FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD UNDER TEMPORARY ADMINISTRATION: 01.01.2019-31.01.2020

BANCA CARIGE

BANCA CARIGE S.P.A. - Cassa di Risparmio di Genova e Imperia
Registered Office: Via Cassa di Risparmio 15, Genoa

BANCA CARIGE S.P.A.
FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR UNDER TEMPORARY ADMINISTRATION: 01.01.2019-31.01.2020

NOTE Statements: The following conventional signs are used in the tables of the Report on Operations and the Financial Statements:

- when data is nil

… when data is not significant

INTRODUCTION

The Financial Statements for the Financial Period Under Temporary Administration (1 January 2019 - 31 January 2020) of Banca Carige S.p.A. were prepared in accordance with the international accounting standards (IAS/IFRS) and related interpretations (SIC/IFRIC) officially approved by the European Union, and in line with guidance provided by the Bank of Italy in its Circular no. 262 of 22 December 2005 and subsequent updates (Banks' Financial Statements: Layout and Preparation).
The Report comprises the Financial Statements as at 31 January 2020, the Explanatory Notes and Annexes, and is accompanied by the Temporary Administrators' Report on Operations.
Included in the financial statements are the:

- Balance sheet;
- Income Statement;
- Statement of Comprehensive Income;
- Statement of changes in Shareholders' equity
- Statement of Cash Flows.

The Report on Operations provides the required information concerning business performance as a whole and for the various segments of the Bank's business, as well as main risks and uncertainties encountered.
The Financial Statements are audited by EY S.p.A. on a voluntary basis.
Pursuant to article 75, para. 4 of the Italian Consolidated Law on Banking, this Report, accompanied by a report by the Surveillance Committee, will be filed with the Companies Register.

BOARD OF DIRECTORS, BOARD OF STATUTORY AUDITORS AND INDEPENDENT AUDITORS AS AT 31 JANUARY 2020

TEMPORARY ADMINISTRATORS

Fabio Innocenzi
Raffaele Lener
Pietro Modiano

SURVEILLANCE COMMITTEE

CHAIR
Gianluca Brancadoro

MEMBERS
Andrea Guaccero
Alessandro Zanotti

INDEPENDENT AUDITING FIRM
EY S.p.A.

MANAGER RESPONSIBLE FOR PREPARING THE COMPANY'S FINANCIAL REPORTS
Mauro Mangani

BOARD OF DIRECTORS, BOARD OF STATUTORY AUDITORS AND INDEPENDENT AUDITORS AS AT THE DATE OF PUBLICATION

BOARD OF DIRECTORS

CHAIR
Vincenzo Calandra Buonaura

DEPUTY CHAIR
Angelo Barbarulo

CHIEF EXECUTIVE OFFICER
Francesco Guido

DIRECTORS
Sabrina Bruno
Lucia Calvosa
Paola Demartini
Miro Fiordi
Gaudiana Giusti
Francesco Micheli
Leopoldo Scarpa

BOARD OF STATUTORY AUDITORS

CHAIR
Alberto Giussani

STANDING AUDITORS
Anna Girello
Pierpaolo Singer

ALTERNATE AUDITORS
Vincenzo Miceli
Silvia Muzi

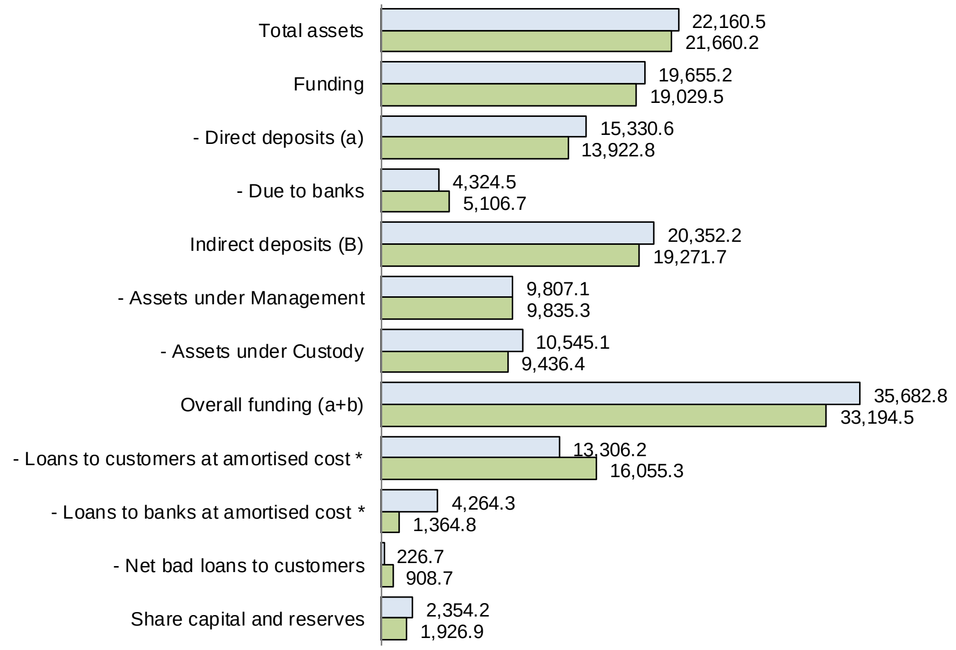
INDEPENDENT AUDITING FIRM EY S.p.A.

MANAGER RESPONSIBLE FOR PREPARING THE COMPANY'S FINANCIAL REPORTS
Mauro Mangani

By resolution of 2/1/2019, the European Central Bank (ECB) ordered that the Bank's management and control bodies, in particular the Board of Directors and the Board of Statutory Auditors, be dissolved and replaced with Temporary Administrators, Mr. Fabio Innocenzi, Mr. Raffaele Lener and Mr. Pietro Modiano, who were vested with the functions and powers of administration of the Bank, and a Surveillance Committee composed of Mr. Gianluca Brancadoro (taking on the role of Chairman), Mr. Andrea Guaccero and Mr. Alessandro Zanotti, who were assigned the control functions and the task of providing opinions to the Temporary Administrators, where required.
The duration of the Temporary Administration was initially set for a period of three months; subsequently, on 29 March 2019, the European Central Bank (ECB) extended the Temporary Administration period to 30 September 2019, confirming the mandate of the Temporary Administrators and members of the Surveillance Committee, as was decided by the ECB on 1 January 2019.
Subsequently, on 30 September 2019, the ECB again extended the Temporary Administration period to 31 December 2019, with a further last extension to 31 January 2020 being resolved upon on 20 December 2019.
At the end of the Temporary Administration period, the Board of Directors and Board of Statutory Auditors were appointed by the Ordinary Shareholders' Meeting on 31/1/2020 for the 2020-2021-2022 financial years, with term of office until the date of the Shareholders' Meeting called to approve the financial statements as at 31/12/2022.
At its meeting on the same day, the Board of Directors appointed Francesco Guido as Chief Executive Officer.
The Board of Directors also set up the following Board-internal Committees, the composition of which, as at today, is:
= Risk Committee: Angelo Barbarulo (Chair), Paola Demartini, Miro Fiordi e Leopoldo Scarpa;
= Nomination, Governance and Sustainability Committee: Lucia Calvosa (Chair), Vincenzo Calandra Buonaura and Sabrina Bruno;
= Remuneration Committee: Francesco Micheli (Chair), Sabrina Bruno and Miro Fiordi;
= Related-Parties Committee: Gaudiana Giusti (Chair), Lucia Calvosa and Francesco Micheli.

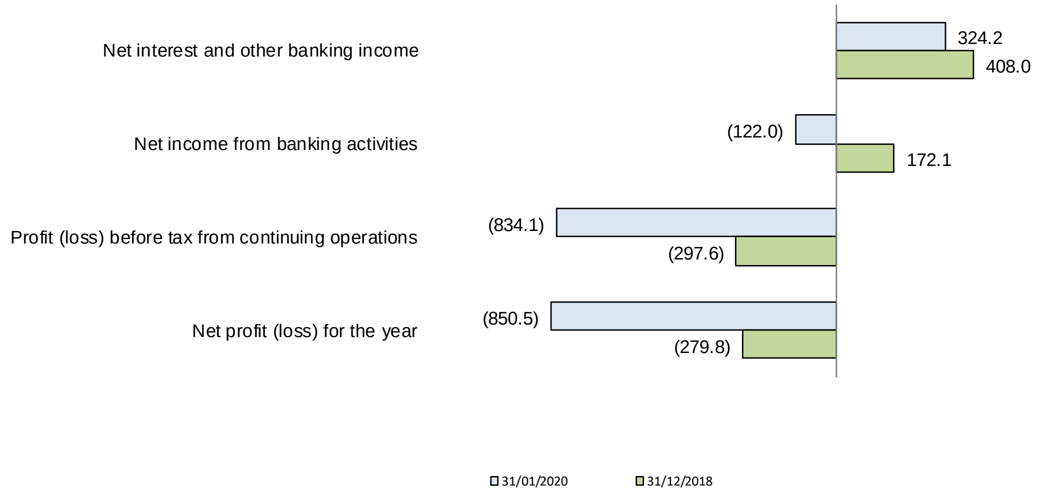
FINANCIAL HIGHLIGHTS FOR THE BANK

Balance sheet figures (EUR mln)



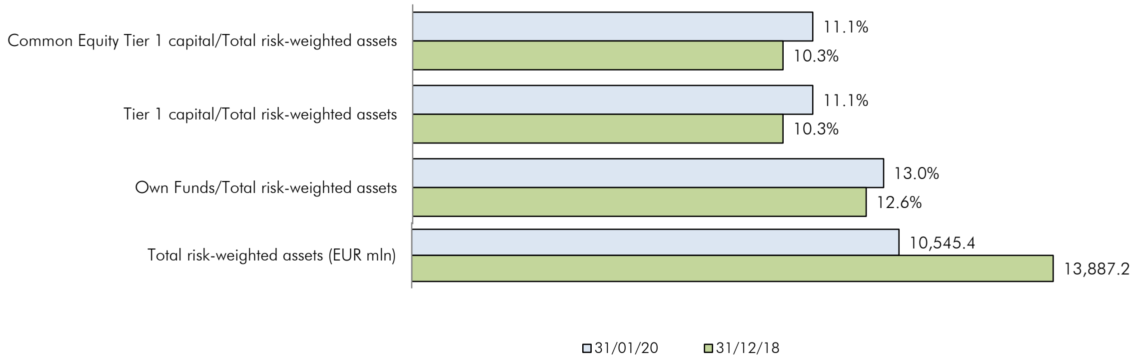
* After value adjustments and debt securities at amortised cost.

Income statament figures (EUR mln)



	Situation as at		Change	
	31/01/2020	31/12/2018	absolute	%
RESOURCES (end of period)				
Number of branches	420	468	(48)	(10.3)
Headcount	3,547	4,101	(554)	(13.5)

Capital ratios



REPORT ON OPERATIONS

KEY EVENTS IN THE TEMPORARY ADMINISTRATION PERIOD

Governance

As a consequence of the changed conditions resulting from the outcome of the Shareholders' Meeting of 22 December 2018, namely the rejection of the proposal to vest the Board of Directors with the mandate to increase the share capital, the majority of the Bank's Directors tendered their resignations with effect as of 2 January 2019, with the entire Board ceasing to hold office on the same date.
From the same date, Consob ordered the suspension from trading of the securities issued or guaranteed by the Bank until the ECB decision was in force.

Again, on the same date, the ECB imposed Temporary Administration on Banca Carige, appointing three Temporary Administrators and a Surveillance Committee. The Temporary Administrators were vested by the ECB with the power to proceed with the actions required to sustainably restore compliance with the regulatory requirements, including by assessing/exploring the possibility of a business combination with other financial institutions. On 29 March 2019, the ECB notified a decision extending the Bank's Temporary Administration period to 30 September 2019, confirming the mandate of the Temporary Administrators (Fabio Innocenzi, Raffaele Lener and Pietro Modiano) and the members of the Surveillance Committee (Gianluca Brancadoro, Andrea Guaccero and Alessandro Zanotti).
On 30 September 2019, the ECB notified its decision to further extend the Bank's period of Temporary Administration to 31 December 2019, confirming the mandate of the Temporary Administrators and members of the Surveillance Committee, with an adequate time horizon to allow the Temporary Administrators to execute the Group's comprehensive capital strengthening transaction approved by the Extraordinary Shareholders Meeting of 20 September 2019. On 20 December 2019, the ECB notified its decision to extend the Bank's period of Temporary Administration to 31 January 2020.

On 31 January 2020, the ordinary Shareholders' Meeting of Banca Carige, held in one call, appointed a new 10-member Board of Directors, its Chair and Deputy Chair and the new Board of Statutory Auditors for the 2020-2022 three-year period, with their term of office expiring on the date of the Shareholders' Meeting which will be held to approve the Financial Statements for the period ending 31 December 2022[1].

At its meeting chaired by Mr. Vincenzo Calandra Buonaura on 31 January 2020, the Board of Directors appointed Francesco Guido as Chief Executive Officer and set up the following Board-internal Committees:

- Risk Committee, made up of: Angelo Barbarulo (recommended as Chair), Paola Demartini, Miro Fiordi and Leopoldo Scarpa;
- Nomination and Governance Committee, made up of: Lucia Calvosa (recommended as Chair), Vincenzo Calandra Buonaura and Sabrina Bruno;
- Remuneration Committee, made up of: Francesco Micheli (recommended as Chair), Sabrina Bruno and Miro Fiordi;
- Related-Parties Committee, made up of: Gaudiana Giusti (recommended as Chair), Lucia Calvosa and Francesco Micheli.

Effective 1 February 2020, the Temporary Administrators and the members of the Surveillance Committee ceased to hold office.

[1] For further details, please see Paragraph "Parent company's Board of Directors, Board of Statutory Auditors and Independent Auditors as at date of publication".

Progress of the Strategic Plan, capital strengthening, development of the NPE Strategy and Business combination

As previously stated, the Temporary Administrators were vested by the ECB with the power to proceed with the actions required to sustainably restore compliance with regulatory requirements, including by assessing/exploring the possibility of a business combination with other financial institutions. These elements were outlined in the 2019-2023 Strategic Plan, called "Carige: Winning back our Future" (hereinafter also the "Strategic Plan"), approved by the Temporary Administrators in their meeting of 19 February 2019 and presented to the financial community on 27 February 2019, which is intended to leverage the Bank's potential from a standalone perspective as the basis for a business combination, following three steps that build on one another:

- fortify the balance sheet and strengthen the capital position in 2019;
- reach break-even in 2020 based on short-term operating/business levers;
- return to profitability from 2021, building on the turnaround of previous years.

On 21 May 2019, in response to the changed conditions associated with the prospects for a business combination, the Temporary Administrators approved an update to the afore-mentioned Strategic Plan, which, at the request of the counterparties negotiating Carige's change of control, included full-scale de-risking and coverage of certain higher-risk performing positions. The plan was also updated to take account of the higher capital ratios required of the entire banking system from 1 January 2020. This led to an increase in the overall extent of the capital strengthening effort. Finally, account was taken of the effects of TLTRO III, revised interest rates based on the updated macroeconomic scenario and an up-to-date time schedule.
As a result of this complex preliminary phase, interest was shown by a leading banking player (Cassa Centrale Banca, "Cassa Centrale" or "CCB") and support was made available by the Voluntary Intervention Scheme ("SVI") and the Interbank Deposit Protection Fund ("FITD").
Against this background, on 26 July 2019, a final update to the 2019-2023 Strategic Plan was approved, which illustrates the structure of the Bank's capital strengthening and commercial relaunch transaction requested by the counterparties (VIS, FITD and CCB), with an industrial outreach which corroborates the previous versions of the Plan.

It should also be noted that on 26 March 2019, as part of the obligations entered into by the Bank in the course of operations prior to the Shareholders' Meeting of 20 September 2018, the Bank announced the completion of the disposal of 80.1% of its shareholding in consumer credit company, Creditis Servizi Finanziari S.p.A. to Chenavari Investment Managers, in accordance with the binding agreement signed on 6 December 2017 for an amount of EUR 69.3 mln (corresponding to the price of the equity investment i.e. EUR 80.1 mln, net of the EUR 10.8 mln purchaser's share of dividends for 2017 earned by the Bank).

Capital strengthening
On 20 September 2019, the Extraordinary Shareholders' Meeting of Banca Carige, having acknowledged the authorisation received from the European Central Bank, approved the proposal discussed as the only item on the agenda, namely:

A. an indivisible paid capital increase for a total amount of EUR 700,000,000.00, with exclusion of the pre-emption right pursuant to art. 2441, paragraphs 5 and 6, of the Italian Civil Code, including the share premium, through the issuance of total 700,000,000,000 new ordinary shares of the Bank having the same characteristics of the shares outstanding as at the date of issuance, for a subscription price of EUR 0.001 per share (including the share premium), to be offered for subscription as follows:
    (i) a first tranche reserved for the Voluntary Intervention Scheme of the Italian Interbank Deposit Protection Fund (Schema Volontario di Intervento del Fondo Interbancario di Tutela dei Depositi, SVI), to be subscribed and paid-in by way of set-off ("*compensazione*") of the receivable resulting from the reimbursement of the subordinated bonds named "Ban-

ca Carige S.p.A. 2018-2028 Tasso Fisso Tier II" held by VIS for a corresponding nominal amount ("First Tranche");

(ii) a second tranche reserved for Cassa Centrale Banca - Credito Cooperativo Italiano S.p.A. (and/or, in whole or in part, one of its subsidiaries) ("Second Tranche");

(iii) a third tranche reserved for the shareholders of the Bank ("Third Tranche"); and

(iv) a fourth tranche reserved for the Fondo Interbancario di Tutela dei Depositi (Italian Interbank Deposit Protection Fund) ("Fourth Tranche");

B. the issuance of up to 21,250,000,000 "Warrants Banca Carige S.p.A. 2020-2022" to be granted, free of charge, to the shareholders that have subscribed for shares of the Third Tranche under item A.(iii) above, at a ratio of 1 (one) warrant for every 4 (four) ordinary shares subscribed for and paid in; with a further divisible paid capital increase by a maximum nominal amount of EUR 21,250,000.00, in addition to any possible share premium, for the purpose of the exercise of the warrants, through the issuance, in one or more tranches, of maximum 21,250,000,000 new ordinary shares of the Bank having the same characteristics as shares outstanding as at the date of issuance; request for admittance to listing of the Warrants and approval of the Terms and Conditions thereof;

C. ensuing amendments to art. 5 of the Bank's Articles of Association; related and ensuing resolutions.

The Shareholders' Meeting saw the highest and most heartfelt participation of shareholders in the history of the Bank, with the presence of over 20 thousand shareholders holding 47.7% of the share capital. Adopted with the favourable vote of over 90% of attending shareholders, the resolution was a fundamental step in the Group's turnaround and relaunch process.
The Capital Increase was the main element of the overall capital strengthening manoeuvre which, together with the derisking transactions and the industrial relaunch initiatives set out in the 2019-2023 Strategic Plan, pave the way for the start of a combination process with a major cooperative banking group that is industrially engaged to safeguarding the ties with its footprint areas.
The capital strengthening effort is grounded on the binding Framework agreement entered into by and between the Bank's Temporary Administrators and Cassa Centrale Banca Credito Cooperativo Italiano - CCB, the Interbank Deposit Protection Fund - FITD and the Voluntary Intervention Scheme of FITD - VIS (it. SVI), on 9 August 2019.

On 23 October 2019, in line with the Strategic Plan (envisaging the disposal of the Bank of Italy's shares in excess of the 3% dividend-bearing stake), the Bank sold 1,000 shares (0.33%) of the Bank of Italy's share capital, for a nominal value of EUR 25,000 each, to Istituto per il Credito Sportivo at a price equal to the shareholding's overall nominal value of EUR 25 mln, which also coincides with its historical cost. On 30 January 2020, the Bank sold an additional 600 shares (0.2%) of the Bank of Italy's share capital to Banca San Giorgio Quinto Valle Agno at a price equal to an overall nominal value of EUR 15 mln.

On 20 November 2019 the Bank reached an agreement with the national and corporate representatives of the Trade Union organisations Fabi, First Cisl, Fisac Cgil, Uilca and Unisin on the methods for addressing the impacts of the 2019-2023 Strategic Plan, which focuses on enhancing the retail bank, strengthening wealth management and streamlining operations.
Under the agreement, the Bank will access the Solidarity Fund of the banking industry to support up to 680 voluntary redundancies provided for in the Plan until 2023, including by recourse to the "Quota 100" pension option. In line with the Plan, in addition to the 450 departures already contracted for, plus 120 expected as a result of natural employee attrition, these voluntary redundancies will make it possible to obtain the planned organisational downsizing by 1,250 FTEs. The agreement also regulates the Bank's branch closures scheduled for 2019, including through a second update of personnel mobility standards and the enhancement of part-time work.
The agreement represented one of the key preliminary steps for the execution of the Capital Strengthening manoeuvre approved by the Extraordinary Shareholders' Meeting of 20 September last year.

On 3 December 2019, the Bank announced that the Italian Securities and Exchange Commission, Consob, had approved, on the same date, the Prospectus relating to the Offering to Shareholders of ordinary shares arising from the Third Tranche of the Capital Increase approved by the Shareholders' Meeting on 20 September 2019, associated with free "Warrants Banca Carige S.p.A. 2020-2022", and additionally concerning the admission to trading on the Electronic Stock Market (Mercato Telematico Azionario), organised and managed by Borsa Italiana S.p.A., of Banca Carige's ordinary shares arising from the capital increase and the "Warrants Banca Carige S.p.A. 2020/-2022).

On 13 December 2019, the Bank announced that, with regard to its EUR 700 mln Capital Increase transaction, the Offering Period for the Third Tranche reserved for its existing shareholders, starting on 4 December 2019, had ended. During the Offering Period, subscription requests were received for approximately 16.8 billion new ordinary Shares, corresponding to approximately 19.7% of the Third Tranche of the Capital Increase, for an overall amount of EUR 16.8 mln. In consideration of the subscription requests received and the 10 billion free shares assigned by VIS to the Bank's existing Beneficiary Shareholders, the 10% free-float threshold required for readmission to trading was exceeded.

By a press release issued on 19 December 2019, the Bank announced that, on 18 December 2019, the Italian Securities and Exchange Commission, Consob, by protocol no. 0820036/19, had approved the Prospectus concerning admission to trading on the professional segment of the Electronic Stock Market (Mercato Telematico Azionario), organised and managed by Borsa Italiana S.p.A., of the fixed rate subordinated bonds "Banca Carige S.p.A. 2019-2029 Tasso Fisso Tier II", for a maximum total nominal value of EUR 200 mln, consisting in maximum 2,000 Tier II subordinated bonds, for a nominal value per bond of EUR 100 thousand, issued by Banca Carige.
Banca Carige further announced that the Prospectus was published under the terms and by the deadlines set out by regulations in force.

On 20 December 2019, the Bank communicated the successful completion of the capital strengthening transaction approved by the Extraordinary Shareholders' Meeting on 20 September 2019; the EUR 700 mln Capital Increase, was fully subscribed for, through the issue of 700,000,000,000 new ordinary shares of the Bank, allocated as follows:

(i) a first tranche of EUR 313.2 mln was subscribed for by the Voluntary Intervention Scheme of the Italian Interbank Deposit Protection Fund ("VIS"), as an offset against the receivables arising from the subordinated bonds "Banca Carige S.p.A. 2018-2028 Tasso Fisso Tier II" held by VIS for a corresponding nominal amount;
(ii) a second tranche of EUR 63 mln was subscribed for by Cassa Centrale Banca (CCB);
(iii) a third tranche of EUR 85 mln was subscribed for by the shareholders (whom this tranche was reserved for) who were shareholders of the Bank prior to the Offering start date for an amount of EUR 22,845,540.881 mln and by the Interbank Deposit Protection Fund (FITD) for an amount of EUR 62,154,459.12 mln as part of the guarantee it had pledged on the unsubscribed portion of the third tranche;
(iv) a fourth tranche of EUR 238.8 mln was subscribed for by FITD.

As envisaged under the capital strengthening plan and set out in the Terms and Conditions, the free "Warrants - Banca Carige S.p.A. 2020-2022" were assigned to beneficiary shareholders other than SVI, FITD and CCB, at a ratio of 1 warrant for every 4 shares subscribed for and issued as part of the Capital Increase.
Within the framework of the Bank's capital strengthening transaction, EUR 200 mln worth of Tier 2 subordinated bonds -entirely subscribed for by leading institutional investors- were issued and settled on the same date.
After completion of the capital strengthening effort, giving effect to the Framework Agreement entered into by FITD, SVI, CCB and Carige, SVI surrendered part of the shares arising from subscription of the first tranche of the capital increase (for an overall amount of EUR 10 mln) to the Bank which instructed the crediting of the shares to the intermediaries' accounts on 23 December 2019, for them to be assigned - on the terms and by the deadlines laid out in the Note for free share assignment published on the Bank's website on 30 August 2019- to the shareholders who were shareholders of the Bank prior to the date when the Offering was launched and attended the Shareholders' Meeting of 20 September 2019.

The Bank further informed that the 10% free-float defined by Borsa Italiana S.p.A. as the threshold required for readmission to trading was exceeded.

NPE Strategy Development

In order to pursue the derisking objective through the reduction of Non-Performing Loans set out in the different versions of the Strategic Plan, the Temporary Administrators launched a competitive bidding process in the first half of 2019, aimed at obtaining binding offers from market players for the purchase and management of NPEs.

Under the competitive bidding process, several financial institutions specialised in such fields were admitted to the Bank's data room, and this was followed by their submission of binding and non-binding offers. In this context, Asset Management Company - AMCO S.p.A. (former '*Società per la Gestione di Attività - SGA S.p.A.*') submitted a binding offer to the Bank on 20 February 2019 for a portfolio of non-performing exposures of approximately EUR 2 bn, subject to Banca Carige's Shareholders Meeting approval of the capital strengthening effort, or to the receipt of a binding offer by a third party interested in a merger with the Bank.

In parallel with the search for a business combination which attracted the interest of several financial players, all interested in the Bank only on condition of a more ambitious derisking process, the Bank obtained a new binding proposal from AMCO on 21 June 2019 (subject to the same conditions precedent contained in the first proposal), for the purchase of almost the entire non-performing portfolio and the granting of guarantees on a significant portion of the performing loan portfolio, characterised by a greater risk of decay due to the deterioration of market conditions.

As an integral part of the capital strengthening and turnaround of the Bank, the non-performing loan disposal to AMCO was finalised on 20 December 2019, under the terms and conditions of the Prospectus, enabling the achievement of a radical derisking of the Group's assets.

It is specified that, for a residual portion of the loan book of approximately EUR 494 mln in GBV held for sale as at 31 January 2020, relating to certain UTP positions and the non-performing leasing portfolio, the conditions for derecognition have not yet been met. For further details, please refer to the paragraph "Non-Performing Loan portfolio disposal to AMCO S.p.A." of "Section 2 - Preparation criteria" of the Explanatory Notes.

The disposal consisted in the non-recourse purchase by AMCO of an NPL portfolio of approximately EUR 2.8 bn in Gross Book Value as at 30 June 2019 against payment of a price of about EUR 1 bn, 60% of which was accounted for by exposures classified as unlikely to pay positions ("UTPs"), including a few major single names, and the remaining part by bad loans.

AMCO, on the one hand, and Credito Fondiario, on the other, have entered into a Servicing Agreement implementing the 'Offer for the Servicer' under terms and conditions in line with the Servicing Agreement.

Business combination development

Having regard to item 2.7 of the ECB's appointment decision, the Temporary Administrators decided to start a private partnership search process, with a view to implementing a business combination transaction that would allow to restore the Bank's capital ratios and execute a strategic project.

To this end, the Temporary Administrators received legal advice from a primary financial advisor, engaged to explore the opportunities for strategic alliances on the market and support the Bank in the preparation of a business plan, including with a view to discussing it with future investors. In this context, a competitive process was put in place to obtain the engagement of a number of first potential (banking, financial and industrial) investors, the definition of a calendar of meetings with the investors and their advisors, as well as the preparation and delivery of explanatory material on the Bank and the Group, subject to prior signing of non-disclosure agreements (NDAs).

Specific projects were, therefore, launched with investors who had expressed a special interest, to allow them to submit non-binding offers (NBOs) by the end of February.

The Supervisory Authorities and all potential counterparties were constantly informed about the evolution of these work streams in order to facilitate their participation in the project.

Without disregarding the pursuit of contacts with other potential investors, the business combination process subsequently focused on two specific projects, which led to the submission of two non-binding offers by financial investors at the end of February, with the first investor being particularly interested in the management of the NPE portfolio via segregation of the Group's performing and non-performing exposures, and the second being more interested in developing the industrial project (good bank).

At the beginning of April, one of the two financial investors announced it did not intend to submit the expected binding offer and justified its decision with evidence of the prospects being inconsistent with its own business strategies, which were focused on maximising the value of the NPEs.

As a consequence, negotiations intensified with the other potential investor, the Blackrock fund, which resulted in the Supervisory Authority granting an extension of the binding offer submission period.

At the beginning of May, although the Management Board of FITD had formally approved a draft agreement on the possibility for the investor to purchase an entire or partial shareholding at a discounted price subject to the approval of its General Assembly, Blackrock, following the negative opinion expressed on the investment by its Investment Committee, informed the Bank of its intention not to further pursue its expression of interest and not to submit a binding offer.

Having acknowledged the above, the Temporary Administrators nevertheless carried forward the process they had started, continuing their search for further private solutions. On 24 June 2019, a proposal for intervention in support of the Bank by the Apollo Global Management Fund was formalised, which saw the participation of FITD and current key shareholders in the project; the proposal was promptly forwarded to the counterparties for due consideration.

Following an in-depth review, FITD decided not to accept Apollo's proposal, considering it inadequate for the solution of the existing issues. Hence, FITD's decision to step in as a front line player in the transaction, in concertation with Cassa Centrale Banca, an industrial investor who had in the meantime expressed its interest.

On 9 August 2019, the "private solution" was formalised and a binding framework agreement - characterised by a strong industrial outreach- was prepared and entered into by and between Banca Carige, FITD, VIS and Cassa Centrale Banca. The agreement defined the parties' undertakings in completing the Bank's recapitalisation, which was later submitted to the Extraordinary Shareholders' Meeting for approval.

Details about the outcome of the Extraordinary Shareholders' Meeting and the subsequent Capital Strengthening transaction are provided in the above paragraphs of this section of the Report on Operations, to which reference should be made.

Relations with the Supervisory Authorities

Following the issuance of Italian Law Decree no. 1/2019 on 8 January 2019 (converted into Law no. 16 of 8 March 2019), which provides for a State guarantee of up to EUR 3 bn on new bonds issued, the Bank applied for access to the State Guarantee -notifying the ECB- for two bond issuances with 12- and 18-month maturity respectively, for an aggregate amount of EUR 2 bn.
On 22 January 2019, the Bank announced that it had obtained from the Ministry of Economy and Finance the decree containing the decision to grant a State Guarantee on the new bonds issued and that it had concurrently set off the process for the issuance of the two lines of guaranteed bonds, which were subsequently admitted to listing on the Electronic Bond and Government Securities Market (*Mercato Telematico delle Obbligazioni e dei Titoli di Stato*, MOT) on 25 January 2019. The two bonds were assigned a rating in line with that of the Republic of Italy by ratings agency DBRS. The nominal amount of the two issuances, one of which was repaid in January, is EUR 1 bn each. The second bond issuance will come to maturity in July 2020.

In 2019, quarterly monitoring reports on ongoing on-site and remote inspections were regularly sent to the ECB; in May 2019 all the remedial actions envisaged in the plan concerning the inspection on "the Bank's capacity to quantify and manage liquidity risk, funding risk and the interest rate risk in the banking book" were completed, and notice of their completion was given to the ECB on 29 May 2019.
Quarterly monitoring continued in the first quarter of 2020.

With regard to the on-site inspection (OSI) on "credit and counterparty risk" carried out from 13 April to 3 August 2018 (whose final inspection report was received by the Bank on 9 January 2019), the Bank received a draft version of the recommendations concerning the findings of the ECB's on-site inspection OSI-2018-ITCAR-3804 on 5 July 2019, which the Bank responded to on 11 October 2019, providing the timeline for the implementation of the findings and an update was given on 21 January 2020.

During the reporting period, the Temporary Administrators, in line with their mandate, extended by the ECB until 31 January 2020, kept the Supervisory Authorities constantly informed about the strategic and operational developments of the Bank. More specifically:
- in July 2019, the Bank informed the ECB that the agreement on capital strengthening had been reached, which was followed by the signing of a framework agreement with the counterparties on 9 August and, as requested on 5 July, the new Strategic Plan and Capital Plan were sent to the ECB;
- in September, the Bank notified the Bank of Italy of the incorporation of the company ABITARE RE S.r.l. (fully controlled by Carige REOCO S.p.A.), as part of the real estate business carried out by the Group via Carige REOCO S.p.A.;
- in November, the Bank submitted an application to obtain the authorisation to make the amendment to the Articles of Association required for giving effect to the capital increase for the subsidiary, Banca del Monte di Lucca.

The ordinary Shareholders' Meeting of Banca Carige, held on 31 January 2020, appointed the Bank's new Board of Directors. During its first meeting, coinciding with the appointment of the new Chief Executive Officer and set up of the Board-internal committees, the Temporary Administrators and the members of the Surveillance Committee completed all formal steps required by the law for the Bank to return to ordinary administration and close the Temporary Administration period, which had been imposed on the Bank by the ECB on 2 January 2019.

With regard to relationships with the Single Resolution Board (SRB), on 12 April 2019 the Bank received the Carige Group Resolution Plan from the SRB, which encouraged the Bank to express its opinion thereon. The opinion was sent to the SRB on 15 May 2019; the determination of the Minimum Requirement for own funds and Eligible Liabilities (MREL) was notified to the bank by the Bank of Italy (i.e. the National Resolution Authority) in April; the Bank of Italy hosted its annual workshop in July.
In October, a follow-up on the previous workshop was held, in which the Bank of Italy presented the calculation methodologies applied for determining the MREL requirement assigned to Banca Carige for 2020. In January 2020, the SRB sent its draft MREL Decision to Banca Carige, in response to which the Bank provided its observations on 21 January 2020. The Decision was subsequently confirmed by the Single Resolution Board in March.

Management of the liquidity position

As previously mentioned, initially the liquidity position of the Bank was negatively affected by the outcome of the Shareholders' Meeting of 22 December 2018, which caused a rapid and significant decrease of customer deposits.

Since mid-January 2019, the strains in the liquidity conditions were gradually relieved, on the back of the issuance of EUR 2 bn worth of bonds backed by State guarantee pursuant to Law Decree no. 1/2019 and later as a result of a recovery in deposits from customers.

As at 31 January 2020, the liquidity position of the Group showed a Liquidity Coverage Ratio (LCR) of 337%, well above the 119% RAF risk tolerance.

As concerns the operating procedures of the liquidity management process, it is noted that on 22 January 2019, the Temporary Administrators of Banca Carige S.p.A. approved, inter alia:

(i) disposal of one or more portfolios of eligible residential and commercial mortgage loans -originated or renegotiated by Banca Carige S.p.A. and Banca del Monte di Lucca S.p.A.- for a maximum total nominal amount of EUR 1 bn - to the special-purpose vehicles, Carige Covered Bond S.r.l. and Carige Covered Bond 2 S.r.l., under the scope of the OBG1, OBG2 and OBG3 issuing programmes, as well as the granting of subordinated debt by the transferring banks, in one or more tranches, to the foregoing vehicles in connection with each portfolio sold, for a maximum amount equal to the value of the assets sold;
(ii) restructuring of the Lanterna Lease securitisation transaction by amending the existing agreements and/or implementing a new transaction with the disposal of one or more eligible asset portfolios for up to a maximum amount of EUR 250 mln and the issuance of new unrated notes;
(iii) completion of the Lanterna Consumer securitisation transactions (in view of the planned disposal of Creditis Servizi Finanziari), to be obtained by the: (i) buyback of the senior notes issued by Lanterna Consumer and still outstanding; (ii) cancellation of all senior and junior notes issued by Lanterna Consumer, with the concurrent buyback by Creditis of the loans transferred to Lanterna Consumer;
(iv) issuance of Banca Carige debt instruments guaranteed by the Republic of Italy under Law Decree no. 1 of 8 January 2019, for the maximum amount specified in the aforementioned Decree (EUR 3 bn), by public placement (with retail and/or qualified investors), private placement or to be retained.

After the ECB extended the Temporary Administration of Banca Carige S.p.A. to 30 September 2019, the Temporary Administrators confirmed, on 30 April 2019, the previous resolution concerning the OBG1, OBG2 and OBG3 programmes which was adopted on 22 January 2019.
In relation to the aforementioned resolution, it should also be noted that:
(i) with regard to the Lanterna Consumer securitisation transaction, on 7 February 2019, the loans previously sold were repurchased by the originator Creditis Servizi Finanziari S.p.A. and the closing of the transaction was completed just a few days later, with cancellation of the securities issued;
(ii) with regard to the Lanterna Lease securitisation, the transaction initiated in 2016 was completed on 4 March 2019, and a new transaction was launched a few days later, in which Lanterna Lease purchased receivables arising from performing financial lease agreements and issued two new classes of securities, for an aggregate amount of EUR 234.5 mln: EUR 113.7 mln worth of senior notes were subscribed for by an institutional investor;
(iii) with reference to the financial instruments guaranteed by the State under Law Decree no. 1 of 8 January 2019, the issuance and repurchase of two lines of debt instruments, guaranteed by the Republic of Italy with 12- and 18-month maturity respectively and for a nominal amount of EUR 1 bn each, was finalised on 25 January 2019. The former issuance was used for a repo transaction with an institutional counterparty; the latter was transferred to institutional counterparties for an amount of EUR 800 mln; the balance was used for a repo transaction with an institutional counterparty.

In order to guarantee an adequate level of liquidity and reserves, the following transactions were completed in the Temporary Administration period:

(i) placement with an institutional investor of a senior tranche issued by Lanterna Finance (nominal value EUR 129 mln) originally held by Banca Carige S.p.A.;
(ii) placement with an institutional investor of a EUR 500 mln line of Covered Bonds issued by Banca Carige in 2016 under the scope of the OBG1 issuing programme, coming to maturity in February 2021;
(iii) placement with an institutional investor of a EUR 600 mln line of Covered Bonds issued by Banca Carige in 2018 under the scope of the OBG1 issuing programme, coming to maturity in October 2021;
(iv) placement with an institutional investor of a EUR 370 mln line of Covered Bonds issued by Banca Carige in 2016 under the scope of the OBG3 issuing programme, coming to maturity in May 2022;

(v) partial cancellation of certain Covered Bonds issued under the scope of the OBG1, OBG2 and OBG3 programmes and held by Banca Carige for an overall amount of EUR 260 mln and consequent withdrawal of surplus liquidity deposited with the transferees.

Banca Carige was assigned the following ratings by international ratings agencies Moody’s and Fitch:

– Moody’s: ‘Caa2’ for the long-term issuer rating and ‘Not Prime’ for the short-term; in its latest rating action, dated 24 December 2019, the ratings agency acknowledged the successful completion of the capital strengthening and derisking effort, thereby concluding the review for upgrade initiated on 25 September 2019. The Bank's Baseline Credit Assessment (BCA) was upgraded by 3 notches to ‘caa1’ whereas the long-term Issuer Rating (upgraded to Caa2 from Caa3) and the long-term deposit rating (confirmed at ‘Caa1’) obtained a lower benefit as a consequence of Moody’s removal of the *notches* previously assigned for the probability of government support, which is now deemed non-applicable. The agency further revised the Bank’s outlook to stable from previous ‘rating under review’.
– Fitch Ratings: ‘B-' for the long term and 'B' for the short term. In its *rating* action dated 9 January 2020, the agency started the Bank's re-rating process, resolving the rating watch positive assigned on 27 September 2019, after the comprehensive capital strengthening plan was approved by the Extraordinary Shareholders' Meeting of 20 September 2019. In Fitch’s opinion, the positive outcome of the capital strengthening and balance sheet de-risking transactions, together with their stabilising reverberations on funding and liquidity, restored the Bank’s viability and led to an upgrade of the Viability Rating (VR) to ‘b-’ from ‘f’. The Bank's Long Term Issuer Default Rating (IDR) and long term deposit rating were accordingly aligned to ‘B-’, up by 2 notches; the outlook was revised to “stable”. The outlook was changed to rating watch negative on 24 March 2020, as part of a rating action in which the agency reflected the disruption of the macroeconomic framework due to the spread of the Covid-19 pandemic across the entire Italian banking system.

PROFIT & LOSS RESULTS

It should be noted that the figures shown for comparative purposes in the income statement are derived from the "Report on Banca Carige S.p.A.'s Financial Position and Results of the Operations as at 31.12.2018", prepared by the Temporary Administrators pursuant to art. 73, paragraph 4 of the Consolidated Law on Finance (TUB), filed with the Companies' Register, whereas P&L figures as at 31 January 2020 refer to a 13-month period (1 January 2019 – 31 January 2020). Changes are therefore shown only in absolute terms.

The income statement for the period as at 31 January 2020 posted a negative result of EUR 850.5 mln, as against a negative EUR 279.8 mln as at December 2018.
This result is mainly traceable to the roll out of the 2019-2023 Business Plan, which included completion of the NPE disposal to AMCO (resulting in the radical derisking of the Group's assets with a EUR 439.1 mln impact on the income statement and EUR 15.3 mln in charges for transaction structuring) in addition to the settlement agreements entered into with the Apollo/Amissima Group (EUR 44.3 mln) and the Credito Fondiario (EUR 24.5 mln) and charges related to the management of redundancies set out in trade union agreements (EUR 114.5 mln). Added to the above are the impairment of real estate properties not used in the business (EUR 31.7 mln), the charges (estimated or paid) for indemnities arising from the NPE disposal transactions that the Group carried out over the last three years (EUR 20.9 mln) and the charges for lawsuits brought against the bank (EUR 14.6 mln).
The significant drop in interest and fee & commission income is mainly related to increased charges (EUR 52 mln) on the subordinated Tier 2 debt issued in December 2018 that was not converted into equity until the Capital Increase in December 2019, as well as to the State guarantee on new bonds issued in the first quarter of 2019 (EUR 17.7 mln).

INCOME STATEMENT (EUR/000)

	Situation as at		Change
	31/01/2020	31/12/2018	Absolute
10. Interest and similar income	358,044	390,988	(32,944)
o.w.: interest income calculated using the effective interest rate method	363,353	379,124	(15,771)
20. Interest and similar expense	(245,392)	(172,772)	(72,620)
30. NET INTEREST INCOME	**112,652**	**218,216**	**(105,564)**
40. Fee and commission income	251,302	260,573	(9,271)
50. Fee and commission expense	(41,132)	(32,434)	(8,698)
60. NET FEE AND COMMISSION INCOME	**210,170**	**228,139**	**(17,969)**
70. Dividends and similar income	20,083	32,743	(12,660)
80. Net profit (loss) from trading	13,638	4,662	8,976
90. Net profit (loss) from hedging	245	(1,678)	1,923
100. Profits (losses) on disposal or repurchase of:	(29,512)	(59,869)	30,357
a) financial assets at amortised cost	*(29,000)*	*(62,752)*	33,752
b) financial assets at fair value through other comprehensive income	*31*	*1,039*	(1,008)
c) financial liabilities	*(543)*	*1,844*	(2,387)
110. Profits (losses) on financial assets/liabilities at fair value through profit or loss	(3,085)	*(14,206)*	11,121
b) other financial assets mandatorily at fair value	*(3,085)*	*(14,206)*	11,121
120. NET INTEREST AND OTHER BANKING INCOME	**324,191**	**408,007**	**(83,816)**
130. Net losses/recoveries on impairment of:	(446,489)	(234,749)	(211,740)
a) financial assets at amortised cost	*(446,500)*	*(234,710)*	(211,790)
b) financial assets at fair value through other comprehensive income	11	*(39)*	50
140. Gains (losses) due to contractual modifications not resulting in derecognition	324	(1,165)	1,489
150. NET INCOME FROM BANKING ACTIVITIES	**(121,974)**	**172,093**	**(294,067)**
160. Administrative expenses	(599,552)	(501,135)	(98,417)
a) personnel expenses	*(371,183)*	*(261,353)*	(109,830)
b) other administrative expenses	*(228,369)*	*(239,782)*	11,413
170. Net provisions for risks and charges	(29,907)	(41,523)	11,616
a) commitments and guarantees given	*9,623*	*17,222*	(7,599)
b) other net provisions	*(39,530)*	*(58,745)*	19,215
180. Net adjustments to/recoveries on property and equipment	*(56,198)*	(10,960)	(45,238)
190. Net adjustments to/recoveries on intangible assets	(10,190)	(6,388)	(3,802)
200. Other operating income (expense)	(22,063)	51,250	(73,313)
210. OPERATING EXPENSES	**(717,910)**	**(508,756)**	**(209,154)**
220. Profits (losses) on equity investments	5,247	(14,914)	20,161
250. Profits (losses) on disposal of investments	502	53,965	(53,463)
260. PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	**(834,135)**	**(297,612)**	**(536,523)**
270. Taxes on income from continuing operations	(16,335)	17,828	(34,163)
280. PROFIT (LOSS) AFTER TAX FROM CONTINUING OPERATIONS	**(850,470)**	**(279,784)**	**(570,686)**
300. PROFIT (LOSS) FOR THE YEAR	**(850,470)**	**(279,784)**	**(570,686)**

More specifically, Net Interest Income amounted to EUR 112.7 mln (EUR 218.2 mln as at December 2018). In particular, with reference to assets and liabilities at amortised cost, Net Interest Income from customers totalled EUR 326.7 mln, whereas Net Interest Income from banks was a negative EUR 10.3 mln.
Interest income stood at EUR 358 mln and interest expense totalled EUR 245.4 mln. The drop in NII is mainly attributable to the "Securities issued" component, which includes EUR 52 mln worth of charges relating to the subordinated Tier 2 debt and the reduction in interest on loans to customers due to the gradual derisking of assets.

INTEREST AND SIMILAR INCOME (EUR/000)

	31/01/2020	31/12/2018	Change Absolute
Financial assets at fair value through profit or loss	2,875	2,604	271
- financial assets held for trading	*327*	*287*	40
- other financial assets mandatorily at fair value	*2,548*	*2,317*	231
Financial assets at fair value through other comprehensive income	-	74	(74)
Financial assets at amortised cost:	375,944	401,287	(25,343)
- loans to banks	*1,554*	*2,306*	(752)
- loans to customers	*374,390*	*398,981*	(24,591)
Hedging derivatives	(24,931)	(19,925)	(5,006)
Other assets	3,573	4,813	(1,240)
Financial liabilities	583	2,135	(1,552)
Total interest and similar income	**358,044**	**390,988**	**(32,944)**

INTEREST AND SIMILAR EXPENSE (EUR/000)

	31/01/2020	31/12/2018	Change Absolute
Financial liabilities at amortised cost	186,854	125,616	61,238
- due to central banks	1,288	-	1,288
- due to banks	11,852	10,726	1,126
- due to customers	47,680	32,559	15,121
- securities issued	126,034	82,331	43,703
Other liabilities and funds	196	10	186
Hedging derivatives	39,915	32,540	7,375
Financial assets	18,427	14,606	3,821
Total interest and similar expense	**245,392**	**172,772**	**72,620**

Net fees and commissions amounted to EUR 210.2 mln (EUR 228.1 mln in December 2018); fee and commission income amounted to EUR 251.3 mln (EUR 260.6 mln in December 2018), whereas fee and commission expense amounted to EUR 41.1 mln (EUR 32.4 mln in December 2018). The decrease in net fee and commission income was mainly due to charges (EUR 17.7 mln) related to the State guarantee on new bonds issued in the first quarter of 2019 (EUR 2 bn).

FEE AND COMMISSION INCOME (EUR/000)

	31/01/2020	31/12/2018	Change Absolute
Guarantees issued	6,247	6,547	(300)
Portfolio management, brokerage and advisory services:	90,819	93,295	(2,476)
1. Trading of financial instruments	*55*	*26*	29
2. Currency trading	*1,418*	*2,015*	(597)
3. Portfolio management	*1,143*	*1,148*	(5)
4. Custody and administration of securities	*1,538*	*1,581*	(43)
6. Placement of securities	*36,341*	*36,698*	(357)
7. Receipt and issue of orders	*3,875*	*4,046*	(171)
8. Consulting services	*18*	*7*	11
9. Distribution of third-party services	*46,431*	*47,774*	(1,343)
- portfolio management	*2,199*	*2,042*	157
- insurance products	*23,086*	*24,181*	(1,095)
- other products	*21,146*	*21,551*	(405)
Collection and payment services	40,559	52,669	(12,110)
Securitisation servicing	4,283	4,724	(441)
Factoring services	724	706	18
Maintenance and management of current accounts	94,467	87,597	6,870
Other services	14,203	15,035	(832)
Total fee and commission income	**251,302**	**260,573**	**(9,271)**

FEE AND COMMISSION EXPENSE (EUR/000)

	31/01/2020	31/12/2018	Change Absolute
Guarantees received	17,983	364	17,619
Portfolio management and brokerage services	1,711	2,368	(657)
1. Trading of financial instruments	*213*	*899*	(686)
3. Portfolio management	*168*	*186*	(18)
4. Custody and administration of securities	*1,323*	*1,229*	94
5. Placement of financial instruments	*7*	*53*	(46)
6. Off-site marketing of financial instruments, products and services	-	*1*	(1)
Collection and payment services	8,768	18,381	(9,613)
Other services	12,670	11,321	1,349
Total fee and commission expense	**41,132**	**32,434**	**8,698**

Net gains (losses) from disposal/repurchase of financial assets and liabilities contributed a positive EUR 30.4 mln.
More specifically, dividends totalled EUR 20.1 mln (EUR 32.7 mln in December 2018); net profit (loss) from trading amounted to a positive EUR 13.6 mln (EUR 4.7 mln in December 2018), mainly relating to foreign exchange operations, and net profit (loss) from hedging was a positive EUR 245 thousand (as compared to a negative EUR 1.7 mln in December 2018).

PROFIT (LOSS) FROM TRADING *(EUR/000)*

	31/01/2020	31/12/2018	Change Absolute
Debt securities	53	(799)	852
Total equities, debt securities and UCITS	**53**	**(799)**	**852**
Financial derivatives	(419)	(1,100)	681
Exchange differences	23,316	11,206	12,110
Other financial assets/liabilities from trading	(9,312)	(4,645)	(4,667)
Total profit (loss) from trading	**13,638**	**4,662**	**8,976**

Losses on disposal of financial assets at amortised cost amounted to EUR 29 mln, traceable to the fore-going NPL disposal to AMCO (the item must be read together with net losses on impairment of loans. As at December 2018, losses amounted to EUR 62.8 mln and were partly traceable to the disposal of posi-tions classified as unlikely-to-pay exposures and bad loans during the period.

Net profit (loss) from financial assets and liabilities at fair value through profit or loss amounted to a negative EUR 3.1 mln; the item totalled a negative EUR 14.2 mln in December 2018, mainly attributable to the valuation of loans to customers that failed the Solely Payments of Principal and Interests (SPPI) Test and were mandatorily classified under this category.

Net interest and other banking income thus totalled EUR 324.2 mln (EUR 408 mln in December 2018).

Net loan losses totalled EUR 446.5 mln and are mainly traceable to the completion of the foregoing NPE disposal to AMCO, which resulted in the Bank's radical derisking and a consequent reduction of the gross NPE ratio.
The overall net impact of this transaction on the income statement, spread across items 10, 100a, 110b, 130a, amounts to approximately EUR 439.1 mln.

NET LOSSES/RECOVERIES ON CREDIT RISK (EUR/000)

	31/01/2020	31/12/2018	Change Absolute
Financial assets at amortised cost:	446,500	234,710	211,790
1. Loans to banks	*175*	*(968)*	1,143
2. Loans to customers	*446,325*	*235,678*	210,647
Financial assets at fair value through other comprehensive income	11	39	(28)
Total net losses/recoveries on credit risk and other financial items	**446,511**	**234,749**	**211,762**

Net income from banking activities was a negative EUR 122 mln (as against a positive EUR 172.1 mln in December 2018).

Operating expenses totalled EUR 717.9 mln (EUR 508.8 mln in December 2018). More specifically:
- personnel expenses amounted to EUR 371.2 mln (EUR 261.4 mln as at December 2018) and include the provisions to the Redundancy Fund (EUR 114.5 mln) recognised after signing of the union agreements in November 2019;
- other administrative expenses totalled EUR 228.4 mln (EUR 239.8 mln in December 2018) and are inclusive of EUR 20.4 mln in contributions to the National Resolution Fund and the Italian Interbank Deposit Protection Fund (EUR 20.9 mln as at December 2018), as well as EUR 14.7 mln worth of DTA charges (EUR 13.5 mln as at December 2018).

Net provisions for risks and charges amounted to EUR 29.9 mln (41.5 mln in December 2018) and contain charges for an amount of EUR 20.9 mln in relation to indemnification claims on loan disposals completed in prior periods.
Net adjustments to/recoveries on property & equipment and intangible assets totalled EUR 66.4 mln (EUR 17.4 mln as at December 2018). The item was affected, partly, by the write-down of the entire portfolio of not-for-own-use real estate assets (EUR 31.7 mln) and, partly, by the adoption of IFRS16 in 2019, which resulted in the recognition of "rights of use" subject to amortisation (EUR 13.6 mln over thirteen months) and interest expense (EUR 0.9 mln over thirteen months) to replace rents payable, which were recognised under other administrative expenses until 2018 (EUR 16.3 mln in December 2018).

OPERATING EXPENSES *(EUR/000)*

	31/01/2020	31/12/2018	Change Absolute
Personnel expenses	371,183	261,353	109,830
Other administrative expenses	*228,369*	*239,782*	(11,413)
- overhead expenses	*142,447*	*156,066*	*(13,619)*
- contribution to the National Resolution Fund and FITD	*20,375*	*20,867*	*(492)*
- indirect taxes (1)	*50,807*	*49,351*	*1,456*
- DTA charges	*14,740*	*13,498*	*1,242*
Net provisions for risks and charges	29,907	41,523	(11,616)
- commitments and guarantees given	(9,623)	(17,222)	*7,599*
- other net provisions	39,530	58,745	*(19,215)*
Amortisation on:	66,388	17,348	49,040
- tangible assets	*56,198*	*10,960*	*45,238*
- intangible assets	*10,190*	*6,388*	*3,802*
Other operating income (expense)	22,063	(51,250)	73,313
Total operating expenses	**717,910**	**508,756**	**209,154**

(1) The item includes indirect taxes payable by the bank; taxes recovered from customers are posted under item 190 of the Income Statement "Other income/expense".

Other net operating income/expense amounted to a negative EUR 22.1 mln (vs. a positive EUR 51.3 mln in December 2018). The opposite sign is essentially due to the significant increase in other charges which includes the outcome of the settlement agreement with the Apollo/Amissima Group (EUR 44.3 mln) and with Credito Fondiario (EUR 24.5 mln).

OTHER OPERATING INCOME/EXPENSE *(EUR/000)*

	31/01/2020	31/12/2018	Change Absolute
Lease payments receivable	3,284	4,124	(840)
Third-party charges:	51,506	51,896	(390)
recovery of credit facility fees	*11,122*	*11,498*	*(376)*
recovery of taxes (1)	*40,060*	*40,080*	*(20)*
customer insurance premiums	*324*	*318*	*6*
Other income(2)	14,434	16,271	(1,837)
Total other income	**69,224**	**72,291**	**(3,067)**
Routine maintenance costs on investment property	(168)	(5)	(163)
Expenses for improvement of third parties' assets	(261)	(256)	(5)
Other expenses(3)	(90,858)	(20,780)	(70,078)
Total other expenses	**(91,287)**	**(21,041)**	**(70,246)**
Total operating income/expense	**(22,063)**	**51,250**	**(73,313)**

(1) The item includes indirect taxes recovered from customers, which are posted under item 150 b "Other administrative expenses - indirect taxes".
(2) The item includes fees for service level agreements for an amount of EUR 2.3 mln, recovery of legal expenses for an amount of EUR 2.9 mln and other
(3) The item consists of out-of-court settlements and litigation for EUR 78.7 mln.

In light of the considerations above and having regard to gains on equity investments and disposal of investments for an aggregate amount of EUR 5.7 mln, the Group's profit (loss) before tax from continuing operations was a negative EUR 834.1 mln as against a negative EUR 297.6 mln in December 2018.
Finally, considering the EUR 16.3 mln worth of tax for the period, the loss for the period amounted to EUR 850.5 mln.
Including the income components directly booked to equity, the Parent Company's share of total comprehensive income was a negative EUR 837.7 mln.

BALANCE SHEET ITEMS, FUNDING AND LENDING

Overall funding from customers –direct and indirect deposits– totalled EUR 35,682.8 mln as at 31 January 2020, up compared to December 2018 (+7.5%).
Direct deposits amounted to EUR 15,330.6 mln, whilst indirect deposits totalled EUR 20,352.2 mln. The latter accounted for 57% of overall funding from customers, with 48.2% consisting in Assets under Management and 51.8% in Assets under Custody.

