with a 99% confidence interval, taking into account the volatilities and correlations between the various risk factors that determine the market risk exposure of the invested portfolio (including interest rate risk, equity risk, foreign exchange risk and inflation risk).

VaR measurement is available on a daily basis for monitoring and operational assessments carried out by the Risk Management Department and the Finance Department of the Parent Company and is calculated on different degrees of detail that, in addition to the total portfolio, consider the banking book, the individual accounting categories, the various groupings by type of instrument (equities, funds, fixed-rate and variable-rate government securities, supranational securities and corporate securities), up to the individual securities present.

The risk measurement model described is not utilised to determine capital requirements but represents a tool to support risk management and internal control.

## 1.2.2 INTEREST RATE RISK AND PRICE RISK - BANKING BOOK

### Information of a qualitative nature

### A. General aspects, management processes and measurement methods for interest rate and price risk

**Interest rate risk - Banking book**

**Primary sources of interest rate risk**

The sources of the interest rate risk to which the Group is exposed can be identified mainly in the lending, funding and finance processes, since the banking book consists mainly of loans and the various forms of funding from customers.

In particular, the 'Fair value' interest rate risk is derived from fixed rate items while interest rate risk from 'cash flows' is derived from variable rate items.

However, items on demand generally include asymmetrical behaviours, depending on whether one considers liability or asset items; the former - being characterised by greater stability - primarily refer to fair value risk while the second are more sensitive to markets changes and therefore ascribable to cash flow risk.

**Internal management processes and measurement methods for interest rate risk**

The Group has put in place appropriate mitigation and control measures aimed at avoiding the possibility of positions exceeding a certain level of objective risk.

These mitigation and control measures are codified in the corporate regulations aimed at designing monitoring processes based on position limits and systems of attention thresholds in terms of internal capital, which trigger the activation of appropriate corrective actions.

In this regard, the following were defined:

- policies and procedures for managing interest rate risk that are consistent with the nature and complexity of the activity carried out;
- measurement metrics consistent with the risk measurement methodology adopted by the Group, on the basis of which an early warning system has been defined that allows for the timely identification and activation of appropriate corrective measures;
- operational limits and internal procedural provisions which aim to maintain exposure within limits that are consistent with the managerial policy and with the alert thresholds pursuant to prudential regulations.

From an organisational point of view, the Group has identified the Finance Department of the Parent Company and the Affiliated Banks as the structures responsible for overseeing this process of managing interest rate risk on the banking book.

The monitoring of interest rate risk exposure on the banking book is carried out on a monthly basis.

With regard to the risk measurement method in terms of the change in the economic value and the quantification of the impact on the interest margin, the guidelines issued by EBA (GL/2018/02) are applied.

The calculation method envisages the following steps:

- for the change in economic value:
  - the present value of all asset and liability positions that are sensitive to the interest rate risk is determined, on the basis of the expected scenario of interest rates;
  - appropriate shocks are made in the upward and downward curve, both parallel and non-parallel, according to the indications in the EBA guidelines; for the downward scenarios, a decreasing floor, starting from -100 basis points, is taken into account and zeroed on a straight-line basis until the maturity of 20 years, with increases of 5 basis points per year;
  - non-indexed demand items are spread over the time horizon according to a behavioural reference model;
  - the new present value is redetermined for each shock scenario;
  - the equity impact is given by the difference between the two present values, before and after the shock;
- for the change in the interest margin:
  - the forecast amount of the 12-month interest margin is determined on the basis of the interest-bearing asset and liability items at the date of analysis and by applying the expected forward interest rate scenario; for maturing items, a reinvestment of the same is assumed, maintaining the economic conditions applied during the last year;
  - implicit options are taken into consideration only to determine the possible adjustment of the borrowing or lending rate of the reference instruments;
  - non-indexed demand items are spread over the time horizon according to a behavioural reference model;
  - appropriate shocks are made in the upward and downward curve, both parallel and non-parallel, according to the indications provided by the EBA guidelines;
  - the new value of the interest margin is redetermined for each shock scenario;
  - the impact on the interest margin is given by the difference between the two values, before and after the shock.

The Group determines the risk indicator, given by the ratio between internal capital, quantified in view of the assumed scenario on interest rates, and the value of own funds.

With reference to the conduct of stress tests in the area of interest rate risk on the banking book, these are carried out by the Group on a monthly basis, according to the scenarios below:

- increase in rates of +200 basis points;
- decrease in rates by -200 basis points (with application of the floor envisaged by the EBA guidelines);
- increase in interest rates on the short-term part of the curve (short rates up);
- decrease in interest rates on the short-term part of the curve (short rates down);
- increase in the rate curve slope (steepener);
- decrease in the rate curve slope (flattener);
- parallel increase in the entire interest rate curve;
- parallel decrease in the entire interest rate curve.

### Price risk - Banking book

In line with the section on interest rate risk - regulatory trading book, the measurement of price risk on the banking book is supported by the reports provided by the Risk Management Department of the Parent Company, which highlights the value at risk of the investment (VaR). This is calculated using RiskMetrics' applications and parametric methodology, over a ten-day period and with a 99% confidence interval, taking into account the volatilities and correlations between the various risk factors that determine the market risk exposure of the invested portfolio (including interest rate risk, equity risk, foreign exchange risk and inflation risk).

VaR measurement is available on a daily basis for monitoring and operational assessments carried out by the Risk Management Department and the Finance Department of the Parent Company and is calculated on different degrees of detail that, in addition to the total portfolio, consider the banking book, the individual accounting categories, the various groupings by type of instrument (equities, funds, fixed-rate and variable-rate government securities, supranational securities and corporate securities), up to the individual securities present.

The risk measurement model described is not utilised to determine capital requirements but represents a tool to support risk management and internal control.

Information about the VaR calculations for the securities component of the banking book during the course of the first quarter of 2020 is reported below:

Figures rounded to nearest Euros

| VaR 30/06/2020 | VaR average | VaR minimum | VaR maximum |
|---|---|---|---|
| 604,840,245 | 822,899,637 | 169,707,704 | 1,979,052,299 |

Control over the reliability of the model is implemented through theoretical backtesting activities which verify daily changes in the market value of the banking book, as calculated by the model with an estimate of the expected loss for the day. In the reporting period, the deviations recorded are due to sudden and rapid fluctuations in market factors and volatility parameters linked to the Covid-19 emergency.

The year 2020 saw a continuation, with respect to VaR, of the quantification of issuer risk for Italian government securities, understood as VaR relating only to the risk factor expressed as the spread between the Italian and German government securities.

With regard to stress tests, the outcomes of simulations of the impact of different shock scenarios on the theoretical value of the portfolio on 30 June 2020 is reported below. The shocks replicate parallel movements of +/-25 and +/-50 basis points for the primary rate curves that were used in the valuation of securities within the owned portfolio.

Figures rounded to nearest Euros

| Theoretical value as at 30/06/20 | Shock value changes -25 bps | Shock value changes +25 bps | Shock value changes -50 bps | Shock value changes +50 bps |
|---|---|---|---|---|
| 34,209,388,915 | 347,788,832 | (355,921,094) | 730,316,258 | (663,530,450) |



## Information of a quantitative nature

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

For management purposes, the Group uses the quantitative results contained in the monthly interest rate reporting.

Based on the analyses as at 30 June 2020, in the event of a +/-100 basis points change in interest rates, the effects on the interest margin and on the economic value of the items relating to the banking book are reported, with an indication of the percentage impact in relation to Own Funds/Equity:

Figures in thousands of euro

| | Increase 100 bps | | Decrease 100 bps | |
|---|---|---|---|---|
| | Impact on interest margin | Change in Equity | Impact on interest margin | Change in Equity |
| Banking book: securities (absolute values) | 69,648 | (1,964,507) | (16,456) | 151,713 |
| as percentage of Regulatory Capital/Equity | 1.02% | (30.16%) | (0.24%) | 2.33% |
| Banking book: loans (absolute values) | 280,738 | (744,980) | (63,107) | 169,576 |
| as percentage of Regulatory Capital/Equity | 4.10% | (11.44%) | (0.92%) | 2.60% |
| Liabilities (absolute values) | (277,025) | 2,351,031 | 73,742 | (391,062) |
| as percentage of Regulatory Capital/Equity | (4.05%) | 36.09% | 1.08% | (6.00%) |

## 1.2.3 EXCHANGE RATE RISK

## Information of a qualitative nature

### A. General aspects, management processes and measurement methods for exchange rate risk

In line with the section on interest rate risk - regulatory trading book, the measurement of exchange rate risk relating to foreign currency income instruments held is supported by the reports provided by the Risk Management Department of the Parent Company, which highlights the value at risk of the investment (VaR). This is calculated using RiskMetrics' applications and parametric methodology, over a ten-day period and with a 99% confidence interval, taking into account the volatilities and correlations between the various risk factors that determine the market risk exposure of the invested portfolio (including interest rate risk, equity risk, foreign exchange risk and inflation risk).

VaR measurement is available on a daily basis for monitoring carried out by the Risk Management Department and the Finance Department and is calculated on different degrees of detail that, in addition to the total portfolio, consider the banking book and trading book, the individual accounting categories, the various groupings by type of instrument (equities, funds, fixed-rate and variable-rate government securities, supranational securities and corporate securities), and the individual securities present.

The risk measurement model described is not utilised to determine capital requirements but represents a tool to support risk management and internal control.