OVERALL FUNDING *(EUR/000)*

	Situation as at		Change	
	31/01/2020	31/12/2018	absolute	%
Total (A+B)	**35,682,807**	**33,194,466**	**2,488,341**	**7.5**
Direct deposits (A) (1)	**15,330,626**	**13,922,770**	**1,407,856**	**10.1**
% share of total	*43.0%*	*41.9%*		
Indirect deposits (B)	**20,352,181**	**19,271,696**	**1,080,485**	**5.6**
% share of total	*57.0%*	*58.1%*		
- Assets under Management	9,807,067	9,835,282	(28,215)	(0.3)
% share of total	*27.5%*	*29.6%*		
% share of Indirect deposits	*48.2%*	*51.0%*		
- Assets under Custody	10,545,114	9,436,414	1,108,700	11.7
% share of total	*29.6%*	*28.4%*		
% share of Indirect deposits	*51.8%*	*49.0%*		

(1) Items 20, 30 and 50 of Balance Sheet liabilities.

Overall funding, including direct funding and deposits from banks, amounted to EUR 19,655.2 mln, up 3.3% in the thirteen months.
Direct funding was up 10.1% to EUR 15,330.6 mln, primarily on the back of trends in securities issued, following the issuance, in January 2019, of EUR 2 bn worth of bonds backed by State guarantee pursuant to Law Decree no. 1/2019 (of which EUR 1 bn came to maturity in January 2020), and the placement of approximately EUR 1.5 bn worth of retained bonds with institutional investors during the first half of 2019, as detailed in the section "Key events in the Temporary Administration period" in this Report.
More specifically, direct retail funding, for a total amount of EUR 11,307.7 mln, decreased by 4.7% during the period, whereas institutional funding (EUR 4,022.9 mln) was up compared to EUR 2,057.5 in December 2018.
With regard to direct funding, amounts due to customers totalled EUR 11,252.2 mln, down 4.2%, primarily on the back of the decline in current accounts and demand deposits and the reduction of repurchase agreements to zero. Current accounts, accounting for 82.6% of the aggregate, were down 6.1% to EUR 9,291.9 mln, and were partly offset by an increase in term deposits (from EUR 1,112.1 mln in December 2018 to EUR 1,588.8 mln in January 2020).
The aggregate includes EUR 53.4 mln worth of lease liabilities (item not booked in December 2018), due to first time adoption of the new international accounting principle "IFRS 16 - Leases", as of 1 January 2019.
Securities issued amounted to EUR 4,078.5 mln (EUR 2,178.4 mln in December 2018) and were significantly up (EUR 1.9 bn), mainly ascribable to the liquidity measures described in the section "Key events in the Temporary Administration period" in this Report.

Amounts due to banks stood at EUR 4,324.5 mln, as against EUR 5,106.7 mln as at December 2018. The overall amount of refinancing operations with the ECB (T-LTRO II) totalled EUR 3,500 mln.

FUNDING *(EUR/000)*

	Situation as at		Change	
	31/01/2020	31/12/2018	Absolute	%
Total (A + B)	**19,655,175**	**19,029,461**	**625,714**	**3.3**
Direct deposits (A)	**15,330,626**	**13,922,770**	**1,407,856**	**10.1**
Due to customers	11,252,175	11,744,326	(492,151)	(4.2)
current accounts and demand deposits	*9,291,861*	*9,899,565*	*(607,704)*	*(6.1)*
repurchase agreements	-	*335,423*	*(335,423)*	*(100.0)*
term deposits	*1,588,763*	*1,112,061*	*476,702*	*42.9*
loans	*2,311*	*3,115*	*(804)*	*(25.8)*
lease liabilities	*53,398*	-	*53,398*	...
other	*315,842*	*394,162*	*(78,320)*	*(19.9)*
Securities issued	4,078,451	2,178,444	1,900,007	87.2
bonds	*4,077,845*	*2,177,796*	*1,900,049*	*87.2*
other securities	*606*	*648*	*(42)*	*(6.5)*
short-term	10,013,529	10,850,697	(837,168)	(7.7)
% share of total	*65.3*	*77.9*		
medium-long term	5,317,097	3,072,073	2,245,024	73.1
% share of total	*34.7*	*22.1*		
Due to banks (B)	**4,324,549**	**5,106,691**	**(782,142)**	**(15.3)**
Due to central banks	3,500,000	3,500,000	-	-
Current accounts and demand deposits	191,780	361,585	(169,805)	(47.0)
Term deposits (1)	107,745	6,970	100,775	...
Repurchase agreements	252,813	923,345	(670,532)	(72.6)
Loans	229,787	280,947	(51,160)	(18.2)
Lease liabilities	2,464	-	2,464	...
Other	39,960	33,844	6,116	18.1

(1) The item includes deposits made in euro by subsidiary banks for the amount of the compulsory reserve due from them, held indirectly through the Parent Company, amounting to EUR 6,970 thousand as at 31/12/2018 and to EUR 6,863 thousand as at 31/01/2020.

In terms of breakdown by segment, 67.7% of amounts due to customers were from households and amounted to EUR 7,616.2 mln; non-financial companies and personal businesses (EUR 1,473.4 mln) accounted for 13.1%. Financial companies contributed EUR 1,346.4 mln worth of deposits (12% of total), private social institutions EUR 452.3 mln (4% of total) and public administrations EUR 363.8 mln (3.2% of total).

DIRECT DEPOSITS[1] - BREAKDOWN BY BUSINESS SEGMENT *(EUR/000)*

	31/01/2020		31/12/2018	
		%		%
Public Administration	363,783	3.2%	429,881	3.8%
Financial companies	1,346,374	12.0%	911,739	8.0%
Non-financial businesses and personal businesses	1,473,784	13.1%	1,647,253	14.4%
Private social institutions and non-classified entities	452,306	4.0%	504,318	4.4%
Households	7,615,928	67.7%	7,915,712	69.4%
Total by business segment	**11,252,175**	**100.0%**	**11,408,903**	**100.0%**
Repurchase agreements	-		335,423	
Total deposits from customers	**11,252,175**		**11,744,326**	
Securities issued	**4,078,451**		**2,178,444**	
Total direct deposits	**15,330,626**		**13,922,770**	

(1) Items 20, 30 and 50 of Balance Sheet liabilities.

Indirect deposits, amounting to EUR 20,352.2 mln, were up 5.6% in the thirteen-month period.
Assets under management stood at EUR 9,807.1 mln, broadly stable compared to December 2018 (-0.3%): more specifically, bancassurance products were down 1.9% to EUR 5,474.7 and portfolio management was down 6.8% to EUR 91.3 mln, whereas mutual funds and open-ended collective investment schemes (SICAV) amounted to EUR 4,241 mln, up 2%.
Assets under Custody amounted to EUR 10,545.1 mln, up 11.7%, on the back of trends in assets pertaining to Amissima Assicurazioni amounting to EUR 6,673.6 mln (up 8%); a decrease was registered in government bonds (-8.3% to EUR 2,001.4 mln), while bonds totalled EUR 299.7 mln (-38.3%). Shares amounted to EUR 1,570.4 mln, up compared to EUR 591.2 mln in December 2018. The aggregate includes a relative value of approximately EUR 915 mln for Carige ordinary shares valued at the latest available market price before suspension from trading (EUR 0.0015 on 28 December 2018).

INDIRECT DEPOSITS *(EUR/000)*

	Situation as at		Change	
	31/01/2020	31/12/2018	absolute	%
Total (A+B)	**20,352,181**	**19,271,696**	**1,080,485**	**5.6**
Assets under Management (A)	**9,807,067**	**9,835,282**	**(28,215)**	**(0.3)**
Mutual funds and open-end collective investment schemes	4,240,979	4,156,951	84,028	2.0
Portfolio management	91,348	98,047	(6,699)	(6.8)
Bancassurance products	5,474,740	5,580,284	(105,544)	(1.9)
Assets under Custody (B)	**10,545,114**	**9,436,414**	**1,108,700**	**11.7**
Government securities	2,001,363	2,182,656	(181,293)	(8.3)
Bonds	299,727	485,938	(186,211)	(38.3)
Shares (1)	1,570,380	591,202	979,178	...
Other	6,673,644	6,176,618	497,026	8.0

(1) The aggregate includes EUR 915.5 mln worth of Carige shares, the ordinary component of which is valued at the last available stock exchange price (i.e. EUR 0.0015 as at 28/12/2018).

In terms of breakdown by segment, the two main customer segments -households and financial companies- respectively contributed 57.5% and 38% of the total; the share contributed by non-financial businesses and personal businesses was 3.2%.

INDIRECT DEPOSITS - BREAKDOWN BY BUSINESS SEGMENT *(EUR/000)*

	31/01/2020		31/12/2018	
		%		%
Public Administration	157,044	0.8%	134,108	0.7%
Financial companies	7,738,601	38.0%	6,427,453	33.4%
Non-financial businesses and personal businesses	649,803	3.2%	655,132	3.4%
Private social institutions and non-classified entities	104,216	0.5%	109,439	0.6%
Households	11,702,517	57.5%	11,945,564	62.0%
Total indirect deposits	**20,352,181**	**100.0%**	**19,271,696**	**100.0%**

Gross of value adjustments and net of debt securities at amortised cost, loans to customers totalled EUR 13,306.2 mln (down 17.1% as compared to December 2018, mainly due to the NPE portfolio disposal). Excluding the institutional component, gross loans to retail customers amounted to EUR 11,380.9 mln, down on December 2018 (26%). As part of this aggregate, a decrease was registered in both loans to businesses (-31.9% to EUR 5,708.4 mln) and loans to households (-6.3% to EUR 5,357.4 mln).
The short-term component, accounting for 24.8% of total, amounted to EUR 3,302.4 mln (+27.8% compared to 31 December 2018); the medium-long term component amounted to EUR 9,777.1 mln (-22.2% compared to 31 December 2018). Bad loans fell to EUR 226.7 mln (-75%) following completion of the above-mentioned NPE disposal to AMCO.
Loans to banks, net of debt securities at amortised cost and gross of adjustments for an amount of EUR 3.7 mln, totalled EUR 4,264.3 mln, up from EUR 1,364.8 mln as at December 2018; 93.3% of this aggregate is accounted for by short-term loans.
The net interbank position (difference between loans to and deposits from banks, net of debt securities at amortised cost) shows a debt exposure of EUR 64 mln, as compared to a debt exposure of EUR 3,745.4

mln in December 2018. The change is primarily related to trends in compulsory reserves, which amounted to EUR 3.7 bn as at 31 January 2020.

LOANS AT AMORTISED COST [1] *(EUR/000)*

	Situation as at		Change	
	31/01/2020	31/12/2018	Absolute	%
Total (A+B)	**16,982,602**	**15,758,730**	**1,223,872**	**7.8**
Loans to customers (A)	**12,722,030**	**14,397,458**	**(1,675,428)**	**(11.6)**
- Gross exposure [2]	13,306,206	16,055,304	(2,749,098)	(17.1)
current accounts	*954,155*	*1,196,529*	*(242,374)*	*(20.3)*
repurchase agreements	*1,351,990*	*-*	*1,351,990*	*...*
mortgage loans	*7,371,845*	*8,723,770*	*(1,351,925)*	*(15.5)*
credit cards, personal loans and fifth of salary-backed loans	*80,431*	*77,373*	*3,058*	*4.0*
leasing	*430,474*	*485,168*	*(54,694)*	*(11.3)*
factoring	*72,929*	*57,811*	*15,118*	*26.2*
other loans	*1,924,637*	*2,112,058*	*(187,421)*	*(8.9)*
non-performing assets	*1,119,745*	*3,402,595*	*(2,282,850)*	*(67.1)*
- short term	3,302,364	2,584,270	718,094	27.8
% share of nominal value	*24.8*	*16.1*		
- medium/long term	9,777,096	12,562,358	(2,785,262)	(22.2)
% share of nominal value	*73.5*	*78.2*		
- Bad loans	226,746	908,676	(681,930)	(75.0)
% share of nominal value	*1.7*	*5.7*		
- Value adjustments (-)	584,176	1,657,846	(1,073,670)	(64.8)
Loans to banks (B)	**4,260,572**	**1,361,272**	**2,899,300**	**...**
- Gross exposure [2]	4,264,302	1,364,827	2,899,475	...
compulsory reserves	*3,745,343*	*378,126*	*3,367,217*	*...*
current accounts and demand deposits	*16,072*	*20,728*	*(4,656)*	*(22.5)*
term deposits	*193*	*500*	*(307)*	*(61.4)*
repurchase agreements	*173,049*	*633,664*	*(460,615)*	*(72.7)*
loans [3]	*316,842*	*319,028*	*(2,186)*	*(0.7)*
non-performing assets	*12,803*	*12,781*	*22*	*0.2*
-short term	3,977,104	1,090,045	2,887,059	...
% share of nominal value	*93.3*	*79.9*		
-medium/long term	287,198	274,782	12,416	4.5
% share of nominal value	*6.7*	*20.1*		
- Value adjustments (-)	3,730	3,555	175	4.9

(1) Net of debt securities, amounting to EUR 40 mln classified as loans to banks and EUR 1.192 mln classified as loans to customers.

(2) Before value adjustments.

(3) The item includes down payments pledged as collateral on OTC derivative contracts for EUR 308,822 thousand as at 31/01/2020 and EUR 272,984 as at 31/12/2018.

In terms of a breakdown by segment, non-financial companies and personal businesses accounted for 42.4% of loans to customers, for a total of EUR 5,068.9 mln (50.4% as at December 2018).
The share of consumer households was 39.5% (32.6% as at December 2018), whereas the public administrations' share of total was 11.7% (8.5% as at December 2018). As far as financial companies are concerned, the share stood at 5.6% (it was 8% in December 2018), while private social institutions and units that cannot be classified accounted for a share of 0.7% (0.5% in December 2018).

GROSS LOANS TO CUSTOMERS[1] - BREAKDOWN BY BUSINESS SEGMENT*(EUR/000)*

	31/01/2020	%	31/12/2018	%
Public Administration	1,403,728	11.7%	1,360,383	8.5%
Financial companies	667,975	5.6%	1,286,609	8.0%
Non-financial businesses and personal businesses	5,068,889	42.4%	8,086,918	50.4%
Wholesale and retail trade; repair of motorvehicles and motorcycles	*994,777*	*8.3%*	*1,461,629*	*9.1%*
Manufacturing	*905,899*	*7.6%*	*1,414,347*	*8.8%*
Transportation and storage	*747,450*	*6.3%*	*1,001,679*	*6.2%*
Real Estate	*674,379*	*5.6%*	*998,322*	*6.2%*
Construction	*630,870*	*5.3%*	*1,554,688*	*9.7%*
Other	*1,115,514*	*9.3%*	*1,656,253*	*10.3%*
Private social institutions and non-classified entities	87,338	0.7%	86,097	0.5%
Households	4,726,286	39.5%	5,235,297	32.6%
Total breakdown by business segment	**11,954,216**	**100.0%**	**16,055,304**	**100.0%**
Buy/sell-back repos (assets) with financial institutions	1,351,990		-	
Total loans to customers	**13,306,206**	**100.0%**	**16,055,304**	**100.0%**

(1) Gross of value adjustments and debt securities at amortised cost.

Following completion of the foregoing NPE disposal to AMCO, non-performing on-balance-sheet loans to customers amounted to EUR 1,119.7 mln (EUR 3,402.6 mln in December 2018); the corresponding share of gross non-performing loans to customers out of total gross loans to customers ("gross NPE ratio") settled at 8.4% (21.2% in December 2018).

In particular, gross bad loans to customers totalled EUR 226.7 mln (EUR 908.7 mln in December 2018) and account for 1.7% of the aggregate.

Gross Unlikely-To-Pay exposures to customers totalled EUR 868.7 mln (EUR 2,454.5 in December 2018).

Past due loans, consisting entirely in loans to customers, totalled EUR 24.3 mln, on a downturn from EUR 39.4 mln as at December 2018.

The coverage ratio for non-performing on-balance-sheet loans to banks and customers was 44.3% compared to 45.5% as at 31 December 2018. In particular, bad loans show a coverage of 69.9%, Unlikely-To-Pay exposures of 38.4% and past-due exposures of 18.1%, values that guarantee full compliance with the coverage targets set by the ECB.

As a whole, losses on loans to customers (including performing exposures) amounted to EUR 584.2 mln (EUR 1,657.8 mln in December 2018).

QUALITY OF LOANS AT AMORTISED COST[1] *(EUR/000)*

	31/01/2020				31/12/2018			
	Gross exposure (a)	Value adjustments (b)	Net exposure (a)-(b)	% (b) / (a)	Gross exposure (a)	Value adjustments (b)	Net exposure (a)-(b)	% (b) / (a)
On-balance-sheet loans								
Non-performing loans								
Bad loans	226,746	158,598	68,148	69.9	908,676	613,376	295,300	67.5
- customers	226,746	158,598	68,148	69.9	908,676	613,376	295,300	67.5
Unlikely-To-Pay exposures	881,540	338,591	542,949	38.4	2,467,286	932,072	1,535,214	37.8
- banks	12,803	3,348	9,455	26.2	12,781	3,326	9,455	26.0
- customers	868,737	335,243	533,494	38.6	2,454,505	928,746	1,525,759	37.8
Past due	24,262	4,391	19,871	18.1	39,414	7,086	32,328	18.0
- customers	24,262	4,391	19,871	18.1	39,414	7,086	32,328	18.0
Total non-performing loans	**1,132,548**	**501,580**	**630,968**	**44.3**	**3,415,376**	**1,552,534**	**1,862,842**	**45.5**
- banks	**12,803**	**3,348**	**9,455**	**26.2**	**12,781**	**3,326**	**9,455**	**26.0**
- customers	**1,119,745**	**498,232**	**621,513**	**44.5**	**3,402,595**	**1,549,208**	**1,853,387**	**45.5**
- of which Forborne	**237,807**	**87,247**	**150,560**	**36.7**	**1,438,623**	**573,459**	**865,164**	**39.9**
Performing loans								
- banks	4,251,499	382	4,251,117	0.0	1,352,046	229	1,351,817	0.0
- customers	12,186,461	85,944	12,100,517	0.7	12,652,709	108,638	12,544,071	0.9
Total performing loans	**16,437,960**	**86,326**	**16,351,634**	**0.5**	**14,004,755**	**108,867**	**13,895,888**	**0.8**
- of which Forborne	**301,557**	**14,674**	**286,883**	**4.9**	**514,842**	**28,390**	**486,452**	**5.5**
Total on-balance-sheet loans	**17,570,508**	**587,906**	**16,982,602**	**3.3**	**17,420,131**	**1,661,401**	**15,758,730**	**9.5**
- banks	**4,264,302**	**3,730**	**4,260,572**	**0.1**	**1,364,827**	**3,555**	**1,361,272**	**0.3**
- customers	**13,306,206**	**584,176**	**12,722,030**	**4.4**	**16,055,304**	**1,657,846**	**14,397,458**	**10.3**

(1) Net of debt securities, amounting to EUR 40 mln classified as loans to banks and EUR 1.192 mln classified as loans to customers.

The breakdown by business segment shows an 46.3% share for non-financial companies and personal businesses (82.9% as at December 2018), corresponding to a total amount of EUR 105 mln.
Consumer households are the second largest sector for bad loans in volumes (EUR 51.7 mln), with a share of 22.8% (13.8% in December 2018).

BAD LOANS TO CUSTOMERS [1] - BREAKDOWN BY BUSINESS SEGMENT *(EUR/000)*

	31/01/2020		31/12/2018	
		%		%
Public Administration	999	0.4%	1,536	0.2%
Financial companies	68,763	30.3%	24,252	2.7%
Non-financial businesses and personal businesses	104,996	46.3%	753,455	82.9%
Manufacturing	*26,106*	*11.5%*	*132,775*	*14.6%*
Wholesale and retail trade; repair of motorvehicles and motorcycles	*24,190*	*10.7%*	*94,213*	*10.4%*
Construction	*18,526*	*8.2%*	*313,855*	*34.5%*
Real Estate	*12,936*	*5.7%*	*55,506*	*6.1%*
Health and social care	*4,582*	*2.0%*	*5,488*	*0.6%*
Other	*18,656*	*8.2%*	*151,618*	*16.7%*
Private social institutions and non-classified entities	249	0.1%	3,594	0.4%
Households	51,739	22.8%	125,839	13.8%
Total bad loans	**226,746**	**100.0%**	**908,676**	**100.0%**

(1) Gross of value adjustments and debt securities at amortised cost.

The gross bad loans/total loans ratio is 1.7% (5.7% in December 2018).

BAD LOANS/TOTAL LOANS [1] - BREAKDOWN BY BUSINESS SEGMENT *(percentage values)*

	31/01/2020	31/12/2018
Public Administration	0.1%	0.1%
Financial companies	10.3%	1.9%
Non-financial businesses and personal businesses [2]	2.1%	9.3%
- o.w.:		
Wholesale and retail trade; repair of motorvehicles and motorcycles	*2.4%*	*6.4%*
Manufacturing	*2.9%*	*9.4%*
Transportation and storage	*0.5%*	*1.8%*
Real Estate	*1.9%*	*5.6%*
Construction	*2.9%*	*20.2%*
Private social institutions and non-classified entities	0.3%	4.2%
Households	1.1%	2.4%
Total [3]	**1.7%**	**5.7%**

(1) Gross of value adjustments and debt securities at amortised cost.
(2) Reference is made to the first five business segments in terms of credit exposure.
(3) Buy/sell-back repos (assets) with financial institutions are included in the denominator (gross receivables).

The securities portfolio amounted to EUR 2,068.2 mln, down 18.3% as compared to December 2018, mainly on account of trends in debt securities held for trading.
As shown in the table below, debt securities (EUR 1,767.5 mln) make up 85.5% of the portfolio (although consisting mainly of government securities, this item also includes securities issued by securitisation vehicles, which were underwritten by the Bank as part of the NPE disposals). Equities amount to EUR 288.6 mln. These include the 3.50% equity investment in the Bank of Italy, totalling EUR 262.3 mln, and, as of the first half of 2019, the 19.9% equity investment in Creditis S.p.A., which was consolidated on a line-by-line basis until the disposal of the controlling interest (26 March 2019). Units in UCITS (Undertakings for Collective Investment in Transferable Securities) totalled EUR 12.1 mln.
As regards the breakdown under the international accounting standards (IAS/IFRS), securities at amortised cost totalled EUR 1,231.7 mln and accounted for 59.6% of the securities portfolio; financial assets at fair value through other comprehensive income amounted to EUR 783.5 mln (37.9% of the securities portfolio); financial assets mandatorily measured at fair value stood at EUR 52.9 mln, whereas securities Held For Trading (HFT) totalled EUR 114 thousand.

SECURITIES PORTFOLIO *(EUR/000)*

		Situation as at		Change	
		31/01/2020	31/12/2018	Absolute	%
Debt securities		**1,767,486**	**2,203,329**	**(435,843)**	**(19.8)**
	Held for trading	114	327,212	(327,098)	(100.0)
	Mandatorily at fair value	40,221	48,854	(8,633)	(17.7)
	At fair value through other comprehensive income	495,466	497,979	(2,513)	(0.5)
	At amortised cost	1,231,685	1,329,284	(97,599)	(7.3)
Equity instruments		**288,566**	**313,897**	**(25,331)**	**(8.1)**
	Mandatorily at fair value	574	724	(150)	(20.7)
	At fair value through other comprehensive income	287,992	313,173	(25,181)	(8.0)
Units in UCITS		**12,122**	**14,101**	**(1,979)**	**(14.0)**
	Mandatorily at fair value	12,122	14,101	(1,979)	(14.0)
Total [1]		**2,068,174**	**2,531,327**	**(463,153)**	**(18.3)**
of which:					
	Held for trading	114	327,212	(327,098)	(100.0)
	Mandatorily at fair value	52,917	63,679	(10,762)	(16.9)
	At fair value through other comprehensive income	783,458	811,152	(27,694)	(3.4)
	At amortised cost	1,231,685	1,329,284	(97,599)	(7.3)

(1) Balance sheet items 20 (net of derivatives and loans), 30 and 40 (only for the part relative to debt securities at amortised cost) are included in the aggregate.

The value of trading derivative contracts stood at EUR 42.9 mln (assets) and EUR 42.4 mln (liabilities) (EUR 36.2 mln and EUR 35.5 mln, respectively, as at 31 December 2018).

The value of hedging derivatives (assets) amounted to EUR 9.1 mln (EUR 13.8 mln in December 2018) and hedging derivatives (liabilities) totalled EUR 225 mln (EUR 204.9 mln in December 2018). Tax assets and liabilities respectively amounted to EUR 1,616.5 mln and EUR 5.5 mln. Deferred tax assets totalled EUR 1,042.5 mln.

As at 31 January 2020, the book value of the Bank's exposures to sovereign states amounted to EUR 1,371.7 mln. The tables below show that the nominal value of these exposures amounted to EUR 1,342.6 mln, while their fair value stood at EUR 1,383 mln.

Total exposure with sovereign states as at 31/01/2020 *(EUR/000)*

	Nominal value	Book value	Fair Value
Exposure with EU countries			
Italy	1,342,528	1,371,665	1,382,994
Total exposure with EU countries	**1,342,528**	**1,371,665**	**1,382,994**
Exposure with other countries			
Argentina	47	-	-
Total exposure with other countries	**47**	**-**	**-**
Total Carige Group	**1,342,575**	**1,371,665**	**1,382,994**

	Financial assets measured at fair value through profit or loss (IFRS 7, para. 8, letter a))	***Financial assets at fair value through other comprehensive income (IFRS 7, para. 8, letter h))***	***Financial assets at amortised cost (IFRS 7, para. 8, letter f))***	**Total book value**
Exposure with EU countries				
Italy	19	495,466	876,180	1,371,665
Total exposure with EU countries	**19**	**495,466**	**876,180**	**1,371,665**
Exposure with other countries				
Argentina	-	-	-	-
Total exposure with other countries	**-**	**-**	**-**	**-**
Total Carige Group	**19**	**495,466**	**876,180**	**1,371,665**

EUR/000

FIXED ASSETS, EQUITY INVESTMENTS AND TREASURY SHARES

The value of property and equipment amounted to EUR 708.8 mln, up 2.2% during the year. Within the scope of property and equipment used in the business, total increases by an amount of EUR 8.4 mln (EUR 6 mln of which in purchases) were recorded during Temporary Administration; decreases amounted to EUR 87.1 mln of which EUR 57.1 mln due to transfers to property and equipment held for investment and EUR 21.3 mln due to amortisation for the period (see Part B, Section 8 of the Explanatory Notes).
Intangible fixed assets amounted to EUR 77.4 mln, up from EUR 53.6 mln as at December 2018.
The value of equity investments stood at EUR 74.8 mln, as against EUR 72.3 mln as at December 2018 (+3.5%).
As at 31 January 2020 an impairment test was performed on investments held in the subsidiaries Banca Cesare Ponti and Banca del Monte di Lucca, and in the real estate company Carige Reoco S.p.A.. This analysis showed a value in use for Banca del Monte di Lucca of EUR 1.6 mln, lower than the EUR 5 mln value of the investment prior to impairment testing. The investment in Banca Cesare Ponti was confirmed to be equal to its carrying amount (EUR 12 mln), while the book value of the investment in Carige Reoco was adjusted from EUR 5 mln to EUR 20 mln following the capital increase of the company that was resolved upon by the Board of Directors.
Section 7 of the "Assets" in the Notes to the Financial Statements provides more information about equity investments and impairment test results.

The book value of equity investments in non-Group companies amounts to EUR 41.2 mln (EUR 42.3 mln as at December 2018), entirely attributable to the company Autostrada dei Fiori S.p.A..

As at 31 January 2020, the Bank held a total of 219,511 treasury shares in its portfolio, plus 44 former ordinary shares with a nominal value of Italian Lira 10,000 per share. The latter shares derive from the conversion of share capital into Euros, resolved upon by the Extraordinary Shareholders' Meeting of 6 December 2001 and subsequent stock split: as at today, 6 non-dematerialised ordinary shares have not been presented for conversion and, therefore, it has not been possible to fulfil the obligations set out in the aforementioned resolution, which requires a minimum threshold of 50 old shares.

CASH FLOW STATEMENT, SHAREHOLDERS' EQUITY AND RISK MANAGEMENT

Net cash flow used in the period under Temporary Administration amounted to EUR 11.1 mln, against EUR 30.2 mln net cash flow used in December 2018. More specifically, EUR 385.7 mln in net cash flow was used in operating activities and EUR 6.1 mln in net cash flow was used in investment activities, while a net cash flow of EUR 380.8 mln was generated from funding activities.
After deducting treasury shares for an amount of EUR 15.6 mln, equity totalled to EUR 1,503.8 mln as at 31 January 2020, and consisted of: share capital for an amount of EUR 1,915.2 mln, negative reserves totalling EUR 77.2 mln, negative valuation reserves for an amount of EUR 92.2 mln (of which EUR 73.6 mln referring to the negative cashflow hedge reserve) and a loss for the period totalling EUR 850.5 mln.

The Parent Company, Banca Carige, in compliance with the law and regulations and pursuant to the provisions of the Corporate Governance Code for listed companies, has adopted an Internal Control System (ICS) designed to identify, measure and continually verify the risks typical of the Bank's business.
From an operational perspective, the ICS includes 3 levels of control:
- Line controls (1st level) for the purpose of ensuring the correct performance of operations; these are carried out by the operating units or built-in in the IT procedures;

- Risk management controls (2nd level), aimed at defining the methods for measuring risk, verifying compliance with the limits assigned to the various operating functions and monitoring the attainment of their respective risk-return objectives. These controls are assigned to units other than operating units, i.e.: the Manager in charge of preparing the company's accounting documents, Risk Management, Rating Systems Validation, Compliance, Anti-Money Laundering; Internal auditing (3rd level) is performed by the Internal Control department (which is different and independent from the operating units).
- Its tasks are to assess the adequacy and effectiveness of first and second level controls, to identify irregularities, breaches of procedures and regulations and to evaluate the functional efficiency of the Internal Control System as a whole.

Risk-taking policies in the Carige Group are set by the RAF (Risk Appetite Framework), approved by the Parent Company's Board of Directors, which defines the risk-return target profile which the Group intends to adopt in line with its business model and Strategic Plan.
The Parent Company has steering and supervision functions in respect of all risks, primarily via an integrated risk management of Pillar 1 and Pillar 2 risks under the Bank of Italy's supervisory instructions (circ. No. 285 of 17 December 2013 as later amended).
The different risk categories are monitored by the 2nd level control functions, and the results are subject to periodic reporting to the Board of Directors, Risk Committee, Risk control committee and Top Management.

In terms of capital position, as at 31 January 2020, Banca Carige's own funds totalled EUR 1,376 mln and its 13.0% phased-in Total Capital Ratio, 11.1% phased-in Tier 1 Ratio and 11.1% phased-in Common Equity Tier 1 Ratio were higher than the minimum regulatory levels.
The fully-phased in TCR is 11.0%, T1R is 9.0% and CET1 is 9.0%.

BREAKDOWN OF OWN FUNDS

(EUR/000)

	Situation as at	
	31/01/2020 Bis III	31/12/2018 Bis III
Common Equity Tier 1 capital before deductions	**1,758,803**	**1,987,796**
Share capital	1,915,164	1,845,163
Reserves from profit and other reserves	(77,156)	202,191
Share premium reserve	623,958	-
Profit (+) / Loss (-) for the year	(850,470)	(279,784)
OCI reserves (1)	(92,170)	(104,892)
IFRS9 Phase-in impact on CET1		
Bis III Phase-in impact on CET1	239,478	325,118
Deductions from common equity Tier 1 capital	**590,026**	**562,845**
Goodwill	-	-
Bis III deductions with 10% threshold	43,442	39,774
Bis III deductions with 17.65% threshold	-	-
Excess of deduction from AT1 items over AT1 capital	-	-
Other negative elements and prudential filters	546,585	523,071
Common Equity Tier 1 capital (CET1)	**1,168,777**	**1,424,951**
Additional Tier 1 capital (AT1)	**0**	**1**
AT1 instruments (capital)	0	1
AT1 instruments (share premium)	0	-
Innovative capital instruments (Grandfathering)	-	-
Phase-in impact on AT1	-	-
Excess of deduction from AT1 items over AT1 capital	-	-
Tier 1 (T1) (CET1+AT1)	**1,168,777**	**1,424,952**
Tier 2 (T2)	**206,800**	**320,000**
Own Funds (T1+T2)	**1,375,577**	**1,744,952**

OWN FUNDS AND SOLVENCY RATIOS

(EUR/000)

	Situation as at	
	31/01/2020 Bis III	31/12/2018 Bis III p.i.
Own Funds		
Common Equity Tier 1 capital	1,168,777	1,424,951
Additional Tier 1 capital	0	1
Tier 1 capital	1,168,777	1,424,952
Tier 2 capital	206,800	320,000
Own Funds	**1,375,577**	**1,744,952**
Risk-weighted assets		
Credit risk	9,074,306	12,194,953
Credit risk Bis III (1)	637,420	716,851
Market risk	23,002	32,212
Operational risk	810,641	943,221
Total risk-weighted assets	10,545,370	13,887,238
Capital requirements		
Credit risk	725,944	975,596
Credit risk Bis III	50,994	57,348
Market risk	1,840	2,577
Operational risk	64,851	75,458
Total requirements	843,630	1,110,979
Ratios		
Common Equity Tier 1 capital/Total risk-weighted assets	11.1%	10.3%
Tier 1 capital/Total risk-weighted assets	11.1%	10.3%
Own Funds/Total risk-weighted assets	13.0%	12.6%

(1) Includes risk weights for DTAs and non-deductible material and non-material investments.

For an overview of the organisation of the Internal Control System and the typical risks of the Bank's business, please refer to part E of the Notes to the separate and consolidated financial statements: "Information on risks and risk hedging policies"

RELATIONS WITH SHAREHOLDERS AND INVESTEES

Pursuant to Consob Recommendation no. 97001574 of 20 February 1997, it is noted that relations with investees and other related parties are part of the Bank's business and are regulated according to market conditions.
Details about relations with shareholders and investees are provided in the table below.

RELATIONS WITH SHAREHOLDERS AND INVESTEES *(EUR/000)*

	31/01/2020					
	Assets	**Liabilities**	**Guarantees and commitments**	**Dividends paid**	**Other income**	**Expenses**
CARIGE SHAREHOLDERS EXERCISING SIGNIFICANT INFLUENCE	**303**	**-**	**-**	**-**	**-**	**9,962**

	31/01/2020					
	Assets	**Liabilities**	**Guarantees and commitments**	**Dividends collected**	**Other income**	**Expenses**
INVESTEES	**281,315**	**339,521**	**821**	**-**	**16,946**	**5,794**
Banca del Monte di Lucca SpA	79,303	126,114	68	-	5,022	3,115
Banca Cesare Ponti SpA	60,105	201,362	505	-	9,925	2,375
Centro Fiduciario SpA	261	345	-	-	-	-
Argo Mortgage 2 Srl	-	98	-	-	11	-
Carige Covered Bond Srl	-	10	-	-	11	-
Carige Covered Bond 2 Srl	-	10	-	-	11	-
Lanterna Finance Srl	-	10	-	-	11	-
Lanterna Lease Srl	-	10	-	-	11	-
Lanterna Consumer Srl	-	4	-	-	11	-
Carige Reoco SpA	19,333	11,558	248	-	1,192	304
Abitare RE Srl	122,313	-	-	-	741	-
COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE	**-**	**3,324**	**51**	**9,399**	**-**	**5**
Autostrada dei Fiori SpA and subsidiaries	-	3,323	51	9,399	-	5
Nuova Erzelli Srl	-	1	-	-	-	-
Total	**281,315**	**342,845**	**872**	**9,399**	**16,946**	**5,799**

RELATIONS WITH OTHER RELATED PARTIES *(EUR/000)*

	Assets	**Liabilities**	**Guarantees and commitments**	**Income**	**Expenses**	**Purchase of assets and services**
Other related parties	651	1,205	-	8	8	-
TOTAL	**651**	**1,205**	**-**	**8**	**8**	**-**

As at 31 January 2020, the Bank does not hold –nor did it hold during the period under Temporary Administration– any shares or quotas in shareholdings exercising significant influence.

Please refer to Part H - Related-parties transactions" of the Notes to the Financial Statements for further details.

MAIN RISKS AND UNCERTAINTIES AND OUTLOOK ON OPERATIONS

Business operations in 2019 unfolded against a macroeconomic scenario which was still characterised by a phase of uncertainty, despite some timid signs of recovery. Trade has been expanding again and commercial tensions between the USA and China have eased, but prospects remain uncertain due to persisting geopolitical tensions.
The European economy was slowed down mainly by the weakness of the manufacturing industry, with potential repercussions on the growth of the service sector.
With regard to Italy, the stagnation phase continued, with a slightly positive GDP trend, supported by domestic demand and a positive contribution from changes in inventories, against a sharp contraction in foreign trade.

The Banca Carige Group manages risks that are typical of the banking business -including liquidity, market, credit and compliance risk. For this purpose, it uses regulatory models and more advanced approaches that, over time, have made it possible to expand the range of risks monitored and improve the assessment of capital adequacy from both a regulatory and an economic point of view.

The main risks and uncertainties identified stem from the macroeconomic, monetary and political context, which is characterised by significant international trade tensions and a slowdown in global operations, with monetary conditions that will continue to remain very accommodative in the future.
The impacts of a continuously evolving regulatory framework (caused by the adoption of new accounting standards, a new definition of default, more stringent rules on exposures to sovereign states, the EU-wide process of transposition of the new Stable Funding and Leverage Ratio regulatory frameworks, changes in the calculation of the capital requirement on credit risk) are likewise an element of uncertainty with specific regard to liquidity and capital profiles and the IRRBB rate and, more in general, the entire supervisory mechanism (Banking Union, Single Supervisory Mechanism (SSM), the introduction of the Bank Recovery and Resolution Directive (BRRD), the introduction of the bail-in mechanism as a tool for the resolution of failing banks); chief among the uncertainties connected with the SSM are the potential requests that may be made as a result of the ongoing on-site and remote inspections conducted by the ECB on the Bank’s operations.
The difficulties of the macro-economic and financial context, reflected in the real economy, will hamper a robust growth in funding/lending volumes, and will affect both lending and the quality of loans granted. In addition to these challenges, the lending sector is affected by specific, inherent issues, such as reduced Net Interest Income in a scenario of low interest rates (a reversal of the current expansionary monetary policy has been further delayed), difficulties in compressing operating expenses further, combined with the need to support investments in digitisation, high provisions and/or losses on loan portfolios to meet the need for a rapid disposal of large portions of the NPE portfolio to specialised players.

Specifically, in addition to the probable impact of the above-mentioned factors, the Group has managed the ongoing turnaround and necessary compliance with the asset and capital quality requirements of the supervisory authority within the framework of the Temporary Administration procedure which was imposed on the Bank by the ECB on 2 January 2019 and came to a close on 31 January 2020. The ECB-appointed Temporary Administrators outlined the short-and medium-term strategy required to sustainably overcome this challenging phase in the new Strategic Plan (presented to the financial community on 27 February 2019). This Plan was functional for the pursuit of a business combination process during the first half of 2019. For this purpose, contacts were established with various (mainly financial) counterparties; however, the process did not materialise into a business combination. On 24 June 2019, the Italian Interbank Deposit Protection Fund stepped in, announcing its utmost willingness to support the Bank's rescue plan including by means of the Voluntary Intervention Scheme. In the meantime, AMCO (former ‘Società per la Gestione di Attività - SGA S.p.A.’) had submitted a binding derisking proposal, for the purchase of the non-performing portfolio and the granting of a guarantee on a large portion of the performing loan portfolio, characterised by greater risk of decay. At the end of July 2019, the Temporary Administrators updated the Business Plan to incorporate the financial projects arising from new developments in the agreements that were being entered into with FITD, SVI, AMCO and the private partner Cassa Centrale Banca. On 9 August 2019, the Bank, SVI, FITD and CCB entered into the Framework Agreement which made it possible, through corporate and authorisation processes, to successfully finalise the capital strengthening effort on 20 December 2019 and to restore the Bank's capital and risk indicators, including through the derisking transaction with AMCO.

Since 31 January, the foregoing risk factors are have been compounded by the non-measurable impact of the spread of the Coronavirus pandemic, which the Temporary Administrators are currently unable to quantify: although a sharp reduction in global GDP is very likely, its extent is still very difficult to predict, as can be seen from the first estimates released by leading economic research institutes.
Although it is certainly true that the current closure of most economic activities will lead to a reduction in generated income, no predictions can be made about its impact on the national economy at the moment. A crucial role will certainly be played by the economic measures that national and European political, monetary and regulatory authorities have adopted and will adopt in the near future with the aim of mitigating the recessionary effects of this unprecedented crisis and guaranteeing maximum liquidity, an additional flow of funding and subsidies, in any case backed to some extent by the State, in order to offset higher credit risk, by reducing the amount of expected losses with respect to unsecured forms of lending. Moreover, moratoria are being offered on existing loans.
In light of the stronger capital and liquidity position of the European banking system, banking supervision is also oriented towards avoiding excessive pro-cyclical effects. To ensure that banks can continue to fulfil their role to fund households and corporations, the ECB has announced a more flexible prudential treatment of loans backed by public support.
In general, the measures activated by the Authorities allow banks to support the provision of credit to businesses and households, using greater leverage in terms of capital and liquidity and benefiting from public guarantees pledged to secure credit lines granted under national law. Such measures are expected to mitigate the negative impacts on banks' profitability and risk ratios in particular, at least in the short- and medium-term.

The elements of uncertainty commented above may also affect the drivers underlying the forward looking models required by the IFRS 9 to estimate expected credit losses. In a context such as the current one, characterised as it is by a high level of uncertainty, such scenarios should, however, take account of adequately stable long-term outlooks in the scenario analyses used to estimate the cost of credit.

In this regard, the Temporary Administrators note that the Management and the Board of Directors of the Bank pay utmost attention and care to the impacts of the monetary policy measures adopted by the ECB, as well as to the impacts which could arise in the future with reference to certain valuation items, such as: allowances and provisions for liabilities (e.g. onerous contracts); residual value of property and equipment, intangible assets and right of use assets; recoverability of deferred tax assets, including by taking account of the potential reverberations of some of the provisions of the "Cura Italia" Decree in terms of conversion into tax credits.

<u>Going concern</u>

On 2 January 2019, a decision by the European Central Bank started Banca Carige's Temporary Administration procedure with the appointment of three Temporary Administrators and a Surveillance Committee (the “Decision”) pursuant to articles 69-*octiesdecies*, 70 and 98 of Legislative Decree No. 385/1993 (the Consolidated Law on Banking or “TUB”).

During the period, the Temporary Administrators worked in pursuit of the objectives set in the Decision. They also prepared a new Strategic Plan, which was approved in its final version on 26 July 2019. In this context, the Bank followed a twofold approach, namely radical de-risking on the one hand, primarily in the aim to reduce the NPE stock, and the pursuit of a business combination, on the other, to ensure the Bank's commercial relaunch and adequate profitability.

In light of the above, the Temporary Administrators opted for a Capital Strengthening transaction to be structured with the exclusion of the shareholders' right of option pursuant to art. 2441, para. 5 of the Italian Civil Code, which was functional for: (i) the mechanism of repayment in shares (by set-off of the receivable for a corresponding nominal value) of the subordinated bonds named "Banca Carige S.p.A. 2018-2028 Tasso Fisso Tier II" held by the Voluntary Intervention Scheme of the Interbank Deposit Protection Fund ("SVI"); (ii) the entry of Cassa Centrale Banca – Credito Cooperativo Italiano S.p.A. ("Cassa Centrale") in the Company's share capital and (iii) the intervention of the Interbank Deposit Protection Fund ("FITD") in the Bank's share capital. As part of the proposed transaction, one tranche of the capital increase was reserved for those shareholders who were shareholders of the Bank prior to the date when the capital increase was launched, in proportion -as part of such tranche- to the percentage share of capital they held before the offering was launched.

As a result, the Extraordinary Shareholders' Meeting of 20 September 2019 resolved to approve: (i) the capital increase by an aggregate amount of EUR 700 mln and (ii) the issuance of Warrants and a dedicated share capital increase for the exercise of the Warrants.

The Bank also issued subordinated bonds having the characteristics to be classified as Tier 2 capital instruments for a total amount of EUR 200 mln.

At the same time, the Temporary Administrators continued the project for the almost full-scale disposal of the non-performing portfolio existing at the beginning of the reporting period to AMCO - Asset Management Company S.p.A. ("Project Hydra"), details of which are set out in the following paragraph "Non-Performing Loan portfolio disposal to AMCO S.p.A.".

With the end of the Parent Company's Temporary Administration procedure initiated by the ECB on 2 January 2019 and the appointment of the new governing and control bodies by the Shareholders' Meeting, a situation of ordinary, stable governance was restored, with a new ownership structure, capable of providing the governing bodies with the continuity required to pursue the strategic guidelines set by the different stakeholders in the Capital Strengthening transaction.

The Temporary Administrators point out that not all of the derisking actions planned were completed by the end date of the Temporary Administration period. Reference is made, in particular, to the aforementioned disposal of the non-performing leasing portfolio and the partial disposal of the Messina Group exposure (EUR 494 mln in GBV), with a corresponding return to performing status of the portion of the Messina Group exposure which was not included in the scope of disposal (EUR 228 mln in GBV) and the synthetic securitisation of a performing loan portfolio.

These derisking transactions are still scheduled for 2020, but the macroeconomic environment following the Covid-19 pandemic has significantly increased the uncertainty surrounding their completion.

Against this background, in compliance with the requirements of IAS 1 and guidance provided in Document no. 2 of 6 February 2009, jointly issued by the Bank of Italy, Consob and ISVAP as subsequently updated, the Temporary Administrators attentively assessed the going concern assumption, providing a number of alternative scenarios.

The Temporary Administrators have therefore assessed the execution of the Capital Strengthening plan and the reinstatement of a stable, day-to-day governance, as well as the significant uncertainties connected with the current macroeconomic environment and the potential consequences of the spread of the coronavirus pandemic and the achievement of the objectives of the 2019-2023 Strategic Plan within the expected timeframe.

As for the macroeconomic framework, the Temporary Administrators are unable to measure the effects of the pandemic on the Bank's operations and accounts after 31 January. They acknowledge, however, that, thanks to the significant progress made with the strengthening of its capital and the achievements already obtained or to be completed on the derisking path, Carige is in much better conditions than before to deal with such a situation, and pandemic-related uncertainty is in any case mitigated by the complex countercyclical measures implemented by the Italian Government and -within the European Union- by the ECB's recent, specific interventions of 12 March 2020 which allow banks, in the current situation, to operate temporarily below the minimum capital threshold defined by Pillar 2 Guidance and the Capital Conservation Buffer respectively. Additional action in support of the economies affected by the pandemic is also likely, if the macroeconomic framework deteriorates further.

In summary, despite the significant uncertainties described above, the Temporary Administrators believe that the Bank and the Group have the reasonable expectation of continuing in operational existence in the foreseeable future and of continuously complying with the minimum prudential requirements for own funds and liquidity.

Therefore, based on the development scenarios described above, Banca Carige's Financial Statements at 31 January 2020 were prepared on a going concern basis.

BANCA CARIGE'S FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

		31/01/2020	31/12/2018
10.	Cash and cash equivalents	244,383,383	255,446,287
20.	Financial assets at fair value through profit or loss	208,235,508	547,519,671
	a) financial assets held for trading	42,983,057	363,408,495
	b) financial assets measured at fair value	-	-
	c) other financial assets mandatorily at fair value	165,252,451	184,111,176
30.	Financial assets at fair value through other comprehensive income	783,457,677	811,151,928
40.	Financial assets at amortised cost	18,214,286,727	17,088,012,692
	a) loans to banks	4,300,618,062	1,471,301,950
	b) loans to customers	13,913,668,665	15,616,710,741
50.	Hedging derivatives	9,087,242	13,842,171
60.	Fair value change in hedged financial assets (+/-)	-	-
70.	Equity investments	74,787,215	72,254,635
80.	Property and equipment	708,811,663	693,457,264
90.	Intangible assets	77,395,719	53,608,786
	of which:		
	- goodwill	-	-
100.	Tax assets	1,616,534,757	1,727,012,076
	a) current	573,974,439	599,492,650
	b) deferred	1,042,560,318	1,127,519,426
110.	Non-current assets held for sale and discontinued operations	-	32,040,000
120.	Other assets	223,552,716	365,857,967
	Total assets	22,160,532,607	21,660,203,478

EUR/units

		31/01/2020	31/12/2018
10.	Financial liabilities at amortised cost	19,655,175,843	19,029,461,352
	a) due to banks	4,324,549,131	5,106,691,353
	b) due to customers	11,252,175,261	11,744,325,571
	c) securities issued	4,078,451,451	2,178,444,428
20.	Financial liabilities held for trading	42,431,754	35,463,378
30.	Financial liabilities at fair value through profit or loss	-	-
40.	Hedging derivatives	225,026,480	204,868,888
50.	Fair value change in hedged financial assets (+/-)	-	-
60.	Tax liabilities	5,460,499	4,503,090
	a) current	4,583,870	3,619,963
	b) deferred	876,629	883,127
70.	Liabilities associated to non-current assets held for sale	-	-
80.	Other liabilities	407,206,908	447,771,898
90.	Employee termination indemnities	40,193,816	49,854,600
100.	Allowances for risks and charges	281,283,866	241,173,131
	a) commitments and guarantees given	24,540,363	34,162,913
	b) post-employment benefits	29,073,280	29,255,641
	c) other allowances for risks and charges	227,670,223	177,754,577
110.	Valuation reserves	(92,170,294)	(104,892,196)
	o.w. associated with discontinued operations	-	-
120.	Redeemable shares	-	-
130.	Equity instruments	-	-
140.	Reserves	(77,155,637)	202,191,496
150.	Share premium reserves	623,957,919	-
160.	Share capital	1,915,163,696	1,845,163,696
170.	Treasury shares (-)	(15,572,009)	(15,572,009)
180.	Net Profit (Loss) for the yeat (+/-)	(850,470,234)	(279,783,846)
	Total liabilities and shareholders' equity	**22,160,532,607**	**21,660,203,478**

EUR/units

	Items	31/01/2020	31/12/2018
10.	Interest and similar income	358,043,672	390,988,052
	o.w.: interest income calculated using the effective interest rate method	363,353,348	379,123,745
20.	Interest and similar expense	(245,391,507)	(172,771,801)
30.	**Net Interest Income**	**112,652,165**	**218,216,251**
40.	Fee and commission income	251,301,720	260,573,024
50.	Fee and commission expense	(41,130,914)	(32,434,437)
60.	**Net fee and commission income**	**210,170,806**	**228,138,587**
70.	Dividends and similar income	20,083,338	32,743,313
80.	Net profit (loss) from trading	13,638,081	4,661,628
90.	Net profit (loss) from hedging	244,766	(1,678,010)
100.	Profits (losses) on disposal or repurchase of:	(29,512,264)	(59,870,120)
	a) financial assets at amortised cost	(28,999,919)	(62,752,433)
	b) financial assets at fair value through other comprehensive income	31,146	1,038,802
	c) financial liabilities	(543,491)	1,843,511
110.	Profits (losses) on financial assets/liabilities at fair value through profit or loss	(3,084,727)	(14,205,631)
	b) other financial assets mandatorily at fair value	(3,084,727)	(14,205,631)
120.	**Net interest and other banking income**	**324,192,165**	**408,006,018**
130.	Net losses/recoveries on impairment of:	(446,489,209)	(234,749,281)
	a) financial assets at amortised cost	(446,500,243)	(234,709,867)
	b) financial assets at fair value through other comprehensive income	11,034	(39,414)
140.	Gains (Losses) due to contractual modifications not resulting in derecognition	324,377	(1,165,441)
150.	**Net income from banking activities**	**(121,972,667)**	**172,091,296**
160.	Administrative expenses:	(599,551,873)	(501,134,074)
	a) personnel expenses	(371,183,176)	(261,352,546)
	b) other administrative expenses	(228,368,697)	(239,781,528)
170.	Net provisions for risks and charges	(29,907,327)	(41,523,241)
	a) commitments and guarantees given	9,622,549	17,222,227
	b) other net provisions	(39,529,876)	(58,745,468)
180.	Net adjustments to/recoveries on property and equipment	(56,198,079)	(10,960,226)
190.	Net adjustments to/recoveries on intangible assets	(10,190,398)	(6,387,596)
200.	Other operating income/expense	(22,063,510)	51,251,140
210.	**Operating expenses**	**(717,911,187)**	**(508,753,997)**
220.	Profits (losses) on equity investments	5,246,681	(14,914,140)
250.	Profits (losses) on disposal of investments	501,574	53,964,527
260.	**Profit (loss) before tax from continuing operations**	**(834,135,599)**	**(297,612,314)**
270.	Taxes on income from continuing operations	(16,334,635)	17,828,468
280.	**Profit (loss) after tax from continuing operations**	**(850,470,234)**	**(279,783,846)**
300.	**Net Profit (Loss) for the year**	**(850,470,234)**	**(279,783,846)**

EUR/units

		31/01/2020	31/12/2018
10.	**PROFIT (LOSS) FOR THE YEAR**	**(850,470,234)**	**(279,783,846)**
	Other comprehensive income after tax not reversed in profit or loss		
20.	Equity instruments at fair value through other comprehensive income	1,057,044	326,903
70.	Defined benefit plans	(3,668,898)	1,294,107
	Other comprehensive income after tax reversed in profit or loss		
120.	Cash flow hedges	12,456,210	14,914,897
140.	Financial assets (other than equity instruments) at fair value through other comprehensive income	2,877,546	(2,874,430)
170.	**Total other comprehensive income after tax**	**12,721,902**	**13,661,477**
180.	**COMPREHENSIVE INCOME (Item 10+170)**	**(837,748,332)**	**(266,122,369)**

EUR/units

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Amounts as at 31/12/2018	Change in opening balances	Amounts as at 01/01/2019	Allocation of profit (loss) from prior year: Reserves	Allocation of profit (loss) from prior year: Dividends and other payout	Changes in the year: Changes in reserves	Changes in the year: Transactions on shareholders' equity: Issuance of new shares	Changes in the year: Transactions on shareholders' equity: Purchase of treasury shares	Changes in the year: Transactions on shareholders' equity: Extraordinary distribution of dividends	Changes in the year: Transactions on shareholders' equity: Changes in equity instruments	Changes in the year: Transactions on shareholders' equity: Derivatives on treasury shares	Changes in the year: Transactions on shareholders' equity: Stock options	Changes in the year: Total comprehensive income 01.01.2019 - 31.01.2020	Shareholders' equity as at 31/01/2020
Share capital:	1,845,163,696	-	1,845,163,696	-	-	-	70,000,000	-	-	-	-	-	-	1,915,163,696
a) ordinary shares	1,845,162,843	-	1,845,162,843	-	-	788	70,000,000	-	-	-	-	-	-	1,915,163,631
b) other shares	853	-	853	-	-	(788)	-	-		-	-	-	-	65
Share premium reserve	-	-	-	-	-	-	623,957,919	-						623,957,919
Reserves:	202,191,496	-	202,191,496	(279,783,846)	-	436,713	-	-	-	-	-	-	-	(77,155,637)
a) from profits	15,572,008	-	15,572,008	(279,783,846)	-	436,713	-	-	-	-	-	-	-	(263,775,125)
b) other	186,619,488	-	186,619,488	-	-	-	-	-	-	-	-	-	-	186,619,488
Valuation reserves:	(104,892,196)	-	(104,892,196)	-	-	-	-	-	-	-	-	-	12,721,902	(92,170,294)
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	(15,572,009)	-	(15,572,009)	-	-	-	-	-	-	-	-	-	-	(15,572,009)
Profit (loss) for the year	(279,783,846)	-	(279,783,846)	279,783,846		-	-	-	-	-	-	-	(850,470,234)	(850,470,234)
Shareholders' equity	1,647,107,141	-	1,647,107,141	-	-	436,713	693,957,919	-	-	-	-	-	(837,748,332)	1,503,753,441

EUR/units

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Amounts as at 31/12/2017	Change in opening balances	Amounts as at 01/01/2018	Allocation of profit (loss) from prior year		Changes in the year								Shareholders' equity as at 31/12/2018
				Reserves	Dividends and other payout	Changes in reserves	Transactions on shareholders' equity						Total comprehensive income 2018	
							Issuance of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options		
Share capital:	2,845,857,461	-	2,845,857,461	-	-	(1,000,693,765)	-	-	-	-	-	-	-	1,845,163,696
a) ordinary shares	2,845,856,146	-	2,845,856,146	-	-	(1,000,693,303)	-	-	-	-	-	-	-	1,845,162,843
b) other shares	1,315	-	1,315	-	-	(462)	-	-		-	-	-	-	853
Share premium reserve	628,363,616	-	628,363,616	-	-	(628,363,616)	-	-						-
Reserves:	(785,460,203)	(257,092,058)	(1,042,552,261)	(385,985,008)	-	1,630,728,765	-	-	-	-	-	-	-	202,191,496
a) from profits	(727,460,774)	(257,092,058)	(984,552,832)	(385,985,008)	-	1,386,109,848	-	-	-	-	-	-	-	15,572,008
b) other	(57,999,429)	-	(57,999,429)	-	-	244,618,917	-	-	-	-	-	-	-	186,619,488
Valuation reserves:	(137,399,233)	19,303,013	(118,096,220)	-	-	(457,453)	-	-	-	-	-	-	13,661,477	(104,892,196)
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	(15,572,009)	-	(15,572,009)	-	-	-	-	-	-	-	-	-	-	(15,572,009)
Profit (loss) for the year	(385,985,008)	-	(385,985,008)	385,985,008		-	-	-	-	-	-	-	(279,783,846)	(279,783,846)
Shareholders' equity	**2,149,804,624**	-	**1,912,015,579**	-	-	1,213,931	-	-	-	-	-	-	(266,122,369)	**1,647,107,141**

EUR/units

	31/01/2020	31/12/2018
A. OPERATIONS		
1. Cash flow from (used in) operations	**(209,528,752)**	**(26,384,092)**
- interest income received (+)	324,941,029	366,899,936
- interest expense paid (-)	(246,413,830)	(188,184,500)
- dividend and similar income (+)	10,684,484	10,489,800
- net fee and commission income (+/-)	210,170,806	228,138,587
- personnel expenses (-)	(249,077,344)	(245,801,411)
- other costs (-)	(314,658,106)	(241,680,623)
- other income (+)	75,974,415	92,499,807
- tax and duties (-)	(21,150,206)	(48,745,688)
- costs/revenues after tax from discontinued operations (+/-)	-	-
2. Cash flow from (used in) financial assets	**(893,019,655)**	**1,918,461,509**
- financial assets held for trading	320,012,262	(326,401,973)
- financial assets measured at fair value	-	-
- other financial assets mandatorily at fair value	19,871,591	15,802,231
- financial assets at fair value through other comprehensive income	31,148,869	556,630,722
- financial assets at amortised cost	(1,569,508,352)	1,397,363,951
- other assets	305,455,975	275,066,578
3. Cash flow from (used in) financial liabilities	**716,835,005**	**(2,054,180,731)**
- financial liabilities amortised cost	866,114,371	(2,067,536,426)
- financial liabilities held for trading	6,968,376	(465,684)
- financial liabilities measured at fair value	-	-
- other liabilities	(156,247,742)	13,821,379
Net cash flow from (used in) operations	**(385,713,402)**	**(162,103,314)**
B. INVESTMENT ACTIVITIES		
1. Cash flow from	**44,472,050**	**176,133,694**
- sale of equity investments	33,485,914	12,516,955
- dividends collected on equity investments	9,398,853	22,253,513
- sale of property and equipment	1,587,283	110,347,214
- sale of intangible assets	-	-
- sale of subsidiaries and business branches	-	31,016,012
2. Cash flow used in	**(50,579,471)**	**(44,277,716)**
- purchase of equity investments	(15,010,800)	(4,500,000)
- purchase of property and equipment	(1,591,340)	(10,504,427)
- purchase on intangible assets	(33,977,331)	(29,273,289)
- purchase of subsidiaries and business branches	-	-
Net cash flow from (used in) investment activities	**(6,107,421)**	**131,855,978**
C. FUNDING ACTIVITIES		
- issue/purchase of treasury shares	380,757,919	-
- issue/purchase of equity instruments	-	-
- dividend distribution and other purposes	-	-
Net cash flow from (used in) funding activities	**380,757,919**	**-**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE YEAR	**(11,062,904)**	**(30,247,336)**

- Figures in EUR/units

KEY: (+) from; (-) used in

RECONCILIATION

Items	31/01/2020	31/12/2018
Cash and cash equivalents at the beginning of the year	255,446,287	285,693,623
Net increase (decrease) in cash and cash equivalents during the year	(11,062,904)	(30,247,336)
Cash and cash equivalents: effect of changes in exchange rates	-	-
Cash and cash equivalents at the end of the year	244,383,383	255,446,287

EXPLANATORY NOTES

Part A

ACCOUNTING POLICIES

A.1 – INTRODUCTION

SECTION 1
Statement of compliance with international accounting standards

The Report for the Temporary Administration period of 1 January 2019 - 31 January 2020 (thirteen months) of Banca Carige S.p.A., drafted by the Temporary Administrators on 29 May 2020 and submitted to the ECB for approval, was prepared pursuant to article 75, para. 2 of the Italian Consolidated Law on Banking and in accordance with the International Accounting Principles IAS/IFRSs and related interpretations (SIC/IFRIC), as issued by the International Accounting Standards Board (IASB), endorsed by the European Commission and effective as at the close of these Financial Statements.

Please refer to the Annexes section for a list of the international accounting principles and related interpretations (SIC/IFRIC) endorsed and effective as at 31 January 2020.
In the course of 2019 and in January 2020 the review and integration of international accounting standards, interpretations or amendments continued, which partially apply for periods beginning on or after 1 January 2019.

In particular, the following international accounting standards (IAS/IFRS) were endorsed in 2019 and January 2020:
- "Amendments to IAS 28 Investments in Associates and Joint Ventures: Long term interests in associates and joint ventures": Commission Regulation (EU) 237/2019 of 08 February 2019;
- "Amendments to IAS 19 - Plan Amendment, Curtailment or Settlement": Commission Reg. (EU) 402/2019 of 13 March 2019;
- "Annual Improvements to IFRS Standards 2015–2017 Cycle": Commission Reg. (EU) 412/2019 of 14 March 2019;
- "Amendments to References to the Conceptual Framework in IFRS Standards": Commission Reg. (EU) 2075/2019 of 29 November 2019;
- "Amendments to IAS 1 and IAS 8: Definition of Material". Commission Reg. (EU) 2104/2019 of 29 November 2019;
-"Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)": Commission Regulation (EU) 34/2020 of 15 January 2020 (the document was issued by the IASB on 26 September 2019).

Additionally, the ISB issued the following document in January 2020: "Amendment to IAS 1: Classification of Liabilities as Current or Non-current".

Finally, reported below are the impacts deriving from the application of the international accounting standard IFRS16 and the interpretation IFRIC 23.

IFRS 16 "LEASES"

The new international accounting principle, IFRS 16, effective 1 January 2019 and endorsed by the European Commission with Regulation no. 2017/1986 of 31 October 2017, replaces IAS 17 ("Leasing") and some associated interpretations (IFRIC 4 – "Determining Whether an Arrangement Contains a Lease"; SIC15 – "Operating Leases – Incentives"; SIC 27 – "Evaluating the Substance of Transactions in the Legal Form of a Lease").

IFRS 16 introduces significant changes to the principles for the recognition, measurement, presentation and disclosure of leases in the lessee's financial statements, thus providing users with greater transparency in the financial statements.

In general, the standard provides a single lessee accounting model, superseding the previous IAS 17 approach and eliminating the distinction between operating or finance leases.

The new accounting model applies to all the contracts that convey the right to use an asset (the 'Right of use', RoU) for a period of time, in exchange for consideration.

More specifically, the lessee shall measure the lease liability at the present value of the lease payments payable over the lease term, as an offsetting entry to the recognition of the right to use the underlying asset of the lease contract under assets.

After initial recognition:

- a lessee shall measure the right-of-use asset applying a cost model (pursuant to IAS 16) or the fair value model (pursuant to IAS 40);
- under the cost model in IAS 16, the right-of-use asset shall be depreciated over the lease term and shall be assessed to determine whether the right-of-use asset is impaired and to account for any impairment loss identified under IAS 36;
- the lessee shall measure the lease liability by reducing the carrying amount to reflect the lease payments made; interest on the lease liability shall be recognised in profit or loss;
- under IFRS 16, a lessee may exclude from the scope of application lease contracts that have a lease term of 12 months or less ("short term") and leases for which the underlying asset is of low value ("low value").

IFRS 16's approach to lessor accounting is substantially unchanged from its predecessor, IAS 17, as lessors continue to classify leases as operating or finance; the new standard requires the lessor to provide additional information in the notes to the financial statements.

In 2018, the Banca Carige Group started a specific project concerning the introduction of IFRS 16, which was developed with the participation of all of the Group's organisational units concerned and the active involvement and supervision of the Top Management.

The project was structured into the following project phases:

- "Assessment" phase, the objective of which was to analyse the main business areas affected by the adoption of the new principle and define the "business macro requirements" necessary for the transition to the new accounting principle;
- "Design & Implementation", during which:
    - the main interpretative and accounting choices were defined;
    - outstanding lease agreements were analysed, defining the scope of application of the standard;
    - the software application was selected for the management of lease agreements and determination of related book values under IFRS 16;
    - the first-time application values were calculated and accounted for in relation to the right of use acquired with the lease and related lease liabilities.

<u>First-Time Adoption (FTA) of IFRS 16</u>

The Banca Carige Group has decided to apply IFRS 16 to all lease agreements falling within the scope retrospectively, with the cumulative effect of initially applying the Standard recognised at the date of initial application in accordance with paragraph C5 b)[1].
The "modified retrospective method" under paragraph C8 b) ii) of IFRS 16 has thus been defined as a transition method. According to this method, the lessee shall recognise a right-of-use asset at the date of First Time Adoption (FTA) for an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments, with no impact on net accounting equity.

The impact from the adoption of IFRS 16 on the CET1 ratio, in relation to the right of use acquired with lease agreements ("right of use") recognised upon first-time application (1 January 2019) for an amount of EUR 72.8 mln, in terms of new lessee accounting rules, is approximately -5 bps, at an individual level and before tax.

The Group's identified scope of application of IFRS 16 is:

- land and buildings;
- cars;
- Automated Teller Machines (ATMs)[2].

The Banca Carige Group has decided to apply all practical expedients laid down by IFRS 16, in Appendix C. In particular, the Group has defined the amount of Euro 5 thousand as the threshold for identifying lease contracts in which the underlying asset is of low value and has elected not to apply the accounting criteria provided for by IFRS 16 to such contracts, mainly for tablets, personal computers, printers, photocopiers, telephones and small office furniture.[3] The Group also used the practical expedient under paragraph C3 b) of the Appendix, and decided not to apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

Additional key criteria adopted upon First-Time Adoptions are described below:

- Lease term
  As regards the term of lease agreements entered into by the Group as a lessee and falling within the scope of IFRS 16, the Group assessed whether, at the commencement date, it was reasonably certain that an extension option was exercisable, considering all relevant facts and circumstances that would create an economic incentive.
  According to its types of lease agreements as a lessee, the Banca Carige Group -with a view to defining the lease terms- identified several renewal options, on the basis of facts and circumstances existing at the reference date that may have an impact on the reasonable certainty of exercising the options included in the lease contracts, considering both the requirements in the standard and its strategy for real estate contracts and the business plan.

- Interest rate
  Since the interest rate implicit in the lease was not available, payments due for leasing were discounted for all outstanding contracts using the Bank's own incremental borrowing rate at the date of initial application. This rate was identified as the "amortizing internal transfer rate (ITT)" of funding and was determined for each lease contract, taking into account the term of the contract and the frequency of payments.

- Lease payments
  Only the lease payments made were taken into account to measure the lease liability, excluding charges for value added tax (VAT).

[1] Therefore, it was not necessary to restate comparative information.

[2] Lease agreements for cars and ATMs contain both a leasing component and non-leasing components that are accounted for separately in accordance with other applicable accounting standards.

[3] The provisions of IFRS 16 relating to short-term leasing contracts were applied only in FTA and for car leases only.

Onerous contracts and impairment

No onerous contracts under IAS 37 existed at the date of initial application of IFRS 16.
After first-time application of the standard, in accordance with paragraph 33 of IFRS 16, the lessee shall apply "IAS 36 - Impairment of Assets" to determine whether a right-of-use asset is impaired.
As part of the property leases entered into by Banca Carige, a number of contracts provide that, in the event of termination of the use of the assets, the obligation to pay the lease for a certain period may still remain in place. In these cases, upon termination of use of the assets, impairment losses are recognised in the income statement to reduce the carrying amount of the Right-of-Use (RoU) to zero.
This applied to Banca Carige's closure of branches in the fourth quarter of 2019 in accordance with the Business Plan, which led to the recognition of impairment losses for an amount of EUR 664 thousand in these Financial Statements.

For further information on the criteria adopted by the Group for the recognition of lease contracts, reference should be made to Section "2 -Preparation criteria" of part "A-Accounting policies" and part "M - Information on leases" of the Explanatory Notes.

IFRIC 23 – "UNCERTAINTY OVER INCOME TAX TREATMENTS"

On 7 June 2017, the International Accounting Standards Board (IASB) issued IFRIC 23 "*Uncertainty over Income Tax Treatments*" to clarify how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over the tax treatment of certain items. An entity shall apply this Interpretation for annual reporting periods beginning on or after 1 January 2019.
In assessing whether and how an uncertain tax treatment affects the determination of taxable profit, an entity shall assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. Under this Interpretation, an entity shall consider whether it is probable that a taxation authority will accept an uncertain tax treatment.

If an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine the taxable profit consistently with the tax treatment used or planned to be used in its income tax filings.

On the contrary, if an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the entity shall reflect the effect of uncertainty in determining the related taxable profit.

The Bank has not identified any specific areas of uncertainty for which the application of this Interpretation has had an impact on these Financial Statements.

SECTION 2
Preparation criteria

For the purposes of preparing these Financial Statements, Banca Carige S.p.A. has adopted the accounting standards, indicated in Part A.2 concerning the main items of the accounts.

The Financial Statements of Banca Carige S.p.A. were prepared pursuant to Art. 75, para. 2 of the Italian Consolidated Banking Law, in accordance with the general principles of IAS 1 and adopting the guidance contained in Bank of Italy Circular no. 262 of 22 December 2005, 6th update of 30 November 2018 “Bank financial statements: layout and preparation”. More specifically:

- Balance Sheet, Income Statement and Explanatory Notes.

With reference to the Balance Sheet and Income Statement, no accounts were recognised if there was no amount to recognise for either this or the previous financial reporting period. The reporting period for these financial statements as at 31 January 2020 is thirteen months long, and reflects the Temporary Administration period of Banca Carige S.p.A. 1 January 2019 - 31 January 2020.

With regard to the Explanatory Notes, the tables were compiled only for the applicable items. In the Income Statement (statements and Explanatory Notes) revenues are indicated without a +/- sign, whereas costs are indicated in brackets.

- Statement of Comprehensive Income

In addition to the profit for the period, the statement of comprehensive income presents other profit components, split into items with and without reversal to profit or loss. No accounts were recognised in this statement if there was no amount for either the period of these Financial Statements or the previous period; negative amounts are indicated in brackets.

- Statement of changes in Shareholders' equity

The Statement of changes in shareholders’ equity illustrates the breakdown and changes in shareholders’ equity for the current and prior period.

- Statement of Cash Flows

The Statement of Cash Flows was prepared using the direct method.

- Reporting currency and rounding off

The financial statements and explanatory notes are expressed in thousands of euros.

In rounding off, the amount of items, sub-items and “of which” items equal to or lower than EUR 500 are ignored; amounts greater than EUR 500 are rounded up to the nearest thousand. The rounded-off figures of each item are obtained by summing the rounded-off sub-items. The algebraic sum of differences from these roundings is shown under “Other assets/liabilities” in the Balance sheet and under “Other operating income/expenses” in the Income Statement.

In rounding off, the amounts in the Explanatory Notes equal to or lower than EUR 500 are ignored; amounts greater than EUR 500 are rounded up to the nearest thousand. The figures contained in the Explanatory Notes should in any case be rounded off in such a way as to ensure consistency with the amounts presented in the Balance sheet and Income statement.

- Going concern

On 2 January 2019, a decision by the European Central Bank started Banca Carige's Temporary Administration procedure with the appointment of three Temporary Administrators and a Surveillance Committee (the "Decision") pursuant to articles 69-octiesdecies, 70 and 98 of Legislative Decree No. 385/1993 (the Consolidated Law on Banking or "TUB").

During the period, the Temporary Administrators worked in pursuit of the objectives set in the Decision. They also prepared a new Strategic Plan, which was approved in its final version on 26 July 2019. In this context, the Bank followed a twofold approach, namely radical de-risking on the one hand, primarily in the aim to reduce the NPE stock, and the pursuit of a business combination, on the other, to ensure the Bank's commercial relaunch and adequate profitability.

In light of the above, the Temporary Administrators opted for a Capital Strengthening transaction to be structured with the exclusion of the shareholders' right of option pursuant to art. 2441, para. 5 of the Italian Civil Code, which was functional for: (i) the mechanism of repayment in shares (by set-off of the receivable for a corresponding nominal value) of the subordinated bonds named "Banca Carige S.p.A. 2018-2028 Tasso Fisso Tier II" held by the Voluntary Intervention Scheme of the Interbank Deposit Protection Fund ("SVI"); (ii) the entry of Cassa Centrale Banca – Credito Cooperativo Italiano S.p.A. ("Cassa Centrale") in the Company's share capital and (iii) the intervention of the Interbank Deposit Protection Fund ("FITD") in the Bank's share capital. As part of the proposed transaction, one tranche of the capital increase was reserved for those shareholders who were shareholders of the Bank prior to the date when the capital increase was launched, in proportion -as part of such tranche- to the percentage share of capital they held before the offering was launched.

As a result, the Extraordinary Shareholders' Meeting of 20 September 2019 resolved to approve: (i) the capital increase by an aggregate amount of EUR 700 mln and (ii) the issuance of Warrants and a dedicated share capital increase for the exercise of the Warrants.

The Bank also issued subordinated bonds having the characteristics to be classified as Tier 2 capital instruments for a total amount of EUR 200 mln.

At the same time, the Temporary Administrators continued the project for the almost full-scale disposal of the *non-performing* portfolio existing at the beginning of the reporting period to AMCO - *Asset* Management Company S.p.A. ("Project Hydra"), details of which are set out in the following paragraph "Non-Performing Loan portfolio disposal to AMCO S.p.A.".

With the end of the Parent Company's Temporary Administration procedure initiated by the ECB on 2 January 2019 and the appointment of the new governing and control bodies by the Shareholders' Meeting, a situation of ordinary, stable governance was restored, with a new ownership structure, capable of providing the governing bodies with the continuity required to pursue the strategic guidelines set by the different stakeholders in the Capital Strengthening transaction.

The Temporary Administrators point out that not all of the derisking actions planned were completed by the end date of the Temporary Administration period. Reference is made, in particular, to the afore-mentioned disposal of the non-performing leasing portfolio and the partial disposal of the Messina Group exposure (EUR 494 mln in GBV), with a corresponding return to performing status of the portion of the Messina Group exposure which was not included in the scope of disposal (EUR 228 mln in GBV) and the synthetic securitisation of a performing loan portfolio.

These derisking transactions are still scheduled for 2020, but the macroeconomic environment following the Covid-19 pandemic has significantly increased the uncertainty surrounding their completion.

Against this background, in compliance with the requirements of IAS 1 and guidance provided in Document no. 2 of 6 February 2009, jointly issued by the Bank of Italy, Consob and ISVAP as subsequently updated, the Temporary Administrators attentively assessed the going concern assumption, providing a number of alternative scenarios.

The Temporary Administrators have therefore assessed the execution of the Capital Strengthening plan and the reinstatement of a stable, day-to-day governance, as well as the significant uncertainties connected with the current macroeconomic environment and the potential consequences of the spread of the coronavirus pandemic and the achievement of the objectives of the 2019-2023 Strategic Plan within the expected timeframe.

As for the macroeconomic framework, the Temporary Administrators are unable to measure the effects of the pandemic on the Bank's operations and accounts after 31 January. They acknowledge, however, that, thanks to the significant progress made with the strengthening of its capital and the achievements already obtained or to be completed on the derisking path, Carige is in much better conditions than before to deal with such a situation, and pandemic-related uncertainty is in any case mitigated by the complex countercyclical measures implemented by the Italian Government and -within the European Union- by the ECB's recent, specific interventions of 12 March 2020 which allow banks, in the current situation, to operate temporarily below the minimum capital threshold defined by Pillar 2 Guidance and the Capital Conservation Buffer respectively. Additional action in support of the economies affected by the pandemic is also likely, if the macroeconomic framework deteriorates further.

In summary, despite the significant uncertainties described above, the Temporary Administrators believe that the Bank and the Group have the reasonable expectation of continuing in operational existence in the foreseeable future and of continuously complying with the minimum prudential requirements for own funds and liquidity.

Therefore, based on the development scenarios described above, Banca Carige's Financial Statements at 31 January 2020 were prepared on a going concern basis.

- Consistency of presentation of the Financial Statements

The presentation and classification of items in the financial statements are retained from one period to the next to ensure inter-period comparability, unless a change is justified either by an IFRS or interpretation, or it becomes apparent that another presentation or classification would be more appropriate, in terms of reliability and relevance of the information provided. When the presentation or classification of items is changed, the corresponding amounts are restated accordingly, unless this is not feasible, and a description of the nature and reasons for the restatement is given.

- Materiality and aggregation

Each material class of similar items is presented separately in the Financial statements. Items of a different nature or with different allocation are recognised separately, unless they are considered irrelevant.

- Netting

Assets, liabilities, costs and revenues are not netted, unless required or permitted by an international accounting standard or interpretation or if this is expressly required by the financial statements in use for banks.

- Comparative figures

The figures shown for comparative purposes in the financial statements are derived from the "Report on the Consolidated Financial Position and Results of the Operations as at 31.12.2018", prepared by the Temporary Administrators pursuant to art. 73, paragraph 4 of the Consolidated Law on Finance (TUB), filed with the Companies' Register. In particular, balance sheet and income statement figures as at 31 December 2018 refer to 12 months (1 January 2018 – 31 December 2018), whereas balance sheet and income statement figures as at 31 January 2020 refer to a 13-month period (1 January 2019 – 31 January 2020).

The Bank has decided to retrospectively apply IFRS 16 to all lease agreements falling within the scope, with the cumulative effect of initially applying the Standard recognised at the date of initial application in accordance with paragraph C5 b). As a result, a redetermination of comparative information was not required.

ESTIMATES AND ASSUMPTIONS IN THE PREPARATION OF FINANCIAL STATEMENTS AND ASSOCIATED UNCERTAINTIES

Preparation of the Financial Statements requires the use of estimates and assumptions for the calculation of certain cost and revenue components and for the valuation of assets and liabilities.

Estimates required by the application of the accounting standards can have a significant impact on the value of balance sheet and profit and loss items, as well as on the disclosure of contingent assets and liabilities reported in the Financial Statements. Production of these estimates involves the use of available information and adoption of subjective assessments. By their nature, the estimates and assumptions utilised may vary from one period to another and, therefore, it cannot be ruled out that in subsequent periods the present values entered in the accounts may differ, even to a significant extent, as a result of changes in subjective assessments made. Such estimates and assessments are therefore difficult and bring along inevitable elements of uncertainty, given also the particular situation of uncertainty in the macroeconomic framework, caused by the outbreak of the coronavirus pandemic.

Any assessment of the economic effects of Covid-19 significantly depends on the duration of contagion and the measures to contain it. Therefore, providing a quantitative estimate of the potential impact of Covid-19 is deemed impossible at the present date.

Adjustments to the estimates may be necessary as a result of changes in the circumstances on which they were based; in particular, as specified in the section "Subsequent Events", the negative effects on the world economy resulting from the coronavirus epidemic are factors of uncertainty which cannot be quantified to date, but may affect the future scenarios in which the Bank will operate.

Estimates and assumptions are more likely to be used for the fair value measurement of amounts recognised in relation to financial assets measured at amortised cost (loans to customers and loans to banks), other financial assets mandatorily measured at fair value, property, plant and equipment and the quantification of provisions for personnel, provisions for risks and charges, as well as the measurement of tax items.

LOANS AND RECEIVABLES

Loans were classified according to strict guidelines which are reflective of the consequences of the negative developments in the economic environment; loan-related valuations were estimated on the basis of evidence emerging from the monitoring of existing relations with borrowers and their economic-financial situation.

For the measurement of loans as at 31 January 2020, the Bank applied the criteria defined by its impairment models, which are based on ordinary debt collection strategies.

In particular, main estimates were made about the: (i) determination of parameters for a significant increase in the credit risk between the *origination* date and the Financial Statements reporting date; (ii) incorporation of *forward looking* macroeconomic factors; (iii) future cash flows from non-performing loans, for the estimation of which several elements are considered, including expected recovery time, the estimated realizable value of any guarantees and, where applicable, the probability of sale for positions possibly in scope for disposal.

As far as disposal-related assumptions are concerned, the closing of the derisking transaction at the end of 2019 should be noted, which resulted in the sale of almost the entire NPL portfolio. For a residual portion of the loan book of EUR 494 mln in GBV held for sale as at 31 January 2020, relating to certain UTP positions and the non-performing leasing portfolio, the conditions for derecognition are not yet in place. The disposal of said exposures will be completed in the course of 2020. Even in the absence of the conditions for the derecognition of these exposures, the purchase price indications for the non-performing portfolio being disposed of contained in the binding offer and subsequent developments were gradually reflected in the valuation of the portfolio, in accordance with the criteria required by the impairment models adopted by the Group, generating an overall impact of approximately EUR 92.5 mln on the income statement for the period. For further details about the afore-mentioned derisking transaction, please refer to the following paragraph "Non-Performing Loan portfolio disposal to AMCO S.p.A." of this Section.

At present, having the objective of reducing the non-performing share of the total loan portfolio been achieved, no further transactions are planned for the disposal of non-performing loans.

It should be noted that an extension or worsening of the current economic-financial crisis -including in light of ongoing developments associated with the Corona-virus pandemic in the course of 2020- may cause a further deterioration of the borrowers' and issuers' financial conditions which could result in higher losses on loans granted or on financial assets purchased, than those currently estimated and accordingly considered during preparation of these Consolidated Financial Statements.

In particular, the *Expected Credit Loss* as at 31 January 2020 was estimated on the basis of the expected evolution of the main economic variables as at that date, with consequent uncertainties regarding the effects of the coronavirus in view of the many unknown and undefined determining factors.

During preparation of these Financial Statements, credit risk adjustments were made on HTC and HTC&S securities for an amount of EUR 182.5 thousand.

FINANCIAL ASSETS MANDATORILY AT FAIR VALUE

In addition to the securities component, the item "Financial assets mandatorily at fair value" includes loans and receivables that did not pass the SPPI test, the carrying amount of which totals EUR 112.3 mln; these assets registered positive fair value changes for a total amount of EUR 4 mln during the period.

At the reporting dates, the Bank updates the parameters used to estimate the fair value of securities classified in this category, whose value, determined by applying internal models, amounts to EUR 52.9 mln; these updates resulted in EUR 7.2 mln worth of negative changes to the fair value of the securities in the portfolio during the period.

PROPERTY AND EQUIPMENT

The property and equipment impairment process is another area characterised by estimates, which is affected by subjectivity in determining the methodology used and the underlying parameters.

With reference to property and equipment, the Bank had its entire portfolio of "not for own use" real estate assets appraised by an independent expert during the reporting period. The outcome of the appraisal was assessed by the Bank's competent structures to determine the cases where it would have been appropriate to adjust the book values of some assets. This activity resulted in the recognition of write-downs for an aggregate amount of EUR 31.7 mln.

ALLOWANCES FOR RISKS AND CHARGES AND PROVISIONS FOR PERSONNEL

The estimate of allowances for risks and charges represents an area of uncertainty because it involves the use of assumptions with a high degree of subjectivity.

With regard to a quantification of the provisions for personnel and allowances for risks and charges, an estimation is made of the amount, if due, and the timing of any potential expenditure connected with fulfilment of the obligations deemed likely to occur.

With reference to the provisions for personnel recognised after signing of the union agreements in November 2019, an estimation is made of the P&L costs expected to be incurred for the creation of the funds required for payment of the employee termination indemnities disbursed by the National Social Security Authority (INPS) to members and related contributions.

DISPOSAL OF INSURANCE COMPANIES – GUARANTEES AND COMMITMENTS – SETTLEMENT AGREEMENTS

On 5 June 2015, Banca Carige and Primavera Holdings S.r.l., a company controlled by funds affiliated to Apollo Global Management LLC, completed the disposal of the entire share capital held by Banca Carige in Carige Vita Nuova S.p.A. and in Carige Assicurazioni S.p.A. (hereinafter "Amissima Vita S.p.A." and "Amissima Assicurazioni S.p.A.").

On the date of disposal, a distribution agreement valid until 31 December 2024 and renewable for a similar period, was entered into by Banca Carige, the Group's banks (excluding Banca Cesare Ponti) and Creditis (hereinafter also the "Distributors") with the Insurance Companies for the distribution of the Insurance Companies' life and non-life insurance products, in line with the insurance distribution plan, against payment of contractually defined commissions to the Distributors. Banca Carige constantly monitors, including for operational management purposes, Line 1 and Line 3 life insurance production performance.

Moreover, the Sale and Purchase Agreement envisaged some warranties and indemnities, which are referenced to in Part A "Accounting Policies" in the Financial Statements as at 31 December 2015.

In particular, indemnities were possibly envisaged with regard to:

- certain insurance policies, should claims be settled for an amount exceeding either the allocated reserves as at the reference date set in the disposal agreement (30 June 2014), or any additional provisions relating to the same reserves;
- specific disputes, should the final expenditure exceed the provisions existing as at the above-mentioned reference date.

With regard to the foregoing agreements, the following is highlighted:

- on 20 June 2016, the Bank took action against Mr. Cesare Castelbarco Albani, former Chairman of the Board of Directors of Carige, Mr. Piero Montani, former Chief Executive Officer of Carige, and some companies of the Apollo group (Apollo LLC, Apollo Management Holdings L.P., Apollo Management International L.L.P., Amissima Holdings and the Insurance Companies; all of which are hereinafter jointly referred to as the "Apollo Group") to obtain compensation for damages arising from the disposal and other conducts subsequently held by the affiliates of the Apollo Group (General Register No. 8965/2016). In their response to the claim, the defendants entered an appearance before the court and filed their counterclaims against Carige for an aggregate amount of EUR 622 mln. With a judgement published in December 2018, the Panel rejected the claims of the Bank and the counterclaims of the defendants, and ordered the Bank to pay the defendants' litigation costs. The Bank appealed against the judgement of first instance (General Register No. 22/2019) before Genoa's Court of Appeal, where parties had filed an appearance;
- on 22 November 2016, Carige (together with its subsidiaries Banca Carige Italia, Banca del Monte di Lucca and Creditis Servizi Finanziari) lodged an application for arbitration with the Chamber of Arbitration of Milan, requesting that the clauses of the Life Insurance Distribution Agreement concerning the obligation of exclusivity, distribution targets and penalties be declared null and void and that the Life Insurance Distribution Agreement be accordingly declared null or ineffective in its entirety. In turn, Amissima Vita -via Amissima Holdings, which claimed for compensation in relation to the hypothesis that it may lose the arbitration proceedings- entered an appearance in the case, claiming for Carige's payment of the adjustment of fees and commissions earned in 2016. The

Arbitration Panel rejected Carige's claims, confirming the validity and effectiveness of the Life Insurance Distribution Agreement and ordering Carige to pay the foregoing fees and commissions plus interest to Amissima Vita. The arbitration award was challenged before the Milan Court of Appeal by Carige and its subsidiaries in September 2018, pursuant to art. 829, para. 3, second sentence, of the Italian Code of Civil Procedure (General Register No. 3721/2018);
- on 21 June 2017, Amissima Vita challenged before the Court of Genoa (General Register No. 7844/2017) the resolution adopted by the Bank's Shareholders Meeting of 28 March 2017, which had approved the liability action against former Chairman of the Board of Directors, Mr. Cesare Castelbarco Albani, and former Chief Executive Officer, Mr. Piero Montani. In relation to this litigation, a judgment in favour of Carige was issued and published on 25 July 2019, ordering Amissima Vita to pay the defendant's costs.

In the broader context of the settlement agreement negotiations described below, on 11 October 2019, Amissima Holdings and the Bank signed a deed whereby they acknowledged the compensation – enforced at the initiative of Amissima Holdings under the Sale and Purchase Agreement- between the receivable owed by the Bank to Amissima Holdings by way of indemnity for the trend registered by certain reserves of the Insurance Companies, with the receivable owed by Amissima Holdings to the Bank for the repayment of the Vendor Loan balance amount (approximately EUR 97 mln); the termination of the effects of the Vendor Loan and the Pledge Agreement was accordingly acknowledged.

On 22 November 2019, the Bank, Banca del Monte di Lucca and the Apollo Group affiliates entered into a settlement agreement (the "Settlement Agreement") whereby, inter alia:

a) the Parties settled their Litigation by waiving all existing and/or potential actions, rights, demands and claims against each other, with the parties to the Settlement Agreement committing to carrying out all activities necessary to obtain the termination of the Litigation, without prejudice to the need for obtaining prior authorisation from the Shareholders' Meeting of the Bank (after the end of the Temporary Administration period and the appointment of a new Board of Directors), in relation to the litigation pending before Genoa's Court of Appeal.
b) the Parties resolved the claims for compensation brought against Carige by Amissima Holdings in relation to the Shares Sale and Purchase Agreement; specific indemnities due to the breach of certain representations and warranties; as well as the payment of an amount of approximately EUR 6.7 mln by the Bank to Amissima Holdings in relation to the amount of the claim reserves;
c) defined the amount of fee and commission adjustments payable in relation to the Life Insurance Distribution Agreement by Carige to Amissima Vita, as were accrued from 31 December 2017 to 31 December 2018, with the Bank's payment of an amount of approximately EUR 18.6 mln to Amissima Vita;
d) in relation to the Litigation brought before Genoa's Court of Appeal, Carige has paid the following amounts by way of litigation expenses (settled in the relevant proceedings): (i) approximately EUR 626,000 to Amissima Holdings, Apollo Global Management LLC, Apollo Management Holdings L.P. and Apollo Management International L.L.P.; (ii) approximately EUR 109,000 to Amissima Vita; (iii) approximately EUR 132,000 to Amissima Assicurazioni;
e) in relation to the Litigation brought before the Court of Genoa, Amissima Vita has paid EUR 31,206.20 to Carige by way of litigation expenses (settled in the relevant proceedings);
f) the Parties have waived all actions, rights, demands and claims against each other, as may arise from the following agreements: (i) the Shares Sale and Purchase Agreement and (ii) the Life Insurance Distribution Agreement;
g) have acknowledged the termination of the Life Insurance Distribution Agreement (which, however, will continue to apply to Creditis as the latter is not a party to the Settlement Agreement, without prejudice to the Bank's best efforts as set forth in letter h) below), as a result of the signing and entry into force of the New Life Insurance Distribution Agreement (as defined below), which supersedes the Life Insurance Distribution Agreement;
h) the Bank undertakes to make its best effort to ensure that Creditis enters into a distribution agreement substantially in line with the text agreed by and between the Bank and Amissima Vita. In this respect, there are no adverse effects on the Bank in the event of failure to sign such an

agreement, if the Bank has fulfilled its commitment.

The settlement agreements resulted in total indemnification charges for an amount of EUR 42.1 mln, plus EUR 2.2 mln in reimbursement of legal expenses recognised under 'Other operating expenses' in addition to full draw-down of the amounts set aside in previous years (EUR 83.5 mln).

On 22 November 2019, as part of closing of the Settlement Agreement, the Bank and Banca del Monte di Lucca (the Bank and BML, hereinafter jointly referred to as the "Distributors") on the one hand, and Amissima Vita, on the other, entered into a new distribution agreement for Life Insurance products (the "New Life Insurance Distribution Agreement") in lieu of the previous Life Insurance distribution agreement, with its term extended until 31 December 2028 and automatically renewable for one additional period of 10 years.

Upon completion of the transaction described above and upon termination of the agreements entered into when the Insurance Companies were sold, a Claims Agreement still remains in place between then Carige Assicurazioni, now Amissima Assicurazioni, and Banca Carige, in relation to certain pending disputes, brought both by and against the Bank, which were analytically identified as involving Carige Assicurazioni, for which the Bank has declared itself ready to bear charges (legal expenses and charges deriving from unsuccessful legal actions brought against the Bank) and collect any proceeds (counterparties sentenced to the payment of legal expenses or compensation for legal actions brought by the Bank).
Taking into account the assessments made by the legal counsels who are following the cases, about the measures already established at the Insurance Company prior to its sale, no specific provisions to the fund for risks and charges have been made by the Bank.

NPE SERVICING AGREEMENT WITH CREDITO FONDIARIO
The income statement for the period includes EUR 24.5 mln in compensation, as agreed when a new agreement was signed in August 2019, corresponding to the estimated amount of penalties arising from the servicing agreement entered into with Credito Fondiario in May 2018, in view of the prospect that the loans then serviced by Credito Fondiario would be sold and subsequently also serviced in whole or in part by AMCO. The agreement was conditional upon the Shareholders' Meeting approval of the Capital Strengthening Plan and sale of the non-performing loan portfolio to AMCO, both of which events took place in 2019, as planned.
The servicing agreement for the management of non-performing loans provides for the transfer to Credito Fondiario of minimum levels of non-performing loans over the term of the agreement. The measurement and assessment of the commitments undertaken by the Bank under this agreement are an area of estimation and uncertainty on the part of the Temporary Administrators.

OTHER LAWSUITS
Writ of summons brought by Saba Marco before the Court of Genoa for the assignment of money found or compensation for the discovery of money allegedly found and not accounted for among the assets in the financial statements.
The writ was served on 12 February 2018. The judgement of first instance rejected the applicant's claims with an order to pay the costs; the counterparty appealed with a concurrent request to suspend the enforceability of the appealed judgement.
With the support of its legal advisors, the Bank considers the claim unfounded and the relative risk of losing as remote.

Bankruptcy Receivers' claim for damage for an amount of EUR 100 mln
As part of criminal proceedings brought before the Court of Savona against the former top management of the Bank, as per information provided in the Report on the Financial Position and Results of the Operations as at 31 December 2018, the Bankruptcy Receivers entered an appearance as civil claimants before the Court, claiming EUR 100 mln worth of damages and holding the Bank liable under civil proceedings. With respect to this event, the Bank, supported by the opinion of its external legal

counsel, has considered the possibility of settling the claim out of court, and the related effects were incorporated in this Report. The settlement was therefore finalised at a total cost of EUR 10 mln, of which EUR 8 mln incurred in this reporting period and EUR 2 mln from a provision for risks and charges previously set aside.

Claims for damages resulting from the shareholders' resolution of 20 September 2019, for increasing the share capital by EUR 700 mln, including share premium, with the exclusion of the right of option.
At the end of 2019 and during 2020, the Bank was notified by the court, sometimes individually, sometimes jointly and severally with other parties, of a series of particularly significant claims for damages, totalling approximately EUR 500 mln.

In particular, reference is made to:

a) the writ of summons claiming for damages of approximately EUR 486.6 mln served by Malacalza Investimenti on 16 January 2020, with the defendants being the Bank, together with the Voluntary and Mandatory Intervention Scheme of the Italian Interbank Deposit Protection Fund (FITD) and Cassa Centrale Banca;
b) the writ of summons claiming for an indefinite amount, which was proposed by the representative of the savings shareholders on 2 December 2019 to protect the interests of savings shareholders;
c) the writ of summons proposed by a number of shareholders on 16 January 2020 for a claimed amount of approximately EUR 11.8 mln.

While taking into account the specific nature of each type of action, the lawsuits initiated by the shareholders seek compensation for the damages they believe they have suffered as a result of the capital increase resolution adopted by the Shareholders' Meeting on 20 September 2019, in relation to the following aspects:

- failure to comply with the obligation to grant option rights to the shareholders or, in any case, lacking or insufficient explanation of the reasons for exclusion pursuant to Article 2441, paragraphs 5 and 6 of the Italian Civil Code;
- breach of the criteria for determining the issue price pursuant to Article 2441, paragraph 6, of the Italian Civil Code because shareholders' equity was not taken into account;
- failure to comply with the implied nominal value of the share given by the ratio of share capital to the number of shares with violation of the prohibition to issue shares below par value.

On the other hand, the action brought by the common representative of the savings shareholders, which refers to the same Shareholders' Meeting, seeks unquantified compensation for the damage allegedly suffered by the savings shareholders as a result of the implementation of the afore-mentioned resolution of the Extraordinary Shareholders' Meeting.

In response to these summons, the Bank's units in charge obtained initial support from legal experts appointed to form an independent judgement on the risk of losing. The analyses and deep dives carried out to date have led the Bank’s units to conclude that, on the basis of the information available at the moment, the risk of losing is to be considered remote.

INCOME TAX TREATMENT
Considering the significant amount of deferred tax assets recognised under the assets in the Financial Statements and, specifically, deferred tax assets that cannot be converted into tax credits pursuant to Law no. 214/2011, the valuation process underlying their recognition, which is put in place by the preparers of the accounts takes on particular significance. In the current context of operation, the governing bodies of the Parent Company, which was placed under Temporary Administration from 2 January 2019 to 31 January 2020, deemed it prudent, on the basis of the information currently in their possession, to continue not to recognise, as has been the case since 2018, additional DTAs, particularly DTAs based on future profits and not arising from temporary differences (DTAs on tax losses); other DTAs for which recognition was suspended are those linked to significant events (e.g. provisions to the Redundancy Fund) whose period of tax reversal would fall in years when taxable income forecasts were

not yet sufficient to ensure their immediate absorption.
At the moment, this line has still been confirmed, taking into account the uncertainty and discontinuity of the current situation with respect to the past, including in view of possible future combinations.
DTAs not recognised in the period amounted to approximately EUR 263 mln at an individual level, with cumulative DTAs not recognised at an individual level as at 31 January 2020 totalling approximately EUR 352 mln.
On a going concern basis, the recognition of deferred tax liabilities as at 1 January 2018 was assessed on the basis of the methodology developed in recent years (probability test), including with the support of external professionals. Account was also taken of the interruption of tax consolidation, which the banks of the Group participated in.
With particular reference to the deferred tax assets on tax losses and ACE (aid for economic growth) recognised until 1 January 2018, which continues to be held in these financial statements, the probability test was carried out, based on the results of the updated 2019-2023 Strategic Plan, including with a view to verifying whether the forecasts of future profitability, more conservative than those considered at the end of 2018, were still such as to ensure their re-absorption and therefore justify their recognition and maintenance over time.
Although the test highlighted that, for the foregoing reasons, the recovery time of the DTAs recognised will be longer than that estimated as at 31 December 2018 (in the absence of volatility assumptions from 2038 to 2042), their recognition in the financial statements is still considered sustainable.
The test carried out on the basis of the assumptions explained for 2018 has once again demonstrated the probability that the DTAs may be recovered, although not over a short time period.
The test only concerns the EUR 674 mln worth of deferred tax assets that are not convertible into tax credits, on the basis, as mentioned, of the forecasts emerging from the update to the 2019-2023 Strategic Plan, approved by the Temporary Administrators on 26 July 2019, and, finally, on the basis of further assumptions better described in Part B of the Explanatory Notes to the Consolidated Financial Statements, to which reference should be made in full.

In conclusion, the simulation carried out is considered to have highlighted the elements that, pursuant to IAS 12, are suitable for assessing "probability", including in consideration of the specific tax regulations in force for the conversion of DTAs and the carry forward of tax losses. Among these elements, the projection of the Strategic Plan taxable income for 2023 to the following years (at a fixed 2% growth rate exclusively equal to the expected rate of inflation) and the unlikely recurrence of the causes identified for the significant tax losses, are key factors for assessing probability, in this specific case.

It should be noted that an extension or worsening of the current economic-financial crisis -including in light of ongoing developments associated with the Corona-virus pandemic in the course of 2020- represents an element of uncertainty regarding the execution and timing reflected in the plan forecasts and projections by the management, even considering that, for the purpose of the probability test, said projections may potentially develop over a sufficiently long period of time to believe that the effects may be mediated as part of the normal cycle of the economy; however, it cannot be ruled out that different conditions may emerge, worse than those currently estimated and considered for the development of the probability test.

When there is uncertainty over the tax treatment of certain items, IFRIC 23 “Uncertainty over Income Tax Treatments” clarifies how to apply the recognition and measurement requirements in IAS 12 “Income Taxes”.
IFRIC 23 clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over whether the relevant taxation authority will accept the income tax treatment of certain items under tax law.
In the presence of such uncertainty, it is necessary to determine whether the assumptions, estimates and decisions taken in determining the taxable amount should be disclosed in the financial statements.
With respect to this issue, the Bank has not identified any specific areas of uncertainty for which the

application of this Interpretation is expected to have an impact on these Financial Statements.

NON-PERFORMING LOAN PORTFOLIO DISPOSAL TO AMCO S.P.A.

In line with the 2019 - 2023 Business Plan and, particularly, the NPE strategy of the Banca Carige Group, the Group continued the derisking process aimed at reducing its portfolio of non-performing loans. To this end, Asset Management Company - AMCO S.p.A. (former Società per la Gestione di Attività - SGA S.p.A.) submitted a binding offer (the latest was made in June 2019) which, for Banca Carige, envisaged the sale of non-performing loans for a gross amount of approximately EUR 2,651 mln as at 30 June 2019 at an overall sale price of approximately EUR 1,005 mln ("project Hydra"). On 15 and 16 November 2019, Banca Carige and AMCO entered into two agreements for the disposal of non-performing loans, one in relation to the leasing portfolio for a GBV of EUR 177 mln as at 30 June 2019 and another concerning the remaining portion of the non performing portfolio for a GBV of EUR 2,474 mln as at the same date, respectively at a sale price of EUR 48 mln (leasing portfolio) and EUR 957 mln (remaining part of NPL portfolio held for sale).

The purchase price indications contained in the binding offer for the disposal of the non-performing loans were gradually reflected in the valuation of the portfolio at issue, in accordance with the criteria of the Group's internal impairment models.

The disposal of the bulk of the portfolio (amounting to gross EUR 2,163 mln as at 30 June 2019) took legal effect on 20 December 2019.

As at 31 January 2020, the conditions had not yet been met for the derecognition of the residual portion of the loan book being disposed of, consisting in leases and part of the exposures to the Messina Group, for a total gross amount of EUR 494 mln (gross EUR 488 mln as at 30 June 2019); the loans were valued by taking account of the sale price and the latest information available.

The Temporary Administrators believe that the disposal of these credit exposures, which is a prerequisite for their derecognition, will be completed in the course of 2020 on the basis of assessments by the Company units in charge.

Reported below is a summary of the main characteristics and impacts on the exposures included in project Hydra:

- economic effective date of the sale: 1 July 2019 (1 January 2020 for the remaining loans being disposed of, which are subject to conditions precedent);
- legal effective date and date of derecognition, where applicable: 20 December 2019;
- gross book value sold of approximately EUR 2,651 mn as at 30 June 2019, of which around EUR 488 mln in leases and part of the exposures to the Messina Group (approximately EUR 2,163 mln upon derecognition);
- sale price of approximately EUR 1,005 mln as at 30 June 2019, of which around EUR 203 mln in leases and part of the exposures to the Messina Group (consideration paid of approximately EUR 746 mln, net of retained payments, for the loan portfolio being derecognised);
- total writedowns/losses, including leases being disposed of and part of the exposures to the Messina Group, not being derecognised, for an amount of approximately EUR 439 mln, of which EUR 391 mln in losses on impairment of loans (item 130), EUR 30 mln in losses on disposal (item 100), EUR 14 mln in lower interest income (item 10) and, finally, EUR 4 mln in adjustments to assets measured at fair value (item 110);
- other charges in relation to the transaction for an amount of approximately EUR 15 mln (legal, notary and advisor fees, charges for the migration of the accounts sold and, lastly, charges related to work on leased properties that are being sold).

DISPOSALS OF NON-PERFORMING LOANS IN THE 2017-2019 PERIOD: INDEMNITIES

Some agreements for the bulk disposal of loans which were executed from 2017 to the reporting date of these Financial Statements include the option for purchasers to request compensation upon the occurrence of a series of events.

During the period, a series of claims were received, for various reasons, including the non-existence of credit protection guarantees, settlements carried out prior to the disposal, mortgage degree lower than

declared, etc.
Overall, the claims for indemnities led to approximately EUR 5 mln worth of charges recognised as other operating expenses and EUR 16.6 mln in higher provisions to the fund for risks and charges.

CREDIT RECOVERY VIA ACQUISITION AND COMPLETION OF REAL ESTATE INVESTMENTS
The Bank also pursues credit recovery via the acquisition of the real estate investments it has made over time, seeing to it that these properties are renovated, upgraded, completed and marketed.
This activity is carried out via the real estate companies of the Group which were specifically established for this purpose; reference is made in particular to Carige Reoco S.p.A. and Abitare RE S.r.l. The former is 100% owned by the Parent Company and was founded in 2018; the latter was founded in 2019 and is 100% owned by Carige Reoco.
In July 2019, in particular, the real estate company, Abitare R.E. S.r.l., signed the agreements for the purchase of the real estate projects relating to the four cooperative companies belonging to Abitcoop, at a price of approximately EUR 116.1 mln, plus EUR 13.6 mln in VAT, while at the same time taking over mortgages and loans for an amount of approximately EUR 112 mln from Carige.
The real estate projects held via the two real estate subsidiaries for the purpose of capital appreciation of the investment through development, renovation and requalification for subsequent sale in the ordinary course of business, were classified and measured as inventories, in accordance with IAS 2.

SECTION 3
Subsequent events

Pursuant to the provisions of IAS 10, information is given that, from 31 January 2020 (the reporting date of the Financial Statements) to 29 May 2020 (the date on which the draft Financial Statements were approved by the Temporary Administrators), no events occurred that would require an adjustment to the amounts recognised.

On 11 February 2020, the Board of Directors granted the Nomination and Governance Committee the powers to steer the strategic guidelines for the definition of sustainability policies and initiatives, without prejudice to the strategic responsibilities of the Board of Directors. The Committee was thus renamed Nomination, Governance and Sustainability Committee and was assigned support tasks in the definition of strategic guidelines, contributing to ensure that sustainability policies and risks are correctly managed, in particular in the areas envisaged by Legislative Decree no. 254/2016, as well as the task of providing the Board of Directors with a prior opinion on the performance of activities related to the preparation of the consolidated non-financial statement pursuant to Legislative Decree no. 254/2016, to be submitted to the Board of Directors for approval.

Following the spread of Covid-19, the Bank launched a series of initiatives to support its footprint areas, including:

- allocation of a total of EUR 20 mln for granting soft loans to companies that have reported a slowdown in their activities following the spread of the Covid-19 crisis, and a 3-month suspension of loan repayments for retail customers residing in the "lockdown areas" and companies with registered or operational headquarters in the same areas;
- interest-free "loans of honour" of up to EUR 5,000, rapidly disbursed also on-line, to small businesses and self-employed workers affected by the stoppage of activity due to the Covid-19 pandemic; interest-free advances on temporary unemployment benefits for a maximum amount of EUR 1,400.

On 26 February 2020, the Board of Directors of Banca Carige approved the funding programme for 2020, more specifically:

- new issuing programmes of bank covered bonds;
- one new securitisation transaction;
- disposal of new assets to the special-purpose vehicle Lanterna Finance;
- launch of a new TLTRO III programme;
- a Euro Medium Term Notes (EMTN) programme up to a total maximum amount of EUR 1,000 mln;
- the issue of Certificates, for a maximum amount of EUR 1,000 mln;
- the issue/offering and listing of domestic bonds, for a maximum amount of EUR 1,500 mln;
- the marketing of time deposits through the international platform RAISIN.

On 20 March 2020, upon request of the Common Representative of Savings Shareholders, the Special Meeting of Savings Shareholders was convened, in a single call, for Monday, 20 April 2020, at 10:00 a.m., to resolve on the following agenda:

1. Update by the Common Representative of savings shareholders on the court challenge filed against the resolution adopted by the Extraordinary Meeting of Ordinary Shareholders on 20 September 2019. Decisions on the continuation of judicial activities undertaken and their funding. Related and ensuing resolutions.
2. Increasing the Fund established under article 146, paragraph 1, letter c, of Legislative Decree no. 58/1998. Related and ensuing resolutions.

The Shareholders' Meeting was attended (including by proxy) by many shareholders, representing 18.34% of the shares of this class. The proposals by the Common Representative of the Savings Shareholders were approved by 98.27% of the share capital represented at the Shareholders' Meeting. 1.73% of the votes were against the proposals.

On 22 April 2020, the Board of Directors approved the Corporate Governance and Ownership Structure Report for 2019, agreeing for it to be published before the Temporary Administration financial statements in order to ensure a timing of publication in line with the practices of other Issuers. The Corporate Governance and Ownership Structure Report for 2019 was thus published on 29 April 2020.

On 29 April 2020, the Board of Directors resolved to convene the Extraordinary and Ordinary Shareholders' Meeting of the Bank on 29 May 2020, in one call, to resolve on the following agenda:

Extraordinary session
1. Proposal for the optional conversion of the Company's savings shares into ordinary shares. Ensuing amendments to the Articles of Association. Related and ensuing resolutions.
2. Proposal for a reverse split of ordinary and savings shares outstanding, at a ratio of 1 (one) new ordinary share issued, with regular dividend entitlement, for every 1,000 (one thousand) ordinary shares held and 1 (one) new savings share with regular dividend entitlement for every 1,000 (one thousand) savings shares held. Ensuing amendment to art. 5 of the Articles of Association. Related and ensuing resolutions

Ordinary session

1. Waiver of the liability actions against former Chairman Cesare Castelbarco Albani and former CEO Piero Luigi Montani
2. Engagement of the independent auditing firm for financial years 2021-2029 and related resolutions
3. Report on the Remuneration Policy and compensation paid
4. Third-party liability insurance for members of the corporate bodies

The resolutions relating to the Extraordinary session of the shareholders' meeting agenda concern a set of measures aimed at rationalising the Bank's shareholding structure, including in view of the Bank's shares potentially being readmitted to listing on the Electronic Stock Market (Mercato Telematico Azionario) organised and managed by Borsa Italiana S.p.A., after suspension from trading since January 2019.
More specifically, the Reverse Split will reduce the number of shares outstanding, net of brokerage and trading of any fractional shares. With a view to facilitating the Reverse Stock Split for individual shareholders and the brokerage of any fractional shares arising from the Reverse Stock Split, a service

will be made available to the shareholders for dealing with fractional shares that cannot be reverse split. Furthermore, prior to the Reverse Stock Split, the Bank will define the appropriate rounding-up procedures including through a broker identified for this service.
The Optional Conversion of ordinary shares -to be effected by 31 December 2020 at a conversion ratio of 20,500 ordinary shares for each savings share opted in for conversion- is intended to enable savings shareholders opting in, to renew their presence in the Bank's shareholding structure, by receiving ordinary shares of the Bank, potentially with a significantly higher level of tradability than today's de facto very limited tradability of savings shares.
Should the Extraordinary Shareholders' Meeting approve both transactions, the Reverse Stock Split would be effected after the Optional Conversion, with both to be completed, however, by no later than 31 December 2020.

As part of the agenda of the ordinary session, the Shareholders' Meeting will be called, among other aspects, to express its opinion on the engagement of the independent auditing firm for financial years 2021-2029 on the basis of the reasoned proposal of the Board of Statutory Auditors pursuant to Legislative Decree no. 39/2010.
In fact, upon approval of the financial statements as at 31 December 2020, the engagement to audit the company's financial statement conferred by the Shareholders' Meeting of Banca Carige of 29 April 2011 on Ernst & Young S.p.A., for the nine-year period 2012-2020, will come to an end.
In light of this, it was deemed appropriate to submit to the Ordinary Shareholders' Meeting the proposal for the engagement of the independent auditing firm for the nine-year period 2021-2029, prior to the expiry of the current statutory audit engagement, in line with the market practices adopted by the main Italian banking groups and considering the need to ensure an effective and efficient process of turnover of the auditing firms, including through a more fruitful handover between the outgoing and incoming auditing firm.

The coronavirus pandemic broke out in mainland China when the Temporary Administration period was nearing its conclusion and subsequently spread out to other countries including Italy, causing a slowdown or a standstill of the economic and commercial activity in many industries. The Carige Group, also through the Parent Company's competent functions, was able to take timely action to ensure continuity of service. More specifically, immediate action was taken to protect Group employees, with extensive recourse to smart working by endowing personnel with the appropriate technological equipment. Measures were also taken to manage the impact on teller operations with a view to guaranteeing the provision of services, to ascertain the adoption by the main suppliers of business continuity measures with the aim of ensuring service continuity, and to support individuals and businesses that were hit by the coronavirus pandemic. Despite the uncertainty about the emergency progression, such measures are ensuring the operational continuity of the service.
As a result of the partial and temporary halt of economic activities due to the pandemic, Italy's economic forecasts for 2020 are uncertain; moreover, Italy's economy will be impacted by the effects that the pandemic is generating at a global macroeconomic level. At the moment, such impacts on domestic economy are impossible to predict, as they will largely depend on the duration of the crisis, the effectiveness of the initiatives implemented by the Authorities, the resilience and the responsiveness of both businesses and households, and the role that the banking system will be able to play in supporting the economy. A significant contraction in Italy's GDP is most definitely expected, also in view of the slowdown in the economic cycle that was already underway before the spread of the pandemic. The extent of the contraction is, however, difficult to predict at this stage, as evidenced by the variability of

the first estimates released by leading economic research institutes; the economic measures that the Italian government and the European institutions have promptly taken and the further measures that could be taken during the year -should the exacerbation of the crisis make them necessary or appropriate- will certainly help mitigating the recessionary effects.
The Bank considers this event to have taken place after the Reporting Period; no adjustment is thus required, pursuant to IAS 10. With regard to the information to be disclosed pursuant to paragraph 125 of IAS 1, which requires companies to disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year, and in the face of a smooth and rapidly evolving situation, it is not considered possible at present to provide a quantitative estimate of the potential impact of the coronavirus pandemic on the Company's economic and financial position, given the multiple variables that are still unknown and undetermined. Such impact will thus be included in the 2020 accounting estimates.
Degrees of uncertainty are in particular attributable to the factors underlying the forward-looking models required by IFRS 9 for estimating expected losses on credit exposures. These scenarios, however, in such a context, characterised by high uncertainty, could produce excessively volatile and pro-cyclical results. Therefore, the ECB has urged banks to take long-term stable outlooks into account in the scenario analyses used to estimate the cost of credit. The ECB has also pointed out that it will reserve the right to provide banks with macroeconomic scenarios for the application of provisioning policies in the near future.
Against these premises, the Bank estimated the expected loss as at 31 January 2020, on the basis of the expected evolution of the main economic variables as at that date, properly weighted according to the probability of occurrence attributed to the various scenarios identified. "Part E - Information on risks and risk hedging policies" of the Explanatory Notes provides information on the main economic variables used in the estimates as at 31 January 2020 and how, by varying them on the basis of the preliminary information available, the estimates of the expected loss on the Bank may vary.