## B. Exchange rate risk hedging activities

Exchange rate risk hedging activities are implemented through a careful policy of essentially balancing booked foreign currency positions. To this end, during 2020, the Group has put in place hedging transactions of exchange rate risk using outright derivative instruments

## 1.4 LIQUIDITY RISK

### Information of a qualitative nature

### A. General aspects, management processes and measurement methods for liquidity risk

Liquidity risk is defined as the possibility that the Group may not be able to meet its payment commitments due to the inability to raise new funds and/or sell its assets on the market (funding liquidity risk), or that it may be forced to incur very high costs to meet these commitments (market liquidity risk). The funding liquidity risk, in turn, can be distinguished between: (i) mismatching liquidity risk, consisting of the risk associated with the different time profile of cash inflows and outflows determined by the misalignment of the maturities of financial assets and liabilities on (and off) the balance sheet; (ii) contingency liquidity risk, i.e. the risk that unexpected events may require a higher amount of cash and cash equivalents than estimated as necessary; and (iii) margin calls liquidity risk, i.e. the risk that the Group, in the event of adverse changes in the fair value of financial instruments, is contractually required to restore the reference margins by means of collateral/cash margins.

In this regard, it should be noted that the Delegated Regulation of the European Commission (EU) no. 61/2015 introduced the Liquidity Coverage Requirement (LCR) for banks (hereinafter also "DR-LCR"). The LCR is a short-term rule aimed at ensuring the availability of liquid assets by individual banks that allow them to survive in the short to very short term in the event of acute stress, without recourse to the market. The indicator compares the liquid assets available to the Group with net cash outflows (difference between gross outflows and inflows) expected over a thirty-day time period, the latter developed taking into account a predefined stress scenario. The Delegated Regulation integrates and, in part, amends the provisions of Regulation (EU) no. 575/2013 (CRR) which provides only for obligations of a reporting nature.

Liquidity risk can be generated by various factors both internal and external to the Group. The sources of liquidity risk can therefore be distinguished in the following macro-categories:

- endogenous: represented by negative events specific to the Group (e.g. deterioration of the Group's creditworthiness and loss of confidence on the part of creditors);
- exogenous: when the origin of the risk can be traced back to negative events not directly controllable by the Group (political crises, financial crises, catastrophic events, etc.) that cause situations of liquidity tension in the markets;
- combinations of the above.

The identification of the factors from which liquidity risk is generated is carried out by means of the following:

- the analysis of the time distribution of cash flows of financial assets and liabilities and off-balance sheet transactions;
- the identification of:
  - items that do not have a defined due date (on demand and revocation items);
  - financial instruments that incorporate optional components (explicit or implicit) that may change the entity and/or the time distribution of cash flows (e.g. early redemption options);
  - financial instruments that by their nature determine variable cash flows depending on the performance of specific underlying assets (e.g. derivatives);
- the analysis of the level of seniority of financial instruments.

The processes in which the Group's liquidity risk arises are mainly represented by the Finance/Treasury, Funding and credit processes.

The internal regulation of liquidity risk management meets the requirements set out in the supervisory provisions and guarantees consistency between the management measurements and the regulatory ones.

The Group adopts a liquidity risk management and governance system which, in accordance with the provisions of the Supervisory Authorities and on the basis of the guidelines defined by the Parent Company, pursues the objectives of:

- being liquid at all times and, therefore, to remain in a position to meet its payment obligations in situations of both normal business and stress;
- financing its activities at the best current and prospective market conditions.

To this end, in its function as a strategic supervisory body, the Board of Directors of the Parent Company and of each Affiliated Bank defines the strategies, policies, responsibilities, processes, risk objectives, tolerance thresholds and limits to exposure to liquidity risk (operating and structural), as well as instruments for liquidity risk management - under both normal business conditions and stress conditions - by formalising its internal regulations on liquidity risk management and governance.

The Group's liquidity is managed by the Finance Department of the Parent Company and of the Affiliated Banks in compliance with the aforementioned strategic guidelines. To this end, it makes use of the commitment forecasts made through internal procedures where information on forecast cash requirements and availability can be found. The organisational controls of liquidity risk are defined in terms of line controls and activities of the control functions at level II and III. Liquidity risk is controlled by the Risk Management Department of the Parent Company, which makes use of its representative at the Affiliated Banks to check the availability of sufficient liquidity reserves to ensure solvency in the short term and diversification of sources of funding and, at the same time, to maintain a substantial balance between average maturities of lending and funding in the medium/long term.

The Group intends to pursue a dual objective:

- the management of operating liquidity aimed at verifying the Group's ability to meet expected and unforeseen short-term (up to 12 months) cash payment commitments;
- structural liquidity management aimed at maintaining an adequate ratio between total liabilities and medium/long-term assets (over 12 months).

The Group has structured its control of short-term operating liquidity on two levels:

- the first level provides for intra-day and daily supervision of the treasury position;
- the second level provides for monthly monitoring of the overall operating liquidity position.