Moreover, with reference to the other areas affected by the uncertainties associated with the coronavirus pandemic, "Section 10 - Tax Assets and liabilities" of Part B Assets of the Explanatory Notes provides information about the underlying assumptions, the methodology applied and the results of the "probability test" of deferred tax assets pursuant to IAS 12.

SECTION 4
Other information

Suspension of the domestic tax consolidation regime

Banca Carige S.p.A. and the companies of the Carige Group have adopted -as of its introduction in the Italian tax legislation by Legislative Decree No. 344/2003- the “national tax consolidation” option, as regulated by articles 117-129 of the Consolidated Law on Income Tax (Testo Unico delle Imposte sui Redditi - "TUIR"). It consists of an optional treatment, whereby the total net income or the tax loss of each subsidiary participating in the tax consolidation -together with the withheld amounts, deductions and tax credits- are transferred to the parent company, for which a single taxable income or a single reportable tax loss is determined (resulting from the algebraic sum of its own income/losses and of those of the participating subsidiaries) and, consequently, a single tax payable/receivable is calculated.

Banca Carige was placed under Temporary Administration from 2 January 2019 to 31 January 2020. For tax purposes, art. 75 of the Consolidated Law on Banking, which sets forth the final obligations of the Temporary administrators, establishes that such a time span coincides with both the accounting year and the tax reporting period for taxes related to the financial year.

Given that the Temporary Administration procedure concerned only Banca Carige and not the other companies consolidated for tax purposes, the extension of the Temporary Administration period to 2020 has caused the misalignment between the Parent Company's tax period and that of the consolidated entities, and hence the suspension of the national tax consolidation regime as of fiscal year beginning on 1 January 2019.

Auditing

Banca Carige’s financial statements were audited by EY S.p.A. on a voluntary basis.

The Auditing Firm also verifies the consistency of the information contained in the "Report on Operations".

A.2 - MAIN ITEMS OF THE FINANCIAL STATEMENTS PURSUANT TO ART. 75, PARA. 2 OF THE ITALIAN CONSOLIDATED LAW ON BANKING

For the different items in the Balance Sheet, this section illustrates the criteria adopted for the classification, recognition, measurement, derecognition and reporting of income components.

1. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT AND LOSS

<u>Classification criteria</u>

Financial assets at fair value through profit or loss include:

a) financial assets held for trading;
b) financial assets measured at fair value (fair value option);
c) financial assets mandatorily at fair value.

A financial asset is classified as held for trading if it is:

- acquired or incurred principally for the purpose of selling or repurchasing it in the short term with the objective of generating a profit from short- term fluctuations in price or dealer's margin;
- part of a portfolio of identified financial instruments that are managed together and for which there is a short-term profit expectation, or the evidence of a short-term profit-taking realisation;
- a derivative contract that is not accounted for as a hedging instrument (to which a specific accounting policy is applied - "hedge accounting") or that does not fall within the definition of a financial guarantee contract.

The category of financial assets held for trading includes securities and the positive values of derivative contracts held for trading (negative values are posted to the item "Financial liabilities held for trading").
A derivative is a financial instrument with all three of the following characteristics:

- its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract;
- it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and
- it is settled at a future date.

Derivatives held for trading include those which are operationally linked to financial assets and/or liabilities carried at fair value (subject to the fair value option) or classified as held for trading with settlement of spreads or margins on different maturities ("multiflow" contracts) and derivatives embedded in hybrid financial liabilities, which were recognised separately because:

- their economic characteristics and risks are not closely related to the economic characteristics and risks of the host contracts;
- the embedded instruments meet the definition of a derivative contract;
- hybrid instruments are not measured at fair value, with related changes in fair value recognised in profit or loss.

The Bank has decided not to make use of the fair value option for financial assets.
Financial assets mandatorily at fair value are assets other than derivative contracts represented by debt instruments whose contractual terms do not give rise, on specified dates, to cash flows that are solely

payments of principal and interest on the principal amount outstanding[1] and assets other than those held for trading, with a different business model ('other business model')[2].

Reclassifications among different categories of financial assets shall be carried out when, and only when, an entity changes its business model for managing financial assets.
Reclassifications are allowed only for debt instruments and not for derivative contracts[3] and equity instruments, and must be done prospectively from the reclassification date, without restating any previously recognised profit and loss items.
Changes in business model do not include a change in intention related to particular financial assets, the temporary disappearance of a particular market for financial assets or a transfer of financial assets between parts of the entity with different business models.
Changes in the entity's management of financial assets under the selected business model, for example an increase in the frequency of sales, do not lead to a reclassification of existing assets but to a different classification of financial assets subsequently acquired.
The accounting criteria for reclassifications of financial assets are as follows[4]:

- From AC to FVTPL: the carrying amount in the new category is the fair value of the asset at the reclassification date. Any difference between the previous amortised cost of the financial asset and fair value as at the reclassification date is recognised in profit or loss.
- From FVTPL to AC: the fair value as at the reclassification date becomes its new carrying amount, consequently with no difference to be posted to profit or loss. The internal rate of return is determined using the fair value of the asset at the reclassification date.
- From FVTPL to FVTOCI: the financial asset continues to be measured at fair value. The internal rate of return is determined using the fair value of the asset at the reclassification date.
- From FVTOCI to FVTPL: the financial asset continues to be measured at fair value. The amounts suspended in the OCI reserve are entirely written down and recognised in profit or loss.
- From AC to FVTOCI: the carrying amount in the new category is the fair value of the asset at the reclassification date. Any difference between the previous amortised cost of the financial asset and the fair value is recognised in other comprehensive income; the loss allowance is derecognised from the gross carrying amount of the asset and recognised in other comprehensive income. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.
- From FVTOCI to AC: the fair value as at the reclassification date becomes its new carrying amount. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification. The amounts suspended in the OCI reserve are entirely written down and recognised in the asset value and not in profit or loss, as if the asset had always been measured at amortised cost.

Recognition criteria

[1] Financial instrument that fail the "Solely Payment of Principal and Interest test (SPPI test)".
[2] "Other business models" are neither:
✓ *held to collect* " contractual flows (HTC) nor
✓ held both to collect contractual cash flows and to sell financial assets(HTC&S).
[3] Trading derivatives may only be subsequently designated as effective hedges.
[4] The different categories of financial assets are:
- CA: financial assets at amortised cost;
- FVTOCI: financial assets measured at fair value through other comprehensive income;
- FVTPL: financial assets at fair value through profit or loss, other than those measured at fair value.

Financial assets measured at fair value through profit or loss are initially recognised at fair value, usually for an amount equal to the consideration given, less transaction costs or proceeds that are directly attributable to the financial asset, which are recognised directly in profit or loss.
Loans are initially recognised when the bank becomes a party to the contractual provisions of the instrument and thus acquires the unconditional right to receive payment of the amounts under the contract.
Securities are recognised at settlement date; any changes in fair value occurring between the trade date and settlement date are recognised in profit or loss.
Derivative contracts are recognised at the date when they are entered into.

Measurement criteria
After initial recognition, financial assets measured at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss.
The criteria adopted for measuring the fair value of financial instruments are reported in Section A.4, "Information on Fair Value" of the Explanatory Notes.
Transactions in derivatives settled through central clearing platforms, are subject to netting of positive and negative fair values under IAS 32, applying the conventional criteria described in Circular 262/2005, when both of the following requirements are met:
a) an entity has a legally enforceable right to set off the recognised amounts; and
b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Derecognition criteria
Financial assets measured at fair value through profit or loss are derecognised when they are sold, substantially transferring all related risks and rewards, or when the contractual rights to cash flows expire.

Criteria for the recognition of income
Interest income on loans and debt securities, as well as spreads and margins on derivatives operationally linked to financial assets and/or liabilities measured at fair value (subject to the fair value option) or classified as held for trading with settlement of spreads or margins expected to take place on different maturities ("multiflow" contracts) are recognised on an accrual basis under the sub-items of interest income.
Dividends are recognised on an accrual basis with reference to the date of the resolution adopted for the payout by the Shareholders' Meeting and are posted to the item "Dividends and similar income".
Gains and losses from trading and capital gains and losses arising from fair value measurement are recognised through profit or loss in the period in which they arise and are posted to the item "Net profit (loss) from trading".

2. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Classification criteria
Debt instruments are classified as financial assets measured at fair value through other comprehensive income (net equity) if both of the following conditions are met:
- the financial asset is part of a "Held to collect and sell - HTC&S" business model, whose objective is achieved by both collecting contractual cash flows and selling financial assets, and

- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding[5].

Investments in equity instruments not held for trading that would otherwise have been measured at fair value through profit or loss are classified in this item, if an entity makes an irrevocable election at initial recognition to present in other comprehensive income any subsequent changes in the fair value of the investment ("Fair Value OCI option" or FVTOCI).
In this item, the Bank only classifies securities, availing itself, in particular, of the "FVTOCI option" for investments not qualifying as interests in subsidiaries, associates and joint ventures.

The criteria adopted for reclassification of financial assets are reported in Section 1 "Financial assets measured at fair value through profit or loss".

Recognition criteria

Loans are initially recognised when the bank becomes a party to the contractual provisions of the instrument and thus acquires the unconditional right to receive payment of the amounts under the contract.
Securities are recognised at settlement date; any changes in fair value occurring between the trade date and settlement date are posted to an OCI reserve.
Financial assets measured at fair value through other comprehensive income are initially recognised at fair value, usually for an amount equal to the consideration given, plus transaction costs or proceeds that are directly attributable to the financial asset.

Transaction costs and proceeds directly attributable to the initial recognition are the incremental costs directly attributable to the acquisition, issue or disposal of the financial assets which can be immediately determined as at that date; transaction costs do not include costs which, although having the same characteristics, may be subject to repayment by the counterparty or included under normal internal administrative costs.

Derecognition criteria

Financial assets measured at fair value through other comprehensive income are derecognised when they are sold, substantially transferring all related risks and rewards, or when the contractual rights to their cash flows expire, or when an entity expects that all or a portion of the exposures will not be recovered.
The gross carrying amount of a financial asset shall be reduced if an entity has no reasonable expectations of fully or partly recovering such financial asset. The write-off may occur before the legal actions for asset recovery have been concluded and it does not necessarily imply the waiver of the legal right of recovery for the bank.
The write-off constitutes an event of derecognition of a financial asset or a portion thereof.
As regards a write-off of a portion of a financial asset, it may take place only if carried out after the identification of specific cash flows that are not expected to be collected (or a share of such cash flows).
The write-off policies adopted by the Bank are described in Section E of the Explanatory Notes concerning "Credit risk".

Revenue recognition and measurement criteria

Financial assets measured at fair value through other comprehensive income are subsequently measured

[5] Financial instrument that pass the "Solely payment of principal and interest test (SPPI test)".

at fair value, with changes in fair value presented in a valuation reserve. The criteria adopted for measuring the fair value of financial instruments are reported in Section A.4, “Information on Fair Value” of the Explanatory Notes.
For debt instruments only, expected losses on receivables are also recognised in the income statement as an offsetting entry to the valuation reserve, with no reduction in the value of the asset, which is presented at its total fair value. Paragraph “3 Financial assets measured at amortised cost” describes the criteria for the recognition of expected losses on loans.
The write-off amount corresponds to:
- the reversal of overall loan loss provisions, with offsetting entry to the gross carrying amount of financial assets, and
- for the part exceeding the overall loan loss provisions amount, the impairment of the financial asset directly recognised in profit or loss.

Possible recoveries after write-offs are recognised in profit or loss under recoveries, while the accounting of recoveries from loan assessments and relating to amounts previously de-recognised is not allowed.
Interest income on debt securities is recognised on an accrual basis using the effective interest method as “Interest and similar income”; this item also includes the interest accrued in relation to the time value of money, determined when impaired financial assets are measured on the basis of their original effective interest rate.
Arrears interest on credit-impaired financial assets is recognised in profit or loss only when collected.
Dividends are recognised on an accrual basis with reference to the date of the resolution adopted for the payout by the Shareholders’ Meeting and are posted to the item “Dividends and similar income”.
Gains and losses from disposal of debt instruments measured at fair value through other comprehensive income are recognised in profit or loss in the period in which they arise and are posted to the item “Profits (losses) on disposal or repurchase of financial assets measured at fair value through profit and loss with impact on comprehensive income”, which includes what is known as the recycle of the equity reserve to profit or loss.
Gains and losses from disposal of debt instruments measured at fair value through other comprehensive income, including what is known as the recycle of the equity reserve, are recognised as a retained earnings reserve.

3. FINANCIAL ASSETS AT AMORTISED COST

Classification criteria

Debt instruments are classified as financial assets measured at amortised cost if both of the following conditions are met:

- the financial asset is part of a “*Held to collect - HTC*” business model, whose objective is to hold assets to collect contractual cash flows, and
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding[6].

The Bank classifies in this item loans to banks and customers consisting in both loans and debt securities.

The criteria adopted for reclassification of financial assets are reported in Section 1 "Financial assets

[6] Financial instruments that pass the “Solely payment of principal and interest test (SPPI test)”.

measured at fair value through profit or loss".

Recognition criteria

Loans are initially recognised when the bank becomes a party to the contractual provisions of the instrument and thus acquires the unconditional right to receive payment of the amounts under the contract. Debt securities are recognised on the date on which settlement takes place.

Financial assets at amortised cost are initially recognised at fair value, usually corresponding to the amount granted or subscription price, plus any directly attributable transaction costs[7].

Transaction costs and proceeds directly attributable to the initial recognition are the incremental costs directly attributable to the acquisition, issue or disposal of the financial assets which can be immediately determined as at that date; transaction costs do not include costs which, although having the same characteristics, may be subject to repayment by the counterparty or included under normal internal administrative costs.

As concerns Purchased or Originated Credit-Impaired assets ("POCI"), the fair value corresponds to the total of cash flows discounted at the credit adjusted effective interest rate ("CEIR"); "CEIR" is the rate that, at initial recognition, exactly discounts the expected value of future cash flows to the initial value at amortised cost.

The "POCI" scope identified by the banks of the Group corresponds to the "new finance"[8] referred to non-performing forborne exposures[9].

If the contractual cash flows are renegotiated or modified and the asset does not qualify for derecognition, the gross carrying amount of the financial asset shall be recalculated by discounting the renegotiated or modified contractual cash flows at the financial asset's original effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

The scope of renegotiated or otherwise modified financial assets, which may not qualify for derecognition, has been identified by the banks of the Group (if the modifications are not significant) as coinciding with forborne exposures (both performing and non-performing); for such exposures, a qualitative and quantitative assessment is carried out to determine whether there was a substantial modification of the contractual terms[10].

All "commercial renegotiation"[11] aimed at preserving the customer base and carried out under the existing market conditions at the date of modification are considered by the banks of the Group as substantial and not resulting in material profit/loss and balance sheet impacts due to the adoption of IFRS 9.

Measurement criteria

After initial recognition, financial assets measured at amortised cost are measured at amortised cost, using the effective interest method.

The amortised cost is the amount measured at initial recognition minus principal repayments, plus or

[7] An exception is represented by trade receivables that do not contain a significant financing component, which shall be initially recognised at their transaction price, as set forth by IFRS 15.

[8] "New finance" is understood as the actual disbursement of new amounts to the debtor and not a mere increase of the credit facility granted, for example when a past due exposure is rescheduled.

[9] A business strategy for the purchase of non-performing exposures is not in place and substitution of the NPEs is not part of the loan restructuring management process.

[10] For further details, reference should be made to the following paragraph concerning the "derecognition criteria".

[11] Commercially renegotiated financial assets are defined by the Bank of Italy in Circular no. 262/2005 as "financial assets subject to contractual modification in accordance with paragraph 5.4.3 and Appendix A of IFRS 9, other than forborne exposures".

minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility.
The effective interest method is a method for calculating the amortised cost and allocating interest over the relevant period.
The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, including both directly attributable transaction costs and revenues and all fees paid or received between parties to the contract, so as to exactly obtain the first recognition value[12].

In order to calculate the effective interest rate, the estimate of cash flows and the expected life of a financial instrument shall consider all the relevant contractual terms (for example, prepayment, extension, call and similar options), but shall not consider the expected credit losses[13].
If interest rates and transaction costs and revenues vary according to market parameters, the financial asset's credit-adjusted effective interest rate (or "CEIR") shall be periodically redetermined in accordance with the variation in the contractual rate and related future cash flows.
The original credit-adjusted effective interest rate (or "CEIR") may not be modified, not even when the contractual terms are renegotiated or modified due to the financial difficulty of the borrower; on the contrary, a variation due to circumstances other than the financial difficulty of the borrower, such as legal requirements, entails the consequent revision of the original credit-adjusted effective interest rate (or "CEIR").
The amortised cost method is not applied to short-term financial assets (with term to maturity up to 12 months), with an indefinite life or revolving, inasmuch as the effects of application of discounted cash flows are deemed negligible for this particular case.

For a financial instrument measured at amortised cost, an entity shall, at each reporting date, recognise a loss allowance at an amount equal to:

- lifetime expected credit losses, if there has been a significant increase in credit risk since initial recognition;
- 12-month expected credit losses after the reporting date if the credit risk on a financial instrument has not increased significantly since initial recognition.

Expected credit losses are defined as the weighted average of credit losses with the respective risks of a default occurring as the weights and, in particular:

- lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of a financial instrument;
- 12-month expected credit losses are the portion of lifetime expected credit losses that represent the expected losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

The credit loss is the difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (cash shortfalls), discounted at the original effective interest rate (or credit-adjusted effective interest rate for Purchased or Originated Credit-Impaired financial assets).
Recoverable cash flows are estimated by considering all contractual terms of the financial instrument through the expected life of that financial instrument and shall include cash flows from the sale of

[12] As regards "POCI" exposures, the "CEIR" rate is used, as defined in the previous paragraph.
[13] As indicated in the previous paragraph, the exception to this last aspect are the Purchased or Originated Credit-Impaired (POCI) financial assets.

collateral held or other credit enhancements that are integral to the contractual terms.
If an entity has measured the loss allowance for a financial instrument at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that credit risk on that financial instrument has not increased significantly since initial recognition, the entity shall measure the loss allowance at an amount equal to 12-month expected credit losses at the current reporting date.

Financial assets are classified into three stages that are reflective of the credit quality impairment model under IFRS 9; the stages are as follows:

- Stage 1: financial instruments with no significant increases in credit risk since initial recognition;
- Stage 2: financial instruments that have undergone significant increases in credit risk since initial recognition, but that do not show objective evidence of impairment;
- Stage 3: credit-impaired financial assets for which there is objective evidence of impairment at the reporting date.

A financial asset is credit-impaired when one or more events have occurred that have a significant impact on the expected future cash flows of the financial asset. Evidence that a financial asset is credit-impaired includes observable data about the following events:

a) significant financial difficulty of the issuer or borrower;
b) a breach of contract, such as a default or past-due event;
c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, granted to the borrower a concession that the lender(s) would not otherwise consider;
d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
e) the disappearance of an active market for that financial asset because of the financial difficulties of the borrower; or
f) the purchase or origination of financial assets at a deep discount that reflects the incurred credit losses.

The combined effect of several events may cause financial assets to become credit-impaired.
As regards own securities, if several tranches of the same security are purchased at different dates, it is possible that the initial purchase conditions may differ from one another (different ratings/PDs of the individual securities or of the issuer).In consideration of this, the assessment of changes in credit risk since initial recognition and for the calculation of expected credit losses adopts a "tranche-based approach" which applies the "FIFO" (First In First Out) principle to determine the outstanding balance. This method allows for a more transparent management of the portfolio and a continuous updating of creditworthiness.
For the purpose of determining significant increases in the credit risk of exposures for their allocation to the three stages, the Group has defined the use of absolute qualitative criteria and relative quantitative criteria:

- <u>(absolute) qualitative criteria for classification in Stage 2</u>:
  - ✓ use of the "Low Credit Risk Exemption" for debt securities that have an updated rating included in the "investment grade" scope;
  - ✓ for loans, automatic classification of exposures that are at least 30 days past due in Stage 2 (without using the "rebuttable presumption" under IFRS 9);
  - ✓ for loans, automatic classification of "forborne" positions in Stage 2;
  - ✓ for loans, use of performance monitoring indicators for classifying some positions in Stage 2;
- <u>(relative) quantitative criteria for the classification in Stage 2</u>: comparing the degree of risk of

each position at initial recognition and at reporting date (comparing Probability of Default curves);

- classification of all exposures in default: the definition of "default" used is in line with the regulatory framework (prudential supervisory reporting - COREP) and it is also used in the internal credit risk management models".

In order to recognise lifetime expected credit losses for significant increases in the financial instrument's credit risk since initial recognition, an assessment of the significant increase in credit risk on a collective basis may be necessary, considering all reasonable and supportable information, including that which is forward-looking, about significant increases in the credit risk, for example in a group or a subgroup of financial instruments.

This is to ensure that the objective of recognising lifetime expected credit losses is achieved, where significant increases of credit risk have occurred - even though no specific evidence of such increases is available on an individual basis (individual asset). Lifetime expected credit losses are generally expected to be recognised before a financial instrument becomes past due.

For the purpose of determining significant increases in credit risk and recognising a loss allowance on a collective basis, financial instruments are grouped on the basis of shared credit risk characteristics.

Expected losses on own securities that are -or are not -credit impaired are calculated on a collective basis.

Loans are assessed on an individual basis rather than on a collective basis and according to the following criteria:

- assessment on an individual basis: exposures classified as "Bad loans" and "Unlikely-To-Pay exposures", as defined by the Bank of Italy's Supervisory Regulations[14], if the credit position meets at least one of the following requirements:
  - ✓ the exposure exceeds a quantitative materiality threshold set out in the internal regulations;
  - ✓ although it does not exceed the above threshold, the exposure was previously assessed on an individual basis (when objective evidence of long-term impairment persists, it is therefore not possible to switch from individual to collective assessment);
  - ✓ regardless of the level of exposure, the position is subject to bankruptcy proceedings (this only applies to exposures classified as bad loans).
- collective assessment: exposures not subject to individual assessment.

Individual assessment is carried out by analysts of the units in charge who determine the expected future cash flows and the time frame required for their collection, taking into account the type, value and enforceability of any guarantees in support of the loan.

The individual assessment of expected future cash flows depends on the type of scenario that banks apply, i.e. a going concern approach or a gone concern approach, taking also into account the outlooks of future macro-economic scenarios ("forward looking information") defined for collective assessments.

As concerns collective assessments, the models and methodologies used to estimate the Expected Credit Loss are based on the Basel framework parameters (PD-Probability of Default, LGD-Loss Given Default and EAD-Exposure at Default) properly recalibrated according to a Point-in-Time approach, and include "forward looking information".

Individual and collective assessment models also include forecast sales transactions of a comprehensively identified portfolio of gross non-performing loans with a high probability of sale.

[14] The definitions are contained in the paragraph "Credit Quality" of the General Instructions for preparation of the "Chart of Accounts" (Bank of Italy's Circular no. 272/2008) and are referenced to in Bank of Italy's Circular no. 262/2005 "Banks' financial statements: layout and preparation".

Derecognition criteria

Financial assets measured at amortised cost are derecognised when they are sold, substantially transferring all related risks and rewards, or when the contractual rights to their cash flows expire, or when the loan or receivable is considered fully or partially irrecoverable.

IFRS 9 indicates that[15]:

- an exchange of debt instruments with substantially different terms shall be accounted for as an extinguishment of the original financial instrument and the recognition of a new financial instrument;
- similarly, a substantial modification of the terms of an existing financial asset or a part of it (whether or not attributable to the financial difficulty of the debtor) shall be accounted for as an extinguishment of the original financial asset and the recognition of a new financial asset;
- the terms are considered as substantially different if the discounted present value of the cash flows under the new terms, discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the cash flows of the original financial asset;
- the difference between the carrying amount of the extinguished financial asset and the fair value of the new asset, shall be recognised in profit or loss.

IFRIC 19 provides the following guidance to address the accounting treatment of a financial liability settled, in full or in part, by equity instruments issued by the debtor:

- the equity instruments issued cause the derecognition of the financial liability;
- the value of the equity instrument is 'consideration paid' to extinguish the financial liability;
- the equity instrument issued should be measured at its fair value;
- the difference between the carrying amount of the derecognised instrument and the initial value of the equity instrument should be recognised in profit or loss.

The gross carrying amount of a financial asset shall be reduced if an entity has no reasonable expectations of fully or partly recovering such financial asset. The write-off may occur before the legal actions for asset recovery have been concluded and it does not necessarily imply the waiver of the legal right of recovery for the bank.

The write-off constitutes an event of derecognition of a financial asset or a portion of it.

As regards a write-off of a portion of a financial asset, it may take place only if carried out after the identification of specific cash flows that are not expected to be collected (or a share of such cash flows).

The write-off policies adopted by the banks of the Group are described in Section E of the Explanatory Notes concerning "Credit risk".

For securitisations, retained securitisations and disposal transactions structured for the purpose of issuing Bank-originated covered bonds, the assets were not derecognised from the financial statements of the transferring entities because the originator substantially retains all the risks and rewards in all of these transactions.

For securitisations, the amounts received for transferring the securitised loans were recognised under the item "Financial liabilities measured at amortised cost - Due to customers", net of the amount of securities issued by the special-purpose vehicle which are held in the portfolio, and net of other forms of credit enhancement. Interest accrued on these liabilities is recognised on an accrual basis under the item

[15] Certain indications contained in IFRS 9 for the derecognition of financial liabilities are reported, which, as indicated by the IASB Interpretation Committee, can also be applied in analogy to financial assets.

"Interest and similar expense".
Liquidity deposited by the special purpose vehicle with an entity other than the originator for covered bond transactions (which require the granting by the transferring bank of a subordinated loan to the SPV for the purchase of the underlying assets) and for retained securitisations is recognised as a receivable from the SPV under the item "Financial assets measured at amortised cost - Loans to customers".

Criteria for the recognition of income
The difference between the POCI assets' carrying amount measured at initial recognition and the consideration paid is recognised in profit or loss in the item "Net losses/recoveries on impairment of financial assets at amortised cost".
When the contractual terms of a financial asset are modified and the modification does not result in the derecognition of that financial asset, the difference between the gross carrying amounts of the asset, discounted at the financial asset's original effective interest rate, are recognised in profit or loss as "Gains (losses) due to modification not resulting in derecognition".
Losses and reversals on loans are posted in profit or loss to "Net losses/recoveries on impairment"; recoveries consist in the reversal of impairment, due to an improvement in the credit rating of the borrower and cash collections (other than gains on disposal) of previously impaired financial assets.

The write-off amount corresponds to:

- the reversal of overall loan loss provisions, with offsetting entry to the gross carrying amount of financial assets, and
- for the part exceeding the overall loan loss provisions amount, the impairment of the financial asset directly recognised to profit or loss.

Possible recoveries after write-offs are recognised in profit or loss under recoveries, while the accounting of recoveries from loan assessments and relating to amounts previously de-recognised is not allowed.

Interest and similar income is recognised on an accrual basis as "Interest and similar income", using the effective interest method for loans and receivables other than short-term receivables (with term to maturity up to 12 months), with an indefinite life or revolving.
For financial assets that have become credit impaired or for purchased or originated credit impaired financial assets (POCI), interest revenue is calculated on the value at amortised cost (gross carrying amount less total credit losses); for POCI assets, this assessment method is maintained over the full contractual term of the asset even if it is no longer credit-impaired.
Arrears interest on credit-impaired financial assets is recognised in profit or loss only when collected.
The item "Interest and similar income" also includes interest accrued in relation to the time value of money, determined when credit-impaired financial assets are assessed at the financial asset's original effective interest rate (or "Credit Adjusted Effective Interest Rate", CEIR).
Gains and losses on disposal of financial assets measured at amortised cost are recognised in profit or loss in the period in which they arise and are posted to the item "Profits (losses) on disposal or repurchase of financial assets measured at amortised cost".

4. HEDGING DERIVATIVES

The Bank avails itself of the option provided by IFRS 9 to continue to apply the hedge accounting requirements of IAS 39.

Classification criteria

The aim of risk hedging transactions is to neutralise potential losses on a given element or group of elements (hedged item) attributable to a specified risk, through profits achieved on a different element or group of elements (hedging instrument) should the risk-related event actually occur.

The types of hedging under IAS 39 include:

- fair value hedges, which are intended to hedge the exposure to changes in fair value of a recognised asset or liability, that are attributable to a particular risk;
- cash flow hedge: a hedge of the exposure to adverse variability in expected future cash flows that is attributable to a financial asset or liability or a highly probable forecast transaction;
- hedge of a net investment in a foreign entity: a hedge of the exposure to adverse variability in expected future cash flows of a foreign currency operation.

A hedging relationship qualifies for hedge accounting if, and only if, all of the following conditions are met:

- at the inception of the hedge there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge, including identification of the hedging instrument, the hedged item, the nature of the risk being hedged and the criteria to assess the hedging instrument's effectiveness;
- the hedge is expected to be "highly effective" i.e. changes in the hedged item's fair value or cash flows are expected to be almost completely offset by corresponding changes in the hedging instrument. This offsetting effect is expected to be achieved consistently with the originally documented risk management strategy (for that particular hedging relationship). Moreover, the effectiveness of the hedge (i.e. the related fair value) must be reliably measured;
- the effectiveness of the hedge is assessed at inception and on an ongoing basis throughout the financial reporting periods for which the hedge was designated. A hedge is regarded as highly effective if, at the inception of the hedge and in subsequent periods, changes in the hedged item's fair value or cash flows are expected to be almost completely offset by corresponding changes in the hedging instrument, and if the actual results of the hedge demonstrate that it was effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, within a range of 80-125 per cent;
- effectiveness is assessed at the time the annual or interim financial statements are prepared;
- in the event of a hedge of forecast transactions, the finalisation of the transaction must be highly probable;
- only instruments that involve a party external to the reporting entity can be designated as hedging instruments.

The following types of hedges are considered by the banks of the Group, which use only derivative contracts as hedging instruments:

- fair value hedges: used to hedge interest rate risk for specific, individually identifiable items, such as customer loans, securities classified under financial assets measured at fair value through other comprehensive income, bonds issued, and to hedge foreign exchange risk;
- cash flow hedges: used to hedge exposure to variability in future cash flows associated with medium/long-term floating-rate liabilities or forecast transactions involving liabilities in which the individual elements are not identified.

Recognition criteria

Hedging derivatives are initially recognised at fair value, usually for an amount equal to the price paid, less transaction costs or proceeds that are directly attributable to the financial asset, which are recognised directly in profit or loss.

Measurement criteria

After initial recognition, hedging derivatives are measured at fair value.

The criteria adopted for measuring the fair value of financial instruments are reported in Section A.4, "Information on Fair Value" of the Explanatory Notes.

Transactions in derivatives settled through central clearing platforms, are subject to netting of positive and negative fair values under IAS 32, applying the conventional criteria described in Circular 262/2005, when both of the following requirements are met:

a) an entity has a legally enforceable right to set off the recognised amounts; and
b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

For fair value hedges, changes in fair value attributable to both derivative contracts and to the hedged risks of each hedged instrument are recognised in profit or loss as "Net profit (loss) from hedging".

The Bank avails itself of the option of discontinuing the hedge accounting amortisation of the adjustment to the hedged item until the hedging relationship remains effective. For cash flow hedges, only derivative contracts are accounted for: if the hedging relationship is 100% effective, the change in the fair value of the derivative contract is accounted for as an offsetting entry to movements in the cash flow hedge valuation reserve, whereas, if the hedging relationship is totally or partly ineffective, the share of fair value associated with the ineffective portion is recognised in profit or loss as "Net profit (loss) from trading".

More specifically:

- the share of profit or loss associated with the hedging derivative that, in absolute amounts, equals the change in fair value of the expected future cash flows on the hedged items is recognised in equity; any share of profit or loss associated with the hedging derivative that, in absolute amounts, exceeds the change in fair value of the expected future cashflows on the hedged items is immediately recognised in profit or loss ("overhedging");
- if the cumulative gain or loss on the hedged item exceeds the cumulative gain or loss on the hedging instrument ("underhedging"), the change in the derivative's fair value is recognised in equity;
- the equity reserve is "released" to profit or loss in the period (or periods) in which movements of hedged items are registered in the income statement (for example when amortisation, interest or capital losses are booked). However, if it is expected that all or a portion of a loss recognised in equity will not be recovered in one or more future periods, the amount that is not expected to be recovered shall be reclassified into profit or loss as a reclassification adjustment.

Derecognition criteria

For fair value hedges, an entity shall discontinue prospectively the hedge accounting if:

a) the hedging instrument expires or is sold, terminated or exercised;
b) the hedge no longer meets the criteria for hedge accounting described above;
c) the entity revokes the designation.

For cash flow hedges, an entity shall discontinue prospectively the hedge accounting if:

a) the hedging instrument expires or is sold, terminated or exercised. In this case, the cumulative gain or loss on the hedging instrument that has been recognised in equity from the period when the hedge was effective shall remain separately in equity until the forecast transaction occurs;
b) the hedge no longer meets the criteria for hedge accounting described above. In this case, the

cumulative gain or loss on the hedging instrument that has been recognised in equity from the period when the hedge was effective shall remain separately in equity until the forecast transaction occurs;

c) the forecast transaction is no longer expected to occur, in which case any related cumulative gain or loss on the hedging instrument that has been recognised in equity from the period when the hedge was effective, shall be reclassified from equity to profit or loss as "Net profit (loss) from trading";
d) the designation is revoked. For hedges of a forecast transaction, the cumulative gain or loss on the hedging instrument that has been recognised in equity from the period when the hedge was effective, shall remain separately in equity until the forecast transaction occurs or is no longer expected to occur. If the transaction is no longer expected to occur, the cumulative gain (or loss) that had been recognised in equity shall be reclassified from equity to profit or loss as "Net profit (loss) from trading".

Criteria for the recognition of income

Recognised as "Interest and similar income" and "Interest and similar expense" are the spreads and margins accrued over hedging derivative contracts (with the items 'Interest' also including interest relating to the hedged financial instruments).

The balance of spreads or margins accrued over hedging derivative contracts relating to the individual items or technical forms of hedging contracts is included in the interest income or interest expense, depending on the sign (positive or negative) of the interest-related cash flow that is modified by the derivatives.

For fair value hedges, the gains or losses from measuring the derivative contracts and hedged items are recognised in profit or loss for the period in which they arise and are posted to "Net profit (loss) from hedging".

For cash flow hedges, the amounts of valuation reserves that are recycled to profit or loss when forecast transactions are no longer considered probable or when losses allocated to such reserves are expected not to be recovered, are recognised in profit or loss as "Net profit (loss) from hedging".

5. EQUITY INVESTMENTS

Classification criteria

This category includes investments in subsidiaries and in companies subject to significant influence.

It is presumed that an entity is subject to significant influence, if 20 per cent or more of its voting power is held by an investor. The existence of significant influence by an entity is usually evidenced by its participation in the financial and operating policy decisions of the company, through shareholders agreements aimed at ensuring representation on the governing bodies and safeguarding a comprehensive management steering approach, but without giving rise to the control of the investee.

Similarly classified under this item are any investments in subsidiaries excluded from the scope of line-by-line consolidation.

"Non-controlling interests" are classified under "Financial assets measured at fair value through other comprehensive income"[16].

[16] Except for equity instruments relating to the Voluntary Scheme of the Interbank Deposit Protection Fund (FITD), which are classified as "Financial assets measured at fair value through profit or loss".

Criteria for classification and measurement

Investments are initially recognised on the settlement date.

Investments in subsidiaries excluded from the scope of line-by-line consolidation and in entities subject to significant influence exempt from application of the equity method for being considered non-significant are recognised at cost.

The equity method is applied to investments in companies subject to significant influence.

The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the change in the investor's share of net assets of the investee.

The share of changes in net assets arising from profit or loss of the investee is recognised in profit or loss as "Profits (losses) on investments in associates and joint ventures"; the share of changes in net assets arising in the financial statements of the investee without passing through profit or loss are instead posted directly to the item "Reserves".

The difference between the cost of the investment and the share of net assets acquired is treated using a similar approach to line-by-line consolidation, except that if there is a positive residual difference (goodwill), it is not separately recognised among intangible assets (and therefore tested for impairment separately), but continues to be posted to Equity Investments.

At the end of each annual or interim reporting period after application of the equity method, a review is performed to determine whether there is any indication that an equity investment may be impaired. These signs are normally identified in an investment's internal and external factors, i.e.:

- the equity investment's value has declined during the period;
- changes have taken place in the environment in which the investee operates;
- market interest rates have increased during the period;
- the economic performance of the investment is, or will be, worse than expected.

If any one of these conditions is met, the recoverable value of the investment is calculated, i.e. the higher between the fair value less costs to sell and the value in use. If the carrying amount exceeds the recoverable value of the investment, an impairment loss is recognised for the investment.

The value in use is calculated as the present value of future cash flows generated by the investment, applying a market rate on these flows which is reflective of the cost of equity and risks specific to the investment. When calculating the value in use it is also necessary to discount the final value of the presumed disposal of the investment on the basis of a hypothetical price that is agreed in an arm's length transaction between independent, knowledgeable, willing parties.

If an impairment loss recognised in prior periods no longer exist or has decreased, the carrying amount is increased to the cost value prior to impairment.

Derecognition criteria

Upon loss of significant influence over an associate, the Group assesses and recognises the residual investment at fair value. The difference between the carrying amount of the investment as at the date on which the Group ceases to exercise a significant influence and the fair value of the residual investment and the consideration received is recognised in the income statement.

Criteria for the recognition of income

Losses and reversals on impairment of investments and profit or loss on disposal of investments are recognised in "Profits (losses) on equity investments" for the period in which they arise.

The value of the equity investments is reduced by dividend periodically received by the Bank which is recognised in “Dividend and similar income”, at the time when the right to payment arises.

6. PROPERTY AND EQUIPMENT

Classification criteria

This category includes land and buildings used in operations, held for investment or held for sale, movable properties, equipment, machinery and artwork.

More specifically:

- property and equipment held for use in production or for the supply of goods and services are classified as “assets used in operations” in accordance with IAS 16;
- property owned for investment purposes (to earn rentals or for capital appreciation) is classified as "Investment property" in accordance with IAS 40;
- property held for investment and capital appreciation development that is in the process of construction or development for subsequent sale in the ordinary course of business, is classified as inventories, in accordance with IAS 2.

Property and equipment also includes rights of use acquired under leases in relation to the use of property and equipment as a lessee, in accordance with IFRS 16, with regard to the following[17]:

- land and buildings;
- cars;
- Automated Teller Machines (ATMs)[18].

Recognition criteria

An item of property and equipment other than those acquired to extinguish credit-impaired exposures is initially recognised at cost, which comprises its purchase price (after deducting trade discounts and rebates) and any costs directly attributable to purchasing and bringing the asset to the location and condition necessary for it to be capable of operating.

The purchase price also includes the cost of non-recurring maintenance on owned property resulting in a significant and tangible increase in productivity and/or an increase in the useful life of the asset.

For a description of non-recurring expenses for maintenance on third party premises, please see the specific paragraph of Section “15 - Other information”.

Property, plant and equipment acquired to extinguish credit-impaired exposures are usually classified as inventories (IAS 2) or non-current assets held for sale and discontinued operations, if the assets meet the criteria to be classified in accordance with IFRS 5.

Such assets are initially recognised at the lower of the value of the net receivable measured at foreclosure and its fair value; the fair value is:

- the value inferred from marketing activities in progress if, at the date of initial recognition, the asset is being actively marketed for sale and there is evidence that the parties involved remain committed to a sale plan;

[17] The Group does not have any rights of use acquired under leases of intangible assets or the operating lease (for the lessor) referred to in IFRS16.

[18] Lease agreements for cars and ATMs contain both a lease component and non-lease components that are accounted for separately in accordance with the other applicable accounting standards.

- the quick sale value, in view of the sale occurring in a shorter period than the marketing time normally considered to determine the market value of the asset;
- the market value resulting from a specific appraisal, in other cases.

The rights of use acquired under the lease and the related lease liabilities are recognised at the date on which the lessor makes the underlying assets available for use ("commencement date").
Right-of-use assets acquired through leasing are initially measured at cost, which shall comprise:

a) the amount of the initial measurement of the lease liability;
b) any lease payments made at or before the commencement date, less any lease incentives received;
c) any initial direct costs incurred by the lessee; and
d) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, to be made in accordance with IAS 37.

Measurement criteria

After initial recognition, "Assets used in the business" and "Assets held for investment" are valued at purchase cost less accumulated depreciation and impairment losses. Items of property and equipment are systematically depreciated using the straight-line method which applies a constant rate over their useful life, except for:

- land, acquired separately or incorporated in the property value, which is not depreciated given its indefinite life. Separation of the property value from the land and building value at the acquisition date, for all properties, is based on appraisals by independent experts registered with professional associations;
- artwork, which is not depreciated as its useful life cannot be estimated and the value is normally expected to increase in the long term.

Unless the useful life of the individual assets is specifically determined otherwise, the depreciation period is calculated by using the following general criteria:

- for buildings, at an annual standard rate of 1.5%;
- for other property and equipment at rates judged appropriate, including from an accounting perspective.

The residual values, useful lives and depreciation methods of property and equipment are reviewed at each year-end and, where appropriate, adjusted prospectively.
At least at the end of each annual reporting period, a review is performed to determine whether there is any indication that the value of property and equipment may be impaired. This valuation is based on internal and external sources of information.
If there is an indication that the asset may be impaired, the asset's carrying amount is compared with its recoverable amount ("impairment test"), with the latter being defined as the higher of the asset's fair value less costs of disposal and its value in use, i.e. the present value of future cash flows expected to originate from the assets.
Impairment losses are recognised in profit or loss.
Where the reasons for impairment cease to exist, a reversal is recognised in profit or loss, which shall not exceed the carrying amount that would have been determined (net of depreciation or amortisation), had no impairment loss been recognised for the asset in prior periods.

Property and equipment identified according to IAS 2 are measured at the lower of cost and net realisable value, which is the estimated selling price less the estimated costs of completion and the estimated costs necessary to make the sale.
At least at the end of each annual reporting period, an assessment is made to determine that the cost of

inventories does not exceed their net realisable value: if this happens, inventories shall be written down to the net realisable value.
Impairment losses are recognised in profit or loss. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realisable value because of changed economic circumstances, the amount of the write- down is reversed in profit or loss, with the reversal being limited to the amount of the original write- down.

After the commencement date, the right-of-use assets acquired under leases shall be measured by applying a cost model[19], which requires the right-of-use asset to be measured at cost:

- deducting any accumulated depreciation and accumulated impairment losses (by respectively applying the provisions of IAS 16 and 36); and
- adjusted for any remeasurement of the lease liability arising from the lease contract[20].

Impairment losses are recognised in profit or loss.
Where the reasons for impairment cease to exist, a reversal is recognised in profit or loss, which shall not exceed the carrying amount that would have been determined (net of depreciation or amortisation), had no impairment loss been recognised for the asset in prior periods.

Derecognition criteria
The carrying amount of an item of property, plant and equipment shall be derecognised:

- when they are discontinued or
- if the asset is sold, when the buyer obtains the right to direct the use of the asset and to receive all of the economic benefits expected from its use; usually this occurs upon completion of the sale.

The gain or loss arising from the disposal or discontinuation of an item of property and equipment shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in profit or loss when the item is derecognised.
The rights of use acquired as part of leasing and related lease liabilities are derecognised at the end of the lease term.

Criteria for the recognition of income
Any accumulated depreciation and impairment losses (reversals) are recognised in profit or loss as "Net adjustments to/recoveries on property and equipment". For the rights of use acquired as part of leasing and related lease liabilities, such items also include any gains or losses arising from lease modifications and gains from the remeasurement of lease liabilities.
Gains and losses from disposal are recognised as "Profits (losses) on disposal of investments".

7. INTANGIBLE ASSETS

Classification criteria
Application software is classified in said category.
Other intangible assets, other than goodwill, are recognised if they are identifiable as such, i.e. if they

[19] The fair value model under IAS 40 and the revaluation model under IAS 16 cannot be adopted by the Group because they are not applied for the subsequent measurement of owned assets.
[20] Remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments.

lack physical substance, arise from contractual or other legal rights and are capable of generating future economic benefits.

Criteria for recognition and measurement

An intangible asset is recognised only if it can be demonstrated that:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity;
- the asset cost can be measured reliably.

Other intangible assets are measured at their adjusted cost, i.e. the initial acquisition cost plus any directly attributable expenditure, less any accumulated amortisation and any accumulated impairment losses, plus any reversal of impairment.

The amortisation of other intangible assets occurs on a straight line basis over their useful life and is recognised as a direct decrease in asset value.

The amortisation period and the amortisation method for an intangible asset with a finite useful life shall be reviewed at least at each financial year-end.

If the expected useful life of the asset is different from previous estimates, the amortisation period shall be changed accordingly. If there has been a change in the expected pattern of consumption of the future economic benefits embodied in the asset, the amortisation method shall be changed to reflect the changed pattern[21].

At the end of each annual or interim reporting period, if there is evidence that an asset may be impaired, then the asset's recoverable amount must be estimated. The amount of the loss recognised in profit or loss is equal to the difference between the carrying amount and the recoverable amount of the asset.

Where the reasons for impairment cease to exist, a reversal is recognised in profit or loss, which shall not exceed the carrying amount that would have been determined (net of depreciation or amortisation), had no impairment loss been recognised for the asset in prior periods.

Derecognition criteria

Intangible assets are derecognised:

- when they are discontinued or
- if the asset is sold, when the buyer obtains the right to direct the use of the asset and to receive all of the economic benefits expected from its use; usually this occurs upon completion of the sale.

Criteria for the recognition of income

Any depreciation or impairment losses/reversals of other intangible assets are recognised in profit or loss as “Net adjustments to/recoveries on intangible assets”.

Gains and losses from disposal are recognised as “Profits (losses) on disposal of investments”.

8. NON-CURRENT ASSETS AND GROUPS OF ASSETS HELD FOR SALE AND LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE

[21] During the first half of 2018, the Group extended the estimated useful life of its software, including in light of the ten-year agreements signed as part of the IT system outsourcing transaction.

At 31 January 2020, the Bank does not have any non-current assets and groups of assets held for sale, as 80.1% of the investment in Creditis was sold in March 2019.

Classification criteria

Individual assets and groups of assets held for sale referred to in IFRS 5 and associated liabilities are classified under the items "Non-current assets and groups of assets held for sale" and "Liabilities associated with assets held for sale" if their carrying amount is recovered principally through a sale transaction rather than through continuing use.

Classified under these items are situations in which a plan to sell the individual assets or disposal groups in their current condition has been initiated and their sale is considered highly probable because Management has committed itself to the sale, which is expected to be completed within one year from the date of classification.

Criteria for recognition and measurement

Immediately before the classification of the individual assets or groups of assets and liabilities held for sale under the items "Non-current assets and groups of assets held for sale" and "Liabilities associated with assets held for sale", the book value of the assets and liabilities is remeasured by applying the applicable accounting standards.

Such assets and liabilities are measured at the lower of carrying amount and fair value, less cost to sell.

On subsequent remeasurement of a disposal group, the carrying amounts of any assets and liabilities that are not within the scope of the measurement requirements of IFRS 5, shall be remeasured in accordance with applicable IFRSs before the disposal group is remeasured at the lower of its carrying amount and fair value, less costs to sell.

Derecognition criteria

The individual assets and groups of assets held for sale and associated liabilities are derecognised after their disposal.

Criteria for the recognition of income

Property and equipment and intangible assets held for sale are no longer subject to amortisation.

Non-current assets and groups of assets held for sale are measured in accordance with the following criteria:

- Any initial or subsequent write- down of the asset to fair value less costs to sell is recognised as an impairment loss.
- Any subsequent increase in fair value less costs to sell, but not in excess of the cumulative impairment loss that was previously recognised, recognised as a gain in profit or loss.

Separate recognition is provided for under item "Profit (loss) after tax from discontinued operations" in the Income Statement for only risks and charges (net of related taxes) relating to discontinued operations.

9. CURRENT AND DEFERRED TAX ASSETS AND LIABILITIES

Criteria for recognition and classification

Current tax assets and liabilities represent the net fiscal position of the Group companies with respect to Italian and foreign tax authorities. In particular, these amounts represent the net balance of current fiscal liabilities for the period, calculated on the basis of a conservative forecast of the tax charge for the period,

determined on the basis of currently applicable tax regulations, and current tax assets represented by tax paid in advance and other tax credits for tax withholdings or other tax credits from previous years that the Group companies have requested to offset against tax due in subsequent years.
Current tax assets also represent tax credit that the Group companies have requested the relevant authorities to reimburse.

Income tax, calculated in accordance with national tax legislation, is booked as a cost on an accrual basis, in accordance with the method of recognising costs and revenues that generate it.
Income tax provisions are determined according to a forecast of current tax expense, deferred tax assets and liabilities, taking account of any possible uncertainty regarding its estimate, as referred to in IFRIC 23. Specifically, deferred tax assets and liabilities are calculated according to temporary differences - without time limits- between the value attributed to an asset or liability, based on statutory criteria, and the corresponding value accepted for tax purposes, applying what is known as the liability method.

Deferred tax liabilities are recognised for all taxable temporary differences, except to the extent that:

- the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction which is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit;
- the reversal of the taxable temporary differences associated with investments in subsidiaries, branches and associates can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are the amounts of income taxes recognised against deductible temporary differences and the carryforward of unused tax credits and losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward of unused tax credits and losses can be utilised, unless:

- the deferred tax asset associated with the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination; and, at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss);
- for all deductible temporary differences arising from investments in subsidiaries, branches and associates, and interests in joint arrangements, deferred tax assets shall be recognised to the extent that, and only to the extent that, it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

Measurement criteria
Deferred tax assets are recognised to the extent their recovery is probable, assessed on the basis of the continued capacity of the company or parent company involved -taking into consideration the effect of the exercise of the tax consolidation option- to generate positive taxable income. At the end of each reporting period, unrecognised deferred tax assets are reassessed and recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.
Those deferred tax assets which, in accordance with Law 214/2011, under certain conditions, are transformed into tax credits, do not require, unlike the others, any tests to assess their recovery potential and hence they are automatically recognised.
The Parent Company, which was placed under Temporary Administration from 2 January 2019 to 31 January 2020, deemed it prudent not to recognise DTAs, as of 2018, particularly DTAs based on future profits and not arising from temporary differences (on tax losses and ACE -aid for economic growth- tax deductions); other DTAs for which recognition was suspended are those linked to significant events (e.g.

provisions to the Redundancy Fund) whose period of tax reversal would fall in years when taxable income forecasts were not yet sufficient to ensure their immediate absorption. At the moment, this line has still been confirmed, taking into account the uncertainty and discontinuity of the current situation with respect to the past, including in view of possible future combinations.
Deferred tax liabilities are recognised with the sole exception of reserves, if any, under tax suspension, insofar as the distribution of such items is not foreseeable. Deferred tax assets and liabilities are recognised in the Balance sheet, with open balances and without offsetting, under tax assets and tax liabilities, respectively.
Deferred tax assets and liabilities are systematically assessed to take into account any changes in regulations or tax rates and are therefore measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.
The tax liabilities total is adjusted to meet charges that could derive from findings already notified or in any event from disputes pending with tax authorities.

Criteria for the recognition of income
Deferred tax assets and liabilities are typically recognised in profit or loss as "Taxes on profit (loss) for the year from continuing operations".
An exception is represented by deferred tax assets or liabilities arising from transactions that are directly recognised in equity, which thus refer to the same item (i.e. a business combination) and are part of the goodwill value calculation.

10. ALLOWANCES FOR RISKS AND CHARGES

Allowances for commitments and guarantees given
This item includes:
a) allowances for credit risk with respect to revocable and irrevocable financing commitments undertaken and guarantees pledged, which are subject to the IFRS 9 rules on loss allowances;
b) allowances for other commitments and guarantees which are not subject to the IFRS 9 rules on loss allowances.

For the quantification of provisions for credit risk referred to under item a), the criteria for the calculation of expected credit losses - described in Paragraph "3 Financial assets measured at amortised cost" - are applied with the following specific approach:

- An expected credit loss on loan commitments:
  - ✓ is the present value of the difference between the contractual cash flows that are due to the bank if the holder of the loan commitment draws down the loan and the cash flows that the bank expects to receive if the loan is drawn down;
  - ✓ should be consistent with the expectations of drawdowns on that loan commitment, i.e. the bank shall consider the expected portion of the loan commitment that will be drawn down within 12 months of the reporting date when estimating 12- month expected credit losses, and the expected portion of the loan commitment that will be drawn down over the expected life of the loan commitment when estimating lifetime expected credit losses;
  - ✓ discounted using the effective interest rate, or an approximation thereof, that will be applied

when recognising the financial asset resulting from the loan commitment[22].

- For a financial guarantee contract, the entity is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, cash shortfalls are the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the entity expects to receive from the holder, the debtor or any other party. If the asset is fully guaranteed, the estimation of cash shortfalls for a financial guarantee contract must be consistent with the estimations of cash shortfalls for the asset subject to the guarantee.

  Expected credit losses on financial guarantee contracts shall be discounted by applying a discount rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows but only if, and to the extent that, the risks are taken into account by adjusting the discount rate instead of adjusting the cash shortfalls being discounted.
- The maximum period to consider when measuring loan commitments and expected credit losses is the maximum contractual period over which the entity has a present contractual obligation to extend credit.

No instance of commitments and guarantees which are not subject to the IFRS 9 rules on loss allowances as referred to in item b) is reported by the Bank.

Provisions for commitments and guarantees given are recognised in profit or loss as "Net provisions for risks and charges".

<u>Allowances for pensions and similar obligations</u>

Allowances for pensions and similar obligations, as envisaged in specific regulations, are recognised among liabilities for an amount sufficient to ensure that obligations arising from commitments are met as required by the related regulations.

The total Supplementary Pension Fund is calculated by an independent actuary using actuarial methods.

Allowances for pensions and for similar obligations are classified as post-employment benefit plans, i.e. compensation paid to employees upon termination of employment.

According to IAS 19, these benefits can be classified as "defined contribution plans" or "defined benefit plans", depending on the economic nature and on the main terms and conditions of the plan:

a) Defined contribution plans are post- employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods; actuarial risk (that benefits will be less than expected) and investment risk (that invested assets will be insufficient to meet expected benefits) are not borne by the entity but fall on the employee.

   The contributions to be paid to a defined contribution plan are recognised as follows:
   - as liabilities, after subtracting any contributions already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, an entity shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
   - as an expense, unless another International Accounting Standard requires or permits recognition as an asset.

[22] This is because, for the purpose of applying the impairment requirements, a financial asset that is recognised following a draw down on a loan commitment shall be treated as a continuation of that commitment instead of as a new financial instrument. The expected credit losses on the financial asset shall therefore be measured considering the initial credit risk of the loan commitment from the date that the entity became a party to the irrevocable commitment. If the effective interest rate cannot be determined, the discount rate is determined by applying the criteria for financial guarantee contracts.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the period in which the employees render the related service, the rate used to discount them shall be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. In countries where there is no market for such bonds, the market yields (at the end of the reporting period) on government bonds shall be used.

b) Defined benefit plans, in which the company guarantees certain services, underwriting the actuarial and investment risk regardless of the contribution.
   For defined benefit pension funds the annual variation in the Defined Benefit Obligation is booked to the income statement, as regards cost components (Service cost), and as regards financial components (Net interest on the net defined benefit liability/asset).
   The valuation-related component, comprised of actuarial gains and losses that originate from adjustments of previous actuarial assumptions made, is charged to the Shareholders' Equity Reserve ("Valuation Reserves" item). Subsequent reclassification to profit or loss of amounts recognised in equity is prohibited, whereas reclassification to other components of equity (reserves from allocation of profit) is allowed.
   The defined benefit plans also include the provision for employee severance pay (for a description of criteria adopted, please refer to Paragraph "15 - Other information").
   The profit or loss for the settlement of a benefit plan ("settlement") is the difference between:
   - the current value of the obligation for defined benefits to be settled, determined at the date of settlement; and
   - the settlement price, including all transferred plan assets and all payments effected directly by the entity for the settlement.

   The profit or loss for the benefit plan settlement is entered in the income statement when the settlement occurs.
   Past service cost -i.e. the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment- is recognised as an expense at the earlier of the following dates:
   - when a plan amendment or curtailment occurs; and
   - when the entity recognises related restructuring costs or the termination benefits.

   When determining past service cost, or a gain or loss on settlement, an entity shall remeasure the net defined benefit liability (asset) using the current fair value of plan assets and current actuarial assumptions, including current market interest rates and other current market prices, reflecting the benefits offered under the plan and the plan assets before the plan amendment, curtailment or settlement.
   A settlement occurs at the same time as an amendment or curtailment of the plan if the plan is terminated, resulting in the obligation being settled and the plan ceasing to exist. The conclusion of the plan however does not constitute a settlement if it is replaced by a new plan guaranteeing substantially identical benefits.