With reference to the monthly monitoring of the overall operating liquidity position, the Group uses the analysis reports available monthly prepared by the Parent Company.

Monthly measurement and monitoring of the operating liquidity position is carried out by means of the following methods:

- the LCR indicator, for the 30-day liquidity position, as determined on the basis of the Delegated Regulation and transmitted (according to the template developed by the EBA) on a monthly basis to the Supervisory Authority;
- its liquidity position by means of the time to survival indicator, designed to measure the ability to cover the liquidity imbalance generated by inertial operations of balance sheet items;
- a set of synthetic indicators designed to highlight vulnerabilities in the Group's liquidity position with regard to the various relevant risk factors, such as the concentration on funding and on loans;
- the quantification of readily monetised assets.

With reference to the management of structural liquidity, the Group uses the analysis reports available monthly prepared by the Parent Company.

The net stable funding ratio, consisting of the ratio between stable sources of funding and medium/long-term assets, is measured monthly by a partly reporting and partly managing source, by means of the percentages provided by the Basel Committee in its October 2014 document.

In order to assess its vulnerability to exceptional but plausible liquidity stress situations, the Group calculates and monitors the LCR indicator as determined on the basis of the Delegated Regulation and transmitted (according to the template developed by the EBA) on a monthly basis to the Supervisory Authority. Scenario stress tests are also periodically run. The latter, conducted according to a qualitative approach based on the company's experience and the indications provided by the regulations and supervisory guidelines, cover two scenarios of liquidity, market/systemic and Group-specific crises. In particular, the Group carries out the stress analysis by extending the scenario set forth in the LCR regulation, with the aim of assessing the impact of additional load tests.

The results of the analyses carried out are periodically documented to the Board of Directors.

On the basis of the guidelines defined by the Parent Company, crisis, system/market early warning indicators have been identified, i.e. a set of qualitative and quantitative measurements useful for identifying signs of a potential increase in exposure to liquidity risk. These indicators, together with the results deriving from the measurement of the liquidity risk, represent an important information element to activate the liquidity risk mitigation measures.

With regard to the Contingency Funding Plan (hereinafter also referred to as the "CFP"), i.e. the organisational and operational procedures to be implemented to deal with situations of alert or liquidity crisis, it should be noted that management is centralised at the Parent Company; it follows that in the event of any critical issues regarding the liquidity profile encountered at the level of individual banks belonging to the Group, it is the Parent Company that intervenes using the resources available to the entire Group. Therefore, the CFP is only enabled if there is a problem in terms of the consolidated values of the Cassa Centrale Group. The Group's CFP defines the statuses of non-ordinary operations and the processes and tools for their activation/management (roles and responsibilities of the corporate bodies and organisational units involved, systemic and specific crisis early warning indicators, procedures for monitoring and activating non-ordinary operations, crisis management strategies and tools).

Traditionally, the Group has had a significant amount of liquid resources due to both the composition of its liquidity buffer, consisting mainly of high-quality financial instruments eligible for refinancing operations with the Eurosystem, and the adoption of funding policies aimed at favouring direct retail funding.

The composition of the Group's own portfolio, which mainly includes financial instruments with the above characteristics, represents the main tool for mitigating the liquidity risk.

The use of collateralised funding from the ECB and other leading market counterparties by the Parent Company, also on behalf of Group banks and customer banks, amounted to EUR 13.7 billion at the end of June.



As at the reporting date of the 2020 half-yearly financial statements, the total amount of free cash reserves, understood as high-quality liquid assets calculated for the purposes of determining the Liquidity Coverage Ratio (LCR), stood at EUR 18.6 billion.

## 1.5 OPERATING RISKS

### Information of a qualitative nature

### A. General aspects, management processes and measurement methods for operating risk

Operating risk, as defined by prudential regulations, is the "risk of sustaining losses deriving from the inadequacy or dysfunction of procedures, human resources and internal systems or those caused by exogenous events".

This definition includes legal risk (i.e. the risk of suffering losses resulting from violations of laws or regulations, contractual or non-contractual liability or other disputes), but does not consider reputational and strategic risk.

The operating risk thus refers to different types of events that are not individually relevant and that are quantified jointly for the entire risk category.

Operating risk - which is inherent in the performance of banking activities - is generated across all company processes. In general, the primary sources of operating risk are internal fraud, external fraud, workplace employment and safety reports, professional obligations with respect to clients or the nature and characteristics of products as well as damages from external events and the breakdown of IT systems and deficiencies in the handling of transactions or process management, as well as losses due to positions with commercial counterparties and suppliers.

As regards operating risks, the following risk sub-categories are significant, which are clarified by the same supervisory provisions:

- IT risk, i.e. the risk of incurring economic losses, reputation and market share losses in relation to the use of Information and Communication Technology (ICT);
- outsourcing risk, i.e. the risk associated with the choice to outsource the performance of one or more business activities to third-party suppliers.