Additional information is provided in Section "12 - Provisions for risks and charges" of the Explanatory Notes, part B - Balance Sheet.

<u>Other allowances</u>

Allocation to the allowances for risks and charges shall be recognised when all the following three conditions are met:

a) an entity has a present obligation (legal or constructive) as a result of a past event;
b) it is probable that an outflow of resources will be required to settle the obligation; and
c) a reliable estimate can be made of the amount of the obligation.

The probability that an outflow of resources will be required to settle the obligation shall be understood as it being more probable than not that the event will occur.
The amount recognised as a provision for risks and charges shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.
The best estimate of the expenditure required to settle the present obligation is the amount that an entity would reasonably pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time. The estimates are determined by experience of similar transactions and reports from independent experts.
"Other allowances" includes provisions for liabilities of an uncertain amount or timing of payment such as those related to:

- legal disputes, including creditors' clawback lawsuits;
- customer complaints;
- restructuring[23];
- tax disputes;
- other obligations (legal or constructive) at the end of the reporting period.

"Other allowances" also include other long term employee benefits and employee incentives for termination of long term employment[24].
The allowances related to other long term employee benefits are those paid during employment that are not entirely due within the twelve month period following the end of the financial year during which the employees rendered their service and which are determined by the same actuarial criteria as provided for pension funds, recognising actuarial profits and losses immediately in the Income Statement.
Incentives for terminating employment are recognised at a time when the company is unable to withdraw from offering benefits; such liability is recognised before this date if the charges are recognised as restructuring costs falling within the scope of IAS 37.
The following provisions apply for the initial and subsequent recognition of the incentives for terminating employment:

- "post-employment benefits", in the event that the benefits due for terminating employment are an improvement of the benefits following employment;
- "short term benefits", to be recognised on an accrual basis in the period in which the work is carried out, if it is believed that the benefits will be fully paid within the twelve month period following the end of the year in which these benefits are recognised;
- "other long term benefits", if it is believed that the benefits will not be fully paid within the twelve month period following the end of the year in which these benefits are recognised.

The allowances are re-examined and adjusted to reflect the best current estimate at least at the end of each year; if the passage of time has a significant effect on the value of the obligation, the flow of resources assumed necessary to extinguish the obligation is discounted.
The net provisions are entered under "Net allowances for risks and charges" in the Income Statement; with the exception of economic items relative to employee benefits that, to better reflect their nature, are

[23] Under IAS 37, a restructuring is defined as a programme that is planned and controlled by management, and materially changes either the scope of a business undertaken by an entity or the manner in which that business is conducted. The following are examples of events that may fall under the definition of restructuring:

- sale or termination of a line of business;
- the closure of business locations in a country or region or the relocation of business activities from one country or region to another;
- changes in management structure, for example, eliminating a layer of management;
- fundamental reorganisations that have a material effect on the nature and focus of the entity's operations.

[24] Incentives for termination of the employment relationship also include contributions paid to the "Solidarity Fund for professional retraining and reconversion, for the support of employment and income of the banking sector employees".

recorded under “Administrative expenses – Personnel costs”.

If a review reveals that it is no longer probable that an outflow of resources will be required, the provision shall be reversed and recognised in profit or loss as “Net provisions for risks and charges”.

11. FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

Classification criteria

This category includes “Due to banks”, “Due to customers” and “Securities issued” which do not fall within financial liabilities held for trading or measured at fair value.
“Due to banks”, “Due to customers” also include liabilities posted by the lessee during financial leasing transactions, in accordance with IFRS 16.
Securities issued include unsubordinated and subordinated bonds issued and certificates of deposit.

Recognition criteria

Financial liabilities at amortised cost are initially recognised upon receipt of the cash flows or issuance of the debt securities, at the fair value of the liabilities, normally consisting in the consideration received or price of issuance, plus transaction costs directly attributable to the issuance.
Transaction costs and proceeds directly attributable to the initial recognition of liabilities are incremental costs directly attributable to the issue or disposal of the financial liabilities, which can be immediately determined as at that date; transaction costs do not include costs which, although having the same characteristics, may be subject to repayment by the counterparty or included under normal internal administrative costs.
The fair value of any financial liabilities, issued at terms below arm’s length, is estimated and the difference compared to the market value is recognised directly in profit or loss;
The fair value measurement methods used for liabilities and securities issued are described in section A.4 “Information on Fair Value” of the Notes to the Financial Statements.
Derivatives embedded in hybrid financial liabilities are recognised separately if:

- their economic characteristics and risks are not closely related to the economic characteristics and risks of the host contracts;
- the embedded instruments meet the definition of a derivative contract;
- hybrid instruments are not measured at fair value, with related changes in fair value recognised in profit or loss.

If an entity determines that an embedded derivative must be separated from the host but it cannot separately measure the embedded derivative either initially or at a subsequent reporting date, the entire hybrid instrument should be measured at fair value through profit or loss.
If the fair value of the embedded derivative contract cannot be reliably measured on the basis of its terms and conditions, its fair value is estimated as the difference between the fair value of the hybrid (combined) contract and the fair value of the host contract. If the fair value of the embedded derivative cannot be measured using this method, than the entire hybrid (combined) contract must be measured as at FVTPL.

The rights of use acquired under the lease and the related lease liabilities are recognised at the date on which the lessor makes the underlying assets available for use ("commencement date").
At the commencement date, lease liabilities are recognised at the present value of the lease payments that are not paid at that date.

The lease payments comprise the following[25]:

a) fixed payments, less any lease incentives;
b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
c) amounts expected to be payable by the lessee under residual value guarantees;
d) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Lease payments payable are generally discounted using the lessee's incremental borrowing rate[26]. Such rate was identified as the "amortizing internal transfer rate (ITT)" of funding and was determined for each lease contract, taking into account the term of the contract and the frequency of payments.
The lease term is the non-cancellable period of a lease, together with both:

a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

Measurement criteria

After initial recognition, financial liabilities at amortised cost other than lease liabilities are measured at amortised cost, using the effective interest method (for a description of the amortised cost method, please see "Section 3 - Assets at amortised cost").
A new placement of repurchased own bonds on the market (or, similarly, a repurchase agreement transaction -for funding purposes- with self-issued bonds as the underlying) is considered as a new issuance, consequently increasing the value of securities in issue but with no recognition of any profit or loss from trading.

After the commencement date, lease liabilities are measured by:

a) increasing the carrying amount to reflect interest on the lease liability;
b) Reducing the carrying amount to reflect the lease payments made and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments.

Derecognition criteria

Financial liabilities measured at amortised cost are derecognised when they expire or are repaid or repurchased in the case of previously issued securities. In this latter case, the difference between the carrying amount and the purchase cost is recognised through profit or loss.
IFRS 9 indicates that:

- an exchange of debt instruments with substantially different terms shall be accounted for as an extinguishment of the original financial instrument and the recognition of a new financial instrument;

[25] Lease payments payable only include rents, and exclude value added tax charges (VAT). On the basis of the definition of "lease payment" - whereby payments under a lease contract are those made by the lessee to the lessor - all administrative expenses relating to leased assets other than lease payments (maintenance costs, operational costs of buildings, insurance policy premiums, overheads, etc.) are excluded from the carrying amount of the right of use asset and liability, since they relate to a counterparty other than the lessor.
[26] Generally, the interest rate implicit in the lease cannot be readily determined.

- similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability;
- the terms are considered as substantially different if the present value of the cash flows under the new terms, determined using the original effective interest rate, is at least 10 per cent different from the discounted present value of the cash flows of the original financial liability;
- the difference between the carrying amount of the financial liability measured at the date of derecognition and the fair value of the new liability shall be recognised in profit or loss.

IFRIC 19 provides the following additional guidance to address the accounting treatment of a financial liability settled, in full or in part, by equity instruments issued by the debtor:
- the equity instruments issued cause the derecognition of the financial liability;
- the value of the equity instrument is 'consideration paid' to extinguish the financial liability;
- the equity instrument issued should be measured at its fair value;
- the difference between the carrying amount of the derecognised instrument and the initial value of the equity instrument should be recognised in profit or loss.

The rights of use acquired as part of leasing and related lease liabilities are derecognised at the end of the lease term.

Criteria for the recognition of income
Interest and similar expense relating to financial liabilities at amortised cost are recognised on an accrual basis as "Interest and similar expense", using the effective interest method for payables other than short-term (with term to maturity up to 12 months), with an indefinite life or revolving.
Interest on the lease liability in each period during the lease term shall be the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability[27].
Gains and losses from disposal/repurchase of liabilities other than lease liabilities are recognised in the Income Statement under the item "Profits/losses from disposal/repurchase - of financial liabilities".
For the rights of use acquired as part of leasing and related lease liabilities, "Net adjustments to/recoveries on property and equipment" also includes any gains or losses arising from lease modifications and gains from the remeasurement of lease liabilities.

12. FINANCIAL LIABILITIES HELD FOR TRADING

Classification criteria
A financial liability is classified as held for trading if it is:
- issued mainly for short-term repurchase, with the aim of generating profit from short-term value fluctuations;
- part of a portfolio of identified financial instruments that are managed together and for which there is a short-term profit expectation, or the evidence of a short-term profit-taking realisation;

The periodic rate of interest is the rate applied at initial recognition, or the revised rate reflecting any reassessment or lease modifications or in-substance fixed payments. If the change in lease payments results from a change in floating interest rates, a revised discount rate is used that reflects changes in the interest rate.

- a derivative contract not designated as effective hedging derivatives (to which a specific accounting system applies, known as "hedge accounting") or that does not fall within the definition of financial guarantee contract.

The category of financial liabilities held for trading includes the negative values of derivative contracts held for trading (positive values are posted under the item "Financial assets held for trading") and "technical overdrafts" generated from trading securities.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract;
- it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and
- it is settled at a future date.

Derivatives held for trading include those which are operationally linked to financial assets and/or liabilities carried at fair value (subject to the fair value option) or classified as held for trading with settlement of spreads or margins on different maturities ("multiflow" contracts) and derivatives embedded in hybrid financial liabilities, which were recognised separately because:

- their economic characteristics and risks are not closely related to the economic characteristics and risks of the host contracts;
- the embedded instruments meet the definition of a derivative contract;
- hybrid instruments are not measured at fair value, with related changes in fair value recognised in profit or loss.

Reclassifications between different categories of financial liabilities are not permitted.

<u>Recognition criteria</u>

Financial liabilities held for trading are initially recognised when they are entered into, at fair value, usually for an amount equal to the consideration received, less transaction costs or proceeds that are directly attributable to the instrument, which are recognised directly in profit or loss.

<u>Measurement criteria</u>

After initial recognition, financial liabilities held for trading are measured at fair value, which changes in fair value recognised in profit or loss.

The criteria adopted for measuring the fair value of financial instruments are reported in Section A.4, "Information on Fair Value" of the Explanatory Notes.

Transactions in derivatives settled through central clearing platforms, are subject to netting of positive and negative fair values under IAS 32, applying the conventional criteria described in Circular 262/2005, when both of the following requirements are met:

a) an entity has a legally enforceable right to set off the recognised amounts; and
b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

<u>Derecognition criteria</u>

Financial liabilities held for trading are derecognised when they are repaid, substantially transferring all related risks and rewards, or when the contractual rights to cash flows expire.

Criteria for the recognition of income

Interest expense on uncovered short positions ("technical overdrafts") on securities, as well as spreads and margins on derivatives operationally linked to financial assets and/or liabilities carried at fair value (subject to the fair value option) or classified as held for trading with settlement of spreads or margins expected to take place on different maturities ("multiflow" contracts) are recognised on an accrual basis under the sub-items of interest expense.

Gains and losses from trading and capital gains and losses arising from fair value measurement are recognised through profit or loss in the period in which they arise and are posted to the item "Net profit (loss) from trading".

13. FINANCIAL LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

The Bank has decided not to make use of the fair value option for financial liabilities.

14. FOREIGN-CURRENCY TRANSACTIONS

Upon initial recognition, foreign currency transactions are recognised in the currency of account, applying the current exchange rate to the amount in foreign currency as at the transaction date.

Monetary items are the currency units held, assets to be received and liabilities to be paid in a fixed or determinable number; conversely, non-monetary items are those items which provide no legal right to receive or obligation to deliver a fixed or determinable number of currency units.

Balance sheet entries denominated in foreign currencies are valued at the end of each annual or interim reporting period as follows:

- cash items are translated at the period-end exchange rate;
- non-cash items, measured at their historic cost in a foreign currency, are translated at the transaction date exchange rate;
- non-cash items, measured at fair value in a foreign currency, are translated at the period-end exchange rate.

Exchange differences from the measurement of non-cash items classified under financial assets measured at fair value through other comprehensive income are recognised in profit or loss or equity based on whether or not they are involved in fair value hedges of foreign currency risk.

Other exchange differences from disposal or translation differences on items in a foreign currency are recognised in profit or loss.

15. OTHER INFORMATION

✓ Information on revenues from contracts with customers (IFRS 15)

In order to recognise revenue representing the transfer of promised goods or services to customers, IFRS 15 is delivered in a five-step model framework to:

1) identify the contract(s) with a customer;
2) identify the performance obligations in the contract;

3) determine the transaction price;
4) allocate the transaction price to the performance obligations in the contract;
5) recognise revenue when (or as) the entity satisfies a performance obligation.

Performance obligations are the promise to transfer to the customer either:

- a good or service (or a bundle of goods or services) that is distinct; or
- a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

A good or service that is promised to a customer (performance obligation) is distinct if both of the following criteria are met:

- the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer; and
- the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract.

When another party is involved in providing goods or services to a customer, the bank may act as either a principal or an agent.

The bank is a principal if it controls the specified good or service before that good or service is transferred to the customer and, when it satisfies a performance obligation, the bank recognises revenue in the gross amount of consideration to which it expects to be entitled in exchange for the specified good or service transferred.

The bank is an agent if it does not control the specified good or service provided by another party before that good or service is transferred to the customer. When (or as) it satisfies a performance obligation, the bank recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. The consideration may include fixed amounts, variable amounts, or both.

When determining the transaction price, an entity shall consider the effects of all of the following:

- variable consideration because of discounts, incentives, performance bonuses, penalties or other similar items;
- a significant financing component (time value of money);
- non-cash consideration, to be measured at fair value if it can be reasonably estimated (if it cannot be reasonably estimated, the entity shall measure the consideration indirectly by reference to the stand-alone selling price of the goods or services promised to the customer in exchange for the consideration);
- consideration payable to a customer (e.g. sales incentives).

An entity shall include in the transaction price some or all of an amount of variable consideration estimated only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

Where a contract has multiple performance obligations, an entity will allocate the transaction price to each performance obligation in an amount that depicts the amount of consideration to which an entity expects to be entitled in exchange for satisfaction of each performance obligation. To meet the allocation objective, the most suitable method to determine said amounts is by reference to the stand-alone selling price at which an entity would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, an entity shall estimate the standalone selling price by adopting an approach that maximises the use of observable inputs and apply estimation methods consistently in similar circumstances[28].

When (or as) a performance obligation is satisfied, an entity shall recognise as revenue the amount of the transaction price that is allocated to that performance obligation. A performance obligation is satisfied when control of the underlying good or service is transferred to the customer.

Revenue is recognised either:

- "at a point in time": when control is passed; or
- "over time": revenue is recognised over time, selecting an appropriate method to measure the progress towards complete satisfaction of that performance obligation.

If a customer pays consideration before the entity performs by transferring the related good or service to the customer, the entity shall present the contract as a liability under "Other liabilities".

If an entity performs by transferring goods or services to a customer before the customer pays consideration, the entity shall present the contract as an asset under "Other assets"; two types of assets can be recognised:

- "Receivable", i.e. an entity's right to consideration that is unconditional.
  An entity shall account for a receivable in accordance with IFRS 9.
  Upon initial recognition of a receivable, any difference between the measurement of the receivable in accordance with IFRS 9 and the corresponding amount of revenue recognised shall be presented as an expense.
- "Contract asset", i.e. an entity's right to consideration representing something other than a receivable.
  An entity shall assess a contract asset for impairment in accordance with IFRS 9. An impairment of a contract asset shall be measured, presented and disclosed on the same basis as a financial asset that is within the scope of IFRS 9.

For contracts with customers that become onerous, the provisions of IAS 37 shall apply.

IFRS 15 also provides the rules for recognising some of the costs related to the contract with the customer (contract costs), distinguishing between incremental costs of obtaining a contract and costs incurred to fulfil a contract.

The incremental costs of obtaining a contract are those costs that an entity would not have incurred if the contract had not been successfully obtained. The incremental costs of obtaining a contract must be recognised as an asset if the entity expects to recover those costs, otherwise they shall be recognised as an expense.

An entity may recognise the incremental costs of obtaining a contract as an expense when incurred if the amortisation period of the asset that the entity otherwise would have recognised is one year or less.

If the costs incurred in fulfilling a contract with a customer are not within the scope of another Standard (for example, IAS 2, IAS 16 or IAS 38), an entity shall recognise an asset from the costs incurred to fulfil a contract only if those costs meet all of the following criteria:

- the costs relate directly to a contract or to an anticipated contract that the entity can specifically identify;

[28] If a standalone selling price is not directly observable, suitable methods for estimating it under IFRS 15 include:

- adjusted market assessment approach;
- expected cost plus margin approach;
- residual approach, to be used only if the selling price is highly variable or uncertain.

- the costs generate or enhance resources of the entity that will be used in satisfying performance obligations in the future;
- the costs are expected to be recovered.

Contract costs that are recognised as assets shall be amortised on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. Under IAS 36, an amount that cannot be recovered and a reversal of an impairment loss shall be recognised in profit or loss.

A contract with a customer may be partially within the scope of IFRS 15 and partially within the scope of another standard. If other standards specify how to separate and/or initially measure one or more parts of the contract, then those separation and measurement requirements are applied first. The transaction price is then reduced by the amounts that are initially measured under other standards; an entity shall then apply the provision of IFRS 15 to allocate the amount of the transaction price that remains (if any) to each performance obligation and/or to any other parts of the contract falling within the scope of IFRS 15. If the other Standards do not specify how to separate and/or initially measure one or more parts of the contract, then the entity shall apply IFRS 15 to separate and/or initially measure the part (or parts) of the contract.

For further information, please see the following paragraph "Recognition of income and related costs".

✓ <u>Recognition of income and related costs</u>

The main criteria for income recognition are summarised below[29]:

- interest income and interest expense are calculated on a pro rata basis on the basis of the contractual interest rate or the effective interest rate where amortised cost is applied. The amortised cost method is not applied to short-term financial instruments (with term to maturity up to 12 months), with an indefinite life or revolving, inasmuch as the effects of application of discounted cash flows are deemed negligible;
- for financial assets that have become credit impaired or for purchased or originated credit impaired financial assets (POCI), interest income is calculated on the value at amortised cost (gross carrying amount less total credit losses); for POCI assets, this assessment method is maintained over the full contractual term of the asset even if it is no longer credit-impaired;
- arrears interest on credit-impaired financial assets is recognised in profit or loss only when collected;
- negative interest on financial assets and liabilities is respectively recognised as "Interest and similar expense" and "Interest and similar income" in profit or loss;
- fee and commission income and income deriving from the provision of services are recognised in the financial statements during the period in which the services are provided (at a point in time) or distributed over time over the expected duration of the service (over time), to the extent that the service is provided in each period; possible variable considerations relating to discounts, incentives, penalties or bonuses are recognised in advance as compared with their monetary occurrence, only if it is highly probable that their amount will not subsequently have to be significantly reduced;

[29] In general, paragraph 4.47 of the Conceptual Framework for Financial Reporting specifies that "Income is recognised in the income statement when an increase in future economic benefits related to an increase in an asset or a decrease of a liability has arisen that can be measured reliably. This means that recognition of income occurs simultaneously with the recognition of increases in assets or decreases in liabilities".

- dividends are recognised in profit or loss as at the date of the Shareholders' Meeting resolution approving their distribution;
- gains and losses from trading in financial instruments are recognised through profit or loss in the period in which they arise;
- revenues from the sale of property and equipment are recognised when the buyer has the right to direct the use of the asset and to receive economic benefits expected from its use; usually this occurs upon completion of the sale.

Expenditures are recognised in profit and loss for the periods in which the related revenues are recognised.
If cost-revenue association is not feasible, the costs are immediately recognised in profit or loss. When it is expected that economic benefits will materialise over several financial years and an association with revenues may only be determined in a generic or indirect manner, the expenses are recognised in profit or loss according to a systematic and rational allocation method. This is often necessary to recognise expenses associated with the use of assets such as property, plant, equipment, goodwill, patents and trademarks; in such cases costs are defined as depreciation or amortisation. Such allocation procedures are intended to measure costs in the accounting periods in which the economic benefits associated with such items are consumed or expire.

✓ Share-based payments

The Group Banks' remuneration policies are in line with Title IV, Chapter 2 "Remuneration and Incentive Policies and Practices" of Bank of Italy's Circular letter no. 285/2013 and define the structure of the employees' variable salary component, which involves the award of an annual bonus, with payout structured as follows:
- for identified staff, the bonus is partly paid up-front (in cash and financial instruments) and partly deferred (in cash and financial instruments);
- for remaining personnel, the bonus is paid up-front in cash. For staff who are assigned individual targets, if the variable component is 50% of the annual gross salary (AGS), the relevant governing body may decide that a 40% share of the bonus may follow the deferral rules in use for Identified Staff, subject to the applicable forms of payment and criteria of internal consistency and fairness.

The components consisting in financial instruments will be paid in Phantom/unit shares[30].
The components consisting in Phantom/unit shares are denominated in "virtual" shares which will be awarded at the end of the vesting period, based on the performance achieved and converted into cash according to the change in value of the underlying shares between the beginning of the vesting period and conversion into cash. The value of the incentive is therefore linked to changes in the value of Carige's stock. Benefits for employees paid in financial instruments fall within the scope of application of IFRS 2, with particular regard to share-based, cash-settled payment awards made to employees.
Related charges are recognised as "Administrative expenses – Personnel expenses" and "Other liabilities" when certain conditions are met.
Financial liabilities are measured at fair value by using an option-pricing model, thus considering the terms and conditions according to which the revaluation rights have been assigned and the extent to which the staff rendered its services until that date. The initial fair value is recognised as an expense until

[30] Subject to a decision by the relevant governing bodies, other types of financial instruments may also be awarded, including unlisted securities, as defined in Commission Delegated Regulation (EU) no. 527/2014 with regard to regulatory technical standards specifying the classes of instruments that are appropriate to be used for the purposes of variable remuneration.

vesting.
Until the liability is settled, the related fair value is re-measured at each reporting date and at the date of settlement, with all changes in fair value being recognised in profit or loss.

- ✓ Treasury shares

Treasury shares held are deducted from shareholders' equity.
Profits or losses on transactions in treasury shares are recognised to a specific equity reserve; changes in the fair value of treasury shares shall not be recognised.
Additional information is provided in Section "12 - Company shareholders' equity" of the Notes to the Financial Statements, part B - Balance Sheet.

- ✓ Repurchase agreements on own securities

Repurchase agreements (liabilities) with repurchased own debt as underlying are recognised as new placement on the securities market and thereby increase the liabilities of securities issued or liabilities measured at fair value through profit and loss, with recognition of the obligation to repay securities at repo maturity, for the purposes of interest rate and liquidity risk disclosure as per Part E of the Explanatory Notes.
Similarly, repurchase agreement transactions with banking and financial counterparties with securities issued by the same entities as underlying are entered in purchased securities portfolios, with recognition of the commitment to reselling these securities at repo maturity.

- ✓ Non-recurring expenses for maintenance on third party premises

This relates to costs incurred for the renovation of third-party properties that can be capitalised as the lease agreement establishes a form of control over the asset and the Bank can therefore expect future economic benefits.
These costs, which are not covered by IFRS 16, are recognised in the item "Other Assets", and are amortised over a period shorter than or equal to the term of the lease liability as measured under IFRS 16 in relation to the lease contract for the underlying property.
The amortisation provision for the period is allocated to the Income Statement under "Other operating expense (income)".

- ✓ Employee termination indemnities

Employee termination indemnities are recognised according to their actuarial value as determined by an independent actuary.
For discounting purposes the projected unit credit method is used, which considers the projection of future outlay based on historic and statistical analysis and demographic curve analysis. The discounting rate is a market interest rate.
Contributions paid each year are considered separately and recognised and measured individually to calculate the final obligation.
In accordance with IAS 19, the employee termination indemnities are a "post-employment benefit".

Specifically, for employee termination indemnities (TFR):

- the portions of employee termination indemnities accruing after 1 January 2007 contribute towards a "defined contribution plan" both in the case of employees choosing the option of a supplementary pension and of allocation to the INPS Treasury fund (national social security authority). The amount is therefore calculated on the basis of contributions due, without application of actuarial calculation methods;

- the employee termination indemnities accrued as at 31 December 2006 are considered a "defined benefit plan" with the consequent need to perform an actuarial assessment without the proportional attribution of the benefit to the period of service provided, as the employment service to be assessed is considered to be fully accrued as a result of the change in the accounting nature of portions accruing from 1 January 2007 (date of entry into force of the supplementary pensions reform, Legislative Decree No. 252 of 5 December 2005). Additional information is provided in Section "9 - Employee termination indemnities" of the Explanatory Notes, Part B - Balance Sheet.

✓ Securitisations completed by the Banca Carige Group during the period from 1 January 2019 to 31 January 2020

In March 2019, the securitisation of leased receivables carried out by Banca Carige through the vehicle Lanterna Lease S.r.l. in 2016 was finalised, through the transfer of the loans to the originator Banca Carige, the cancellation of the securities issued, the repayment of loans received and the settlement of outstanding debts, including payment of the premium on the Junior notes.

During the first quarter of 2019, Banca Carige carried out a new securitisation of lease receivables, through the transfer to the vehicle company Lanterna Lease S.r.l. of a portfolio of financial lease contracts granted by Banca Carige consisting of 1,186 contracts, sold at a total price of EUR 231.3 mln.

Further to the disposal, the special purpose vehicle issued senior securities underwritten by institutional investors not belonging to the Group, and junior securities fully underwritten by the originator (Banca Carige).

Given the characteristics of the securitisation, the assets under disposal were not derecognised, as substantially all the risks and rewards of the assets sold have been retained by Banca Carige pursuant to IFRS 9.

Moreover, as planned upon disposal of Banca Carige S.p.A.'s controlling shareholding in Creditis Servizi Finanziari S.p.A., the two ongoing transactions structured under the vehicle Lanterna Consumer S.r.l. were closed in February 2019 through the transfer of the loans to the originator, Creditis Servizi Finanziari S.p.A., the cancellation of the securities issued, the repayment of loans received and the settlement of outstanding debts, including payment of the premium on the Junior notes.

A.4 - INFORMATION ON FAIR VALUE

Qualitative information

Foreword
IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
Therefore, it is a sort of "exit price" under current market conditions, regardless of whether that price is directly observable or estimated using valuation techniques. IFRS 13 indicates that, in calculating the fair value:
- ✓ the prices in the principal market (understood as the market with the greatest volume or level of activity) must be identified or, in its absence, in the most advantageous market;
- ✓ fair value must be measured using the assumptions that the market participants would use when pricing the asset or liability, assuming that market participants act in their best interest;
- ✓ it recognises the distinction between a quoted price in an active market and a price not quoted in an active market.

IFRS 7 requires financial disclosures to indicate the fair value of each class of financial assets and liabilities, so it can be compared with the associated book value.
IFRS 13 determines that a specific level should be assigned to fair value according to a hierarchy which, in decreasing order of priority, categorises fair value into three levels:
- level 1: the fair value is determined directly on the basis of quoted prices observed in active markets for assets or liabilities that are identical to the ones being measured; specific emphasis is placed on determining the principal market or, in its absence, the most advantageous market as well as the possibility that the firm preparing the financial statements can carry out the transaction at the market price on the date of measurement;
- level 2: fair value is calculated on the basis of inputs other than quoted prices referred to in level 1 which are directly or indirectly observable;
- level 3: fair value is calculated on the basis of unobservable inputs and is based on the assumptions it is presumed market participants would make to calculate the value of the instrument.

The inputs used to calculate the fair value of an instrument could be categorised into different levels of the fair value hierarchy; in these cases, the instrument is classified in its entirety in the same level of the hierarchy in which the lowest level input is classified.
In the event significant adjustments are made to level 2 inputs with respect to the total fair value of the instrument, the latter is classified in level 3 of the fair value hierarchy if these adjustments use significant unobservable inputs.

A.4.1 Fair value levels 2 and 3: valuation techniques and inputs used

Please find below a description of the criteria adopted to both measure the fair value and classify the instruments measured on a recurring basis and those assessed on a non-recurring basis into the different levels of the fair value hierarchy.

a) Assets and liabilities measured at fair value on a recurring basis

- Securities and derivative contracts

The fair value of financial instruments corresponds to the quoted price for instruments quoted in active markets, and to the value calculated through the use of valuation techniques for other instruments.

A financial instrument is considered quoted in an active market when its price is readily and regularly

available from stock exchanges, operators, intermediaries, pricing agencies or regulators and when this price represents actual arm's length transactions taking place on a regular basis as standard, or potential transactions that could take place on such bases.
This category includes instruments admitted to trading on regulated markets (quoted) or systematically traded through "alternative trading" systems[1], whose prices are considered to be "meaningful", together with those obtainable from intermediaries deemed reliable, whose price reflects the price of a normal trade, i.e. the price at which a transaction could take place on the reference date for that instrument.
A regulated market does not guarantee the presence of "meaningful" prices when at least one of the following conditions apply:

- trading is highly infrequent and volumes are of little significance;
- there is no information on volumes and trading and the pricing methods are considered unreliable or are no longer published;
- there is insufficient "breadth" and "depth" to the market.

An alternative trading system or a contributor does not guarantee the presence of "meaningful" prices when at least one of the following conditions apply:

- trading is highly infrequent and volumes are of little significance;
- there is no information on volumes and trading;
- there is not at least one contributor of high standing, who publishes "operating" prices constantly over time.

For financial instruments quoted in active markets, the "bid" price (i.e. the highest price that a buyer is willing to pay) is used; for financial liabilities, the "ask" price (i.e. the lowest price that a seller is willing to accept) is used.
If the bid and ask prices are not available, the price of the most recent transaction may provide an indication of the current fair value.
For equivalent financial assets and liabilities, with matching positions in terms of market risk, mid-market prices are used instead of the bid or ask price as a basis for measuring fair value.
All the prices considered are those obtained as at year-end.

When the market does not have a sufficient and continuous number of transactions, bid-ask spread and insufficiently contained volatility, which characterise level 1 of the fair value hierarchy, special valuation methods are used, including theoretical models which, largely making use of observable market parameters, can determine an appropriate fair value for financial instruments.
The measurement methods established for each financial instrument not quoted in an active market are adopted consistently in the long term, unless amendments or improvements are considered appropriate.
All parameters of the models used are based on the market conditions prevailing at the end of the reporting period.
Usually, the NAV ("Net Asset Value") of units of Undertakings for collective investments in transferable securities (UCITS) which are not traded on regulated markets, such as private equity funds and similar funds (including real estate investment funds and hedge funds), is provided by the asset manager on a six-month basis. The fair value of these securities is measured by adjusting the NAV in order to:

- consider the events not yet included in the measurement of the units value, such as calls on shares and dividend payout, and to
- reflect a different valuation of underlying assets, if available, or specific contractual provisions, including, for example, the existence of minimum financial returns below which no performance fees are due (hurdle rates) or, alternatively, the existence of minimum performance fees.

For financial instruments not quoted in active markets, the fair value -if no valuations from reliable sources are available (even if said prices were not such as to qualify as effective market quotes)- is calculated by using valuation techniques which aim to ultimately establish the price the instrument would have had, at the valuation date, in an arm's length transaction driven by normal business considerations. These

[1] Secondary markets not officially regulated on which financial instruments already issued are systematically traded on the basis of pre-established transparent rules and conditions known to all participants concerned.

techniques include:

- reference to market values indirectly related to the instrument to be valued and taken from similar instruments in terms of their risk characteristics (comparable approach);
- valuations made by using, even only partially, inputs not taken from parameters observable on the market, for which use is made of estimates and assumptions made by the analyst (Mark to Model).

More specifically, the guidelines used to attribute fair value levels 2 or 3 to the financial instruments are:

1. <u>Valuation Techniques (Comparable Approach) – Fair value level 2</u>

The valuation is not based on significant prices of the financial instrument to be valued, but on indicative valuations available from reliable info-providers or on prices determined by using an appropriate calculation method (pricing model) and observable market parameters, including credit spreads taken from the official quotes of substantially similar instruments in terms of risk factors. If calculation methods are used (pricing models) in the comparable approach, these allow the replication of the prices of financial instruments quoted in active markets (calibration of the model) without including discretional parameters – i.e. parameters whose value cannot be inferred from quoted prices of financial instruments in active markets or set at such levels that may replicate quoted prices in active markets– in such a way as may considerably affect the final fair value measurement.

2. <u>Valuation Techniques (Comparable Approach) – Fair value level 3</u>

Valuations are made by using different inputs, not all directly taken from observable market parameters and therefore entail estimates and assumptions by the analyst. In particular, this approach requires the valuation of the financial instrument to be conducted by using a calculation method (pricing model) which is based, among other things, on specific hypotheses or assumptions that, on the basis of the instrument to be valued, may concern:

- the development of future cash flows, which may be affected by future events that may be attributed probabilities presumed from past experience or on the basis of behavioural hypotheses;
- the level of specific input parameters not listed on active markets, for which information acquired from prices and spreads observed on the market is in any case preferred; where this is not available, past data on the specific risk of the underlying asset or specialised reports are used (e.g. reports prepared by rating agencies or primary market players);
- the reference to all possible relevant information available, even accounting information, including, for example, the value of shareholders' equity in the case of interests or shareholdings in unlisted companies.

The fair value of derivative contracts includes the valuation of counterparty credit risk, if the fair value is positive (Credit valuation adjustment - CVA), or valuation of own credit risk, if the fair value is negative (Debit valuation adjustment - DVA); derivative contracts subject to margin trading (CSA agreements) are excluded from calculation of the CVA and DVA.

The fair value of bonds issued includes the evaluation of own creditworthiness (Own Credit risk Adjustment - OCA).
The bonds issued by the Banca Carige Group have been listed and traded on the Hi-Mtf multilateral trading facility since 2018.
These bonds qualify as quoted in an active market, as their price is readily and regularly provided by a third party (the "specialist"), who provides corporate brokering services at market spreads on an ongoing basis.

- <u>Properties obtained by enforcement of collateral</u>

Real estate properties acquired to extinguish credit-impaired exposures are usually classified as inventories (IAS 2) or non-current assets held for sale and discontinued operations, if the assets meet the criteria to be

classified in accordance with IFRS 5[2].
The fair value of these properties is:
- the value inferred from marketing activities in progress if, at the date of initial recognition, the asset is being actively marketed for sale and there is evidence that the parties involved remain committed to a sale plan;
- the quick sale value, in view of the sale occurring in a shorter period than the marketing time normally considered to determine the market value of the asset;
- the market value resulting from a specific appraisal, in other cases.

b) Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis

- Other financial instruments

The fair value of the financial instruments other than securities issued or held in the portfolio and derivative contracts, to be disclosed in the tables of the explanatory notes, is measured by using a Discounted Cash Flow type analysis method.
A risk neutral approach is applied, using the same PD and LGD risk parameters to measure the expected value of future cash flows as are in use for determining impairment losses[3]; cash flows are discounted using a risk-free discount factor plus a risk premium which is defined on the basis of the cost of equity.
For the following cases, it is presumed that the fair value corresponds to the carrying amount:

- ✓ Non-performing exposures: this approximation is based on the assumption that the lack of a sufficiently large number of transactions for these financial assets does not allow the adoption of observable market parameters, with particular reference to the discount rate components (which would also include the market premium for risks and uncertainties).
  By virtue of this, the estimated fair value depends mainly on the current portfolio management model and the relative collection methods, and does not appear to be specifically influenced by the evolution of rates of return demanded by the market. The internal methods of calculating the fair value (so-called exit price) of the loan portfolio are therefore more sensitive to the loss of value forecasts, the result of a subjective valuation, expressed by the position manager, with reference to the estimated cash flows expected from collection and related timing.
  It is not possible, therefore, to exclude that the price of any sales to third parties may deviate from the fair value indicated for the purposes of financial reporting.

- ✓ Short-term receivables and payables (with term to maturity up to 12 months) and other than time deposits[4] and loans payable.

Reported below are the general criteria for assigning a fair value level to financial instruments other than securities issued or portfolio securities and derivative contracts:

- ✓ non-performing loans: level 3;
- ✓ short-term performing loans/receivables and short-term liabilities: level 2, as it is presumed that -being a reasonable approximation of fair value- the book value includes unobservable inputs deemed as non-significant;

[2] Properties used for debt collection purposes, which are exceptionally held for investment and not for sale, are classified as investment property (IAS 40).
[3] The multi-period PD and LGD curves used to measure impairment are determined by means of the Group banks' internal models, starting from "point in time" (PIT) values integrated -over the first three years of projection- with forward-looking macroeconomic information ("forward looking information - FLI"), used in satellite models over multiple scenarios.
[4] Time deposits on current accounts and time-restricted dematerialised savings deposits.

- ✓ medium/long-term performing loans and medium/long-term liabilities: level 3, as the criteria described above for measuring fair value use mostly unobservable inputs, do not include some risk components and do not envisage any comparison with benchmarks containing observable market data.

- Investment Property (IAS 40)

Measurement of the fair value of a non-financial asset must consider the capacity of market participants to generate economic benefits by employing the asset in its highest and best use or selling the asset to whichever entity can guarantee said use.
The highest and best use makes reference to the use of an asset by market participants which should maximise the value of the asset or group of assets and liabilities in which the asset should be used, considering the uses of the asset which are physically possible, legally permissible and financially feasible at the measurement date.
The fair value of investment property is measured to reflect the properties' specific characteristics (e.g. state of preservation, presence of any easements, size) and returns of similar property, also considering the feedback provided by independent info-providers.
The fair value measured with this approach is classified into level 3 of the fair value hierarchy because, as described above, is it measured by using mainly unobservable inputs.

A.4.2 Processes and sensitivity of valuations

The financial instruments included in level 3 of the fair value hierarchy are comprised of the:
1. investments held in the Bank of Italy amounting to EUR 302.4 mln;
2. equity instruments (non-controlling interests in unlisted companies) fair valued pro-rata to the shareholders' equity for an amount of EUR 8.8 mln;
3. debt securities and equities in default or from loans restructuring or otherwise unlisted;
4. the Group's NPL securitisation;
5. stakes in Private Equity and Hedge Funds;
6. financial assets mandatorily measured at fair value as they did not pass the SPPI test.

With reference to the investments held in the Bank of Italy, the fair value was in line with the values of previous financial years.
Valuation methodologies, in which the significant input used could not be directly observed on the market (e.g. volatility), were adopted for some securities and equity instruments arising from restructuring agreements of large-amount exposures.

A.4.3 Fair Value Hierarchy

With reference to the financial assets measured at fair value on a recurring basis, a quarterly analysis is performed for determining the characteristics of the individual securities in order to categorise them within the correct a level of fair value.
If the stock exchanges that presented bid/ask quotations with a small bid/ask spread and with acceptable exchange volumes lose such features and the value can be estimated using internal models whose inputs are objectively observable on the market, a transfer is made from level 1 to level 2.
Conversely, if a loss of the conditions necessary for the financial asset to belong to level 1 or level 2 occurs, and if the price may be estimated via an internal model that makes use of at least one non-observable market input, the asset is classified in level 3 of the fair value.

Quantitative information

A.4.5 Fair Value Hierarchy

A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: breakdown by fair value level

	31/01/2020			31/12/2018		
Assets/liabilities measured at fair value	L1	L2	L3	L1	L2	L3
1. Financial assets at fair value through profit or loss	627	42,868	164,739	646	363,223	183,650
a) Financial assets held for trading	108	42,868	6	178	363,223	8
b) Financial assets measured at fair value	-	-	-	-	-	-
c) Other financial assets mandatorily at fair value	519	-	164,733	469	-	183,642
2. Financial assets at fair value through other comprehensive income	499,326	-	284,132	500,246	-	310,906
3. Hedging derivatives	-	9,087	-	-	13,842	-
4. Property and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	499,953	51,955	448,871	500,893	377,065	494,556
1. Financial liabilities held for trading	-	42,432	-	-	35,463	-
2. Financial liabilities at fair value through profit or loss	-	-	-	-	-	-
3. Hedging derivatives	-	225,026	-	-	204,869	-
Total	-	267,458	-	-	240,332	-

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

A.4.5.2 Annual changes in assets measured at fair value on a recurring basis (level 3)

	Financial assets at fair value through profit or loss							
	Total	o.w. a) financial assets held for trading	o.w. b) financial assets designated at fair value	o.w. c) other financial assets mandatorily at fair value	Financial assets at fair value through other comprehensive income	Hedging derivatives	Property and equipment	Intangible assets
1. Opening balance	183,650	8	-	183,642	310,906	-	-	-
2. Increases	7,061	1	-	7,060	13,779	-	-	-
2.1. Purchases	-	-	-	-	4	-	-	-
2.2. Profits recognised in:	6,390	1	-	6,389	5,815	-	-	-
2.2.1. Profit and Loss	6,390	1	-	6,389	-	-	-	-
- of which: capital gains	5,258	1	-	5,257	-	-	-	-
2.2.2. Shareholders' equity	-	X	X	-	5,815	-	-	-
2.3. Transfer from other levels	-	-	-	-	-	-	-	-
2.4. Other increases	671	-	-	671	7,960	-	-	-
3. Decreases	25,972	3	-	25,969	40,553	-	-	-
3.1. Sales	5,922	-	-	5,922	40,007	-	-	-
3.2. Repayment	-	-	-	-	-	-	-	-
3.3. Losses recognised in:	5,109	3	-	5,106	546	-	-	-
3.3.1. Profit and Loss	5,109	3	-	5,106	-	-	-	-
- of which capital losses	5,108	2	-	5,106	-	-	-	-
3.3.2. Shareholders' equity	-	X	X	-	546	-	-	-
3.4. Transfer from other levels	-	-	-	-	-	-	-	-
3.5. Other decreases	14,941	-	-	14,941	-	-	-	-
4. Closing balance	164,739	6	-	164,733	284,132	-	-	-

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

Assets/Liabilities not measured at fair value or measured at fair value on a non-recurring basis	31/01/2020				31/12/2018			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets at amortised cost	18,214,287	887,510	7,385,244	10,714,285	17,088,013	813,391	3,631,707	13,241,546
2. Assets held for investment	173,371			178,730	152,085			156,961
3. Non-current assets held for sale and discontinued operations					32,040			
Total	18,387,658	887,510	7,385,244	10,893,015	17,272,138	813,391	3,631,707	13,398,507
1. Financial liabilities at amortised cost	19,655,176		13,480,741	5,968,462	19,029,461	1,154,049	12,788,996	4,720,479
2. Liabilities associated to non-current assets held for sale and discontinued operations								
Total	19,655,176	-	13,480,741	5,968,462	19,029,461	1,154,049	12,788,996	4,720,479

Key:
BV = Book value
L1 = Level 1
L2= Level 2
L3= Level 3

A.5 – INFORMATION ON "DAY ONE PROFIT/LOSS"

Paragraph 28 of IFRS 7 regulates the specific case of purchase/sale of a financial instrument not quoted in an active market, where the price of the transaction, which generally represents the best estimate of fair value at initial recognition, differs from the fair value determined using the valuation techniques adopted by the entity at the time of recognition.

In this case, a profit/loss emerges in the measurement at the time of purchase for which adequate disclosure by class of financial instrument must be given of the accounting policy adopted for recognising that difference, with an indication of the aggregate difference yet to be recognised in profit or loss at the beginning and end of the period and a reconciliation of changes in the balance of this difference.

No such cases are to be reported for the financial statements.

Part B

BALANCE SHEET

PART B
BALANCE SHEET

ASSETS

SECTION 1

CASH AND CASH EQUIVALENTS - ITEM 10

1.1 Cash and cash equivalents: breakdown

	Total 31/01/2020	Total 31/12/2018
a) Cash	244,383	255,446
b) Demand deposits with Central banks	-	-
Total	244,383	255,446

SECTION 2

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS - ITEM 20

2.1 Financial assets held for trading: breakdown

Items/Amounts	Total 31/01/2020			Total 31/12/2018		
	L1	L2	L3	L1	L2	L3
A. Balance-sheet assets						
1. Debt securities	109	-	6	177	327,027	8
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	109	-	6	177	327,027	8
2. Equity instruments	-	-	-	-	-	-
3. Units in UCITS	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total (A)	109	-	6	177	327,027	8
B. Derivatives						
1. Financial derivatives	-	42,868	-	-	36,196	-
1.1 trading	-	42,868	-	-	36,196	-
1.2 connected with the fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 trading	-	-	-	-	-	-
2.2 connected with the fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total (B)	-	42,868	-	-	36,196	-
Total (A+B)	109	42,868	6	177	363,223	8

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

2.2 Financial assets held for trading: breakdown by borrower/issuer/counterparty

Items/Amounts	Total 31/01/2020	Total 31/12/2018
A. BALANCE-SHEET ASSETS		
1. Debt securities	115	327,212
a) Central banks	-	-
b) Public Administrations	19	90
c) Banks	90	87
d) Other financial companies	5	327,031
of which: insurance companies	-	-
e) Non-financial companies	1	4
2. Equity instruments	-	-
a) Banks	-	-
b) Other financial companies	-	-
of which: insurance companies	-	-
c) Non-financial companies	-	-
d) Other issuers	-	-
3. Units in UCITS	-	-
4. Loans	-	-
a) Central banks	-	-
b) Public Administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total (A)	115	327,212
B. DERIVATIVES	-	-
a) Central counterparties	-	-
b) Other	42,868	36,196
Total (B)	42,868	36,196
Total (A+B)	42,983	363,408

2.5 Other financial assets mandatorily at fair value: breakdown

Items/Amounts	Total 31/01/2020			Total 31/12/2018		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**-**	**-**	**40,221**	**-**	**-**	**48,854**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	-	40,221	-	-	48,854
2. Equity instruments	**-**	**-**	**574**	**-**	**-**	**724**
3. Units in UCITS	**519**	**-**	**11,604**	**469**		**13,632**
4. Loans	**-**	**-**	**112,334**	**-**	**-**	**120,432**
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	112,334	-	-	120,432
Total	**519**	**-**	**164,733**	**469**	**-**	**183,642**

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

2.6 Other financial assets mandatorily at fair value: breakdown by borrowers/issuers

	Total 31/01/2020	Total 31/12/2018
1. Equity instruments	574	724
of which: banks	272	294
of which: other financial companies	303	430
of which: non-financial companies	-	-
2. Debt securities	40,221	48,854
a) Central banks	-	-
b) Public Administrations	-	-
c) Banks	-	-
d) Other financial companies	40,221	43,256
of which: insurance companies	-	-
e) Non-financial companies	-	5,598
3. Units in UCITS	12,123	14,101
4. Loans	112,334	120,432
a) Central banks	-	-
b) Public Administrations	-	-
c) Banks	-	-
d) Other financial companies	106,570	114,108
of which: insurance companies	-	-
e) Non-financial companies	5,764	6,324
f) Households	-	-
Total	165,252	184,111

SECTION 3

FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - ITEM 30

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

Items/Amounts	Total 31/01/2020			Total 31/12/2018		
	L1	L2	L3	L1	L2	L3
1. Debt securities	495,466	-	-	497,979	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	495,466	-	-	497,979	-	-
2. Equity instruments	3,860	-	284,132	2,267	-	310,906
3. Loans	-	-	-	-	-	-
Total	499,326	-	284,132	500,246	-	310,906

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

3.2 Financial assets at fair value through other comprehensive income: breakdown by borrowers/issuers

Items/Amounts	Total 31/01/2020	Total 31/12/2018
1. Debt securities	495,466	497,979
a) Central banks	-	-
b) Public Administrations	495,466	497,979
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
2. Equity instruments	287,992	313,173
a) Banks	262,325	302,325
b) Other issuers:	25,667	10,848
- Other financial companies	21,219	6,317
of which: insurance companies	-	-
- non-financial companies	4,443	4,530
- other	5	1
3. Loans	-	-
a) Central banks	-	-
b) Public Administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	783,458	811,152

3.3 Financial assets at fair value through other comprehensive income: gross value and overall value adjustments

	Gross amount				Overall value adjustments			Overall partial write-offs*
	Stage 1	of which: instruments with low credit risk exemption	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	495,502	495,502	-	-	36	-	-	-
Loans	-	-	-	-	-	-	-	-
Total 31/01/2020	495,502	495,502	-	-	36	-	-	-
Total 31/12/2018	498,026	498,026	-	-	47	-	-	-
of which: purchased or originated credit-impaired financial assets	X	X	-	-	X	-	-	-

* Amount to be shown for information purposes

SECTION 4

FINANCIAL ASSETS AT AMORTISED COST - ITEM 40

4.1 Financial assets at amortised cost: breakdown of loans to banks

Type of transaction/Amounts	Total						Total					
	31/01/2020						31/12/2018					
	Book value			Fair Value			Book value			Fair Value		
	Stage 1 and 2	Stage 3	o.w.: purchased or originated credit-impaired	L1	L2	L3	Stage 1 and 2	Stage 3	o.w.: purchased or originated credit-impaired	L1	L2	L3
A. Loans to central banks	3,745,343	-	-	-	3,745,343	-	378,126	-	-	-	378,126	-
1. Time deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Compulsory reserve	3,745,343	-	-	X	X	X	378,126	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	-	-	-	X	X	X	-	-	-	X	X	X
B. Loans to banks	545,820	9,455	-	-	261,105	293,336	1,083,721	9,455	-	-	811,400	277,943
1. Loans	505,774	9,455	-	-	231,678	283,554	973,691	9,455	-	-	711,807	271,343
1.1 Current accounts and demand deposits	16,056	-	-	X	X	X	20,714	-	-	X	X	X
1.2. Time deposits	193	-	-	X	X	X	500	-	-	X	X	X
1.3. Other loans:	489,525	9,455	-	X	X	X	952,476	9,455	-	X	X	X
- Asset repurchase agreements	172,928	-	-	X	X	X	633,600	-	-	X	X	X
- Leasing	-	-	-	X	X	X	-	-	-	X	X	X
- Other	316,597	9,455	-	X	X	X	318,876	9,455	-	X	X	X
2. Debt securities	40,046	-	-	-	29,427	9,782	110,030	-	-	-	99,593	6,600
2.1 Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt securities	40,046	-	-	-	29,427	9,782	110,030	-	-	-	99,593	6,600
Total	4,291,163	9,455	-	-	4,006,448	293,336	1,461,847	9,455	-	-	1,189,526	277,943

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

4.2 Financial assets at amortised cost: breakdown of loans to customers

Type of transaction/Amounts	Total											
	31/01/2020						31/12/2018					
	Book value			Fair Value			Book value			Fair Value		
	Stage 1 and 2	Stage 3	o.w.: purchased or originated credit-impaired	L1	L2	L3	Stage 1 and 2	Stage 3	o.w.: purchased or originated credit-impaired	L1	L2	L3
1. Loans	12,100,517	621,513	-	-	3,218,826	10,298,437	12,544,070	1,853,387	-	-	2,255,443	12,803,035
1.1. Current accounts	943,988	32,944	-	X	X	X	1,180,473	130,297	-	X	X	X
1.2. Repurchase agreements	1,351,835	-	-	X	X	X	-	-	-	X	X	X
1.3. Mortgages	7,308,720	518,258	-	X	X	X	8,649,095	1,426,819	-	X	X	X
1.4. Credit cards, personal loans and fifth of salary-backed loans	79,903	383	-	X	X	X	76,910	640	-	X	X	X
1.5 Leasing	426,786	50,213	-	X	X	X	477,650	95,927	-	X	X	X
1.6. Factoring	72,547	41	-	X	X	X	57,637	20,565	-	X	X	X
1.7. Other loans	1,916,738	19,674	-	X	X	X	2,102,305	179,139	-	X	X	X
2. Debt securities	1,191,639	-	-	887,510	159,970	122,512	1,219,254	-	-	813,391	186,738	160,569
2.1. Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2. Other debt securities	1,191,639	-	-	887,510	159,970	122,512	1,219,254	-	-	813,391	186,738	160,569
Total	13,292,156	621,513	-	887,510	3,378,796	10,420,949	13,763,324	1,853,387	-	813,391	2,442,181	12,963,604

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

4.3 Financial assets at amortised cost: breakdown by borrowers/issuers of loans to customers

Type of transaction/Amounts	Total 31/01/2020			Total 31/12/2018		
	Stage 1 and 2	Stage 3	o. w: purchased or originated credit-impaired	Stage 1 and 2	Stage 3	o. w: purchased or originated credit-impaired
1. Debt securities	1,191,639	-	-	1,219,254	-	-
a) Public Administrations	876,307	-	-	863,787	-	-
b) Other financial companies	315,332	-	-	355,467	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	-	-	-	-	-	-
2. Loans to:	12,100,516	621,513	-	12,544,070	1,853,387	-
a) Public Administrations	460,813	-	-	569,443	972	-
b) Other financial companies	2,359,497	57,777	-	1,566,276	49,507	-
of which: insurance companies	-	-	-	-	3	-
c) Non-financial companies	4,061,696	490,896	-	4,856,501	1,511,054	-
d) Households	5,218,510	72,840	-	5,551,850	291,854	-
Total	13,292,156	621,513	-	13,763,324	1,853,387	-

4.4 Financial assets at amortised cost: gross value and overall value adjustments

		Gross amount				Overall value adjustments			Overall partial write-offs*
		Stage 1	of which: instruments with low credit risk exemption	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities		1,231,831	876,288	-	-	146	-	-	-
Loans		14,658,761	-	1,779,199	1,132,548	20,249	66,077	501,580	21,298
Total	31/01/2020	15,890,592	876,288	1,779,199	1,132,548	20,395	66,077	501,580	21,298
Total	31/12/2018	13,569,543	863,667	1,764,667	3,415,376	29,877	79,162	1,552,534	115,748
of which: purchased or originated credit-impaired financial assets		X	X	-	-	X	-	-	-

* Amount to be shown for information purposes

SECTION 5

HEDGING DERIVATIVES - ITEM 50

5.1 Hedging derivatives: breakdown by type of contract and underlying asset

	FV 31/01/2020			NV 31/01/2020	FV 31/12/2018			NV 31/12/2018
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives								
1. Fair Value	-	9,087	-	122,599	-	13,842	-	442,838
2. Cash flows	-	-	-	-	-	-	-	-
3. Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives								
1. Fair Value	-	-	-	-	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
Total	-	9,087	-	122,599	-	13,842	-	442,838

Key:
NV = notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3

5.2 Hedging derivatives: breakdown by hedged portfolios and type of hedging (book value)

Transaction/Type of hedging	Fair Value							Cash flows		Foreign investments
	Micro-hedge						Macro-hedge	Micro-hedge	Macro-hedge	
	debt securities and interest rates	equity instruments and stock indices	currency and gold	loans	commodities	other				
1. Financial assets at fair value through other comprehensive income	-	-	-	-	X	X	X	-	X	X
2. Financial assets at amortised cost	-	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	-	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	-	-	-	-	-	-	-	-	-	-
1. Financial liabilities	8,913	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	8,913	-	-	-	-	-	-	-	-	
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	X	174	X	-	-

SECTION 7

EQUITY INVESTMENTS - ITEM 70

7.1 Equity investments: information on investment relationships

Company Name	Registered office	Operating office	% held	Voting rights (%) (1) (2)
A. Wholly owned subsidiaries				
1. Banca del Monte Lucca SpA	Lucca	Lucca	60.00	
2. Banca Cesare Ponti SpA	Milan	Milan	100.00	
3. Centro Fiduciario C.F. SpA in liquidation	Genoa	Genoa	96.95	
4. Argo Mortgage 2 Srl	Genoa	Genoa	60.00	
5. Carige Covered Bond Srl	Genoa	Genoa	60.00	
6. Carige Covered Bond 2 Srl	Genoa	Genoa	60.00	
7. Lanterna Finance Srl (3)	Genoa	Genoa	5.00	
8. Lanterna Consumer Srl (3)	Genoa	Genoa	5.00	
9. Lanterna Lease Srl (3)	Genoa	Genoa	5.00	
10. Carige Reoco SpA	Genoa	Genoa	100.00	
B. Subsidiaries subject to joint control				
C. Companies subject to significant influence				
1. Autostrada dei Fiori SpA	Savona	Savona	20.62	
2. Nuova Erzelli Srl	Genoa	Genoa	40.00	

(1) Voting rights available at ordinary shareholders' meetings, both actual and potential
(2) Value entered only if other than the percentage of ownership
(3) Self-securitisation SPV, controlled under the requirements of IFRS 10.

Impairment test of subsidiary banks

As at 31 January 2020 an impairment test was performed on investments held in the subsidiaries Banca Cesare Ponti (pre-impairment value: EUR 12 mln) and Banca del Monte di Lucca (pre-impairment value: EUR 5 mln), as well as in real estate company Carige Reoco S.p.A. (pre-impairment value: EUR 5 mln). The impairment testing method to determine their recoverable value, identified in the value in use, is based on the Excess Capital version of the Dividend Discount Model (DDM). Under this model, the recoverable amount is equal to the present value of cash flows distributable by each subsidiary, namely the maximum amount of dividends which may theoretically be distributed, on condition that certain capital requirements are met by banks (Common Equity Tier 1 ratio).
The model used by the Bank therefore involved the:

- analysis of the income and capital flows during the timespan of the analytical estimation;
- determination of the residual value of the investment beyond the timespan of the analytical estimation (terminal value);
- discounting of income flows;

- determination of the recoverable value of the investment as the sum of analytical flows and the terminal value.

The main assumptions and forecasts underlying the valuation model concern:
- the time span for the valuation of profitability;
- assumptions regarding growth in balance sheet and profit and loss items and interest rates;
- the discount rate, the perpetual growth rate and the minimum capital requirement.

The timespan for the valuation of profitability was divided into an initial period of analytical valuation of the results, of five years, and a subsequent period - infinite - referring to which the terminal value was determined according to the economic result of the last year of analytical projection.
The forecast data underlying the impairment tests were prepared taking into account the forecasts included in the 2020 Budgets that were approved by the Boards of Directors. Based on these data, an update was made to the forecast models for subsequent years that include the estimated volume growth set forth in the latest Strategic Plan. It should also be noted that these forecasts include a scenario that does not factor in the Covid-19 impact on the economic and financial system as the effects of this health crisis are currently being assessed. As of 2019, actual data and forecasts for Carige REOCO S.p.A. include the company Abitare RE S.r.l. in their consolidated scope.

The ensuing economic results do not however include those linked to:
- improvements, optimisations or commercial developments not yet implemented or which require investments not yet approved or completed;
- any synergies from extraordinary corporate transactions and future restructuring which the subsidiaries are not yet committed to (not yet resolved upon by the Board of Directors and disclosed to the market).

The discount rate (cost of equity) was calculated as follows:

$$Ke = \text{Risk free interest rate} + \text{Equity risk premium} * \beta \text{ coefficient}$$

where:
- the risk free interest rate is equal to the average rate of return of the last three-year period of investments in ten-year Italian Government bonds (2.17%);
- the Equity risk premium is equal to the median of risk premiums estimated by equity analysts. As at 31/01/2020, it was assumed to be 6% for the banking sector and 4.5% for the real estate sector;
- the β coefficient is determined as a raw beta on the basis of the linear regression of weekly data over the past 36 months, taken from Bloomberg and referring to a basket of banks benchmarked against Italy's FTSE All-Share index. On 31/01/2020 it was 1.31. With reference to Carige REOCO S.p.A., the beta used is the higher of 1 and the beta of Italy's FTSE All-Share Real Estate index benchmarked against Italy's' FTSE All-Share index. On 31/01/2020 it was 0.62.

Based on these parameters, the cost of capital (Ke) was 10.03% for the banking companies and 6.67% for the real estate company.

The 1% terminal value cash flow (growth rate g), was determined on the basis of the 2024 GDP forecasts from Prometeia, a leading economic research institute.

The Common Equity Tier 1 ratio is the ratio between common equity and the value of risk-weighted assets; this value was set at 10.25% for the entire forecasting period. The decision to use a lower CET1 for the valuation of investments in the separate financial statements than the consolidated CET1, mainly lies in the fact that Group risk is "structurally" different from the risk of the individual CGUs; this structural difference is also primarily dependent on the assets and liabilities allocated to the Parent Company.
In conclusion, as at 31 January 2020, the investment held in the subsidiary bank, Banca del Monte di Lucca, was written down as its value in use was revealed to be EUR 1.6 mln, i.e. lower than the pre-impairment carrying amount of EUR 5 mln. With regard to the equity investments in Banca Cesare Ponti, the carrying amount of EUR 12 mln was confirmed, while the carrying amount of the investment in Carige Reoco was adjusted from EUR 5 mln to EUR 20 mln following the Company’s share capital increase, by the same amount, the execution of which was resolved upon by Carige REOCO's Board of Directors. The Board of Directors thereby exercised in full the powers it had been vested with by the Shareholders' Meeting of 5 February 2018, which had resolved to increase the company's share capital in one or more tranches. On 13 March 2019, the shareholder Banca Carige subscribed and paid in the required capital increase.

*** - ***

7.5 Equity investments: changes in the year

	31/01/2020	31/12/2018
A. Opening balance	72,255	84,967
B. Increases	15,010	4,500
B.1 Purchases	15,000	4,500
of which: business combinations	-	-
B.2 Write-backs	-	-
B.3 Revaluations		
B.4 Other increases	10	-
C. Decreases	12,478	17,212
C.1 Disposals	-	-
of which: business combinations	-	-
C.2 Write-downs	4,518	17,212
C.3 Impairment	-	-
C.4 Other decreases	7,960	-
D. Closing balance	74,787	72,255
E. Total revaluations	-	-
F. Total write-downs	187,154	182,635

Details of the changes are as follows:

B. INCREASES

PURCHASES

Carige Reoco SpA (15,000,000 new shares subscribed at a price of EUR 1)	15,000
Total purchases	**15,000**

EUR/000

OTHER INCREASES

Nuova Erzelli Srl	10
Total other increases	**10**

EUR/000

C. DECREASES

WRITE-DOWNS

Banca del Monte Lucca SpA	3,366
Nuova Erzelli Srl	1,152
Total write-downs	**4,518**

EUR/000

OTHER DECREASES

Creditis Servizi Finanziari SPA	7,960
Total other decreases	**7,960**

EUR/000

SECTION 8

PROPERTY AND EQUIPMENT – ITEM 80

8.1 Property and equipment: breakdown of assets carried at cost

Asset/Amounts	Total 31/01/2020	Total 31/12/2018
1. Owned assets	478,679	541,372
a) land	183,991	205,763
b) buildings	261,408	301,157
c) furniture and furnishings	1,008	1,282
d) electronic systems	31	46
e) other	32,241	33,124
2. Leased assets	56,762	-
a) land	55	-
b) buildings	55,269	-
c) furniture and furnishings	-	-
d) electronic systems	-	-
e) other	1,438	-
Total	535,441	541,372
of which: obtained by the enforcement of guarantees received	-	-

8.2 Property and equipment held for investments: breakdown of assets carried at cost

Asset/Amounts	Total 31/01/2020				Total 31/12/2018			
	Book value	Fair Value			Book value	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Owned assets	173,370	-	-	178,730	152,085	-	-	156,961
a) land	75,469	-	-	76,859	66,762	-	-	57,558
b) buildings	97,901	-	-	101,871	85,323	-	-	99,403
2. Leased assets	1	-	-	-	-	-	-	-
a) land	-	-	-	-	-	-	-	-
b) buildings	1	-	-	-	-	-	-	-
Total	173,371	-	-	178,730	152,085	-	-	156,961
of which: obtained by the enforcement of guarantees received	-	-	-	-	-	-	-	-

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

8.6 Property and equipment used in the business: annual changes

	Land	Buildings	Furniture	Electronic systems	Other	Total
A. Gross opening balance	205,832	381,923	29,834	5,173	91,764	714,457
A.1 Total net write-downs	-	(80,766)	(28,552)	(5,127)	(58,640)	(173,085)
A.2 Net opening balance	205,832	372,597	1,282	46	34,400	614,157
B. Increases	209	6,770	144	-	1,281	8,404
B.1 Purchases	-	4,536	144	-	1,281	5,961
- of which: business combinations	-	-	-	-	-	-
B.2 Capitalised expenditure for improvements	-	-	-	-	-	-
B.3 Write-backs	-	30	-	-	-	30
B.4 Increases in fair value booked to:	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) profit and loss	-	-	-	-	-	-
B.5 Positive exchange difference	-	-	-	-	-	-
B.6 Transfers from properties held for investment	209	264	x	x	x	473
B.7 Other increases	-	1,940	-	-	-	1,940
C. Decreases	21,995	62,690	418	15	2,002	87,120
C.1 Disposals	-	-	-	-	-	-
- of which: business combinations	-	-	-	-	-	-
C.2 Depreciation	14	18,836	418	15	2,002	21,285
C.3 Impairment losses booked to:	-	682	-	-	-	682
a) shareholders' equity	-	-	-	-	-	-
b) profit and loss	-	682	-	-	-	682
C.4 Decreases in fair value booked to:	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) profit and loss	-	-	-	-	-	-
C.5 Negative exchange difference	-	-	-	-	-	-
C.6 Transfers to:	21,981	35,123	-	-	-	57,104
a) assets held for investment	21,981	35,123	x	x	x	57,104
b) non-current assets held for sale	-	-	-	-	-	-
C.7 Other decreases	-	8,049	-	-	-	8,049
D. Net closing balance	184,046	316,677	1,008	31	33,679	535,441
D.1 Total net write-downs	(14)	(99,602)	(28,970)	(5,142)	(60,642)	(194,370)
D.2 Gross closing balance	184,060	416,279	29,978	5,173	94,321	729,811
E. Carried at cost	-	-	-	-	-	-

Line “E. Carried at cost”, which shows the cost of assets measured at fair value, was left blank as all property and equipment used in the business is valued at cost.

Below is a breakdown table showing details of the rights of use acquired through the lease of tangible assets that the bank uses for functional purposes.

8.6.1 Property and equipment used in the business: annual changes - o.w. "rights of use"

	Land	Buildings	Furniture	Electronic systems	Other	Total
A. Gross opening balance	69	71,439	-	-	1,276	72,784
A.1 Total net write-downs	-	-	-	-	-	-
A.2 Net opening balance	69	71,439	-	-	1,276	72,784
B. Increases	-	5,855	-	-	485	6,340
B.1 Purchases	-	3,884	-	-	485	4,369
- of which: business combinations	-	-	-	-	-	-
B.2 Capitalised expenditure for improvements	-	-	-	-	-	-
B.3 Write-backs	-	30	-	-	-	30
B.4 Increases in fair value booked to:	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) profit and loss	-	-	-	-	-	-
B.5 Positive exchange difference	-	-	-	-	-	-
B.6 Transfers from properties held for investment	-	-	x	x	x	-
B.7 Other increases	-	1,941	-	-	-	1,941
C. Decreases	14	22,025	-	-	323	22,362
C.1 Disposals	-	-	-	-	-	-
- of which: business combinations	-	-	-	-	-	-
C.2 Depreciation	14	13,294	-	-	323	13,631
C.3 Impairment losses booked to:	-	682	-	-	-	682
a) shareholders' equity	-	-	-	-	-	-
b) profit and loss	-	682	-	-	-	682
C.4 Decreases in fair value booked to:	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) profit and loss	-	-	-	-	-	-
C.5 Negative exchange difference	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) assets held for investment	-					
b) Non-current assets held for sale	-	-	-	-	-	-
C.7 Other decreases	-	8,049	-	-	-	8,049
D. Net closing balance	55	55,269	-	-	1,438	56,762
D.1 Total net write-downs	(14)	(13,946)	-	-	(323)	(14,283)
D.2 Gross closing balance	69	69,215	-	-	1,761	71,045
E. Carried at cost	-	-	-	-	-	-

8.7 Property and equipment held for investments: annual changes

	Total	
	Land	Buildings
A. Opening balance	**66,762**	**85,323**
B. Increases	**21,980**	**35,125**
B.1 Purchases	-	-
- of which: business combinations	-	-
B.2 Capitalised expenditure for improvements	-	-
B.3 Increases in fair value	-	-
B.4 Write-backs	-	-
B.5 Positive exchange differences	-	-
B.6 Transfer from properties used in the business	21,980	35,124
B.7 Other increases	-	1
C. Decreases	**13,273**	**22,546**
C.1 Disposals	426	659
- of which: business combinations	-	-
C.2 Depreciation	-	2,533
C.3 Decreases in fair value	-	-
C.4 Impairment losses	12,638	19,090
C.5 Negative exchange differences	-	-
C.6 Transfers to:	-	-
a) properties used in the business	209	264
b) non-current assets held for sale	-	-
C.7 Other decreases	-	-
D. Closing balance	**75,469**	**97,902**
E. Valuation at fair value	75,859	101,871

Closing inventories of property and equipment include the following revaluations pertaining only to "property":

	31/01/2020
Monetary revaluations as per Italian Laws no. 576/75, no. 72/83, no. 413/91 and no 408/90	46,962
Revaluations as per Italian Law no. 218/90	148,338
Total	195,300

8.9 Commitments to purchase property and equipment

As at 31 January 2020, there are no commitments to purchase property and equipment.

SECTION 9

INTANGIBLE ASSETS – ITEM 90

9.1 Intangible assets: breakdown by type of asset

Asset/Amounts	Total 31/01/2020		Total 31/12/2018	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill		-		-
A.2 Other intangible assets	77,396	-	53,609	-
A.2.1 Assets valued at cost	77,396	-	53,609	-
a) internally generated intangible assets	-	-	-	-
b) other assets	77,396	-	53,609	-
A.2.2 Assets valued at fair value	-	-	-	-
a) internally generated intangible assets	-	-	-	-
b) other assets	-	-	-	-
Total	77,396	-	53,609	-

9.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total
		DEF	INDEF	DEF	INDEF	
A. Opening balance	-	-	-	59,030	-	59,030
A.1 Total net write-downs	-	-	-	(5,421)	-	(5,421)
A.2 Net opening balance	-	-	-	53,609	-	53,609
B. Increases	-	-	-	33,977	-	33,977
B.1 Purchases	-	-	-	33,977	-	33,977
B.2 Increases in intangible assets generated	X	-	-	-	-	-
B.3 Write-backs	X	-	-	-	-	-
B.4 Increases in fair value	-	-	-	-	-	-
- equity	X	-	-	-	-	-
- profit or loss	X	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Other increases	-	-	-	-	-	-
C. Decreases	-	-	-	10,190	-	10,190
C.1 Disposals	-	-	-	-	-	-
C.2 Write-downs	-	-	-	10,190	-	10,190
- Amortisation	X	-	-	10,190	-	10,190
- Write-downs	-	-	-	-	-	-
+ equity	X	-	-	-	-	-
+ profit or loss	-	-	-	-	-	-
C.3 Decreases in fair value	-	-	-	-	-	-
- equity	X	-	-	-	-	-
- profit or loss	X	-	-	-	-	-
C.4 Transfers to non-current assets held for sale	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	-	-	-	-
C.6 Other decreases	-	-	-	-	-	-
D. Net closing balance	-	-	-	77,396	-	77,396
D.1 Total net write-downs	-	-	-	15,612	-	15,612
E. Closing balance	-	-	-	(93,008)	-	(93,008)
F. Carried at cost	-	-	-	-	-	-

Key:
DEF: definite life
INDEF: indefinite life

9.3 Intangible assets: other information

As at 31 January 2020, no goodwill was posted under the Parent Company's Intangible Assets.

SECTION 10

TAX ASSETS AND TAX LIABILITIES – ITEM 100 (ASSETS) AND ITEM 60 (LIABILITIES)

10.1 Deferred tax assets: breakdown

	31/01/2020		31/12/2018	
Counter-item in the income statement	IRES (27.5%)	IRAP (5.57%)	IRES (27.5%)	IRAP (5.57%)
Deferred tax assets as per Law 214/2011				
Loan losses until 2012 deductible in subsequent periods	30,244	-	43,992	-
Post 2012 loan losses deductible in subsequent periods	52,288	10,355	76,058	15,522
Tax-aligned goodwill of branches acquired from former Banca Carige Italia	90,932	18,285	97,075	19,876
Goodwill of former branches purchased and transferred to Carige Italia	99,710	20,020	106,446	22,191
Goodwill of branches acquired from former Cassa di Risparmio di Carrara	1,159	233	1,236	254
Tax-aligned goodwill of consolidated financial statements	36,894	7,413	39,387	8,040
Tax-aligned goodwill of BCP merger	994	202	1,061	225
Total deferred tax assets as per Law 214/2011	312,221	56,508	365,255	66,108
Other deferred tax assets:				
Provisions to the supplementary pension fund	291	-	855	-
Allowances for risks and charges related to Carige FPP Fund	340	-	340	-
Provision for risks and charges related to legal disputes and clawback actions	16,877	1,378	33,065	889
Provision for commitments and guarantees given	6,749	1,367	9,395	1,903
Provisions to the supplementary pension fund	9,586	2,132	14,590	2,851
Provisions to employee termination indemnities	211	43	243	49
Property - rights of use acquired through the lease	180	33		
Immovables	12,299	2,501	3,528	722
Intangible fixed assets not eligible for IASs	706	-	787	-
Write-down of FVTOCI securities recognised in profit or loss		1,531		1,597
ACE (aid for economic growth) benefit carried forward	50,602	7,562	50,602	7,562
Losses on loans to customers at FV	1,132	-		
Tax losses	365,239	-	365,239	-
Adjustments to loans to banks	238	-	457	-
Other	290	2	16	2
Total other deferred tax assets	464,740	16,549	479,117	15,575

TOTAL	776,961	73,057	844,372	81,683
Counter-item in Shareholders' equity	IRES (27.5%)	IRAP (5.57%)	IRES (27.5%)	IRAP (5.57%)
Valuation of securities recognised in the FVTOCI portfolio	84	62	1,265	279
Cash flow hedging derivatives	30,235	6,123	35,352	7,161
Provisions to the supplementary pension fund	5,148	-	4,247	-
Provisions to employee termination indemnities	1,041	211	515	104
Other intangible assets	436	-	3,030	-
Adjustments of loans for FTA IFRS 9 deductible in future years	81,473		80,638	
Tax losses	67,729	-	68,873	-
TOTAL	186,146	6,396	193,920	7,544
Total deferred tax assets	963,107	79,453	1,038,293	89,227

Current tax assets: breakdown

Current tax assets recognised for an amount of EUR 573,974 thousand, mainly refer to:

a) tax credits on indirect tax prepayments for 2019, amounting approximately to EUR 39,319 thousand;
b) tax credits from prior years awaiting refund, amounting approximately to EUR 160,922 thousand;
c) tax credits pursuant to Italian Law no. 214/2011, arising from the conversion of deferred tax assets that took place from 2014 onwards, amounting approximately to EUR 372,156 thousand.

10.2 Deferred tax liabilities: breakdown

	31/01/2020		31/12/2018	
Counter-item in the income statement	IRES (27.5%)	IRAP (5.57%)	IRES (27.5%)	IRAP (5.57%)
Immovables	6	1	6	1
Receivables for arrears interests not collected	24	-	27	-
Equity investments	87	355	118	43
Receivables for interests not collected (art. 8 of Italian Legislative decree no. 74/2012	67	13	96	19
TOTAL	184	369	247	63
Counter-item in Shareholders' equity	IRES (27.5%)	IRAP (5.57%)	IRES (27.5%)	IRAP (5.57%)
Valuation of securities recognised in the FVTOCI portfolio	60	264	343	230
TOTAL	60	264	343	230
Total deferred tax liabilities	244	633	590	293

Current tax liabilities: breakdown

Current tax liabilities, recognised for an amount of EUR 4,584 thousand, refer to:

a) other indirect tax payables (VAT, stamp duty, substitute tax on medium/long-term loans, etc.), amounting to approximately EUR 3,433 thousand;
b) DTA fees liability pursuant to art. 11 of Legislative Decree no. 59/2016, for approximately EUR 1,151 thousand.

10.3 Deferred tax assets: annual changes (with offsetting entry to profit and loss)

	Total 31/01/2020	Total 31/12/2018
1. Opening balance	926,055	985,622
2. Increases	23,270	34,668
2.1 Deferred tax assets for the year	23,270	34,668
a) relating to previous years	1,921	3,448
b) due to changes in accounting principles	-	8,043
c) write-backs	-	-
d) other	21,349	23,175
2.2 New taxes or increase in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	99,307	94,233
3.1 Deferred tax assets derecognised in the year	36,677	16,804
a) reversals	36,677	16,804
b) write-downs of non-recoverable items	-	-
c) change in accounting policies	-	-
d) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	62,630	77,429
a) conversion into tax credit under Law no. 214/2011	62,630	77,429
b) other	-	-
4. Closing balance (2)	850,018	926,055

(1) Such amounts refer to IFRS 9 first-time adoption
(2) The final amount as at 31/01/2020 includes EUR 365,239 thousand relating to deferred tax assets arising from tax losses carried forward to subsequent years; the amount is unchanged compared to 31/12/2018 as it was decided not to recognise further deferred tax assets of this type.

10.3 *bis* Deferred tax assets under Law 214/2011: annual changes (with offsetting entry to profit or loss)

	Total 31/01/2020	Total 31/12/2018
Opening balance	431,363	508,763
2. Increases	-	29
- of which: business combinations	-	-
3. Decreases	62,634	77,429
3.1 Reversals	4	-
3.2 Conversion into tax credit	62,630	77,429
a) from year losses	62,630	77,429
b) from tax losses	-	-
3.3 Other decreases	-	-
4. Closing balance	368,729	431,363

10.4 Deferred tax liabilities: annual changes (with offsetting entry to profit or loss)

	Total 31/01/2020	Total 31/12/2018
1. Opening balance	310	7,054
2. Increases	322	20
2.1 Deferred tax liabilities for the year	322	20
a) relating to previous years	-	-
b) due to changes in accounting principles	-	-
c) other	322	20
2.2 New taxes or increase in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	79	6,764
3.1 Deferred tax liabilities derecognised during the year	79	6,764
a) reversals	79	6,764
b) due to changes in accounting principles	-	-
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	553	310

10.5 Deferred tax assets: annual changes (with offsetting entry to equity)

	Total 31/01/2020	Total 31/12/2018
1. Opening balance	201,464	130,790
2. Increases	2,396	93,791
2.1 Deferred tax assets for the year	2,396	93,791
a) relating to previous years	836	-
b) due to changes in accounting principles	-	91,642
c) other	1,560	2,149
2.2 New taxes or increase in tax rates	-	-
2.3 Other increases	-	-
- of which: business combinations	-	-
3. Decreases	11,318	23,117
3.1 Deferred tax assets derecognised in the year	11,318	23,117
a) reversals	11,318	13,975
b) write-downs of non-recoverable items	-	-
c) due to change in accounting principles	-	9,142
d) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
- of which: business combinations	-	-
4. Closing balance (2)	192,542	201,464

(1) Such amounts refer to IFRS 9 first-time adoption

(2) The final amount as at 31/01/2020 includes EUR 67,729 thousand relating to deferred tax assets arising from tax losses carried forward to subsequent years, which amounted to EUR 68,873 thousand as at 31/12/2018.

10.6 Deferred tax liabilities: annual changes (with offsetting entry to equity)

	Total 31/01/2020	Total 31/12/2018
1. Opening balance	**573**	**458**
2. Increases	**169**	**146**
2.1 Deferred tax liabilities for the year	169	146
a) relating to previous years	62	-
b) due to changes in accounting principles	-	146
c) other	107	-
2.2 New taxes or increase in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**418**	**31**
3.1 Deferred tax liabilities derecognised during the year	418	31
a) reversals	418	31
b) due to changes in accounting principles	-	-
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**324**	**573**

(1) Such amounts refer to IFRS 9 first-time adoption (31.12.2018)

10.7 Other information

- Tax rates applied

The 2016 Stability Law (Law no. 208 of 28/12/2015), provides for a further reduction in the IRES rate from 27.5% to 24%, effective from the fiscal year coinciding with calendar year 2017. For credit and financial institutions, however, the reduction was cancelled out by the introduction of a 3.5% surcharge starting from the same date.

Law Decree no. 98, published in the Official Journal, General Series no. 155 of 6 July 2011, converted into Law no. 111 of 15 July 2011, in Art. 23, para. 5 and 6 changed the IRAP base rate to 4.65% for the banking sector.

A coefficient of 0.9176 was established to reset the rates imposed by the regions for the IRAP tax surcharge. Therefore, for almost all regions in which the company operates (for which the standard rate surcharge had been set at 1%), the applicable tax rate essentially became 5.57% (4.65% new base rate + 0.92% surcharge).

As a consequence, the rates applied in calculating current and deferred taxes for this year are as follows:

IRES 27.5%

IRAP 5.57%

As shown, with regard to IRES, the rate applied was 27.5%, which includes the portion relating to the main tax (24%) and that relating to the IRES surcharge (3.5%).

- Determining the tax base for the corporate

Income tax (IRES)

As is known, law no. 244/2007 also reinforced the principle of deriving company income from financial statements prepared in accordance with international accounting standards (IAS/IFRS). To this end, tax regulations were changed to envisage:

A) on the one hand, that for entities that adopt the IASs/IFRSs, the time allocation and classification criteria of the IAS financial statements should prevail over the provisions of the Consolidated Income Tax Law (TUIR, Article 83);
B) the introduction of a series of changes to other parts of the TUIR, in order to harmonise -from a valuation perspective- the rules of deriving company income from the financial statements.

At any rate, it should be noted that, despite the foregoing reinforced principle of deriving company income- differences remain between tax regulations and those arising from the application of the International Accounting Standards. As a consequence, taxable income still shows some differences with respect to income inferred from the accounting records. To this effect, it should be noted that Ministerial Decree no. 48 of 1 April 2009 (the "IAS Decree") clarified that "even the parties adopting IAS must apply the provisions of Chapter II, Section I of the Consolidated Income Tax Law providing for quantitative limits on the deduction of negative components, or their exclusion or allocation to more than one tax period, or those that partially or fully exempt or exclude any positive components from taxable income calculation, or permit allocation to more than one tax period, and those that establish the significance of positive or negative components for the year based, respectively, on their collection or payment”.

It should be noted that the tax regime for loans and receivables was recently affected by multiple significant changes.

The 2014 Stability Law established at first that, for IRES purposes, effective from the financial year in progress as at 31 December 2013, credit and financial institutions could fully deduct during the year any losses on loans to customers realised through disposal and deduct any other forms of write-downs and losses on loans to customers during the year and in the four subsequent years (art. 106, paragraph 3, Consolidated Income Tax Law).

Subsequently, Art. 16 of Law Decree no. 83/2015, established that all write-downs and losses on loans to customers can be fully deducted in the financial year of their recognition. Only for the first period of application of the new regime, deductibility was limited to 75% of the total amount of write-downs and losses on loans to customers.
The non-deducted 25%, together with the write-downs on loans until 2012 and the adjustments on loans for financial years 2013 and 2014 are deductible over ten taxable periods as of 2016 based on the different rates applied according to the law (5% for 2016, 8% for 2017, 10% for 2018, 12% from 2019 to 2024, 5% for 2025).

The 2019 Italian Budget Law postponed the deduction of the 10% tranche for 2018 to the tax year ending 31 December 2026.
The 2020 Italian Budget Law postponed the deduction of the 12% tranche for 2019, on a straight-line basis, to the tax year ending 31 December 2022 and the three following years.

Furthermore, as regards income components deriving exclusively from the adoption of the credit loss model of IFRS 9 and recognised in the accounts on IFRS9 first-time adoption, their deductibility from the IRES and IRAP tax base has been set at 10% of their amount for 2018 (year of IFRS 9 first time adoption) and 90% on a straight-line basis over the following nine tax periods.
The 2020 Italian Budget Law postponed the deduction of the 10% tranche for 2019 to the tax year ending 31 December 2028.

Write-downs and losses on loans to entities other than customers will, by contrast, continue to be deductible according to ordinary rules for IRES purposes (art. 101, paragraph 5 of the Consolidated Income Tax Law) and not deductible for IRAP purposes.

Italy's 2019 Budget Law also provides for a postponement of the possibility of deducting quotas of depreciation of goodwill and other intangible assets resulting in DTA recognition which were not deducted until fiscal year 2017 and which are subject to the provisions of Law Decree 225/2010 on tax credit conversion. The deductibility of such components has been distributed over the fiscal periods comprised between 2019 and 2029 with specifically identified percentages (5% for 2019, 3% for 2020, 10% for 2021, 12% from 2022 to 2027, 5% for 2028 and 2029). Depreciation quotas in existence before the aforementioned law came into force remain unchanged, if of a lower amount than those

redetermined on the basis of the new rules for the first period, in which case, the difference is deductible during the tax year ending 31 December 2029.
The 2020 Italian Budget Law postponed the deduction of the 5% tranche for 2019, on a straight-line basis, to the tax year ending 31 December 2025 and the four following years.

Regional tax on productivity (IRAP)

Law no. 244/2007 also introduced changes in the calculation method for the IRAP tax base, establishing direct significance of balance sheet items, including for tax purposes, as classified according to the correct accounting standards.
Therefore, the IRAP tax base is essentially determined by subtracting from the Net Interest and Other Banking Income 50% of dividends collected and 90% of amortisation/depreciation of property and equipment and intangible assets and administrative costs, net of personnel expenses.
Concerning the latter, the Stability Law for 2015 (Law no. 190 of 23/12/2014), starting from tax period 2015, introduced the full deductibility of costs incurred for permanent staff.
For adjustments to the value of loans to customers, which were not deductible until 2012, from 2013 the same rules stated above for IRES apply.

- Convertibility of deferred tax assets into tax credits.

Article 2, paragraph 55 of Law Decree no. 225/2010 (the "Decreto Milleproroghe" converted to Law 10/2011) envisaged that deferred tax assets recognised in the financial statements for write-downs on loans (art. 106, paragraph 3, TUIR), goodwill and other intangible assets deductible over several tax years for income tax purposes, are converted into tax credits subject to certain conditions being met, namely, if a loss for the year is posted in the separate financial statements of a company. The conversion is effective as of the date of approval of the financial statements posting a loss, and is limited to the product of the loss for the year multiplied by the ratio of deferred tax assets to the sum of share capital and reserves.
Art. 8 of Law Decree no. 201/2011 (the "Salva Italia" or "Save Italy" decree, converted to Law 214/2011), further expanded the possibility of converting deferred tax assets into cash, as already provided for by the "Decreto Milleproroghe" ("One thousand extensions decree"), making it possible to transform them into tax receivables, also in the event of tax loss, and to use the receivables to offset other tax liabilities or transfer such receivables to other Group companies or request reimbursement of the amount.
The above-mentioned amendment therefore renders the possible recovery of deferred tax assets practically certain.
Subsequently, the "2014 Stability Law" allowed, in the presence of a negative net value of production, for the conversion into tax credits of DTAs allocated for IRAP purposes in relation to write-downs and loan losses, and to the value of goodwill and other intangible assets.
The accounting framework for new DTAs convertible into tax credits ceased to apply in 2016 given that, following the new laws introduced in 2015, adjustments in the value of loans to customers are fully deductible during the tax year of reference, whereas the DTAs relative to goodwill and other intangible fixed assets, recognised for the first time in the financial statements as of 31 December 2015 are no longer convertible (art. 17 of Legislative Decree no. 83/2015).

With specific regard to key events occurring in the current year, it should be noted that, following approval of Banca Carige's Report on the financial position and results of the operations for the year 2018, the above mentioned conversion took place for an amount of EUR 62.6 mln.
The deferred tax assets recognised in the financial position and results of operations referred to in the decree include EUR 275.8 mln goodwill and EUR 92.9 mln losses on impairment of loans for a total of EUR 368.7 mln (see Table 10.3 *bis*).

Art. 11 of Law Decree no. 59/2016 sets a fee at a rate of 1.50% in order to guarantee the continuing right to convert deferred tax assets (relating to previous years) into tax credits.
Given the importance of the option of converting deferred tax assets into tax credits for the Group, the option was exercised.
The overall cost recognised in Banca Carige's profit and loss amounted to EUR 14.7 mln for this period.

- IAS 12 and "probability test" for the recognition of deferred tax assets.

IAS 12 - Income Tax, defines that "prepaid tax assets" are the amounts of income tax recoverable in future years, referring to:

(a) deductible temporary differences;
(b) carry forward of unused tax losses; and
(c) carry forward of unused tax credits.

The same principle indicates that a deferred tax asset shall be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised.
The principle then elaborates on this concept, indicating that the reversal of deductible temporary differences results in deductions in determining taxable profits of future periods. However, economic benefits in the form of reductions in tax payments will flow to the entity only if it earns sufficient taxable profits against which the deductions can be offset. Therefore, an entity recognises deferred tax assets only when it is probable that taxable profits will be available, against which the deductible temporary differences can be utilised.
The principle adds that it is probable that taxable income will be available when there are sufficient taxable temporary differences.

A deferred tax asset shall be recognised for the carry forward of unused tax losses or unused tax credits to the extent that it is probable that future taxable profit will be available, against which the unused tax losses and unused tax credits can be utilised.
As regards tax losses in particular, the entity, in assessing the probability that taxable profit will be available, against which unused tax losses and unused tax credits can be utilised, must take into account the following criteria:

(a) whether the entity has sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, which will result in taxable amounts against which the unused tax losses or unused tax credits can be utilised before they expire;
(b) whether it is probable that the entity will have taxable profits before the unused tax losses or unused tax credits expire;
(c) whether the unused tax losses result from identifiable causes which are unlikely to recur; and

(d) whether tax-planning opportunities are available to the entity that will create taxable profit in the period in which the unused tax losses or unused tax credits can be utilised.

To the extent that it is not probable that taxable profit will be available, against which the unused tax losses or unused tax credits can be utilised, the deferred tax asset is not recognised.

Furthermore, the principle does not define the concept of "probable". In this regard, it can be noted that the adjective "probable" is contained in numerous IAS/IFRS accounting standards. However, only in one standard and, specifically, in IAS 37 - Provisions, Contingent Liabilities and Contingent Assets, is it possible to read the definition of "probable", as follows: the event is more likely than not to occur, i.e. the probability that the event will occur is greater than the probability that it will not. Furthermore, in a footnote for the same principle, there is a warning that the interpretation of the term “probable” in IAS 37 as "more likely than not" does not necessarily apply in other IAS/IFRS accounting principles. Although IAS 12 does not contain guidance on the meaning to be attributed to the term “probable”, based on a systematic interpretation, the definition "more likely than not” can be deemed applicable.

Having said that and considering that the regulatory framework does not, in fact, allow for a predetermined timeframe to be taken as a reference for the estimates (the tax rules do not provide for a deadline for the use of DTAs for reduction of future taxes due and principle IAS 12 does not define the timeframe in which the entity must measure the probability of recovery of DTAs), it was assumed as an objective function of the probability test to estimate, using a probabilistic approach, the foreseeable recovery time of the DTAs, with a probability of over 50%.

The Parent Company, which was placed under Temporary Administration from 2 January 2019 to 31 January 2020, deemed it prudent, on the basis of the information currently in its possession, to continue not to recognise, as of 2018, additional DTAs, particularly DTAs based on future profits and not arising from temporary differences (on tax losses and ACE -aid for economic growth- tax deductions); other DTAs for which recognition was suspended are those linked to significant events (e.g. provisions to the Redundancy Fund) whose period of tax reversal would fall in years when taxable income forecasts were not yet sufficient to ensure their immediate absorption. At the moment, this line has still been confirmed, taking into account the uncertainty and discontinuity of the current situation with respect to the past, including in view of possible future combinations.

For this reason, EUR 263 mln worth of DTAs were not recognised during the year and neither were approximately EUR 352 mln worth of cumulative DTAs as at 31 January 2020.

Deferred tax assets recognised in the financial statements until 1 January 2018 are retained, subject to verification that the outcome of the probability test, in light of the results of the new business plan, does not entail an extension of likely time to recover compared to the period estimated as at 1 January 2018.

Under the going concern assumption, the recognition of DTAs was assessed on the basis of the methodology which was developed -including with the support of external experts- in previous financial years to draw similar conclusions about the likely time to recover, taking into account, among other aspects, the new Strategic Plan recently approved and the suspension of national tax consolidation option that the Bank adopted together with other Group companies.

Considering the DTAs actually recognised in the accounts, the model development and its results confirm that the likely time to recover is largely similar to the period estimated as at January 2018 (when the effects of the introduction of IFRS 9 had already been considered).

As part of the assessments on the "probability" of recovery of deferred tax assets recognised in the Report on the financial position and results of the operations, the following preliminary considerations were made:

- the deferred tax assets recognised in the Report on the financial position and results of the operations of the Bank as at 31 January 2020, include EUR 368.7 mln in DTAs resulting from deductible temporary differences relating to value adjustments on loans and goodwill, which Article 2, paragraphs 55 to 57 of Law Decree no. 225/2010, allows to convert into tax credits in the event of tax and/or statutory losses. The convertibility of deferred tax assets into tax credits therefore constitutes an adequate basis for their recognition, thus rendering the associated probability test implicitly superseded (see joint document from the Bank of Italy, Consob and ISVAP no. 5 of 15 May 2012, and subsequent IAS-ABI document no. 112 of 31 May 2012);
- the probability test, using the methodology described below, is therefore focused only on deferred taxes recognised in the Report on the financial position and results of the operations and that cannot be converted into tax credits;
- the growing attention on the issue of disclosure to be provided in the financial statements. In its reports, ESMA recalled the importance of disclosing the criteria for the recognition of DTAs, the recovery time and the need to provide adequate information on the underlying evidence of the estimate.

The probability test took, as a reference, the Group's 2019-2023 Business Plan, updated by the Temporary Administrators of Banca Carige S.p.A. on 26 July 2019, based on which a calculation was made of the corresponding taxable income and taxes payable over the plan period if the entity had no DTAs. For subsequent years, the probability test also quantified the taxable income and, therefore, the taxes payable, based on an average compound annual growth rate, defined in light of the current and, especially, expected macroeconomic conditions and the economic performance of the Bank, to be observed for a sufficiently long period, given the long period of time over which the recoverability of the DTAs is estimated.
It was considered reasonable to use the 2% compound annual growth rate corresponding to the inflation target defined by the ECB and deemed representative of the expected long-term inflation figure and, therefore, assuming a zero increase, in real terms, in the long term.
Once the series of expected taxable profits (and, hence the resulting taxes payable) was estimated to consider the uncertainty and, thus, the variability, to which the achievement of the results is structurally subject, the Group adopted the Monte Carlo simulation method to carry out the analysis of probabilistic scenarios.

The test was conducted separately for the IRES base rate of 24% (EUR 566.4 mln of non-convertible IRES DTAs) and, on an individual basis, as regards the IRES surcharge of 3.5% (non-convertible IRES-related DTAs: EUR 84.5 mln).
The probability of recovery of potential unrecognized DTAs in the amount of EUR 352 mln was not tested.
Taking into account the not particularly significant amount of non-convertible IRAP-related DTAs recognised in the accounts (EUR 22.9 mln), their recoverability was only assessed on the basis of the Plan scenario and using a model with no volatility assumptions, including in consideration of the fact that they are more easily recovered than IRES and the surcharge.
The probability test on IRES-related DTAs and surcharge was conducted by considering the absorption of non-convertible DTAs over the Plan period and subsequently applying the foregoing probabilistic modelling method.
In the absence of volatility assumptions, the DTAs recognised for IRES purposes (24% rate), would be fully absorbed by 2042.

However, with assumptions of volatility in the taxable income forecasts embedded in the model, a 60% probability of full recovery of DTAs has been shown with a volatility of 9% for the period between 2040 and 2047 (90% by 2049), which extends to the 2039 - 2057 period, if a volatility of 18% is assumed.

Going back to the model, again assuming a volatility of 9%, the results of the model lead to the following additional estimates:

- with a probability of approximately 50%, all DTAs (EUR 566.4 mln) will be recovered by 2042, except for EUR 9.8 mln which will be recovered in subsequent years;
- with a probability of approximately 70%, all DTAs will be recovered by 2042, except for EUR 69 mln, which will be recovered in subsequent years;
- with a probability of approximately 90%, all DTAs will be recovered by 2042, whilst EUR 142 mln will be recovered in subsequent years.

The test conducted for the Bank in relation to the IRES surcharge of 3.5% produced the following results: In the absence of volatility assumptions, the DTAs recognised in the Financial Statements for the IRES surcharge (3.5% rate) would be fully absorbed by 2043.
However, with assumptions of volatility in the taxable income forecasts embedded in the model, a 60% probability of full recovery of DTAs has been shown with a volatility of 9% for the period between 2040 and 2047 (90% by 2050), which extends to the 2039 - 2058 period, if a volatility of 18% is assumed.
Again assuming a volatility of 9%, the results of the model lead to the following additional estimates:

- with a probability of approximately 50%, all DTAs (EUR 84.5 mln) will be recovered by 2043;
- with a probability of approximately 70%, all DTAs will be recovered by 2043, except for EUR 7.9 mln that will be recovered in subsequent years;
- with a probability of approximately 90%, all DTAs will be recovered by 2043, except for EUR 19.5 mln, that will be recovered in subsequent years.

In consideration of all of the above, in order to appreciate the existence of the conditions for the recognition of deferred tax assets, the following is summarised:

(a) a significant part of the deferred tax assets recognised is attributable to the DTAs governed by Law 214/2011 which, therefore, meet the "probability" requirement specified in the joint document by the Bank of Italy, IVASS and Consob of 15 May 2012;

(b) according to the 2019-2023 Business Plan, updated by Banca Carige's Temporary Administrators on 26 July 2019, it is expected that the Group will reach substantial breakeven in 2020, with the achievement of profits and taxable income as of financial year 2021; for the purposes of the "probability" test, the simulation was based on projections for the years after 2023, taking into account that the principle does not provide for a time frame for measuring the probability of recovery and, therefore, does not permit the assumption of a pre-established interval as a reference;

(c) the DTAs recognised in these Report on the Financial Position and Results of the Operations are largely related to charges that the Bank deems not to recur in the near future, once the Group's specific measures set out in the Business Plan recently approved to optimise assets and improve efficiency (first and foremost, the overall NPE reductions) are implemented; this assumption is based on the principle whereby probability should consider whether unused tax losses are the result of identifiable causes that are unlikely to recur.

In conclusion, the simulation carried out is considered to have highlighted the elements that, pursuant to IAS 12, are suitable for assessing "probability", including in consideration of the specific tax regulations in force for the conversion of DTAs and the carry forward of tax losses. Among these elements, the projection of the Business Plan taxable income for 2023 to the following years (at a fixed 2% growth rate exclusively equal to the expected rate of inflation) and the unlikely recurrence of the causes of the tax losses, are key factors for assessing probability, in this specific case.

- Deferred taxes on untaxed reserves

No allocations were made for deferred tax liabilities on EUR 15.6 mln untaxed reserves, given that their distribution is not expected at the moment.

10.8 Disputes

On 28/02/2014, the Genoa Provincial office of the Revenue Agency served an order on Banca Carige levying a higher amount of registration tax (in addition to fines and interest) with reference to the deed of purchase of a company business unit bought from Banca del Monte dei Paschi di Siena in 2010.

In particular, the order was based on the re-estimation of the value of goodwill at an amount higher than the amount indicated by the parties in the afore-mentioned deed of purchase; in particular, the Revenue Agency redetermined the value from EUR 102,461,722 to EUR 140,167,758, resulting in levying a higher amount of registration tax, equal to EUR 455,116 in addition to fines of the same amount and interest. The company promptly filed an appeal.

On 16 February 2016, the Provincial Tax Commission deposited judgement no. 399/1/2016 which upheld the Bank's appeal in its entirety and ordered the Agency to refund the legal costs. The judgement was appealed against by the Italian Revenue Agency. With judgement no. 1023 of 17 July 2018, the Liguria Regional Tax Commission confirmed the resolutions of the Genoa-based Provincial Tax Commission. The Revenue Agency filed an appeal to the Court of Cassation also against this judgement and the Company filed a defence.

On 21 June 2019, Banca Carige was notified of a writ of summons to provide information concerning, for IRAP purposes, the fast-track facility fee for 2014, an issue that had also already been raised against Banca Carige Italia. On 17 October 2019, the Company was served a notice of assessment for additional tax amounting to approximately EUR 0.24 mln. Similarly to the previous case, the Company deems the findings completely unfounded and, on 3 December 2019, it filed an appeal with the Provincial Tax Commission of Genoa.

On 22 July 2019, the Revenue Agency served a settlement and correction notice on the Bank concerning a deed of sale of a branch of business in 2018 to Nexi Payment. A similar notice was likewise served on the counterparty.
In this notice, the Revenue Agency re-estimated the value of the goodwill at a higher tax of approximately EUR 0.48 mln. The Company, in agreement with the counterparty, deemed the findings completely unfounded and filed an appeal with the Provincial Tax Commission of Genoa on 15 November 2019.
It should be noted that Nexi has contractually agreed to cover all charges relating to registration tax and that therefore any charges arising from the litigation are and will be borne by the purchaser.

Merger of Cassa di Risparmio di Carrara into Banca Carige

On 3 March 2014 the Genoa Provincial office of the Revenue Agency served a settlement and correction notice on the merged company Cassa di Risparmio di Carrara (and on Banca del Monte dei Paschi di Siena S.p.A.) whereby the aforementioned Office levied a higher amount of registration tax (in addition to fines and interest) with reference to the deed of purchase of the company business unit signed by the Company in 2010. The settlement and correction notice in question is based on the redetermination of goodwill to an amount that is greater than the amount indicated by the parties in the afore-mentioned deed of purchase. In particular, the Revenue Agency redetermined the goodwill in question from EUR 13,642,160 to EUR 18,925,041. As a result of such redetermination, the Revenue Agency requested the payment of additional registration tax for an amount of EUR 77,248, in addition to fines for the same amount and interest. The company promptly filed an appeal.

On 28 January 2016, the Provincial Tax Commission of Genoa deposited judgement no. 282/1/2016, which upheld the Bank's appeal in its entirety and ordered the Agency to refund the legal costs. The judgement was appealed against by the Italian Revenue Agency. With judgement no. 1022 of 17 July 2018, the Liguria Regional Tax Commission confirmed the resolutions of the Genoa-based Provincial Tax Commission. The Revenue Agency filed an appeal to the Court of Cassation also against this judgement and the Company filed a defence.

Merger of Banca Carige Italia into Banca Carige

On 29 December 2016, as a result of a prior inquiry by Liguria's Regional Directorate of the Italian Revenue Agency on Banca Carige, the latter -in its capacity as the merging company of Banca Carige Italia- was served a notice of assessment containing two findings. The first relates to the re-determination of tax credit from the conversion of deferred tax assets for 2013 (approximately EUR 205 mln); the second is about EUR 2.1 mln additional IRES tax payable resulting from partial non-acceptance of the relief connected with the Economic Growth Stimulus (Aiuto alla Crescita Economica, ACE).
Both findings are a consequence of the objections raised by the Agency against the results of the impairment test on goodwill conducted by Banca Carige Italia during preparation of its financial statements for the year 2012. In particular, in the Italian Revenue Agency's opinion, Banca Carige Italia should have partially impaired its previously recognised goodwill by EUR 771.6 mln and would thus not have had the possibility to fiscally align it in its entirety under art. 15, para.10, of Legislative Decree no. 185/2008 as it did. That lesser tax alignment would have resulted in a lower recognisable amount of alignment-related DTAs and, consequently, in a lower amount convertible into tax credit, upon occurrence of the legally required conditions (as was the case in 2013). In quantitative terms, the Italian Revenue Agency's ascertainment was reflected in partial non-acceptance of the tax credit arising from conversion of deferred tax assets by the afore-mentioned amount of approximately EUR 205 mln. However, it is worth pointing out that, in relation to the foregoing finding, the notice of assessment clarifies that, after settlement of the specific claim, Banca Carige (in its capacity as the merging company of Banca Carige Italia) would be entitled to the pro-rata reimbursement (ca. EUR 99.9 mln) of the higher amount of substitute tax paid at that time for the tax alignment of goodwill recognised in 2012 and

partly not accepted during the ascertainment. The second reported finding conceptually stems from the same objections raised against the results of the afore-mentioned impairment test. According to the argumentations provided by the Italian Revenue Agency in its ascertainment, the financial year 2012 - due to the afore-mentioned impairment and its effects on deferred tax liabilities- should have closed with a loss for the period instead of posting a profit which was allocated to a reserve and thus caused an increase in what is known as the ACE (aid for economic growth) base. For this finding alone, sanctions were imposed for an amount equal to 90% of the ascertained higher amount of corporate income tax (IRES).

The Company brought a judicial appeal before the competent Provincial Tax Commission seeking the annulment of the tax claim.

On 23 April 2018, the Commission issued judgement no. 708/2018, filed on 19 June 2018, accepting the appeal of the Company. The judgement was appealed against by the Revenue Agency before the Regional Tax Commission on 17/01/2019, which the Bank responded to by filing its counterclaims in March 2019.

In light of the current stage of the litigation, and supported by the qualified opinions of highly reputed experts, the Company believes that the findings formalised in the aforementioned notice of assessment can be objected to in many respects, and accordingly, no pre-conditions were considered to exist under IAS 37 for the allocation of specific provisions to deal with this issue.

On 28 December 2017, upon the conclusion of a new audit by the Regional Revenue Agency of Liguria, a new Official Tax Audit Report was issued for 2014, in which, by replicating the argument procedure as per the aforementioned tax provision, the Agency made the following remarks: a) non-acceptance of the tax credit previously booked by the merged Banca Carige Italia S.p.A. against the conversion of deferred tax assets for approximately EUR 0.66 mln; b) higher IRES of approximately EUR 2.9 mln due to partial non-acceptance of the relief associated with the Economic Growth Stimulus ('Aiuto alla Crescita Economica', ACE). A notice of assessment was served on 20/12/2019 and the Company filed an appeal with the Provincial Tax Commission of Genoa on 13/2/2020.

In addition to the aforementioned findings, a third was raised, for IRAP purposes, concerning the treatment, for tax purposes, of the fast-track facility fee for a higher quantifiable tax of approximately EUR 0.37 mln. Similarly to the previous case, the Company deems the findings completely unfounded and, on 20 February 2018, presented specific Observations pursuant to Article 12, paragraph 7, Law 212/2000. A notice of assessment was served on 20/12/2019 and the Company filed an appeal with the Provincial Tax Commission of Genoa on 28/01/2020.

SECTION 11

NON-CURRENT ASSETS (LIABILITIES) HELD FOR SALE AND DISCONTINUED OPERATIONS - ITEM 110 (ASSETS) AND ITEM 70 (LIABILITIES)

11.1 Non-current assets (liabilities) held for sale and discontinued operations: breakdown by type of asset

	31/01/2020	31/12/2018
A. Assets held for sale		
A.1 Financial assets		-
A.2 Equity investments		32,040
A.3 Property and equipment		-
of which: obtained by the enforcement of guarantees received		-
A.4 Intangible assets		-
A.5 Other non-current assets		-
Total A		**32,040**
of which carried at cost		32,040
of which measured at fair value level 1		-
of which measured at fair value level 2		-
of which measured at fair value level 3		-
B. Discontinued operations		
B.1 Financial assets at fair value through profit and loss		-
- financial assets held for trading		-
- financial assets measured at fair value		-
- other financial assets mandatorily at fair value		-
B.2 Financial assets at fair value through other comprehensive income		-
B.3 Financial assets at amortised cost		-
B.4 Equity investments		-
B.5 Property and equipment		-
of which: obtained by the enforcement of guarantees received		-
B.6 Intangible assets		-
B.7 Other assets		-
Total B		**-**
of which carried at cost		-
of which measured at fair value level 1		-
of which measured at fair value level 2		-
of which measured at fair value level 3		-
C. Liabilities associated with assets held for sale		
C.1 Due to banks/customers		-
C.2 Securities		-
C.3 Other liabilities		-
Total C		**-**
of which carried at cost		-
of which measured at fair value level 1		-
of which measured at fair value level 2		-
of which measured at fair value level 3		-
D. Liabilities associated with discontinued operations		
D.1 Financial liabilities at amortised cost		-
D.2 Financial liabilities held for trading		-
D.3 Financial liabilities measured at fair value		-
D.4 Allowances		-
D.5 Other liabilities		-
Total D		**-**
of which carried at cost		-
of which measured at fair value level 1		-

of which measured at fair value level 2	-
of which measured at fair value level 3	-

SECTION 12

OTHER ASSETS - ITEM 120

12.1 Other assets: breakdown

	Total 31/01/2020	Total 31/12/2018
Tax consolidation	-	571
Revenue items in transit	3,751	13,464
Bills and other items for collection	19,652	19,954
Items undergoing processing	66,513	186,411
Current account cheques drawn on third parties	25,671	34,387
Current account cheques drawn on the bank	1,573	2,318
Advances paid to tax authorities on behalf of third parties	6,073	5,183
Security deposits in own name	-	-
Assets from contracts with customers	60,164	68,426
Expenses for improvement of third parties' assets	694	951
Other	39,462	34,193
Total	223,553	365,858

LIABILITIES

SECTION 1

FINANCIAL LIABILITIES AT AMORTISED COST - ITEM 10

1.1 Financial liabilities at amortised cost: breakdown of due to banks

Type of transaction/Amounts	Total 31/01/2020				Total 31/12/2018			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Due to central banks	3,500,000	X	X	X	3,500,000	X	X	X
2. Due to banks	824,549	X	X	X	1,606,691	X	X	X
2.1 Current accounts and demand deposits	191,780	X	X	X	361,585	X	X	X
2.2 Term deposits	107,745	X	X	X	6,970	X	X	X
2.3 Loans	482,600	X	X	X	1,204,292	X	X	X
2.3.1 Repos	252,813	X	X	X	923,345	X	X	X
2.3.2 Other	229,787	X	X	X	280,947	X	X	X
2.4 Liabilities for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
2.5 Lease payables	2,464	X	X	X	-	X	X	X
2.6 Other liabilities	39,960	X	X	X	33,844	X	X	X
Total	4,324,549	-	592,298	3,732,251	5,106,691	-	1,325,744	3,440,979

Key:
BV = Book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

The item "Due to central banks" for an amount of EUR 3.5 bn refers to refinancing operations with the European Central Bank (T-L.T.R.O. II).

1.2 Financial liabilities at amortised cost: breakdown of due to customers

Type of transaction/Amounts	Total 31/01/2020				Total 31/12/2018			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	9,291,861	X	X	X	9,899,565	X	X	X
2. Time deposits	1,588,764	X	X	X	1,112,061	X	X	X
3. Loans	2,311	X	X	X	338,538	X	X	X
3.1 Repos	-	X	X	X	335,423	X	X	X
3.2 Other	2,311	X	X	X	3,115	X	X	X
4. Liabilities for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Lease payables	53,398	X	X	X	-	X	X	X
6. Other payables	315,841	X	X	X	394,162	X	X	X
Total	11,252,175	-	10,013,310	1,238,865	11,744,326	-	10,838,225	845,159

Key:
BV = Book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

1.3 Financial liabilities at amortised cost: breakdown of debt securities issued

Type of securities/Amounts	Total 31/01/2020				Total 31/12/2018			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. Bonds	4,077,845	-	2,896,310	1,181,301	2,177,795	1,154,049	624,788	433,931
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	4,077,845	-	2,896,310	1,181,301	2,177,795	1,154,049	624,788	433,931
2. other securities	606	-	219	387	649	-	239	409
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	606	-	219	387	649	-	239	409
Total	4,078,451	-	2,896,529	1,181,688	2,178,444	1,154,049	625,027	434,340

Key:
BV = Book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

1.4 Breakdown of subordinated debts/bonds

ISIN code	Nominal value	Book value	Currency	Interest rate	Maturity date
IT0005389934	200,000	201,721	Euro	8.25%	20/12/2029
IT0005353526	6,800	6,847	Euro	8.25%	30/11/2028, with early repayment option from the fifth year after the date of issue and subject to the prior authorisation by the relevant Supervisory Authority
Total	206,800	208,568			

1.6 Lease payables

Type of transaction/Amounts	31/01/2020 Payments due
Lease payables - Analysis of due dates of undiscounted payments due	
- On demand	560
- 1 to 7 days	282
- 7 to 15 days	2
- 15 days to 1 month	265
- 1 to 3 months	2,294
- 3 to 6 months	3,224
- 6 months to 1 year	5,825
- 1 to 5 years	34,190
- over 5 years	9,405
Total cash outflows for leasing	56,047

The table above provides a breakdown of the table "Time breakdown of financial assets and liabilities by contractual term to maturity" in "Part E - Information on risks and risk hedging policies" under the liquidity risk section.

Total cash outflows for leases during the period of reference amounted to EUR 16,805 thousand.

SECTION 2

FINANCIAL LIABILITIES HELD FOR TRADING – ITEM 20

2.1 Financial liabilities held for trading: breakdown

Type of transaction/Amounts	Total 31/01/2020					Total 31/12/2018				
	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	-	-	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	-	-	-	-	-	-
3.1.2 Other bonds	-	-	-	-	-	-	-	-	-	-
3.2 Other securities	-	-	-	-	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	-	-	-	-	-	-
3.2.2 Other	-	-	-	-	-	-	-	-	-	-
Total A	-	-	-	-	-	-	-	-	-	-
B. Derivatives										
1. Financial derivatives	X	-	42,432	-	X	X	-	35,463	-	-
1.1 Trading	X	-	42,432	-	X	X	-	35,463	-	-
1.2 Connected with the fair value option	X	-	-	-	X	X	-	-	-	-
1.3 Other	X	-	-	-	X	X	-	-	-	-
2. Credit derivatives	X	-	-	-	X	X	-	-	-	-
2.1 Trading	X	-	-	-	X	X	-	-	-	-
2.2 Connected with the fair value option	X	-	-	-	X	X	-	-	-	-
2.3 Other	X	-	-	-	X	X	-	-	-	-
Total B	X	-	42,432	-	X	X	-	35,463	-	-
Total (A+B)	X	-	42,432	-	X	X	-	35,463	-	-

Key:
NV = Nominal or Notional Value
L1 = Level 1
L2 = Level 2
L3 = Level 3
Fair value* = fair value calculated excluding value adjustments due to changes in the credit rating of the issuer since date of issuance.