Given that it is a transversal risk across processes, operating risk can be controlled and mitigated through currently effective regulations (regulations, executive provisions, proxies) which operate primarily for the purposes of prevention. Specific line controls are then set up on the basis of these regulations as a verification and additional system for monitoring this type of risk.

Currently effective regulations are also applied to IT procedures with the aim of constantly monitoring the correct assignment of authorisation as well as compliance with functional subdivisions on the basis of company roles.

Regulations and line controls are governed by the Board of Directors, implemented by the Management and updated, as a rule, by specialist managers.

With reference to organisational controls, the establishment of the Compliance function is important, outsourced to the Parent Company, which is responsible for monitoring and controlling compliance with regulations and which provides support to the process of preventing and managing the risk of being subject to judicial or administrative sanctions as well as the risk of reporting significant losses following the violation of external regulations (laws or regulations) or internal ones (Articles of Association, codes of conduct, corporate governance codes). The Compliance Department also operates through its own representatives identified within the individual banks of the Group.

The operating risk management process is arranged into the following phases:

- **identification and assessment**, which includes the detection, collection and classification of quantitative and qualitative information relating to operating risk; these risks are constantly and clearly identified, reported and relayed to top management;
- **measurement**, which includes the activity of determining operating risk exposure based on information collected at the identification stage;
- **monitoring and control**, which includes activities concerning the regular monitoring of the operating risk profile and exposure to significant losses, through the provision of a regular information flow that promotes active risk management;
- **risk management**, which includes activities aimed at containing operating risk consistently with the established risk appetite, implemented by intervening on significant risk factors or through their transfer, through the use of insurance coverage or other instruments;
- **reporting**, activities aimed at preparing information to be transmitted to corporate bodies (including control bodies) and to all corporate structures involved, regarding the risks assumed or assumable.

During the period, the Group, under the coordination of the Parent Company, activated the procedure for the recognition of operating loss events and the related economic effects.

Finally, there are the third-level controls carried out by the Internal Audit Department of the Parent Company, which periodically reviews the functionality of the control system as part of the various corporate processes.

As part of the overall assessment, with specific reference to the risk component linked to the outsourcing of business processes/activities, it should be noted that the Group mainly uses the services offered by the Parent Company and its instrumental companies. These circumstances constitute a mitigation of the risks assumed by the Group in outsourcing important control or operating functions.

With regard to all the existing outsourcing profiles, the procedures have been activated to ascertain the correct performance of the supplier's activities by preparing, according to the different types, different levels of contractual protection and control with regard to the list of outsourcing of important operational functions and corporate control functions.

The Group maintains internally the expertise required in order to effectively control the important outsourced operational functions (hereinafter also "FOI") and to manage the risks associated with outsourcing, including those deriving from potential conflicts of interest of the service provider. In this context, an internal contact representative has been identified within the organisation for each of the outsourced activities, with adequate professional requirements, responsible for monitoring the level of services provided by the outsourcer and set out in the respective outsourcing contracts and for reporting to corporate bodies on the status and performance of the outsourced functions.

With reference to the regulatory measurement of the prudential requirement for operating risks, the Group, in view of its organisational, operational and dimensional profiles, has approved the application of the Basic Indicator Approach (BIA).

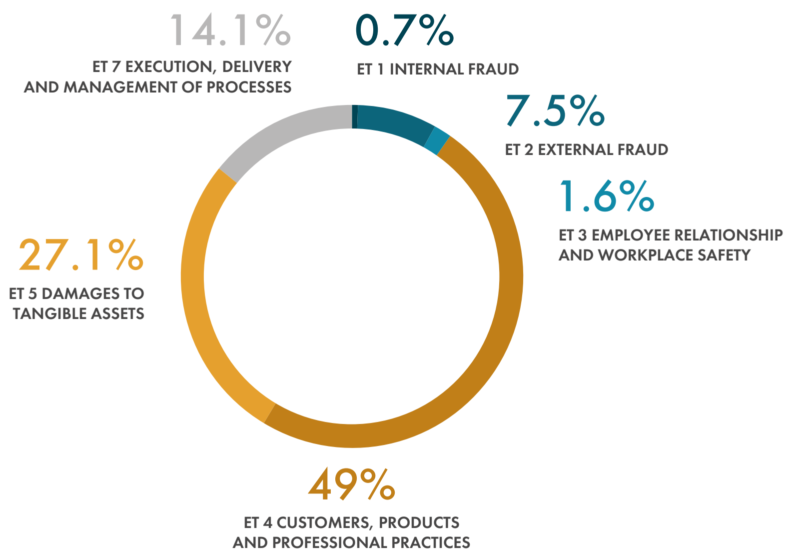
On the basis of this methodology, the capital requirement for operating risks is measured by applying the regulatory coefficient of 15% to the average of the last three observations, on an annual basis, of an indicator of the volume of company operations (so-called relevant indicator relating to the situation at the end of the year).

If one of the observations shows that the relevant indicator is negative or zero, this figure is not taken into account in the calculation of the three-year average.

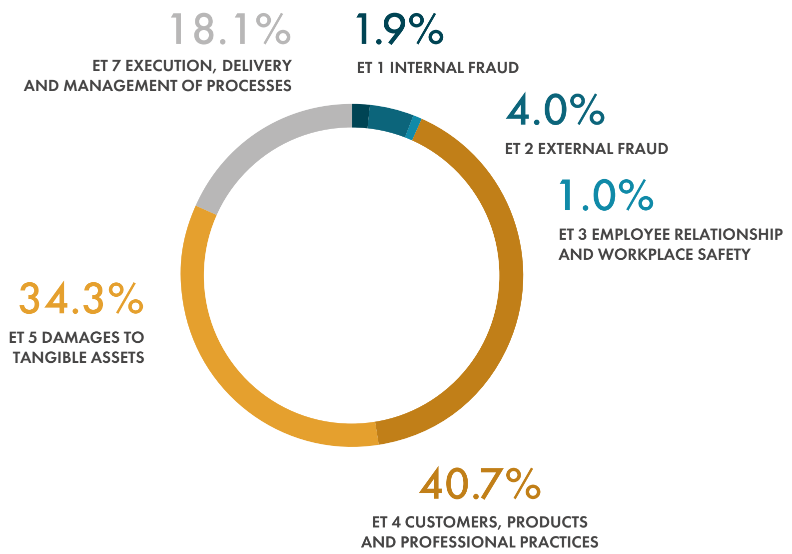
## Information of a quantitative nature

With regard to quantitative information, a structured loss data collection process was launched during the year at all Group banks. Below is the distribution by event type.

### Number of events with operating loss accounted in the first half of 2020




### Net Operating Losses accounted in the first half of 2020



Operating losses are mainly concentrated in the Event Type 4 "Customers, products and professional practices" (49% of the frequencies and 40.7% of the total impact reported), followed by the Event Type 5 "Damages to tangible assets" that absorbs the extraordinary event of Covid-19 (27.1% of frequencies and 34.3% of the total impact reported) and, lastly, the Event Type 7 "Execution, delivery and management of processes" (14.1% of frequencies and 18.1% of total impacts reported). The other event types show lower operating losses with the exception of the Event Type 6 "Interruptions of operations and system malfunctions", which does not have any operating loss event.



# PART F - Information on consolidated equity

## Section 1 - Consolidated equity

### A. Information of a qualitative nature

One of the consolidated strategic priorities of the Group is represented by the amount and movements of its capital assets. Capital is, in fact, the first safeguard against the risks associated with banking business and the main reference parameter for the assessments conducted by the supervisory authority and the market on the solvency of the intermediary. It makes a positive contribution to the formation of operating income, makes it possible to meet the Group's technical and financial fixed assets, accompanies the growth in size and represents a decisive element in the development phases.

The Group's equity is determined by the sum of the share capital, the share premium reserve, profit reserves, valuation reserves, equity instruments, own shares and the profit for the year, for the portion to be allocated to the reserve, as indicated in Part B of this section.

The definition of equity that the Group uses in its valuations is attributable to the notion of "Own funds" as established by Regulation (EU) no. 575/2013 (CRR), broken down into the following components:

- Tier 1 capital, consisting of Common Equity Tier 1 capital (CET 1) and Additional Tier 1 capital (AT1);
- Tier 2 capital - (T2).

The capital thus defined, which is the main control over corporate risks in accordance with prudential supervisory regulations, is in fact the best reference for effective management, both strategically and in terms of current operations, as it is a financial resource capable of absorbing the possible losses produced by the Group's exposure to all the risks assumed, assuming a role of guarantee towards depositors and creditors in general.

The supervisory regulations require the measurement, using internal methods, of the Group's overall capital adequacy, at present, forward-looking and under stress assumptions, to ensure that the available financial resources are adequate to cover all risks also in adverse economic conditions; this with reference to the risks of the so-called "First Pillar" (i.e. credit and counterparty risks - measured on the basis of the category of debtor counterparties, the duration and type of transactions and to the collateral and personal guarantees received - market risks on the trading book and operating risk), and to additional risk factors - so-called "Second Pillar" risks - that insist on the company's business (such as, for example, concentration risk, interest rate risk on the banking book, etc.).

The monitoring of current and future capital adequacy is thus developed in a dual manner:

- regulatory capital against Pillar I risks;
- total internal capital against Pillar II risks, for the purposes of the ICAAP process.