SECTION 4

HEDGING DERIVATIVES - ITEM 40

4.1 Hedging derivatives: breakdown by type of hedging and level of fair value

	NV	Fair value	31/01/2020		NV	Fair value	31/12/2018	
	31/01/2020	L1	L2	L3	31/12/2018	L1	L2	L3
A) Financial derivatives	1,926,837	-	225,026	-	794,080	-	204,869	-
1) Fair value	1,556,837	-	224,803	-	794,080	-	204,869	-
2) Cash flows	370,000	-	223	-	-	-	-	-
3) Investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-	-	-	-
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	1,926,837	-	225,026	-	794,080	-	204,869	-

Key
NV = notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3

4.2 Hedging derivatives: breakdown by hedged portfolio and type of hedging

Transaction/Type of hedging	Fair Value							Cash flows		Foreign investments
	Micro-hedge						Macro-hedge	Micro-hedge	Macro-hedge	
	debt securities and interest rates	equity instruments and stock indices	currency and gold	loans	commodities	other				
1. Financial assets at fair value through other comprehensive income	-	-	-	-	X	X	X	-	X	X
2. Financial assets at amortised cost	220,578	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	-	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	220,578	-	-	-	-	-	-	-	-	-
1. Financial liabilities	227	X	-	-	-	-	X	223	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	227	-	-	-	-	-	-	-	-	-
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	X	3,998	X	-	-

SECTION 6

TAX LIABILITIES – ITEM 60

For information on this section, please refer to Section 10 - Assets.

SECTION 8

OTHER LIABILITIES – ITEM 80

10.1 Other liabilities: breakdown

	Total 31/01/2020	Total 31/12/2018
Due to subsidiaries - tax consolidation	734	2,948
Security deposits received from third parties	-	-
Amounts payable to tax authorities on behalf of third parties	15,550	34,077
Expense items in transit	4,391	6,532
Adjustments diff. relating to bills held in portfolio	162,416	110,982
Items undergoing processing	114,283	106,525
Accounts payable	44,635	46,752
Payables for personnel expenses	9,852	1,778
Costs accrued to be recognised	9,913	7,729
Liabilities from contracts with customers	-	1,540
Other liabilities	45,433	128,909
Total	407,207	447,772

SECTION 9

EMPLOYEE TERMINATION INDEMNITIES – ITEM 90

9.1 Employee termination indemnities: annual changes

		Total 31/01/2020	Total 31/12/2018
A. Opening balance		49,855	56,370
B. Increases		2,466	712
B.1 Provision for the year		545	712
B.2 Other increases		1,921	-
C. Decreases		12,127	7,227
C.1 Severance payments		11,580	5,180
C.2 Other decreases		547	2,047
D. Closing balance		40,194	49,855
	Total	40,194	49,855

9.2 Other information

The employee termination indemnity (it. TFR) covers rights accrued by employees as at 31 January 2020 in accordance with current laws, national collective bargaining agreements and company supplementary labour contracts.
The amount calculated pursuant to Article 2120 of the Italian Civil Code totals EUR 35,641 thousand (EUR 47,099 thousand as at 1 January 2019).

Application of IAS 19 - Employee Benefits
EC Regulation no. 475 of 5 June 2012 endorsed the new version of IAS 19, outlining the accounting requirements for employee benefits, applicable to annual periods beginning on or after 1 January 2013. The Banca Carige Group, which includes Banca Carige S.p.A., applied the revised IAS 19 starting from 1 January 2012, availing itself of the option of earlier application permitted by the Regulation.

Description of the employee termination indemnities as a defined benefit plan
The Consolidated Law on supplementary pensions (Legislative Decree No. 252/2005) makes it possible to allocate, on a voluntary basis, the employee termination indemnities (severance pay), accruing as of 1/1/2007, to supplementary pension funds.
Companies with at least 50 employees shall pay the portions of employee termination indemnities not intended for supplementary pensions to the "Provision for disbursement to private sector employees pursuant to Article 2120 of the Italian Civil Code", managed by INPS [National Social Security Institute] and established by Law 296/2006 (2007 Budget Law).
Except for a residual part accruing in the first half of 2007, all TFR amounts accrued from 1 January 2007 must be paid into supplementary pension plans and/or to INPS.

These amounts constitute a "defined contribution plan": the expense for the Company is limited to the contributions set out in the Italian Civil Code, with no additional actuarial obligations for the Company, in connection with the employee's future service.

However, the employee termination indemnities accrued until 31 December 2006 continue to qualify, for accounting purposes, as a post-employment "defined benefit" plan.

Application of IAS 19.

Defined benefit plans require, for accounting purposes, the disaggregation of changes in the obligation into three components: service cost, net interest on the net defined benefit liability (asset) and remeasurement. The first two should be recognised in profit or loss, while the third component should be recognised in equity under "Other Comprehensive Income" (OCI).

The service cost component reflects changes in the obligation relating to:

- the service rendered by the employee in the current year (Current Service Cost, or CSC);
- the service rendered in prior periods, arising as result of a plan amendment or curtailment;
- actuarial gains or losses upon plan settlement.

Net interest on the net defined benefit liability (asset) is the change during the period in the net defined benefit liability (asset) that arises from the passage of time (Interest Cost, IC).

Remeasurement comprises actuarial gains/losses.

Determination of the present value of defined benefit obligations

The valuation of future expense for employee termination indemnities was performed by an independent actuary in accordance with IAS 19 criteria for defined benefits plans. In particular, the approach led to the determination of the Defined Benefit Obligation (DBO), i.e. the average present value of defined benefit obligations as at 31 January 2020, accrued by employees in service at the calculation date during the current and prior periods.

It is noted that, under current regulations, employee termination benefits should be considered accrued in full, and therefore the Current Service Cost (CSC) for this benefit has been nil since 1 July 2007.

In addition, the employee termination Interest Cost as at 31.01.2020 was determined by applying the discount rate at the beginning of the period (1.2%) to the DBO as at 1 January 2019, taking into account the changes in the liability as a result of the payment of contributions and benefits.

To define the DBO amount, an estimation was made of future payments due to each employee for accrued entitlement to retirement benefits on account of age or seniority, disability, death, resignation or a request for advances.

Evaluations took account of Art. 24 of Law 214/2011 as regards requirements for entitlement to INPS pension schemes.

Demographic assumptions.

The following statistical sources with breakdown by age and gender were used:

- probability of termination by death: ISTAT table for 2017 (ISTAT source – Annuario statistico italiano, the Italian Statistical Yearbook, for 2018) selected on the basis of the Group's time series of data;
- probability of inability: INPS (National Social Security Authority) tables, broken down by age and gender;
- probability of termination of employment for various reasons (resignation, redundancy) by age and gender: figures were inferred from experience with employees of the Carige Group.

Other estimates included:
- the maximum number of requests for advances that may be submitted;
- the frequency of requests for first advances and subsequent requests;
- the amount of termination benefit advances for each request.

Economic-financial assumptions.
Assumptions included an annual inflation rate of 1.4% for 2019 and 2020, 1.3% for 2021 and 2% from 2022, an annual remuneration growth rate for all categories equal to the annual rate of inflation for the entire valuation period and a nominal discount rate of 1.2%, in light of the average term to maturity of the Group's liabilities for the staff severance pay, and with reference to the interest rate curve of AA-rated securities issued by corporate issuers in the Euro area.

Provision for the period
The provision for the period, amounting to EUR 2,466.4 thousand, is the result of the algebraic sum of:
- Interest Cost (IC), recognised in profit or loss, amounting to EUR 545.1 thousand,
- actuarial gains, allocated to Other Comprehensive Income (OCI), amounting to EUR 1,921.3 thousand.

Details of net provisions

	31/01/2020	31/12/2018
Financial charges	545.1	534.5
Actuarial gains/losses	1,921.3	(826.2)
Total	2,466.4	(291.7)

SECTION 10

ALLOWANCES FOR RISKS AND CHARGES – ITEM 100

10.1 Allowances for risks and charges: breakdown

Items/Amounts	Total 31/01/2020	Total 31/12/2018
1. Allowances for credit risk on commitments and financial guarantees given	24,540	34,163
2. Allowances for other commitments and other guarantees given	-	-
3. Company pension fund	29,073	29,256
4. Other allowances for risks and charges	227,670	177,754
4.1 legal and tax disputes	39,433	29,802
4.2 personnel expenses	149,665	54,288
4.3 other	38,572	93,664
Total	281,283	241,173

10.2 Allowances for risks and charges: annual changes

	Allowances for other commitments and other guarantees given	Pensions and post-retirement benefit obligations	Other allowances for risks and charges	Total
A. Opening balance	-	29,256	177,754	207,010
B. Increases	-	3,756	160,721	164,477
B.1 Provision for the year	-	465	158,700	159,165
B.2 Changes due to the time value of money	-	3,291	-	3,291
B.3 Changes due to discount-rate adjustments	-	-	-	-
B.4 Other increases	-	-	2,021	2,021
- of which: business combinations	-	-	-	-
C. Decreases	-	3,939	110,805	114,744
C.1 Use during the year	-	2,755	99,396	102,151
C.2 Changes due to discount rate adjustments	-	-	-	-
C.3 Other decreases	-	1,184	11,409	12,593
- of which: business combinations	-	-	-	-
D. Closing balance	-	29,073	227,670	256,743

10.3 Allowances for credit risk on commitments and financial guarantees given

	Allowances for credit risk on commitments and financial guarantees given			
	Stage 1	Stage 2	Stage 3	Total
1. Commitments to disburse funds	949	452	618	2,019
2. Financial guarantees given	739	1,789	19,993	22,521
Total	1,688	2,241	20,611	24,540

10.5 Defined-benefit company pension funds

Following the merger by absorption of Cassa di Risparmio di Savona S.p.A. and Cassa di Risparmio di Carrara S.p.A. on 1 January 2015, the pension funds established within the above-indicated companies have remained separate also for accounting purposes within the merging company Banca Carige S.p.A.
The Banca Carige S.p.A. fund will hereinafter be referred to as "FIP Carige", the fund of Cassa di Risparmio di Savona as "FIP Carisa", and the fund of Cassa di Risparmio di Carrara as "FIP Carrara".

The three Funds are supplementary pension funds, which already existed on entry into force of Law no. 421 of 23 October 1992, and as such they have been registered with the Registry of Pension Funds under special section III since 14 October 1999. The Carige, Carisa and Carrara funds are respectively registered under no. 9004, 9026 and 9154 and are subject to the supervision of COVIP (Pension Fund Supervisory Commission).
The Funds lack independent legal status; both the Carige and Carisa funds are an item in the Balance Sheet which guarantees the Bank's obligation to maintain the resources necessary at any given time for each Fund to pay the benefits payable. They are therefore a provisioning fund of the Bank which guarantees payment of a future obligation.
FIP Carrara was established as a separate and autonomous fund pursuant to art. 2117 of the Italian Civil Code, as part of the Bank's overall assets.
The Funds are not structured in individual accounts and are closed to new participants.

More specifically:

- FIP Carige (Carige Supplementary Pension Fund)

During 2015 the Bank and the unions agreed to undertake a project involving the transformation of the Fund for working participants, retired employees and former employees awaiting a deferred pension from the Fund ("deferred pension recipients"). As a result of this transformation, individual asset packages were calculated on the basis of the benefits accrued to each participant as at 30 June 2015 ("transferable packages"). Such transferable packages are to be transferred, following voluntary enrolment, to another defined-contribution pension fund, along with the employer's future contributions; in the case of retirees and deferred pension recipients, the capitalisation of (current or future) pension was envisaged, with calculation of the sums payable as at 30 June 2015, likewise on a voluntary enrolment basis and with the exclusion of any other benefits from the Bank.
In implementation of the resolution of the Board of Directors of 27 October 2015, agreements were entered into with the unions to formalise the arrangements indicated above.
Following the aforementioned operation, which continued even after 2015 and which provided, in the case of working participants, for their voluntary enrolment to another defined contribution pension fund, along with the employer's future contribution and, in the case of retirees and deferred pension recipients, payment of the pension principal amount, likewise on a voluntary enrolment basis; the group of participants in the Fund as at the end of the period consisted of 4 deferred pension recipients and 153 retirees.

- FIP Carisa (Carisa Supplementary Pension Fund)

During 2016, the same actions as those concerning FIP Carige were implemented for FIP Carisa, with only 2 deferred pension recipients and 6 retirees participating in the Carisa Fund as at the end of the period.

- FIP Carrara (Carrara Supplementary Pension Fund)

Only retired employees are registered with FIP Carrara, as the defined contribution section which the employees participated in, was settled in February 2015, in compliance with the resolution taken by the Board of Directors of Cassa di Risparmio di Carrara on 10 November 2014.
Currently, the Carrara Fund has functions limited to a group of 37 retired employees.

Application of the new version of IAS 19 - Employee Benefits.

EC Regulation no. 475 of 5 June 2012 endorsed the new version of IAS 19 outlining the accounting requirements for employee benefits, applicable to annual periods beginning on or after 1 January 2013.

The Banca Carige Group, which includes Banca Carige S.p.A., applied the revised IAS 19 starting from 1 January 2012, availing itself of the option of earlier application permitted by the Regulation.

Classification of the Supplementary Pension Funds in accordance with IAS 19.

IAS 19 defines the accounting procedures for employee benefits, classifying such benefits based on payment timing and degree of uncertainty in determining the Entity's obligation.

Pension benefits are classified as post-employment benefits and they are divided into defined contribution plans and defined benefit plans.

Defined benefit plans are characterised by the fact that actuarial and investment risks are not transferred to an outside party or to the employee, but fall on the Entity.

Accounting for defined benefit plans is complex because actuarial assumptions are necessary, to determine the value and cost of the obligation, and there is a possibility that actuarial gains and losses may occur. Moreover, obligations are subject to discounting because they may be settled many years after the employees render the related service.

For IAS 19 purposes, Company Pension Funds are post-employment defined benefit plans.

Determination of the present value of the obligation (Defined Benefit Obligation).

The Entity's obligation consists in the payment of:

- direct pensions to retired employees;
- indirect pensions to survivors of employees who died while they were employed;
- dependants' pensions, to the survivors of former employees who died after retirement.

Entitlement to a pension is obtained when reaching the requirements specified by the Regulation, but payment is subject to settlement of the INPS pension (pursuant to Italian Legislative Decree no. 124/1993 art. 18, paragraph 8-*quinquies*, introduced by Italian Law 335/1995 art. 15, which limited the supplementary pension benefits to the supplementary part alone).

To determine the present value of the obligation, it is necessary to:

- determine the cost of current services (Current Service Cost) and, if the conditions are met, the cost of past services (Past Service Cost);
- use the projected unit credit method (sometimes known as the accrued method pro-rated on service or as the benefit/years of service method);
- estimate, with actuarial assumptions, the demographic and financial variables that will influence the cost of the benefits;
- discount the benefits in order to determine the present value of the obligation;
- subtract the fair value of the plan assets from the present value of the obligations.

The main demographic variables to be considered relate to the future characteristics of deferred pension recipients and retired employees (and their dependants) who are eligible for the benefits. Demographic assumptions deal with matters such as:

- mortality;
- rates of employee turnover, disability and early retirement;
- the proportion of plan members with dependants who will be eligible for the benefits.

The main financial assumptions to be considered deal with items such as:

- the discount rate determined by reference to market yields at the end of the reporting period on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields (at the end of the reporting period) on government bonds shall be used. Currencies and terms of the corporate or government bond yields used must be consistent with the currency and terms of the obligation;
- the benefit levels set out in the terms of the plan;
- estimated future salary increases that will affect the benefits payable.

The present value of the obligation was determined by an independent actuary using technical demographic, economic and financial evidence in accordance with the foregoing IAS 19 criteria.

The following statistical sources with breakdown by age and gender were adopted:

- probability of death of the retired employees and their family members: inferred from the 2017 figures for the mortality rates of the Italian population (source: ISTAT – Table IPS55) selected on the basis of a job background in the banking sector and updated to take into account the

gradual increase in life expectancy, inferred from changes to the latest projections published by ISTAT for the 2011-2065 period (middle scenario);
- probability of leaving a family (source: ISTAT);
- frequency of different types of family structures in new surviving households and average age of the members of the new surviving households according to age and gender of the assignor (source: INPS).

The economic and financial assumptions adopted for the assessments are as follows:
- annual rate of inflation equal to 1.2% for 2019 and 2020;
- change in the INPS minimum pensions according to law, in connection with the assumed annual rate of inflation;
- increase in pensions according to the provisions of the current regulations on the matter (automatic equalisation);
- annual nominal discount rate of 0.37% (Inboxx Corporate AA 7-10).

The retirement payout and the extent of the public pension were calculated according to current regulations.

Benefit levels set out in the plan and estimated future salary increases.

In every year of evaluation:
- for each deferred pension recipient, the possibility of exiting the deferral status due to death or due to meeting the requirements for the right to INPS old-age pension was assumed;
- for each deferred pension recipient, the amount of the pension due at the time of retiring was directly provided;
- for each retired member, the pension was revaluated, taking into account any additional pensions received, according to current law provisions regulating adjustments to pensions.

The definition of "plan assets" in accordance with IAS 19 prescribes that such assets:

→ are held by a fund that is legally separate from the reporting Entity and exists solely to pay or fund employee benefits

and

→ are available to be used only to pay or fund employee benefits, are not available to the reporting Entity's own creditors (even in bankruptcy), and cannot be returned to the reporting Entity, unless under strictly defined exceptions.

As the Funds have no independent legal status, no defined benefit plan assets exist.

Application of IAS 19.

Defined benefit plans require, for accounting purposes, the disaggregation of changes in the obligation into three components: service cost, net interest on the net defined benefit liability (asset)

and remeasurement. The first two should be recognised in profit or loss, while the third component should be recognised in equity under “Other Comprehensive Income” (OCI).
The service cost component reflects changes in the obligation relating to:

- the service rendered by the employee in the current year (Current Service Cost, or CSC);
- the service rendered in prior periods arising as a result of plan amendment (Past Service Cost) or curtailment;
- actuarial gains or losses upon plan settlement.

Net interest on the net defined benefit liability (asset) is the change during the period in the net defined benefit liability (asset) that arises from the passage of time (Interest Cost, IC).
Remeasurement comprises actuarial gains/losses.

Details of amount set aside and its use during the period.

FIP Carige (Carige Supplementary Pension Fund)

The change in the amount set aside for the period is the result of the algebraic sum of:

- Interest Cost (IC), recognised in profit or loss, amounting to EUR 386 thousand;
- actuarial gains, allocated to Other Comprehensive Income (OCI), amounting to EUR 2,700 thousand.

The Current Service Cost (CSC) is zero, given that, referring solely to deferred pension recipients and pensioners, the benefits have already fully accrued.
Pensions paid out amounted to EUR 2,253 thousand.

Sensitivity analysis of the main actuarial assumptions.

By respectively adopting a 0.5 percentage point lower and higher discount rate than the discount rate in use (1.2%), the impact from changes would have been as follows:

EUR/000

Discount rate	DBO retirees and deferred recipients
0.7%	25,351
1.7%	23,107

Cash flows.

Changes recognised in profit or loss are therefore those arising entirely from the IC (determined by applying the start-of-period discount rate to the start-of-period DBO, taking into account changes due to pension pay-outs).

FIP Carisa (Carisa Supplementary Pension Fund)

Details of amount set aside and its use during the period.

The change in the amount set aside for the period is the result of the algebraic sum of:
- Interest Cost (IC), recognised in profit or loss, amounting to EUR 6 thousand;
- actuarial gains, allocated to Other Comprehensive Income (OCI), amounting to EUR 29 thousand.

The Current Service Cost (CSC) is zero, given that, referring solely to deferred pension recipients and pensioners, the benefits have already fully accrued.
Pensions paid out amounted to EUR 34 thousand.

Sensitivity analysis of the main actuarial assumptions.

By respectively adopting a 0.5 percentage point lower and higher discount rate than the discount rate in use (1.2%), the impact from changes would have been as follows:

EUR/000

Discount rate	DBO retirees and deferred recipients
0.7%	387
1.7%	350

Cash flows.

Changes recognised in profit or loss are therefore those arising entirely from the IC (determined by applying the start-of-period discount rate to the start-of-period DBO, taking into account changes due to pension pay-outs).

FIP Carrara (Carrara Supplementary Pension Fund)

Details of amount set aside and its use during the period.

The allocation for the period comprises:
- Interest Cost (IC), recognised in profit or loss, amounting to EUR 73 thousand;
- actuarial gains, allocated to Other Comprehensive Income (OCI), amounting to EUR 563 thousand.

By effect of the fund composition CSC is nil.

Pensions paid out amounted to EUR 468 thousand.

Sensitivity analysis of the main actuarial assumptions.

By respectively adopting a 0.5 percentage point lower and higher discount rate than the discount rate in use (1.2%), the impact from changes would have been as follows:

EUR/000

Discount rate	DBO retirees
0.7%	4,899
1.7%	4,499

Cash flows.

Changes recognised in profit or loss are therefore those arising from the IC (determined by applying the start-of-period discount rate to the start-of-period DBO, taking into account changes for pension pay-outs).

10.6 Provisions for risks and charges - other provisions

1. Legal Disputes

The provision was established to meet any potential losses from legal proceedings in progress, for which a reliable estimate of contingent liabilities can be made in accordance with IAS 37. As at 31 January 2020, the provision totalled EUR 39.4 mln, of which EUR 34.9 mln for lawsuits filed against the Bank and bankruptcy clawback actions, for which the future expenditure and length of the dispute settlement process have been estimated, EUR 1.9 mln for labour disputes and EUR 2.6 mln for tax disputes. Commitments becoming due proved immaterial and therefore were not discounted.

2. Personnel expenses

Fund for charges related to incentives for employment termination.

The provisions set aside are those related to the definitive financial benefits - i.e. without the possibility of withdrawal from the offer - in favour of employees as an incentive for termination of employment. These incentives become payable twelve months or more after the end of the period. Considering the limited time-frame for these benefits to be awarded (2016 - 2020), no actuarial assessments were made: the amounts were discounted using the interest rate curve for AA-rated securities from corporate issuers in the Euro area as at 31 January 2020.
The fund amounted to EUR 163 thousand as at 31 January 2020.

Fund for restructuring charges related to incentives for employment termination.

The provisions set aside are those corresponding to the estimated benefits - i.e. incentives for employment termination - from which it is still possible for the Company to withdraw. The provisions set aside were determined by applying the requirements of IAS37.
Given the use during the period, the provision amounted to EUR 904 thousand as at 31/01/2020.

Fund for restructuring charges related to the solidarity fund

With the Union Agreement of 16 December 2017, it was decided to reserve the possibility of allowing access to the Redundancy Fund for 490 Group employees who will vest their rights to a pension by 31 December 2023 out of 635 eligible employees.
Banca Carige has 615 eligible employees, 474 of whom are estimated to access the fund, with an estimated charge of EUR 47,452 thousand.

The charges set aside are those relating to the expected economic costs for creating the funding for the payment of the severance indemnity paid by the national social security system, INPS, to members and the related contribution. These payables will be disbursed monthly and shall become due in the period comprised between 01/07/2018 (date of the first access window) and the estimated date of pension access of the Fund's last member (31/12/2023). Considering the time-frame for these payments (2018 - 2023), no actuarial assessments were made: the amounts were discounted using the interest rate curve for AA-rated securities from corporate issuers in the Euro area as at 31/01/2020. The amount set aside is EUR 33,791 thousand.

Fund for restructuring charges related to the solidarity fund Quota 100

With the Union Agreement of 20/11/2019, it was decided to reserve the possibility of allowing access to the Redundancy Fund for 70 Group employees who will vest their rights to a pension resorting to the Quota 100 option by 31/03/2022 out of 116 eligible employees.
As at 31/12/2019, out of 113 eligible employees of Banca Carige, 42 have accessed the fund, with an estimated charge of EUR 2,500 thousand.
The charges set aside are those relating to the expected economic costs for creating the funding for the payment of the severance indemnity paid by the national social security system, INPS, to members and the related contribution. These payables will be disbursed monthly and shall become due in the period comprised between 01/02/2020 (date of the first access window) and the estimated date of pension access of the Fund's last member (31/03/2020). Considering the limited time-frame for these payments to be awarded (2020 - 2020), no actuarial assessments were made: the amounts were discounted using the interest rate curve for AA-rated securities from corporate issuers in the Euro area as at 31/01/2020. The amount set aside was EUR 2512 thousand as at 31/01/2020.

Fund for restructuring charges related to the solidarity fund for 2021-2023

With the Union Agreement of 20/11/2019, it was decided to reserve the possibility of allowing access to the Redundancy Fund for 618 Group employees who will vest their rights to a pension by 31/12/2027 out of 638 eligible employees.
As at 31/01/2020, out of 607 eligible employees of Banca Carige, 589 have accessed the fund, with an estimated charge of EUR 112,293 thousand.
The charges set aside are those relating to the expected economic costs for creating the funding for the payment of the severance indemnity paid by the national social security system, INPS, to members and the related contribution. These payables will be disbursed monthly and shall become due in the period comprised between 01/01/2021 (date of the first access window) and the estimated date of pension access of the Fund's last member (31/12/2027). Considering the time-frame for these payments (2021 - 2027), no actuarial assessments were made. The amount set aside is EUR 112,293 thousand.

3. Other allowances

The item is mainly accounted for by EUR 29.9 mln in provisions relating to costs and claims for indemnification received from a securitisation company for the transactions completed in the 2017-2019 period.

Contingent liabilities

As at 31 January 2020, the Bank has 4 significant contingent liabilities, including 3 separate disputes concerning the Madoff case.

- On 17 October 2011, a writ of summons was served by which the liquidator in the insolvency proceeding of the fund Bernard L. Madoff Investment Securities LLC ("the Madoff Fund") ordered Banca Carige to refund \$ 10.5 mln, received as repayment of the investments held in the Fairfield Sentry Limited hedge fund (the "Sentry Fund"). Similar initiatives were taken against multiple other investors. At the time of the request for refund, i.e. 29 August 2007, Banca Carige and the markets were unaware of the potential insolvency of the Madoff conglomerate, nor were they aware of facts or confidential information that might lead them to believe that default was imminent. On 29 March 2012, the Bank filed a 'motion to withdraw the reference' with the District Court of New York seeking the transfer of certain issues from the Bankruptcy Court to the District Court. The motion was accepted on 15 May 2012, along with similar motions filed by many other investors, and the issues raised in the motion were therefore referred to the District Court, which, on 30 October 2013, ruled against them. On 21 November 2016, the Bankruptcy Court issued an order not to proceed with the bankruptcy clawback suit against Banca Carige and 90 other defendants, considering that it was duplicating other proceedings brought by the receivership of the Fairfield Sentry Fund. In March 2017, the liquidator of Madoff appealed before the Court of Appeals in New York against the order to dismiss the action against the Bank. On 3 April 2019, the Court upheld the liquidator's claims, ruling that the over 90 clawback lawsuits brought by the liquidator could continue even against investors, such as the Bank, that had not invested directly in the fund Bernard L. Madoff Investment Securities LLC, but rather in its Feeder-Funds, such as those of the Fairfield Sentry group, which in turn were placed under compulsory liquidation in the British Virgin Islands. An appeal against this latter decision was brought before the Supreme Court by the defendant Banks and the cases were suspended for several months pending the Court's ruling.

- On 23 March 2012, the liquidator of the insolvency proceeding of the Sentry Fund ordered (i) Banca Carige S.p.A. to refund \$10,532,489.00, received as repayment of the investments held in the Sentry Fund, (ii) Banca Ponti S.p.A. (now Banca Carige S.p.A., following the merger by absorption on 26 November 2010) to refund \$2,182,155.91, received as repayment of the investments held in the Sentry Fund. These two acts -which should be construed in light of the foregoing circumstances- represent for Banca Carige S.p.A. a duplication of the motion filed by the Madoff Fund. The Bank did not respond to the challenge notified by the Liquidator of the Sentry Fund, because all the proceedings initiated by the Liquidator of the Sentry Fund before the Bankruptcy Court of New York (under Section no. 304, aimed at revoking repayments made by investors in the Sentry Fund) were suspended by order of the Bankruptcy Court of New York, following the *lis pendens* brought by the Liquidator of the Sentry Fund before the court of the British Virgin islands, where the liquidation of the Sentry Fund had been initiated, and which concerns the revocability of repayments made to investors such as the Bank. The proceedings were suspended for about 5 years and, after first and second instance, the Supreme Court of London, which also has jurisdiction over the British Virgin Islands, upheld the defendants' case and declared the clawback suit unfounded. The Liquidator then brought his action before the District Court of New York to revoke the payment between the British Virgin Islands Fund and approximately 600 other defendants, obtaining permission to file a writ of summons in the proceedings that was modified with respect to the original writ which the defendants had objected to. On 6 December 2018, the judge of the Bankruptcy Court of New York issued an order, precluding the ordinary clawback lawsuits, inasmuch as the jurisdiction clause provided for in the contract for the subscription of the fund's units had no value vis-à-vis foreign counterparties, whereas the bankruptcy clawback suit based on the British Virgin Islands bankruptcy law was not deemed precluded. Therefore, the Liquidator was granted the right to amend its writ of summons to confine it to claims not precluded by the rejection order and is awaiting a hearing at the Bankruptcy Court of New York. The Liquidator has filed the amended writs of summons and the defendants are likely to file a new motion to dismiss. Moreover, the Liquidator has appealed the decision of the Bankruptcy Court of New York and all other 238 appeals were combined into one single appeal.

- Criminal proceedings No. 61126/2015 of the computerized records of reported offences at the public prosecutor's office (*Registro Generale Notizie di Reato, RGNR*) pursuant to Legislative Decree no. 231/01 are pending before the Collegial Court of Rome for direct liability. The charges relate to the offences of obstruction of public regulators (pursuant to art. 2638 of the Italian Civil Code) and market manipulation (pursuant to art. 2637 of the Italian Civil Code), with the indictment of members of the Board of Directors in office at the time of the events referred to in the charges (i.e. between 5 April 2013 and 2 December 2013). In turn, Banca Carige is under investigation pursuant to Legislative Decree no. 231/01 for the Company's direct liability for the aforementioned offences committed, according to the prosecutor, in its interest or for its benefit. The Bank has duly entered an appearance through its counsel of choice, who will defend the Bank in accordance with the provisions of art. 6 of Legislative Decree no. 231/01, providing evidence of the existence of an adequate and effectively implemented organisational and management model, as well as proof that it was fraudulently circumvented by the defendants (as natural persons). At present, first instance is pending and the Bank is held liable in civil law. It should be noted that the writs of summons do not contain the precise determination of the damage claimed, which is deferred to a later date, i.e., most of the time to the final conclusions and, therefore, at the end of the first instance hearing.

SECTION 12

SHAREHOLDERS' EQUITY – ITEMS 110, 130, 140, 150, 160, 170 AND 180

12.1 Share capital and treasury shares – breakdown

Number of shares issued	Ordinary	Savings	Total
Number of shares at the end of the year	755,265,855,473	25,542	755,265,881,015
– fully paid-up	755,265,855,473	25,542	755,265,881,015
– not fully paid-up			

Share capital structure	Ordinary	Savings	Total
Number of shares at the end of the year	1,915,164	-	1,915,164
– fully paid-up	1,915,164	-	1,915,164
– not fully paid-up			

EUR/000

Number of treasury shares	Ordinary	Savings	Total
Number of shares at the end of the year	219,513	-	219,513
– fully paid-up	219,513	-	219,513
– not fully paid-up			

Book value of treasury shares	Ordinary	Savings	Total
Shares outstanding at the end of the year	15,572	-	15,572
– fully paid-up	15,572	-	15,572
– not fully paid-up			

EUR/000

12.2 Share capital – Number of shares: changes in the year

Item/Type	Ordinary	Savings
A. Shares outstanding at the beginning of the year	55,265,855,473	25,542
– fully paid-up	55,265,855,473	25,542
– not fully paid-up		
A.1 Treasury shares (-)	(219,513)	-
A.2 Shares outstanding: opening balance	55,265,635,960	25,542
B. Increases	700,000,000,000	-
B.1 New issues	700,000,000,000	-
– with consideration:	700,000,000,000	
– business combinations		
– conversion of bonds		
– exercise of warrants		
– other	-	
– without consideration		
– in favour of employees		
– in favour of directors		
– other		
B.2 Sale of treasury shares		
B.3 Other increases		
C. Decreases	-	-
C.1 Cancellation		
C.2 Purchase of treasury shares		
C.3 Sale of companies		
C.4 Other decreases		
D. Shares in issue: closing balance	755,265,635,960	25,542
D.1 Treasury shares (+)	219,513	
D.2 Shares outstanding at the end of the year	755,265,855,473	25,542
– fully paid-up	755,265,855,473	25,542
– not fully paid-up	-	-

12.3 Share capital - Other information

Share capital totalling EUR 1,915,163,696, comprises 755,265,881,015 shares with no par value.

12.4 Reserves from allocation of profit: other information

	31/01/2020	31/12/2018
Reserve for treasury shares	15,572	15,572
Reserve for the purchase of treasury shares: quota available	-	-
Reserve for profit adjustment according to IAS for 2004	-	-
Reserve for F.T.A. IAS - art. 7 para. 7 of Italian Leg. 38/2005	-	-
Losses carried forward	(279,784)	-
Reversal reserve/Valuation reserve /Actuarial gains (losses) on defined-benefit pension plans	-	-
Reversal reserve/Valuation reserve on equity instruments classifies as FVOCI	437	
Total profit reserves	(263,775)	15,572
Merger Reserve Immobiliare Ettore Vernazza S.p.A.	-	-
Reserve from merger of Banca Carige Italia	-	-
Reserve from merger of Cassa di Risparmio di Savona	-	-
Reserve from merger of Cassa di Risparmio di Carrara	-	-
Reserve from merger of Immobiliare Carisa	-	-
Reserve set up with share capital reduction to cover losses incurred in the first nine months of the year 2018	186,619	186,619
Total other reserves	186,619	186,619
Total	(77,156)	202,191

12.6 Additional information related to equity pursuant to art. 2427 no. 7 *bis* of the Italian Civil Code

Name		Amount	Availability for use	Use in the three previous years	Type of use
ITEM 110 VALUATION RESERVES					
Valuation reserve - Equity investments measured at FVOCI	(1)	3,483,095	F		
Valuation reserve - Debt securities measured at FVOCI		(203,634)			
Valuation reserve: cash flow hedge		(73,585,306)			
Valuation reserves - defined benefit plans		(21,864,449)			
TOTAL ITEM 110		(92,170,294)		-	
ITEM 140 - RESERVES					
Reserve for the purchase of treasury shares: used, restricted pursuant to art. 1, para. 147, Law 147/2013	(2-4)	15,572,009	F, D		
Reserve for the purchase of treasury shares - available quota, restricted pursuant to art. 1, para. 147, Law 147/2013	(3-4)		A,B,C2,D	61,427,991	B
Profits carried forward - IFRS 9 first-time adoption			A,B,C1	3,630,704	B
Reserve from gains on disposal of investments classified at FVTOCI		436,712	A,B,C1	457,453	B
Reserve to cover the loss for the year		186,619,488	B		
Losses fro prior years		(279,783,846)			
TOTAL ITEM 140		(77,155,637)		65,516,147	
ITEM 150 - SHARE PREMIUM RESERVE					
Share premium reserves (up to 20% of share capital)		383,032,739	A,B	569,171,492	B
Share premium reserves (over 20% of share capital)	(5)	240,925,179	A,B,C1		
TOTAL ITEM 150		623,957,919		569,171,492	
ITEM 160 - SHARE CAPITAL					
Share capital		1,915,163,696		1,000,693,765	
TOTAL ITEM 160		1,915,163,696		1,000,693,765	
ITEM 170 - TREASURY SHARES					
Treasury shares		(15,572,009)			
TOTAL ITEM 170		(15,572,009)			
TOTAL CAPITAL AND RESERVES		2,354,223,674		1,635,381,405	

KEY:

A = USABLE FOR CAPITAL INCREASE

B = USABLE TO COVER LOSSES

C1 = USABLE FOR DISTRIBUTION TO SHAREHOLDERS THROUGH RESOLUTION BY THE ORDINARY SHAREHOLDERS' MEETING

C2 = USABLE FOR DISTRIBUTION TO SHAREHOLDERS ONLY THROUGH PROCEDURE PURSUANT TO ART. 2445, CIV. CODE PARAGRAPHS 2 AND 3

D = TAXED IN CASE OF DISTRIBUTION ATTRIBUTABLE TO THE COMPANY

E = TAXED IN CASE OF TRANSITION TO CAPITAL

F = NOT USABLE

NOTES:

(1) See art. 6, para. 1, lett. b) and par. 4 Leg. Decree no. 38/2005, forbidding general distributability and usability.
Such reserves become available when assets are realised or as and when they are amortised
Legislative Decree no. 38/2005 does not specify if they are usable to cover losses for the year.

(2) See Judicial Dictum no. 147 of Notarial District of Milan. Not usable to cover losses

(3) Art. 2357, co. 1 and 2357 ter, para. 3, Italian Civil Code For the available quota (not used to purchase treasury shares), as the authorisation to purchas new treasury shares was not renewed, restrictions to the potential buy-back of treasury shares no longer apply.

(4) Reserve taxed attributable to the company in case of distribution

(5) See art. 2431 Italian Civil Code. Only distributable when the legal reserve has reached one-fifth of share capital.
In the version approved in 2014, OIC Accounting Standard no. 28 specified that the reserve becomes available for distribution for the part that exceeds the relevant complement when 20% of share capital is reached by the legal reserve.

OTHER INFORMATION

1. Commitments and financial guarantees given (other than those measured at fair value)

	Notional amounts of commitments and financial guarantees given			Total 31/01/2020	Total 31/12/2018
	Stage 1	Stage 2	Stage 3		
Commitments to disburse funds	**3,127,893**	**212,578**	**191,683**	**3,532,154**	**4,653,155**
a) Central banks	-	-	-	-	-
b) Public Administrations	814,082	1,578	-	815,660	906,594
c) Banks	3,246	-	-	3,246	19,292
d) Other financial companies	73,185	206	1	73,392	294,170
e) Non-financial companies	2,040,790	188,664	190,231	2,419,685	3,171,408
f) Households	196,590	22,130	1,451	220,171	261,691
Financial guarantees given	**298,832**	**85,988**	**83,826**	**468,646**	**557,344**
a) Central banks	-	-	-	-	-
b) Public Administrations	11,340	-	-	11,340	14,604
c) Banks	673	-	-	673	878
d) Other financial companies	15,833	125	4,449	20,407	21,290
e) Non-financial companies	252,194	84,837	77,390	414,421	496,191
f) Households	18,792	1,026	1,987	21,805	24,381

3. Assets pledged as collateral for own liabilities and commitments

Portfolios	Amount 31/01/2020	Amount 31/12/2018
1. Financial assets at fair value through profit or loss	13	310,703
2. Financial assets at fair value through other comprehensive income	389,574	471,648
3. Financial assets at amortised cost	7,721,620	8,484,788
4. Property and equipment	505	513
of which: inventories of property and equipment	-	-

Assets pledged as collateral for the company's own liabilities and commitments amount to EUR 8.1 bn and are primarily made up of securities underlying repo transactions, mortgage loans and securities pledged as collateral and deposit for refinancing operations with the European Central Bank, securities guaranteeing the issue of bankers' drafts, mortgages pledged as collateral for the issuance of covered bonds by Banca Carige, securitised mortgage loans transferred to the special purpose vehicles, Argo Mortgage 2 S.r.l., Lanterna Finance S.r.l. and Lanterna Lease S.r.L., securities pledged as collateral on OTC derivative contracts, mortgage loans pledged as collateral for financing operations with the E.I.B., security deposits with the clearing house (*Cassa Compensazione e Garanzia*).

4. Asset management and trading on behalf of third parties

Type of service	Amount 31/01/2020
1. Orders execution on behalf of customers	**2,464,277**
a) purchases	1,990,821
1. settled	1,990,821
2. unsettled	-
b) sales	473,456
1. settled	473,456
2. unsettled	-
2. Portfolio management	**90,782**
3. Custody and administration of securities	**22,295,229**
a) third party securities on deposit: associated with the custodian bank transactions (excluding portfolios management)	-
1. securities issued by the Bank preparing the financial statements	-
2. other securities	-
b) third party securities on deposit (excluding asset management): other	10,797,923
1. securities issued by the Bank preparing the financial statements	861,813
2. other securities	9,936,110
c) third party securities deposited with third parties	9,296,512
d) own securities deposited with third parties	2,200,794

4. Other transactions	4,244,183

5. Assets subject to accounting offsetting, master netting agreements and similar

Type		Gross amount of financial assets (a)	Financial liabilities offset in Balance Sheet (b)	Net book value of financial assets (c=a-b)	Related amounts not offset in Balance Sheet		Net amount (f=c-d-e)	Net amount (f=c-d-e)
					Financial instruments (d)	Cash collateral received (e)	31/01/2020	31/12/2018
1. Derivatives		50,202	-	50,202	36,016	36,016	14,186	13,982
2. Repurchase agreements		-	-	-	-	-	-	-
3. Securities lending		-	-	-	-	-	-	-
4. Other		-	-	-	-	-	-	-
Total	31/01/2020	50,202	-	50,202	36,016	36,016	14,186	X
Total	31/12/2018	47,827	-	47,827	-	33,845	X	13,982

The amount shown in column (a) relates to derivatives recognised under item 20a (Balance sheet - Assets) "Financial assets held for trading", totalling EUR 41,290 thousand, and item 50 (Balance sheet - Assets) "Hedging derivatives", totalling EUR 8,912 thousand. Cash deposits pledged as collateral, shown in column (e) are recognised under item 10a “Financial liabilities at amortised cost - Due to banks” (Balance sheet - liabilities), in the amount of EUR 36,016 thousand.

6. Liabilities subject to accounting offsetting, master netting agreements and similar

Type		Gross amount of financial liabilities (a)	Financial assets offset in Balance Sheet (b)	Net book value of financial liabilities (c=a-b)	Related amounts not offset in Balance Sheet		Net amount (f=c-d-e)	Net amount (f=c-d-e)
					Financial instruments (d)	Cash collateral received (e)	31/01/2020	31/12/2018
1. Derivatives		263,443	-	263,443	52,836	222,606	(11,999)	(5,026)
2. Repurchase agreements		-	-	-	-	-	-	-
3. Securities lending		-	-	-	-	-	-	-
4. Other		-	-	-	-	-	-	-
Total	31/01/2020	263,443	-	263,443	52,836	222,606	(11,999)	X
Total	31/12/2018	235,016	-	235,016	52,440	187,602	X	(5,026)

The amount shown in column (a) relates to derivatives recognised under item 20 (Balance sheet - liabilities) "Financial liabilities held for trading", totalling EUR 42,415 thousand, and item 40 (Balance sheet - liabilities) "Hedging derivatives", in the amount of EUR 221,029 thousand. Related financial instruments pledged as collateral, shown in column (d) consist in securities recognised under item 30 (Balance Sheet - Assets) "Financial assets measured at fair value through other comprehensive income". Cash deposits pledged as collateral, shown in column (e) are recognised under item 40a “Financial assets at amortised cost - Loans to banks” (Balance sheet - assets), in the amount of EUR 222,606 thousand.

The Bank periodically analyses all types of master netting agreements, or similar arrangements, which might be eligible for accounting offsetting (netting).
This includes, for example, netting agreements on OTC derivatives subject to margin trading with central counterparties (ISDA/FIA CDEA), netting agreements on other OTC derivatives (CSA) and repurchase agreement transactions in compliance with TBMA/ISDA - Global Master Repurchase Agreements (GMRA) - international standards and all rights related to financial collateral. Arrangements qualifying only as "collateral agreements" are instead excluded as per regulations.

The following can be inferred from the analysis made:
- master netting agreements (ISDA) entered into by Group banks do not comply with the accounting offsetting criteria under the joint provisions of paragraphs AG38A and AG38B of IAS 32;
- repurchase transactions on securities with the clearing house, *Cassa di Compensazione e Garanzia,* do not meet the criteria for accounting offsetting as they are in fact regulated by a collateral agreement;
- transactions in quoted derivatives, being immaterial for the Carige Group, were excluded from the scope of the analysis.

Part C

INCOME STATEMENT

SECTION 1

INTEREST – ITEMS 10 AND 20

1.1 Interest and similar income: breakdown

Item/Type	Debt securities	Loans	Other transactions	Total 31/01/2020	Total 31/12/2018
1. Financial assets at fair value through profit or loss	438	2,437	-	2,875	2,604
1.1 Financial assets held for trading	327	-	-	327	287
1.2 Financial assets at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily at fair value	111	2,437	-	2,548	2,317
2. Financial assets at fair value through other comprehensive income	-	-	X	-	74
3. Financial assets measured at amortised cost	10,845	365,099	X	375,944	401,286
3.1 Loans to banks	856	698	X	1,554	2,307
3.2 Loans to customers	9,989	364,401	X	374,390	398,979
4. Hedging derivatives	X	X	(24,931)	(24,931)	(19,925)
5. Other assets	X	X	3,573	3,573	4,813
6. Financial liabilities	X	X	X	583	2,136
Total	11,283	367,536	(21,358)	358,044	390,988
of which: interest income from credit-impaired financial assets	-	26,072	-	26,072	65,800
of which: interest income from leasing	-	9,026	-	9,026	11,887

With reference to item 10 “Interest and similar income”, the revenues falling within the scope of application of the international accounting standard IFRS 15 "Revenue from Contracts with Customers" amount to EUR 82 thousand and refer to "over time" revenues.

1.2 Interest and similar income: other information

1.2.1 Interest income from financial assets denominated in foreign currency

Interest income from financial assets held in foreign currency amount to EUR 21,965 thousand (EUR 20,551 thousand as at 31/12/2018).

1.3 Interest and similar income: breakdown

Item/Type	Debts	Securities	Other transactions	Total 31/01/2020	Total 31/01/2018
1. Financial liabilities at amortised cost	(60,820)	(126,034)	X	(186,854)	(125,615)
1.1 Due to central banks	(1,288)	X	X	(1,288)	-
1.2 Due to banks	(11,852)	X	X	(11,852)	(10,725)
1.3 Due to customers	(47,680)	X	X	(47,680)	(32,559)
1.4 Securities issued	X	(126,034)	X	(126,034)	(82,331)
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities at fair value through profit or loss	-	-	-	-	-
4. Other liabilities and funds	X	X	(196)	(196)	(10)
5. Hedging derivatives	X	X	(39,915)	(39,915)	(32,540)
6. Financial assets	X	X	X	(18,427)	(14,607)
Total	(60,820)	(126,034)	(40,111)	(245,392)	(172,772)
o.w.: interest expense for lease payables	(902)	-	-	(902)	-

With reference to item 20 “Interest and similar expense”, the interest expense related to revenues falling within the scope of application of the international accounting standard IFRS 15 "Revenue from Contracts with Customers" amount to EUR 125 thousand.

1.4 Interest and similar expense: other information

1.4.1 Interest expense on liabilities denominated in foreign currency

Interest expense on liabilities in foreign currency amount to EUR 3,885 thousand (EUR 3,671 thousand as at 31/12/2018).

1.5 Spreads on hedging transactions

1.5 Spreads on hedging transactions

Items	Total 31/01/2020	Total 31/12/2018
A. Positive spreads on hedging transactions	4,352	8,709
B. Negative spreads on hedging transactions	(69,198)	(61,174)
C. Total (A-B)	**(64,846)**	**(52,465)**

SECTION 2

FEES AND COMMISSIONS – ITEMS 40 AND 50

2.1 Fee and commission income: breakdown

Service type/Amounts	Total 31/01/2020	Total 31/12/2018
a) guarantees issued	6,247	6,547
b) credit derivatives	-	-
c) management, brokerage and advisory services:	90,819	93,295
1. trading in financial instruments	55	26
2. currency trading	1,418	2,015
3. portfolio management	1,143	1,148
4. custody and administration of securities	1,538	1,581
5. custodian bank	-	-
6. placement of securities	36,341	36,968
7. receipt and transmission of orders	3,875	4,046
8. advisory services	18	7
8.1 related to investments	18	7
8.2 related to financial structure	-	-
9. distribution of third-party services	46,431	47,774
9.1 portfolio management	2,199	2,042
9.1.1. individual	24	37
9.1.2. collective	2,175	2,005
9.2 insurance products	23,086	24,181
9.3 other products	21,146	21,155
d) collection and payment services	40,559	52,669
e) securitisation servicing	4,283	4,724
f) factoring services	724	706
g) tax collection services	-	-
h) management of multilateral trading facilities	-	-
i) maintenance and management of current accounts	94,467	87,598
j) other services	14,203	15,034
Total	251,302	260,573

Item j) "Other services" is broken down as follows:

Service type/Amounts	31/12/2020	31/12/2018
a) loans	4,925	5,477
b) rental of safety deposit boxes	1,973	1,888
c) recovery of postal charges	2,350	2,497
d) on-line services	1,084	1,948
e) other	3,871	3,224
Total	14,203	15,034

With reference to item 40 “Fee and commission income”, the revenues falling within the scope of application of the international accounting standard IFRS 15 "Revenue from Contracts with Customers" amount to EUR 251,647 thousand, of which EUR 168,782 thousand refers to "point in time" revenues and EUR 83,137 thousand refers to “over time” revenues. Costs for IFRS 15-related revenues amount to EUR 272 thousand.

2.2 Fee and commission income by product/service distribution channel

Channels/Amounts	Total 31/01/2020	Total 31/12/2018
a) through own branches:	83,901	85,439
1. portfolio management	1,143	1,148
2. placement of securities	36,340	36,682
3. third-party products and services	46,418	47,609
b) off-site distribution:	14	181
1. portfolio management	-	-
2. placement of securities	1	16
3. third-party products and services	13	165
c) other distribution channels:	-	-
1. portfolio management	-	-
2. placement of securities	-	-
3. third-party products and services	-	-

2.3 Fee and commission expense: breakdown

Service type/Amounts	Total 31/01/2020	Total 31/12/2018
a) guarantees received	(17,983)	(364)
b) credit derivatives	-	-
c) management and brokerage services	(1,711)	(2,367)
1. trading in financial instruments	(213)	(899)
2. currency trading	-	-
3. portfolio management	(168)	(186)
3.1 own portfolio	(168)	(186)
3.2 third-party portfolio	-	-
4. custody and administration of securities	(1,323)	(1,229)
5. placement of financial instruments	(7)	(52)
6. off-site marketing of financial instruments, products and services	-	(1)
d) collection and payment services	(8,768)	(18,381)
e) other services	(12,669)	(11,322)
Total	(41,131)	(32,434)

Item e) "Other services" is broken down as follows:

Service type/Amounts	31/12/2020	31/12/2018
a) transactions with banks	(316)	(306)
b) loans	(4,494)	(3,718)
c) trading	(357)	(608)
d) distribution of third-party credit cards	(7,307)	(6,295)
e) other	(195)	(395)
Total	(12,669)	(11,322)

With reference to item 50 “Fee and commission expense”, the costs related to revenues falling within the scope of application of the international accounting standard IFRS 15 "Revenue from Contracts with Customers" amount to EUR 35,169 thousand. IFRS15-related revenues amount to EUR 7 thousand and refer to point in time revenues.

SECTION 3

DIVIDENDS AND SIMILAR INCOME – ITEM 70

3.1 Dividends and similar income: breakdown

Items/Income	Total 31/01/2020		Total 31/12/2018	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	10	-	2	-
B. Other financial assets mandatorily at fair value	-	244	-	265
C. Financial assets at fair value through other comprehensive income	10,430	-	10,223	-
D. Investments	9,399	-	22,253	-
Total	19,839	244	32,478	265

SECTION 4

NET PROFIT (LOSS) FROM TRADING – ITEM 80

4.1 Net profit (loss) from trading: breakdown

Transactions/P&L items	Gains (A)	Trading profit (B)	Capital losses (C)	Trading losses (D)	Net Profit (Loss)
1. Financial assets held for trading	6	60	(7)	(9,318)	(9,259)
1.1 Debt securities	3	56	(5)	-	54
1.2 Equity instruments	-	-	-	-	-
1.3. Units in UCITS	-	-	-	-	-
1.4 Loans	-	-	-	-	-
1.5 Other	3	4	(2)	(9,318)	(9,313)
2. Financial liabilities held for trading	-	4	-	-	-
2.1 Debt securities	-	-	-	-	-
2.2 Deposits	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Financial assets and liabilities: exchange differences	X	X	X	X	23,316
4. Derivatives	8,074	3,280	(8,403)	(3,084)	(419)
4.1 Financial derivatives:	8,074	3,280	(8,403)	(3,084)	(419)
- on debt securities and interest rates	8,074	3,280	(8,403)	(3,084)	(133)
- on equities and stock indices	-	-	-	-	-
- on currencies and gold	X	X	X	X	(286)
- other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges linked to the fair value option	X	X	X	X	-
Total	8,080	3,340	(8,410)	(12,402)	13,368

SECTION 5

NET PROFIT (LOSS) FROM HEDGING – ITEM 90

5.1 Net profit (loss) from hedging: breakdown

P&L items/Amounts	Total 31/01/2020	Total 31/12/2018
A. Gains on:		
A.1 Fair value hedging derivatives	17,148	13,166
A.2 Hedged financial assets (fair value)	21,125	4,482
A.3 Hedged financial liabilities (fair value)	4,651	6,798
A.4 Cash-flow hedging derivatives	-	-
A.5 Assets and liabilities denominated in foreign currency	-	-
Total gains on hedging activities (A)	42,924	24,446
B. Losses on:		
B.1 Fair value hedging derivatives	(18,866)	(11,538)
B.2 Hedged financial assets (fair value)	(21,519)	(14,280)
B.3 Hedged financial liabilities (fair value)	(2,292)	(306)
B.4 Cash-flow hedging derivatives	(2)	-
B.5 Assets and liabilities denominated in foreign currency	-	-
Total losses on hedging activities (B)	(42,679)	(26,124)
C. Net profit (loss) from hedging (A-B)	245	(1,678)
of which: net gains (losses) of hedge accounting on net positions	-	-

SECTION 6

PROFITS (LOSSES) ON DISPOSAL OR REPURCHASE – ITEM 100

6.1 Profits (losses) on disposal or repurchase: breakdown

Items/P&L items	Total 31/01/2020			Total 31/12/2018		
	Profits	Losses	Net Profit (Loss)	Gains	Losses	Net Profit (Loss)
A. Financial assets						
1. Financial assets at amortised cost	88,339	(117,339)	(29,000)	2,352	(65,104)	(62,752)
1.1 Loans to banks	-	-	-	-	-	-
1.2 Loans to customers	88,339	(117,339)	(29,000)	2,352	(65,104)	(62,752)
2. Financial assets at fair value through other comprehensive income	31	-	31	1,054	(15)	1,039
2.1 Debt securities	31	-	31	1,054	(15)	1,039
2.2 Loans	-	-	-	-	-	-
Total assets (A)	88,370	(117,339)	(28,969)	3,406	(65,119)	(61,713)
B. Financial liabilities at amortised cost						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	292	(835)	(543)	4,262	(2,418)	1,844
Total liabilities (B)	292	(835)	(543)	4,262	(2,418)	1,844

SECTION 7

PROFITS (LOSSES) ON FINANCIAL ASSETS/LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS - ITEM 110

7.2 Net changes in other financial assets/liabilities measured at fair value through profit or loss: breakdown of other financial assets mandatorily at fair value

Transactions/P&L items	Gains (A)	Realised profits (B)	Losses (C)	Realised losses (D)	Net Profit [(A+B) - (C+D)]
1. Financial assets	5,640	226	(5,759)	(4,324)	(4,217)
1.1 Debt securities	498	-	(4,166)	(4,214)	(7,882)
1.2 Equity instruments	-	-	(149)	-	(149)
1.3. Units in UCITS	316	139	(783)	-	(328)
1.4 Loans	4,826	87	(661)	(110)	4,142
2. Financial assets: exchange differences	X	X	X	X	1,132
Total	5,640	226	(5,759)	(4,324)	(3,085)

SECTION 8

NET LOSSES/RECOVERIES ON CREDIT IMPAIRMENT – ITEM 130:

8.1 Net losses/recoveries on impairment of financial assets at amortised cost: breakdown

Transactions/P&L items	Losses (1)			Recoveries (2)		Total	Total
	Stage 1 and 2	Stage 3		Stage 1 and 2	Stage 3	31/01/2020	31/12/2018
		Write-off	Other				
A. Loans to banks	(308)	-	(22)	155	-	(175)	968
- Loans	(308)	-	(22)	155	-	(175)	968
- Debt securities	-	-	-	-	-	-	-
o.w.: purchased or originated credit-impaired	-	-	-	-	-	-	-
B. Loans to customers	(2,488)	(33,408)	(571,410)	19,902	141,079	(446,325)	(235,678)
- Loans	(2,488)	(33,408)	(571,410)	19,877	141,079	(446,350)	(235,639)
- Debt securities	-	-	-	25	-	25	(39)
o.w.: purchased or originated credit-impaired	-	-	-	-	-	-	-
Total	(2,796)	(33,408)	(571,432)	20,057	141,079	(446,500)	(234,710)

Key
A = from interest
B = other reversals

8.2 Net losses/recoveries on impairment of financial assets at fair value through other comprehensive income: breakdown

Transactions/P&L items	Losses (1)			Recoveries (2)		Total	Total
	Stage 1 and 2	Stage 3		Stage 1 and 2	Stage 3	31/01/2020	31/12/2018
		Write-off	Other				
A. Debt securities	(3)	-	-	14	-	11	-
b) Loans	-	-	-	-	-	-	(39)
- to customers	-	-	-	-	-	-	(39)
- to banks	-	-	-	-	-	-	-
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	-
Total	(3)	-	-	14	-	11	(39)

Key
A = from interest
B = other reversals

SECTION 9

GAINS (LOSSES) DUE TO MODIFICATIONS NOT RESULTING IN DERECOGNITION - ITEM 140

9.1 Gains (losses) due to contractual modifications: breakdown

Items/P&L items	Total 31/12/2020		
	Gains	Losses	Net Profit (Loss)
Financial assets at amortised cost			
Contractual modifications on financial assets at amortised cost	2,177	1,853	324
of which non-performing	396	606	(210)

SECTION 10

ADMINISTRATIVE EXPENSES – ITEM 160

10.1 Personnel expenses: breakdown

Type of expense/Amounts	Total 31/01/2020	Total 31/12/2018
1) Employees	(371,323)	(263,203)
a) wages and salaries	(184,538)	(183,163)
b) social-welfare charges	(46,793)	(49,139)
c) severance pay	(2,569)	(2,699)
d) social security expenses	(3,027)	-
e) provision for staff severance pay	(680)	(712)
f) pension fund and similar obligations:	(335)	(266)
- defined contribution	-	-
- defined benefit	(335)	(266)
g) contributions to external pension funds:	(14,167)	(14,502)
- defined contribution	(14,167)	(14,502)
- defined benefit	-	-
h) costs related to share-based payments	-	-
i) other employee benefits	(119,214)	(12,721)
2) Other staff	(181)	(158)
3) Directors and Statutory Auditors	(3,068)	(3,670)
4) Retired personnel	-	-
5) Recovery of expenses for employees seconded to other companies	4,998	6,958
6) Reimbursement of cost of third-party employees seconded to the Bank	(1,609)	(1,279)
Total	(371,183)	(261,353)

Item 3) Directors and Statutory Auditors includes approximately EUR 1.1 mln worth of compensation paid to the bodies of the Parent Company under Temporary Administration, of which approximately EUR 876 thousand for the Temporary Administrators and approximately EUR 198 thousand for the members of the Surveillance Committee.