In order to ensure proper capital dynamics under normal operating conditions, the Group mainly relies on self-financing, i.e. the strengthening of reserves through the allocation of net profits. The Group allocates a large part of its net profit for the year to indivisible reserves. Compliance with capital adequacy is also pursued through careful dividend distribution policies of the limited available component of profit, careful investment management, in particular lending, depending on the riskiness of the counterparties and the related absorption, and through strengthening plans based on the issue of subordinated liabilities or additional equity instruments that can be included in the relevant own funds aggregates.

With the aim of constantly maintaining its capital position adequate, the Group has adopted processes and tools to determine the adequate level of internal capital to face all types of risk assumed, as part of an assessment of the current, forward-looking and stressed exposure that takes into account company strategies, development objectives and the evolution of the reference context.

Annually, as part of the process of defining the budget objectives, the projections are carefully verified: based on the expected trends of the financial position and income statement aggregates, if necessary, the initiatives needed to ensure financial stability and the availability of financial resources that are consistent with the Group's strategic and development objectives are already identified and activated at this stage.

Compliance with supervisory requirements and the consequent capital adequacy is checked on a quarterly basis. The elements which are audited primarily include ratios pertaining to the financial structure of the Group (loans, problem receivables, fixed assets, total assets) and the degree of hedging of risks.

Further, specific analyses for the purposes of the prior assessment of capital adequacy are carried out, if necessary, with a view to extraordinary transactions, such as mergers and acquisitions, disposals of assets.

For the minimum capital requirements, reference is made to the mandatory parameters established by the current supervisory provisions (Article 92 of the CRR) according to which:

- the Group's Common Equity Tier 1 capital (CET 1) must meet at least the requirement of 4.5% of total risk weighted assets ("CET1 capital ratio");
- Tier 1 capital must represent at least 6% of total Tier 1 weighted assets ("Tier 1 capital ratio");
- total own funds must amount to at least 8% of total weighted assets ("total capital ratio").

The Group is also subject to the additional prudential limits to business operations envisaged for cooperative credit banks, as indicated in Bank of Italy Circular no. 285/2013 and subsequent updates.

As at the reporting date, the Group presents:

- a ratio of Common Equity Tier 1 - CET1 - to risk-weighted assets (CET 1 ratio) of 19.72%;
- a ratio of Tier 1 capital to risk-weighted assets (Tier 1 capital ratio - Tier 1 ratio) of 19.74%;
- a ratio of own funds to risk-weighted assets (total capital ratio) of 19.81%.

The amount of own funds is not only fully sufficient on all three binding capital levels, but also adequate to cover the Capital Conservation Buffer.

Moreover, the Group banks fully comply with the prudential limits to business operations specifically set for cooperative credit banks.

The Group has drawn up and maintains its Recovery Plan in line with the relevant regulatory provisions and in line with the RAF adopted.



## B. Information of a quantitative nature

### B.1 Consolidated accounting capital: breakdown by type of company

| ITEMS OF EQUITY | Prudential consolidation | Insurance companies | Other companies | Eliminations and consolidation adjustments | Total |
|---|---|---|---|---|---|
| 1. Share capital | 1,278 | | | | 1,278 |
| 2. Share premium | 75 | | | | 75 |
| 3. Reserves | 5,918 | | 68 | (68) | 5,918 |
| 4. Equity instruments | 6 | | | | 6 |
| 5. (Own shares) | (869) | | | | (869) |
| 6. Valuation reserves: | 45 | - | 3 | (3) | 45 |
| - Equities measured at fair value through other comprehensive income | (12) | | | | (12) |
| - Hedging of equities measured at fair value through other comprehensive income | | | | | - |
| - Financial assets (other than equities) measured at fair value through other comprehensive income | 34 | | 3 | (3) | 34 |
| - Tangible assets | 4 | | | | 4 |
| - Intangible assets | | | | | - |
| - Hedging of foreign investments | | | | | - |
| - Cash flow hedging | | | | | - |
| - Hedging instruments [non designated elements] | | | | | - |
| - Exchange rate differences | | | | | - |
| - Non-current assets and groups of assets held for disposal | | | | | - |
| - Financial liabilities measured at fair value through profit or loss (changes in credit rating) | | | | | - |
| - Actuarial gains (losses) from defined benefit plans | (22) | | | | (22) |
| - Quota of reserves from the valuation of shareholdings measured with the equity method | | | | | - |
| - Special revaluation laws | 41 | | | | 41 |
| 7. Profit (Loss) for the year (+/-) of the group and pertaining to minority interests | 117 | | 10 | (10) | 117 |
| **Total** | **6,570** | **-** | **81** | **(81)** | **6,570** |

## Section 2 - Regulatory capital and adequacy ratios

With regard to the contents of this section, reference should be made to the information on own funds and capital adequacy contained in the disclosure to the public (so-called Third Pillar), prepared in accordance with Regulation (EU) no. 575/2013 of 26 June 2013 (CRR).



# PART H - Transactions with related parties

The Cassa Centrale Group, in compliance with the procedures provided for by sector regulations, has adopted the Group Regulation for the management of transactions with related parties.

The aforementioned Regulation, which takes into account the provisions of Bank of Italy Circular no. 263 of 27 December 2006 and subsequent updates, is intended to govern the identification, approval and execution of transactions with related parties carried out by the Group, as well as the organisational structure and internal control system that the Group uses in order to preserve the integrity of decision-making processes in transactions with related parties, ensuring constant compliance with the prudential limits and decision-making procedures established by the aforementioned Bank of Italy Circular.

For more strictly accounting purposes, the provisions of IAS 24 - Related Party Disclosures are also noted; as part of the internal regulations of the Cassa Centrale Group, the following are identified as related parties:

### Natural persons:

- executives with strategic responsibilities (including Directors) of the entity preparing the financial statements:
  - executives with strategic responsibilities are those which retain powers and responsibilities, directly or indirectly, pertaining to the planning, management and control of the Company’s activities;
- the immediate family members of “executives with strategic responsibilities”:
  - close family members of a person are those family members who are expected to influence, or be influenced by, that person in their dealings with the entity, including:
    - the children and the spouse (even if legally separated) or cohabitant of that person;
    - the children of that person’s spouse or cohabitant;
    - the dependants of that person or of that person’s spouse or cohabitant;
    - the brothers, sisters, parents, grandparents and grandchildren - even if not living together - of that person.
- person who has significant influence over the entity preparing the financial statements.

**Legal persons:**

- entity who has significant influence over the entity preparing the financial statements;
- entity over which a person identified in the previous paragraph (natural persons) has significant influence or is one of the executives with strategic responsibilities of the same (or one of its parent companies);
- entity that has control or joint control over the entity preparing the financial statements;
- entity controlled or jointly controlled by one of the entities referred to in the previous point (natural persons);
- the companies/BCC belonging to the Cassa Centrale Group (controlled and directly and/or indirectly jointly controlled);
- associates and joint ventures and their subsidiaries;
- entity that is part of a joint venture of another entity and the entity that prepares the financial statements is an associate of the other entity;
- plan of benefits relative to the post-employment period for employees of the Group or a related entity.

## 1. Information on compensation of executives with strategic responsibilities

Executives with strategic responsibilities are those which retain powers and responsibilities, directly or indirectly, pertaining to the planning, management and control of the Company's activities.

The following table shows, in accordance with the requirements of IAS 24 para. 17, the amount of compensation paid during the year to the members of the Management and Control Bodies as well as the compensation relating to other Executives with strategic responsibilities that fall within the notion of related party.

| | MANAGEMENT BODIES | | CONTROL BODIES | | OTHER MANAGERS | | TOTAL AS AT 30/06/2020 | |
|---|---|---|---|---|---|---|---|---|
| | Amount pertinent | Amount paid | Amount pertinent | Amount paid | Amount pertinent | Amount paid | Amount pertinent | Amount paid |
| Salaries and other short-term benefits | 10 | 7 | 4 | 2 | 15 | 14 | 29 | 23 |
| Benefits relative to the post-employment period (social security, insurance, etc.) | 1 | 1 | - | - | 3 | 2 | 4 | 3 |
| Other long-term benefits | - | - | - | - | - | - | - | - |
| Compensation for termination of employment | - | - | - | - | 1 | - | 1 | - |
| Payments in shares | - | - | - | - | - | - | - | - |
| **Total** | **11** | **8** | **4** | **2** | **19** | **16** | **34** | **26** |

## 2. Information on transactions with related parties

The table below provides information on the statement of financial position and income statement transactions with related parties during the period. It should be noted that transactions with related parties consolidated on a line-by-line basis are not included in this disclosure, as they are eliminated at consolidated level.

| | Assets | Liabilities | Guarantees issued | Guarantees received | Revenues | Costs |
|---|---|---|---|---|---|---|
| Associates | 66 | 33 | 4 | 3 | 3 | 1 |
| Directors and Executives | 48 | 95 | 15 | 179 | 1 | 5 |
| Other related parties | 381 | 434 | 55 | 810 | 57 | 17 |
| **Total** | **495** | **562** | **74** | **992** | **61** | **23** |

It should be noted that "Other related parties" include the close relatives of Directors, Statutory Auditors and other Executives with strategic responsibilities, as well as subsidiaries, joint ventures and associates of the same parties or their close relatives.

Relations and transactions with related parties are attributable to ordinary credit and service activities and have normally developed during the year according to contingent requirements or usefulness, in the common interest of the parties. The conditions applied to individual relations and transactions with these counterparties do not differ from the current market conditions, i.e. they are aligned, if the requirements are met, with the conditions applied to employees.

Transactions with related parties do not have a significant incidence on the financial situation, economic result and cash flows of the Group.

**Cassa Centrale Banca Credito Cooperativo Italiano Cooperative Banking Group**

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Graphic and layout project: Marketing Service and Message Spa

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