10.2 Average number of employees by category

	Total 31/01/2020	Total 31/12/2018
1) Employees	3,568	3,883
a) senior managers	41	45
b) middle managers	949	1,060
c) remaining staff	2,578	2,778
2) Other personnel	31	39
Total	3,599	3,922

10.3 Defined benefit company pension funds: costs and revenues

In the period from 01.01.2019 to 31.01.2020, total costs of EUR 794 thousand (entirely referring to Interest Cost) were recognised for defined benefit company pension funds. For more information, see Section 10 under Liabilities.

10.4 Other employee benefits

This item includes the provisions for the Fund for restructuring charges related to the solidarity fund (EUR 110 mln), expenses connected to health insurance policies (EUR 3.2 mln), other expenses related to training (EUR 1.1 mln), meal vouchers for employees (EUR 4.8 mln) and other residual charges.

10.5 Other administrative expenses: breakdown

Service type/Amounts	Total 31/01/2020	Total 31/12/2018
Indirect taxes and duties	(65,547)	(62,850)
- stamp duties and taxes on stock exchange	(38,829)	(37,849)
- substitute tax (Pres. Decree no. 601/73)	(2,145)	(3,395)
- local property taxes	(6,007)	(5,588)
- other indirect taxes and duties	(18,566)	(16,018)
Contributions to the guarantee and resolution funds	(20,375)	(20,867)
Leases and rents payable	(852)	(18,088)
- real estate	(505)	(17,171)
- electronic equipment and software	-	-
- other	(347)	(129)
Expenses for software acquisition	(5,138)	(788)
Maintenance and operating expenses	(9,131)	(3,587)
- property owned and used by the bank	(2,760)	(12,332)
- rented property	(2,957)	(3,103)
- movable property	(3,216)	(1,767)
- software	(198)	(4,144)
Cleaning services	(2,091)	(3,318)
Utilities (electricity, heating and water)	(8,050)	(2,049)
Printing and stationery	(1,563)	(7,688)
Post and telephone	(3,259)	(1,462)
Surveillance and security services	(1,788)	(4,592)
Transport	(3,747)	(2,287)
Insurance premiums	(1,679)	(4,043)
Advertising, publicity and media initiatives	(919)	(1,565)
Entertainment expenses	(259)	(1,354)
Membership fees	(760)	(477)
Contributions to bodies and associations	(409)	(758)
Subscriptions to newspapers, magazines and publications	(418)	(534)
Professional services fees	(40,386)	(438)
- consultancy	(21,537)	(41,707)
- legal expenses	(10,456)	(15,794)
- commercial information and land registry searches	(1,635)	(15,698)
- other	(6,758)	(1,504)
Expenses for IT services and outsourcing	(56,539)	(8,711)
Indirect personnel expenses	-	-
Other expenses	(5,459)	(5,582)
Total	(228,369)	(239,782)

With reference to item 160 b) “Other administrative expenses”, the costs related to revenues falling within the scope of application of the international accounting standard IFRS 15 "Revenue from Contracts with Customers" amount to EUR 907 thousand.

SECTION 11

NET PROVISIONS FOR RISKS AND CHARGES - ITEM 170

11.1 Net provisions for credit risk from commitments to disburse funds and financial guarantees given: breakdown

	Net provisions for credit risk from commitments to disburse funds and financial guarantees given			
	Stage one	*Stage two*	*Stage 3*	Total
1. Commitments to disburse funds	62	249	4,565	**4,876**
2. Financial guarantees given	531	1,494	2,722	**4,747**
Total	593	1,743	7,287	9,623

11.3 Net provisions for risks and charges: breakdown

	Total 31/01/2020	Total 31/12/2018
Provision for risks and charges related to legal disputes and clawback actions	(16,216)	(17,436)
Interest expense from discounting of the provision for legal disputes and clawback actions	-	-
Re-allocation to Income Statement from Provision for risks and charges related to legal disputes and clawback actions	3,776	11,548
Re-allocation to Income Statement from other provisions	548	2,749
Other provisions	(27,638)	(55,606)
Total	(39,530)	(58,745)

SECTION 12

NET ADJUSTMENTS TO/RECOVERIES ON PROPERTY AND EQUIPMENT - ITEM 180

12.1. Net adjustments to/recoveries on property and equipment: breakdown

Asset/P&L item	Depreciation (a)	Impairment losses (b)	Write-backs (c)	Net Profit (Loss) (a + b - c)
A. Property and equipment				
1 Used in the business	(21,285)	(682)	30	(21,937)
- owned	(7,654)	-	-	(7,654)
- Rights of use acquired through finance lease	(13,631)	(682)	30	(14,283)
2 Held for investment	(2,533)	(31,728)	-	(34,261)
- owned	(2,533)	(31,728)	-	(34,261)
- Rights of use acquired through finance lease	-	-	-	-
3 Inventories	X	-	-	-
Total	(23,818)	(32,410)	30	(56,198)

SECTION 13

NET ADJUSTMENTS TO/RECOVERIES ON INTANGIBLE ASSETS – ITEM 190

13.1 Net adjustments to/recoveries on intangible assets: breakdown

Asset/P&L item	Depreciation (a)	Impairment losses (b)	Write-backs (c)	Net Profit (Loss) (a + b - c)
A. Intangible assets				
A.1 Owned	(10,190)	-	-	(10,190)
- generated internally by the company	-	-	-	-
- other	(10,190)	-	-	(10,190)
A.2 Acquired through finance lease	-	-	-	-
Total	(10,190)	-	-	(10,190)

SECTION 14

OTHER OPERATING EXPENSE AND INCOME - ITEM 200

14.1 Other operating expense: breakdown

	31/01/2020	31/12/2018
Operating expenses on financial leases	-	-
Routine maintenance costs on investment property	(168)	(5)
Expenses for improvement of third parties' assets	(261)	(256)
Expenses for tax disputes	-	-
Expenses for covered bond transactions and securitisations	(6,855)	(6,931)
Litigation losses	(78,727)	(5,978)
Interventions in favour of the Italian Interbank Deposit Protection Fund	-	-
Other	(5,275)	(7,870)
Total	**(91,287)**	**(21,040)**

14.2 Other operating income: breakdown

	31/01/2020	31/12/2018
Lease revenues and indemnities	-	440
Lease payments receivable	3,284	4,123
Fast-track facility fee	11,122	11,498
Third-party charges	40,384	40,398
- tax recovery	40,060	40,080
- customer insurance premiums	324	318
Fees for service agreements	1,972	3,036
Legal expenses charged to customers	2,884	4,698
Other income	9,578	8,098
Total	**69,224**	**72,291**

With reference to item 200 "Other operating expense and income", the costs related to revenues falling within the scope of application of the international accounting standard IFRS 15 "Revenue from Contracts with Customers" amount to EUR 4,323 thousand. IFRS15-related revenues amount to EUR 19,565 thousand and include EUR 11,129 thousand worth of point-in-time revenues and EUR 8,436 thousand worth of over time revenues.

SECTION 15

PROFITS (LOSSES) ON EQUITY INVESTMENTS – ITEM 220

15.1 Profits (Losses) on investments in associates and companies subject to joint control: breakdown

P&L items/Amounts	Total 31/01/2020	Total 31/12/2018
A. Income	9,765	2,299
1. Revaluations	-	-
2. Gains on disposal	9,765	2,299
3. Write-backs	-	-
4. Other income	-	-
B. Expenses	(4,518)	(17,213)
1. Write-downs	-	-
2. Impairment losses	(4,518)	(17,213)
3. Losses on disposal	-	-
4. Other expenses	-	-
Net Profit (Loss)	5,247	(14,914)

The details and rationale of impairments carried out on equity investments in Group companies are described in Part B of the Explanatory Notes, Section 10, Assets, under item "Equity investments".

SECTION 18

PROFITS (LOSSES) ON DISPOSAL OF INVESTMENTS – ITEM 250

18.1 Profits (losses) on disposal of investments: breakdown

P&L items/Amounts	Total 31/01/2020	Total 31/12/2018
A. Real estate	502	2,656
- Gains on disposal	502	2,683
- Losses on disposal	-	(27)
B. Other assets	-	51,309
- Gains on disposal	-	51,309
- Losses on disposal	-	-
Net Profit (Loss)	502	53,965

SECTION 19

TAXES ON INCOME FROM CONTINUING OPERATIONS – ITEM 270

19.1 Taxes on income from continuing operations: breakdown

Items/Amounts	31/01/2020	31/12/2018
1. Current tax expense (-)	(2,549)	1,539
2. Adjustments to current tax expense of prior years (+/-)	(13)	(276)
3. Reductions in current tax expense for the year (+)	-	-
3. *bis* Reductions in current tax expense for the year due to tax credit under Law 214/2011 (+)	62,630	77,429
4. Changes in deferred tax assets (+/-)	(76,037)	(67,608)
5. Changes in deferred tax liabilities (+/-)	(243)	6,744
6. Tax expense for the year (-) (-1+/-2+3+3*bis*+/-4+/-5)	(16,335)	17,828

19.2 Reconciliation of theoretical and actual tax charges

The overall tax impact on pre-tax profit (tax rate) calculated with reference to items in the Income Statement as at 31 January 2020 (Item 270/ Item 260) is close to 2%.

Despite the loss for the period, the accrued IRES tax receivable is negative, as it was weighed down by the prudential decision not to recognise an overall amount of EUR 256.5 mln in IRES Deferred Tax Assets.

Taking into account these deferred tax assets not recognised, the tax rate would be 29%. In this case, it is noted that the reference tax rate of 27.5% on the operating loss should generate a credit of the same proportion but the taxable amount is significantly reduced by the ACE (*Aiuto alla Crescita Economica*, aid for economic growth) tax deduction.

Due to its specific nature and a different tax base definition with respect to Item 260 (see Section 10 of the "Assets"), IRAP for the period was affected by a negative tax base which, unlike the IRES tax, cannot be carried forward as a tax credit in the following years. Due to the provisions of Law no. 83/2015, value adjustments on receivables from customers are now fully deductible from IRAP tax in the period of recognition.

SECTION 21

OTHER INFORMATION

Disclosure regarding the transparency of public funding required by article 1, paragraph 125 of Law no. 124/2017

Pursuant to article 1, paragraph 125 of Law no. 124/2017, from 01.01.2019 to 31.01.2020, Banca Carige collected the following public contributions granted by Italian entities:

	Amount 31/01/2020	Amount 31/12/2018
1. Contribution incentives	94	286
2. Contribution for training	550	748
Total	644	1,034

Part D

COMPREHENSIVE INCOME

STATEMENT OF COMPREHENSIVE INCOME

		31.01.2020	2018
10.	**Net Profit (Loss)**	**(850,470)**	**(279,784)**
	Other comprehensive income not reversed to profit or loss		
20.	**Equity instruments at fair value through other comprehensive income**	1,057	324
	a) changes in fair value	1,057	324
	b) transfers to other comprehensive income		
30.	**Financial liabilities at fair value through profit or loss (changes in the credit rating):**		-
	a) changes in fair value		-
	b) transfers to other comprehensive income		-
40.	**Hedging of equity instruments at fair value through other comprehensive income**		-
	a) changes in fair value (hedged instrument)		-
	a) changes in fair value (hedging instrument)		-
50.	**Property and equipment**		-
60.	**Intangible assets**		-
70.	**Defined benefit plans**	(3,669)	1,846
80	**Non-current assets and disposal groups of assets held for sale**		-
90	**Share of valuation reserves of equity investments valued at equity**		-
100.	**Income taxes relating to other comprehensive income not reversed to profit or loss**	1,452	(549)
	Other comprehensive income reversed to profit or loss		
110.	**Hedging of investments in foreign operations:**		-
	a) changes in fair value		-
	b) reversal to profit and loss		-
	c) other changes		-
120.	**Exchange differences:**		-
	a) changes in fair value		-
	b) reversal to profit and loss		-
	c) other changes		-
130.	**Cash flow hedges**	12,456	22,284
	a) changes in fair value		-
	b) reversal to profit and loss	12,456	22,284
	c) other changes		-
140.	**Hedging instruments (non-designated items)**		-
	a) changes in fair value		-
	b) reversal to profit and loss		-
	c) other changes		-
150.	**Financial assets (other than equity instruments) measured at fair value through other comprehensive income**	2,878	(4,295)
	a) changes in fair value	2,598	(4,649)
	b) reversal to profit and loss	280	354
	- impairment losses	(7)	40
	- gains (losses) from disposal	287	314
	c) other changes		-
160.	**Non-current assets and disposal groups held for sale:**		-
	a) changes in fair value		-
	b) reversal to profit and loss		-
	c) other changes		-
170.	**Share of valuation reserves of equity investments valued at equity:**		-
	a) changes in fair value		-
	b) reversal to profit and loss		-
	- impairment losses		-
	- gains (losses) from disposal		-
	c) other changes		-
180	**Income taxes relating to items reversed to profit or loss**	(7,576)	(5,948)
190.	**Total other comprehensive income**	**12,722**	**13,662**
200.	**Total comprehensive income (items 10+190)**	**(837,748)**	**(266,122)**

Part E

INFORMATION ON RISKS AND RISK HEDGING POLICIES

In this part of the Explanatory Notes, the quantitative information provided on risks refers to the Parent Company Banca Carige. Unless otherwise specified, for qualitative information on risk management and monitoring procedures, please see the corresponding Part E of the consolidated Explanatory Notes.

SECTION 1 – CREDIT RISK

Qualitative Information

1. General aspects

The lending proposition of the Parent Company is mainly targeted at household and corporate customers in the higher-potential geographical areas and business segments.

The Parent Company pursues the policy of consolidating its current market leadership position through actions aimed at increasing the level of penetration on current customers, mainly via cross-selling, in any event without neglecting new business initiatives. Growth-boosting activities are focused on households, small market players and mi-corporate customers in the footprint areas.

The main guidelines for credit policies comprise:

- credit risk mitigation, to be pursued through the selection of customers during the loan granting phase and the monitoring of loan impairment dynamics to minimise the generation of new non-performing loans;
- remixing of the loan book in accordance with the prospects for growth in the markets of operation;
- mitigation of concentration risk for loans to single-name customers or customer groups;
- simplification of the range of credit products offered.

2. Credit risk management policies

2.1 Organisational aspects

The lending process provides for decision-making decentralisation within the scope of the decision-making powers defined by the Parent Company’s Board of Directors. Credit facility proposals are normally prepared by bank branches and advisory teams, then submitted for approval by the authorised decision-making bodies -both “peripheral” and “central”- on the basis of qualitative and quantitative aspects of the credit facilities and expected loss assigned to the borrower for rated segments. Subsidiary banks act within the limits of their powers and restrictions as established by the Parent Company, through specific directives issued in accordance with Group Regulations under the existing statutory framework.

2.2 Management, measurement and control systems

In relation to decision-making decentralisation, central organisational units have been assigned the task of verifying that assumed risk levels comply with the strategic policies formulated by the Boards of Directors, with regard to counterparty credit ratings and in terms of formal compliance with internal and external codes of conduct.

The Carige Group credit risk measurement, management and monitoring process involves:

- Credit Risk Management, aimed at the strategic governance of the Group's lending activities, through portfolio quality monitoring based on the performance analysis of risk indicators from rating sources (PD, LGD and EAD) and other aspects of interest, with accurate control of compliance with the limits required by supervisory regulations for risk concentration and capital adequacy with respect to credit risk taken;
- activities of an operational nature, to monitor the quality of loans disbursed. Specifically, a tool for the operational monitoring of credit is in place and allows for the various areas of control activities to be combined with risk indicators developed according to the IRB approach, with a view to improving monitoring efficiency and managing credit with an approach ever more consistent with customer risk profiles. To this end, the monitoring process was strengthened by defining final deadlines for the solution of credit positions showing major performance irregularities, after which, failing normalisation, they are classified as non-performing.

These activities feed into a reporting system to be used by the various company units responsible for monitoring Group credit risk.

Internal rating models were developed by the Parent Company based on historical data for the Retail segment (Consumers, Small market players and Small Businesses) and the Corporate segment (SMEs and LARGE corporate).

Banca Carige also implemented models for determining probability of default (PD), loss in the event of insolvency (Loss given default – LGD), exposure in the event of insolvency (Exposure at default – EAD), at a consolidated level. The information sources used to estimate the probability of default (PD) pertain to three main areas of analysis that are used in varying degrees for the assessment of the segment by bank branches: financial information (financial statement data), performance-related information (in-house data and Central Credit Register data) and customer records. With regard to the SME and Large Corporate segments, the statistical rating override procedure makes it possible to take account of significant data for the purpose of correct customer classification.

Expected Loss (the product of PD, LGD and EAD) is the parameter used to determine the decision-making route for loan applications in relation to borrowers from the retail segment (Households, Small market players and Small Businesses) and the Corporate segment (SMEs and Large Corporate).

Risk parameters (PD and LGD) are recalibrated to reflect the most recent risk developments in the Group's loan book.

As part of stress testing and the ICAAP process, the Banca Carige Group has adopted a portfolio model that complements the internal rating model in use to assess the Pillar 2 capital requirement. In particular, the model is based on the alignment of the econometric model with the methodology used by the ECB for Macroprudential Supervision purposes: Autoregressive Distributed Lag Model with bayesian model average based on a breakdown of the loan portfolio in geo-sectoral clusters.
Finally, the Banca Carige Group carries out stress tests aimed at identifying risk limits to monitor credit risk and ensure that strategic objectives are achieved.

2.3 Measurement methods for expected losses

Banca Carige measures expected losses on financial assets through the individual assessments carried out by analysts of the units in charge or by using risk parameters developed as part of the internal rating system.
The banks of the Carige Group assess credit exposures on an individual rather than collective basis, in compliance with the following criteria:

- individual assessment: exposures are classified as "Bad loans" and "Unlikely-to-pay exposures", as defined by the Bank of Italy's supervisory regulations, if the credit exposure meets at least one of the following requirements:
  - the exposure exceeds a materiality threshold (EUR 250,000);
  - although it does not exceed the above threshold, the exposure was previously assessed on an individual basis (when objective evidence of long-term impairment persists, it is therefore not possible to switch from individual to collective assessment);
  - regardless of the level of exposure, the position is subject to bankruptcy proceedings (this only applies to exposures classified as bad loans);
- collective assessment: exposures not subject to individual assessment.

Losses are determined using an “expected loss” approach and the methodology used for calculation depends on the classification of exposures into “stages” based on the deterioration of credit risk since initial recognition.
The classification of financial instruments into three stages is reflective of a staged approach to credit quality; the stages are as follows:

- Stage 1: financial instruments with no significant increases in credit risk since initial recognition;
- Stage 2: financial instruments that have undergone significant increases in credit risk since initial recognition, but that do not present objective evidence of impairment;
- Stage 3: impaired financial assets for which there is objective evidence of credit impairment as at the reporting date;

In compliance with the principle, the assessment of significant changes in credit risk is based on qualitative and quantitative information.

In order to classify credit exposures into the different stages, the banks of the Carige Group apply the following criteria:

- absolute criteria for classification in stage 2 (30-day "past due" reports, forborne exposures, performance monitoring indicators);
- relative criteria for classification in stage 2 (assessment of the materiality of the increase in credit risk at each reporting date with respect to the date of initial recognition);
- definition of Default for classification in stage 3.

Under IFRS 9, an entity may assume that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. As a low risk example, the standard suggests that "investment grade" rating assigned by external rating agencies might be an indicator for “low credit risk”. However, the standard specifies that a counterparty is not required to be externally rated to be considered to have low credit risk. Banca Carige considers it consistent to adopt this option solely for rated securities, assigning stage 1 to all securities that, as at the date of assessment, have an issuance (or underwriter) rating included in the investment grade (credit rating classes assigned by the main rating agencies to debt securities range from very good (“AAA”) to good ("BBB")), in line with the provisions of paragraph B5.5.23 of the Annex to EC Regulation no. 2067/2016, which incorporates IFRS 9.

Moreover, IFRS 9 makes explicit reference to the case in which an exposure shows a delay in the fulfilment of contractual obligations as an example of a possible indicator for classification in stage 2, given the deterioration of the account relationship.

An entity can rebut this presumption when it has reasonable and supportable information available that demonstrates that even if contractual payments become more than 30 days past due, this does not represent a significant increase in the credit risk of a financial instrument but depends on other factors (e.g. type of counterparty). Currently, in the absence of analyses to verify the risk profile of the type of exposures and in compliance with a prudential principle, Banca Carige maintains this criterion as a variable for the classification of positions in stage 2.

For this purpose, the Bank considers the number of past due days associated with the individual accounts which is used for FINREP reporting purposes, and adopts absolute materiality thresholds for past due individual positions of EUR 100 for Retail exposures and 500 for Corporate and other remaining exposures (residual class).
The definition of default used to calculate expected losses is consistent with the definition of default used internally for “credit risk management” purposes on the basis of the rebuttable presumption that default does not occur later than when a financial asset is 90 days past due.
At each reporting date, the loss allowance for a financial instrument is measured at an amount equal to:

- lifetime expected credit losses if the credit risk on the financial instrument has increased significantly since initial recognition;
- 12-month expected credit losses after the reporting date if the credit risk on a financial instrument has not increased significantly since initial recognition.

To take account of the expected overall macroeconomic evolution in multiple scenarios, adjustments are made to PIT (point in time) PD and LGD parameters (which, compared to TTC (through the cycle) models, include recent information to reflect current conditions).

The forward-looking information is updated at least on an annual basis to reflect the current macroeconomic framework. The models were last updated in the second quarter of 2019 based on information available in March 2019 and were rolled out in September 2019.

Corrective adjustments are determined by using a model that combines PIT (point in time) PD and LGD with an estimate of the expected evolution of these parameters.

In line with the Group model, the estimate is determined on the basis of three macroeconomic evolution scenarios ("Baseline", "Benign" and "Adverse"), which are appropriately weighted according to their probability of occurrence as defined by the Group.

With reference to the latest update, the Group's weightings for the "Baseline", "Benign" and "Adverse" macroeconomic scenarios identified are:

Scenario	"Base" scenario	"Good" scenario	"Adverse" scenario
Probability of occurrence	55%	20%	25%

The scenarios differ by diverse degrees of impact on Italy's economic development and growth, as is synthetically represented by the GDP variable, which also drives the other macroeconomic indicators.

Shown in the table below is the overall change, over the 2019-2023 four-year period, in the estimates of some of the main macroeconomic variables used to correct future estimates of the parameters, based on forward looking scenarios:

Table 1 Figures from a leading economic research institute, supplier to the Bank.

Scenario (changes from 2019 to 2023)	"Base" scenario	"Good" scenario	"Adverse" scenario
Italy's GDP growth rate	+2.95%	+5.20%	+1.57%
Italy's unemployment rate	-2.82%	-23.27%	+14.37%
Non-residential property price index	+6.40%	+12.68%	+1.95%
Residential property price index	+6%	+10.55%	+1.55%

IMPACTS OF COVID-19

The foregoing changes, used to model the effects of the main macroeconomic variables on Expected Credit Loss (ECL), do not include the radical and unprecedented change in the current macroeconomic situation due to the outbreak of the COVID-19, which was characterised as a pandemic by the WHO on 11 March 2020.

The high degree of uncertainty about the evolution of the macroeconomic variables underlying the unpredictability of the pandemic impacts and their duration, and hence the unavailability of reliable forward-looking information, makes it particularly difficult to define the extent of the impacts on measurements. However, the temporary albeit severe extent of the recession, if prolonged, points to undeniable negative effects in the short-term, with impacts over the entire credit life cycle.

The most recent data processed by the Bank's leading economic research provider (16 April 2020) shows that the deep recession in 2020 will be followed by a recovery starting to take shape in the final part of the year, with consolidation expected in 2021.

Table 2 - Change in GDP, COVID-19 baseline scenario, by the Bank's leading economic research provider

Base scenario COVID-19	Changes in the year 2019-2023	Changes in the year 2020	Changes in the year 2021	Changes in the year 2022	Changes in the year 2023
Italy's GDP growth rate	-0.56%	-6.52%	3.33%	0.82%	0.87%
EMU's GDP growth rate	2.68%	-5.15%	3.40%	1.67%	1.50%

On the basis of the above data set, a sensitivity analysis was carried out to estimate the ECL resulting from the weighted application of the different updated scenarios ("Baseline" 50%, "Good" 20% and "Adverse" 25%) in addition to a fourth "Extreme Adverse" scenario (weighted at 5%) in light of the current extraordinary macroeconomic situation.

Table 3- Change in 2020 GDP due to COVID-19, by the Bank's leading economic research provider

Changes in the year 2019-2020	"Base" scenario	"Good" scenario	"Adverse" scenario	"Extreme Adverse" scenario
Weighting	*50%*	*20%*	*25%*	*5%*
Italy's GDP growth rate	-6.52%	-5.67%	-7.99%	-15.29%
EMU's GDP growth rate	-5.15%	-4.21%	-7.02%	-10.17%

Using updated forecasts of macroeconomic variables (that reflect a -5.65% weighted average change in the EMU Gross Domestic Product) when estimating forward looking information (e.g. residential and non-residential property price index, unemployment rate, consumer price index, etc.) results in an estimated impact of approximately +18% on the ECL of the overall collectively assessed portfolio compared to the same figure as at 31 January 2020, which was determined by applying the criteria described in the previous paragraph.

In the future estimate of the impacts of the pandemic, assessments should consider not only the negative effects but also the mitigating effects of the extensive measures adopted, and in the process of being adopted, by the Government (such as moratoria and State guarantees on loans) -aimed at supporting households and businesses to overcome the standstill imposed on all economic activities considered non-essential and the reduced circulation of people.

A further mitigating effect may derive from the flexibility granted by the regulators (ECB, ESMA, IFRS, ...) in the application of the rules for the transmission of countercyclical policies through the Banks, including, with particular reference to the assessments at issue, the provisions contained in the document *"Accounting implications of the COVID-19 outbreak on the calculation of expected credit losses in accordance with IFRS 9"* published by ESMA on 25 March 2020. In highlighting the recent guidelines issued by the supervisory bodies in the light of the extremely complex and volatile context characterised by contrasting effects and drives on the evolution of macro-economic variables, ESMA recommends that banks should attach greater importance to long-term outlooks and take into account the relief measures adopted by public authorities: *"[…]In this context, ESMA highlights the recent ECB supervisory measures taken in reaction to the coronavirus in this area (i.e. the recommendation that, given the current state of uncertainty linked to the COVID-19 outbreak, within the framework provided by IFRS, issuers give a greater weight to long-term stable outlook as evidenced by past experience and take into account the relief measures granted by public authorities – such as payment moratoria)."*

With a view to curbing the potential worsening of credit risks, further potential benefits could derive from government measures aimed at encouraging the disposal of NPEs.

2.4 Credit risk mitigation techniques

The Group's credit policy attaches utmost care to the selection of credit, projects financed and borrowers, as well as to the monitoring of customer relationship performance. Creditworthiness assessment is based on statistical indicators and qualitative information used to assess the borrower's capacity to generate financial resources in line with debt repayment.

Medium/long-term loans are mainly backed by mortgages and, if a more significant risk profile is identified, the credit facilities are backed by personal guarantees (standard and 'omnibus') and guarantees by loan-guarantee consortia.

Given that, in this context, personal guarantees and collaterals are acquired – as are deemed more appropriate for credit risk mitigation at any given time, considering the mortgage loans' share of the aggregate portfolio and in compliance with regulatory provisions – a value monitoring process for the assets pledged as collateral has been put in place.

More specifically, for a proper assessment of the extent of loan coverage for capital requirements calculation, the value of mortgaged property is subject to periodic revaluation based on statistical data obtained from a leading institute in real economy research.

The process further requires that a new appraisal should be carried out if there is a significant impairment in the fair value of the asset, with the aim of implementing the most suitable credit protection measures. A similar process is in place for leased real estate properties and securities pledged as collateral for loans to customers.

3. Non-performing exposures

New supervisory rules for non-performing financial assets have been effective since 2015. Three categories of non-performing loans are specified in the regulations: bad loans, unlikely-to-pay exposures, past due/overdrawn non-performing exposures, with consequent elimination of previous definitions of 'substandard', 'objective substandard' and 'restructured' exposures.

In 2017, the ECB published its Guidance to banks on Non-Performing Loans. The document clarifies supervisory expectations regarding the identification, management, measurement and derecognition of NPLs in the context of existing regulations, directives and guidelines.

Classification of non-performing assets is based on an ongoing process, which involves monitoring activities for prompt identification of any irregularities in relationship management, changes in rating scores over time and any emerging events pointing to a potential deterioration of the account. Moreover, on behalf of all subsidiary banks, the Parent Company has introduced operating

procedures for the automated flagging of positions with irregular loan repayment and IT monitoring tools to make credit management consistent with the risk profiles identified.
Measures triggered by the aforementioned monitoring activities are differentiated according to the degree of anomaly identified and comply with regulations approved by the Boards of Directors of all Carige Group banks.
Receivables that were classified -not automatically- as non-performing are reclassified to performing status subject to a positive assessment of the financial capacity of customers who, having overcome the difficulties that led to non-performing classification, are considered to be fully capable to fulfil their commitments with the Bank.

3.1 Management strategies and policies

The strategies adopted by the Carige Group for managing non-performing exposures were specifically defined in compliance with the current regulatory framework and the expectations of the competent supervisory authorities with the clear objective of significantly reducing the overall non-performing loan portfolio to a level that is consistent with that observed in comparable European financial institutions.
The 2019-2023 Strategic Plan, the latest update of which was approved by the Temporary Administrators on 26 July 2019, structurally reduces the Group's risk profile. More specifically, in November 2019 the Group Banks finalised the derisking transaction, which led Banca Carige to dispose of non-performing loans for a gross amount of approximately EUR 2,651 mln as at 30 June 2019 at an overall sale price of approximately EUR 1,005 mln (“project Hydra”). The provisions set forth in the binding offer for the disposal of NPEs were gradually reflected -in line with the criteria provided by the internal impairment models- in the assessment of the loan portfolios at issue within the framework of the inclusion of the forecast of disposal scenarios. For further information, reference should be made to "Section 2 - Preparation criteria", paragraph “Non-Performing Loan portfolio disposal to AMCO S.p.A.” of the Explanatory Notes.

3.2 Write-offs

Included in the write-off policies adopted by the Bank were (i) unilateral initiatives not linked to an explicit waiver of the Bank's claims against the customers and (ii) initiatives resulting from specific agreements between the Bank and its customers/borrowers which, instead, did result in the full or partial waiver of the Bank’s claims against the customers.
With specific reference to the latter, under its ordinary course of business, the NPE Unit's task is to negotiate restructuring agreements with customers -including when transactions are syndicated with other banking institutions- by using the legal instruments made available by the Bankruptcy Law (e.g. Recovery Plans pursuant to Art. 67 of the Bankruptcy Law, Restructuring Agreements pursuant to Art. 162 of the Bankruptcy Law), which sometimes require the Bank to partially (or fully) waive its credit claims in terms of principal and/or interest (on regular or late repayment). These agreements are entered into by the Bank, often leveraging the specialist support of specialised financial and industrial advisors, in order to guarantee the requalification of the customer's financial profile, the broadest protection of the Bank's interest, and the mitigation of any “reputational” risks to which the Bank would be exposed and which are often linked to "social" and "geographical" factors.
From an operational perspective, the process for derecognising an exposure from the accounts is a joint effort involving the operating units in charge of negotiating the restructuring agreements described above (i.e. the NPE Unit) and the organisational units in charge of the Bank's accounting

and financial statements, in accordance with the accounting standards adopted by the Bank and current regulations in force.

3.3 Purchased or originated credit-impaired financial assets

According to the international accounting standard IFRS 9, Purchased or Originated Credit Impaired Assets (POCI) are receivables which are credit-impaired at initial recognition because their credit risk is high. At the reporting date, an entity shall recognise the cumulative changes in lifetime expected credit losses for these assets since initial recognition as a loss allowance (according to the Lifetime Expected Credit Loss approach).

The expected credit losses initially recognised and included in the carrying amount of the instrument are periodically revised on the basis of the processes described in the previous paragraphs.

The expected credit losses initially recognised and included in the carrying amount of the instrument are periodically revised on the basis of the processes described in the previous paragraphs. As these are non-performing loans, the stage to which they are assigned is necessarily stage 3 from initial recognition, without prejudice to the possibility of being migrated to stage 2 during their life cycle, if the asset is no longer credit-impaired, based on credit risk analysis.

The Carige Group classifies as POCI an impaired financial instrument purchased from third parties or new credit facilities granted to a borrower who is already credit-impaired.

4. Renegotiated financial assets and forborne exposures

In order to guarantee consistency of credit exposure classification at European level, the EBA issued a directive on "Non-performing exposures", providing the definition of what is known as "Forbearance".

Forbearance measures (“concessions”) refer to the modification of the original contract terms and conditions, or total or partial refinancing of an exposure, conceded to a debtor for the exclusive reason of addressing, or preventing, financial difficulties that could have a negative effect on the debtor's ability to fulfil his/her contractual obligations as originally undertaken, and that would not have been conceded to another debtor with a similar risk profile but not in financial difficulty.

The enforcement of a guarantee for the purpose of payment whenever such enforcement involves a new concession is also considered a modification.

Concessions must be identified at the level of single lines of credit (forborne exposures) and can refer to exposures of debtors that are classified as either performing or non-performing.

In any case, renegotiated exposures must not be considered forborne when the debtor is not in financial difficulty.

By way of example, forbearance includes measures conceded on non-performing exposures (or exposures that would have become non-performing in the absence of forbearance measures), refinancing used by customers for paying back other exposures that are already classified as non-performing, contractual modifications that involve a total or partial cancellation of debt; by definition, restructured credit is included in forborne exposures.

The Banca Carige Group has defined the process for managing positions that are subject to forbearance, by introducing the definition of forbearance and also by adopting a minimum rating for all counterparties belonging to such segment, with a consequent increase in the coverage ratio.

Quantitative Information

A. CREDIT QUALITY

A.1 NON-PERFORMING AND PERFORMING LOANS: AMOUNTS, VALUE ADJUSTMENTS, CHANGES AND BREAKDOWN BY BUSINESS

A.1.1 Breakdown of credit exposures by portfolio and credit quality (book values)

Portfolio / Quality		Bad loans	Unlikely-to-pay exposures	Non-performing past due exposures	Performing past due exposures	Other performing exposures	Total
1. Financial assets at amortised cost		68,148	542,949	19,871	271,407	17,311,912	18,214,287
2. Financial assets at fair value through other comprehensive income		-	-	-	-	495,466	495,466
3. Financial assets measured at fair value through profit and loss		-	-	-	-	-	-
4. Other financial assets mandatorily at fair value		-	39,799	-	-	112,756	152,555
5. Financial assets held for sale and discontinued operations		-	-	-	-	-	-
Total	31/01/2020	68,148	582,748	19,871	271,407	17,920,133	18,862,308
Total	31/12/2018	295,300	1,583,990	32,328	261,544	15,582,116	17,755,278

As at 31 January 2020, forborne (performing and non-performing) exposures totalled EUR 539,364 thousand (net of value adjustments), of which EUR 526,561 thousand attributable to the Loans to customers portfolio and EUR 12,803 thousand to 'Due to banks'.

A.1.2 Breakdown of credit exposures by portfolios and credit quality (gross and net values)

Portfolio / Quality	Non-performing				Performing			Total (net exposure)
	Gross exposure	Overall value adjustments	Net exposure	Overall partial write-offs*	Gross exposure	Overall value adjustments	Net exposure	
1. Financial assets at amortised cost	1,132,547	501,579	630,968	21,298	17,669,793	86,474	17,583,318	18,214,287
2. Financial assets at fair value through other comprehensive income	-	-	-	-	495,502	36	495,466	495,466
3. Financial assets measured at fair value through profit and loss	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily at fair value	105,877	66,078	39,799	-	X	X	112,756	152,555
5. Financial assets held for sale and discontinued operations	-	-	-	-	-	-	-	-
Total 31/01/2020	1,238,424	567,657	670,767	21,298	18,165,294	86,510	18,191,540	18,862,308
Total 31/12/2018	3,521,156	1,609,538	1,911,618	115,751	15,832,235	109,085	15,843,660	17,755,278

Portfolio / Quality	Markedly poor credit quality assets		Other assets
	Accumulated capital losses	Net exposure	Net exposure
1. Financial assets held for trading	1	7	42,975
2. Hedging derivatives	-	-	9,087
Total 31/01/2020	1	7	52,062
Total 31/12/2018	3	2	377,248

A.1.3 Breakdown of financial assets by past-due buckets (carrying value)

Portfolios/Risk stage		Stage 1			Stage 2			Stage 3		
		1 to 30 days	Over 30 to 90 days	Over 90 days	1 to 30 days	Over 30 to 90 days	Over 90 days	1 to 30 days	Over 30 to 90 days	Over 90 days
1. Financial assets at amortised cost		21,561	6,472	939	11,540	192,683	38,212	767	84,036	348,117
2. Financial assets at fair value through other comprehensive income		-	-	-	-	-	-	-	-	-
3. Financial assets held for sale and discontinued operations		-	-	-	-	-	-	-	-	-
Total	31/01/2020	21,561	6,472	939	11,540	192,683	38,212	767	84,036	348,117
Total	31/12/2018	34,653	10,958	6,950	21,694	78,973	108,316	2,748	27,812	1,083,156

A.1.4 Financial assets, loan commitments and financial guarantees given: changes in overall impairments and provisions

p.1

Sources/Risk stages	Overall value adjustments									
	Financial assets classified in stage 1					Financial assets classified in stage 2				
	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	Financial assets held for sale and discontinued operations	of which: individual impairment	of which: collective impairment	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	Financial assets held for sale and discontinued operations	of which: individual impairment	of which: collective impairment
Opening balance: total write-downs	**29,877**	**47**	**-**	**-**	**29,924**	**79,162**	**-**	**-**	**-**	**79,162**
Increases in purchased or originated financial assets	-	-	-	-	-	-	-	-	-	-
Reversals different from write-offs	(15,764)	-	-	-	(15,764)	(18,383)	-	-	-	(18,383)
Net losses/recoveries on credit impairment (+/-)	8,482	(11)	-	-	8,471	5,259	-	-	-	5,259
Contractual modifications not resulting in derecognition	-	-	-	-	-	49	-	-	-	49
Changes in the estimation methodology	-	-	-	-	-	-	-	-	-	-
Write-offs not recognised directly in profit or loss	(2,198)	-	-	-	(2,198)	(10)	-	-	-	(10)
Other changes	-	-	-	-	-	-	-	-	-	-
Closing balance: total write-downs	**20,397**	**36**	**-**	**-**	**20,433**	**66,077**	**-**	**-**	**-**	**66,077**
Recoveries from financial assets subject to write-off	-	-	-	-	-	-	-	-	-	-
Write-offs directly recognised in profit or loss	(995)	-	-	-	(995)	(7)	-	-	-	(7)

A.1.4 Financial assets, loan commitments and financial guarantees given: changes in overall impairments and provisions

p.2

Sources/Risk stages	Overall value adjustments						Total provisions on loans commitments and financial guarantees given			Total
	Assets belonging to third stage					of which: purchased or originated credit-impaired financial assets				
	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	Financial assets held for sale and discontinued operations	of which: individual impairment	of which: collective impairment		Stage 1	Stage 2	Stage 3	
Opening balance: total write-downs	1,552,534	-	-	1,344,560	207,974	-	2,282	3,984	27,897	1,695,783
Increases in purchased or originated financial assets	-	-	-	-	-	-	-	-	-	-
Reversals different from write-offs	(1,364,180)	-	-	(1,089,746)	(274,434)	-	-	-	-	(1,398,327)
Net losses/recoveries on credit impairment (+/-)	466,872	-	-	328,086	138,786	-	(593)	(1,743)	(7,285)	470,981
Contractual modifications not resulting in derecognition	(61)	-	-	(56)	(5)	-	-	-	-	(12)
Changes in the estimation methodology	-	-	-	-	-	-	-	-	-	-
Write-offs not recognised directly in profit or loss	(153,586)	-	-	(149,500)	(4,086)	-	-	-	-	(155,794)
Other changes	-	-	-	-	-	-	-	-	-	-
Closing balance: total write-downs	501,579	-	-	433,344	68,235	-	1,689	2,241	20,612	612,631
Recoveries from financial assets subject to write-off	1,707	-	-	1,707	-	-	-	-	-	-
Write-offs directly recognised in profit or loss	(34,690)	-	-	(32,250)	(2,440)	-	-	-	-	-

A.1.5 Financial assets, loan commitments and financial guarantees given: transfers between risk stages (gross values and nominal values)

Portfolios/Risk stage		Gross exposure/Nominal value					
		Transfers between Stage 1 and 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3	
		From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
1. Financial assets at amortised cost		922,363	688,402	196,758	38,988	57,973	20,797
2. Financial assets at fair value through other comprehensive income		-	-	-	-	-	-
3. Financial assets held for sale and discontinued operations		-	-	-	-	-	-
4. Loan commitments and financial guarantees given		220,592	69,028	558	209	5,534	1,298
Total	31/01/2020	1,142,955	757,430	197,316	39,197	63,507	22,095
Total	31/12/2018	725,059	591,056	237,319	62,442	164,837	21,719

A.1.6 On- and off-balance sheet credit exposures to banks: gross and net values

Type of exposure/Amount	Gross exposure		Overall value adjustments and provisions	Net exposure	Overall partial write-offs*
	Non-performing	Performing			
A. On-balance-sheet exposures					
a) Bad loans	-	X	-	-	-
- of which: forborne	-	X	-	-	-
b) Unlikely-to-pay exposures	12,803	X	3,347	9,456	-
- of which: forborne	12,803	X	3,347	9,456	-
c) Non-performing past due exposures	-	X	-	-	-
- of which: forborne	-	X	-	-	-
d) Performing past due exposures	X	3	-	3	-
- of which: forborne	X	-	-	-	-
e) Other performing exposures	X	4,291,631	383	4,291,248	-
- of which: forborne	X	-	-	-	-
Total (A)	**12,803**	**4,291,634**	**3,730**	**4,300,707**	**-**
B. Off-balance-sheet credit exposures					
a) Non-performing	-	X	-	-	-
b) Performing	X	46,843	-	46,843	-
Total (B)	**-**	**46,843**	**-**	**46,843**	**-**
Total (A+B)	**12,803**	**4,338,477**	**3,730**	**4,347,550**	**-**

A.1.7 Prudential consolidation - On- and off-balance sheet credit exposures to customers: gross and net values

Type of exposure/Amount	Gross exposure		Overall value adjustments and provisions	Net exposure	Overall partial write-offs*
	Non-performing	Performing			
A. On-balance-sheet exposures					
a) Bad loans	276,937	X	208,789	68,148	16,597
- of which: forborne	35,630	X	24,785	10,845	432
b) Unlikely-to-pay exposures	924,422	X	351,129	573,293	4,625
- of which: forborne	189,368	X	59,114	130,254	801
c) Non-performing past due exposures	24,262	X	4,391	19,871	58
- of which: forborne	7	X	1	6	-
d) Performing past due exposures	X	286,192	14,788	271,404	8
- of which: forborne	X	42,513	3,649	38,864	-
e) Other performing exposures	X	13,700,337	71,340	13,628,997	10
- of which: forborne	X	259,043	11,024	248,019	-
Total (A)	(1,225,621)	(13,986,529)	650,437	14,561,713	21,298
B. Off-balance-sheet credit exposures					
a) Non-performing	275,509	X	20,611	254,898	-
b) Performing	X	3,722,952	3,929	3,719,023	-
Total (B)	275,509	3,722,952	24,540	3,973,921	-
Total (A+B)	1,501,130	17,709,481	674,977	18,535,634	21,298

A.1.8 On-balance sheet exposures to banks: changes in gross non-performing exposures

Description/category	Bad loans	Unlikely-to-pay exposures	Non-performing past due exposures
A. Opening balance (gross amount)	**-**	**12,781**	**-**
- of which: sold but not derecognised	-	-	-
B. Increases	**-**	**86**	**-**
B.1 inflows from performing exposures	-	-	-
B.2 inflows from purchased or originated credit-impaired financial assets	-	-	-
B.3 inflows from other categories of non-performing exposures	-	-	-
B.4 contractual modifications not resulting in derecognition	-	-	-
B.5 other increases	-	86	-
C. Decreases	**-**	**64**	**-**
C.1 outflows to performing exposures	-	-	-
C.2 write-offs	-	-	-
C.3 collections	-	64	-
C.4 gains on disposal	-	-	-
C.5 losses on disposal	-	-	-
C.6 outflows to other non-performing exposures	-	-	-
C.7 contractual modifications not resulting in derecognition	-	-	-
C.8 other decreases	-	-	-
D. Closing balance (gross amounts)	**-**	**12,803**	**-**
- of which: sold but not derecognised	-	-	-

A.1.8 *bis* Prudential consolidation - On-balance sheet credit exposures to banks: changes in gross forborne exposures by credit quality

Description/Quality	Forborne: non-performing exposures	Forborne: performing exposures
A. Opening balance (gross amount)	12,781	-
- of which: sold but not derecognised	-	-
B. Increases	86	-
B.1 inflows from non-forborne performing exposures	-	-
B.2 inflows from forborne performing exposures	-	X
B.3 inflows from forborne non-performing exposures	X	-
B.4 inflows from non-forborne performing exposures	-	-
B.5 other increases	86	-
C. Decreases	64	-
C.1 outflows to non-forborne performing exposures	X	-
C.2 outflows to forborne performing exposures	-	X
C.3 outflows to forborne non-performing exposures	X	-
C.4 write-offs	-	-
C.5 collections	64	-
C.6 gains on disposal	-	-
C.7 losses on disposal	-	-
C.8 other decreases	-	-
D. Closing balance (gross amounts)	12,803	-
- of which: sold but not derecognised	-	-

A.1.9 On-balance sheet credit exposures to customers: changes in gross non-performing exposures

Description/category	Bad loans	Unlikely-to-pay exposures	Non-performing past due exposures
A. Opening balance (gross amount)	908,676	2,560,285	39,413
- of which: sold but not derecognised	13,854	29,265	5,151
B. Increases	416,467	408,661	34,897
B.1 inflows from performing exposures	14,569	237,337	30,808
B.2 inflows from purchased or originated credit-impaired financial	-	-	-
B.3 inflows from other categories of non-performing exposures	371,324	23,491	265
B.4 contractual modifications not resulting in derecognition	12	363	20
B.5 other increases	30,562	147,470	3,804
C. Decreases	1,048,206	2,044,524	50,048
C.1 outflows to performing exposures	16	56,240	8,713
C.2 write-offs	12,587	174,046	5
C.3 collections	34,094	243,074	15,446
C.4 gains on disposal	223,609	577,379	49
C.5 losses on disposal	59,846	60,335	2
C.6 outflows to other non-performing exposures	-	369,304	25,778
C.7 contractual modifications not resulting in derecognition	-	605	1
C.8 other decreases	718,054	563,541	54
D. Closing balance (gross amounts)	276,937	924,422	24,262
- of which: sold but not derecognised	13,931	18,509	596

A.1.9 *bis* On-balance sheet credit exposures to banks: changes in gross forborne exposures by credit quality

Description/Quality	Forborne: non-performing exposures	Forborne: performing exposures
A. Opening balance (gross amount)	1,426,631	584,524
- of which: sold but not derecognised	15,019	19,398
B. Increases	163,807	173,346
B.1 inflows from non-forborne performing exposures	7,239	106,256
B.2 inflows from forborne performing exposures	117,147	X
B.3 inflows from forborne non-performing exposures	X	28,992
B.4 inflows from non-forborne performing exposures	14,972	1,373
B.4 other increases	24,449	36,725
C. Decreases	1,365,433	456,314
C.1 outflows to non-forborne performing exposures	-	287,545
C.2 outflows to forborne performing exposures	X	-
C.3 outflows to forborne non-performing exposures	-	X
C.4 write-offs	X	125
C.5 collections	85,412	36,632
C.6 gains on disposal	70,893	9
C.7 losses on disposal	21,429	6
C.8 other decreases	1,133,904	14,850
D. Closing balance (gross amounts)	225,005	301,556
- of which: sold but not derecognised	7,622	22,922

A.1.10 On-balance-sheet non-performing exposures to banks: changes in overall write-downs

Description/category	Bad loans		Unlikely-to-pay exposures		Non-performing past due exposures	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Opening balance: total write-	**-**	**-**	**3,326**	**3,326**	**-**	**-**
- of which: sold but not derecognised	-	-	3,326	3,326	-	-
B. Increases	**-**	**-**	**22**	**22**	**-**	**-**
B.1 write-downs of purchased or originated impaired financial assets	-	X	-	X	-	X
B.2 other write-downs	-	-	22	22	-	-
B.3 losses on disposal	-	-	-	-	-	-
B.4 inflows from other categories of non-performing exposures	-	-	-	-	-	-
B.5 contractual modifications not resulting in derecognition	-	X	-	X	-	X
B.6 other increases	-	-	-	-	-	-
C. Decreases	**-**	**-**	**(1)**	**(1)**	**-**	**-**
C.1 write-backs from valuation	-	-	-	-	-	-
C.2 write-backs from collection	-	-	-	-	-	-
C.3 gains on disposal	-	-	-	-	-	-
C.4 write-offs	-	-	-	-	-	-
C.5 outflows to other non-performing exposures	-	-	-	-	-	-
C.6 contractual modifications not resulting in derecognition	-	X	-	X	-	X
C.7 other decreases	-	-	(1)	(1)	-	-
D. Closing balance: total gross write-	-	-	3,347	3,347	-	-
- of which: sold but not derecognised	-	-	-	-	-	-

A.1.11 On-balance-sheet non-performing exposures to customers: changes in overall write-downs

Description/category	Bad loans		Unlikely-to-pay exposures		Non-performing past due exposures	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Opening balance: total write-downs	**613,376**	**69,184**	**985,751**	**501,386**	**7,086**	**7**
- of which: sold but not derecognised	7,705	320	7,299	4,434	1,021	-
B. Increases	**495,781**	**190,413**	**496,634**	**43,400**	**5,246**	**192**
B.1 write-downs of purchased or originated impaired financial assets	-	X	-	X	-	X
B.2 other write-downs	214,652	69,695	418,169	28,933	4,309	34
B.3 losses on disposal	61,216	19,880	60,335	1,549	2	-
B.4 inflows from other categories of non-performing exposures	217,748	100,747	3,461	2,947	102	2
B.5 contractual modifications not resulting in derecognition	-	X	131	X	-	X
B.6 other increases	2,165	91	14,538	9,971	833	156
C. Decreases	**900,368**	**234,812**	**1,131,256**	**485,672**	**7,941**	**198**
C.1 write-backs from valuation	64,175	14,160	59,219	15,968	703	2
C.2 write-backs from collection	6,405	611	13,995	6,914	1,463	-
C.3 gains on disposal	42,003	9,791	44,564	1,023	4	-
C.4 write-offs	12,587	789	174,046	24,014	5	-
C.5 outflows to other non-performing exposures	5	-	217,385	15	3,921	189
C.6 contractual modifications not resulting in derecognition	-	X	191	X	-	X
C.7 other decreases	775,193	209,461	621,856	437,738	1,845	7
D. Closing balance: total gross write-	**208,789**	**24,785**	**351,129**	**59,114**	**4,391**	**1**
- of which: sold but not derecognised	6,377	183	5,245	984	85	-

Item C.7 *"Other decreases"* includes the amount equal to the difference between the gross credit exposure and the sale price, with reference to the loans transferred during the year.

A.2 BREAKDOWN OF FINANCIAL ASSETS, COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES GIVEN, BY INTERNAL AND EXTERNAL RATINGS

The internal rating models allow for an evaluation of creditworthiness extended to the majority of exposures to Corporate and Retail customers. The Bank's loans are concentrated in such areas; as a result, only a partial share of the overall exposures are evaluated by rating agencies.
The two tables show the breakdown of on- and off-balance sheet exposures by internal and external rating classes. Exposures classified as bad, unlikely-to-pay and past due loans, were included amongst default exposures.

A.2.1 Breakdown of financial assets, loan commitments and financial guarantees given by external rating classes (gross amounts)

Exposures	External rating classes						No rating	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Financial assets at amortised cost	**2,875**	**257,967**	**1,687,376**	**-**	**51**	**564,700**	**16,289,369**	**18,802,338**
- Stage 1	2,875	257,966	1,687,354	-	51	564,697	13,377,649	15,890,592
- Stage 2	-	-	22	-	-	3	1,779,174	1,779,199
- Stage 3	-	1	-	-	-	-	1,132,546	1,132,547
B. Financial assets at fair value through other comprehensive income	**-**	**-**	**495,502**	**-**	**-**	**-**	**-**	**495,502**
- Stage 1	-	-	495,502	-	-	-	-	495,502
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
C. Financial assets held for sale and discontinued operations	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Stage 1	-	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
Total (A+B+C)	**2,875**	**257,967**	**2,182,878**	**-**	**51**	**564,700**	**16,289,369**	**19,297,840**
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	-	-
D. Loan commitments and financial guarantees given								
- Stage 1	(10)	(74)	(32,665)	(96,514)	(41)	(75,742)	(3,221,679)	(3,426,725)
- Stage 2	-	-	-	(3,532)	-	-	(295,034)	(298,566)
- Stage 3	-	-	-	-	(7,000)	-	(268,509)	(275,509)
Total (D)	**(10)**	**(74)**	**(32,665)**	**(100,046)**	**(7,041)**	**(75,742)**	**(3,785,222)**	**(4,000,800)**
Total (A+B+C)	**2,865**	**257,893**	**2,150,213**	**(100,046)**	**(6,990)**	**488,958**	**12,504,147**	**15,297,040**

Reconciliation of rating classes with Moody's external ratings:
Class 1: Aaa/Aa3; Class 2: A1/A3; Class 3: Baa1/Baa3; Class 4: Ba1/Ba3; Class 5: B1/B3; Class 6: lower than B3.
Intragroup exposures are classified in Class 6.

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

Exposures	Internal rating classes							
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	No rating	Total
A. Financial assets at amortised cost								
- Stage 1	650,604	3,535,429	4,190,171	509,442	302,140	579,330	6,123,476	15,890,592
- Stage 2	3,483	233,331	619,621	362,427	329,774	140,613	89,950	1,779,199
- Stage 3	-	-	-	-	-	-	1,132,547	1,132,547
B. Financial assets at fair value through other comprehensive income								
- Stage 1	-	-	495,502	-	-	-	-	495,502
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
C. Financial assets held for sale and discontinued operations								
- Stage 1	-	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
Total (A+B+C)	654,087	3,768,760	5,305,294	871,869	631,914	719,943	7,345,973	19,297,840
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	-	-
D. Commitments to disburse funds and financial guarantees given								
- Stage 1	(378,472)	(1,069,377)	(469,247)	(120,240)	(10,623)	(78,858)	(1,299,907)	(3,426,724)
- Stage 2	(294)	(54,729)	(104,158)	(74,989)	(9,757)	(9,006)	(45,633)	(298,566)
- Stage 3	-	-	-	-	-	-	(275,509)	(275,509)
Total (D)	(378,766)	(1,124,106)	(573,405)	(195,229)	(20,380)	(87,864)	(1,621,049)	(4,000,799)
Total (A+B+C)	275,321	2,644,654	4,731,889	676,640	611,534	632,079	5,724,924	15,297,041

Internal rating classes are shown in decreasing order of creditworthiness. Internal ratings are not used for calculation of prudential capital requirements. Intragroup exposures are classified in Class 6.

A.3 BREAKDOWN OF SECURED EXPOSURES BY TYPE OF GUARANTEE

A.3.1 Secured on-balance and off-balance sheet credit exposures to banks
p.1

	Gross exposure	Net exposure	Collateral (1)				Personal guarantees (2)	
							Credit derivatives	
								Other derivatives
			Property - Mortgages	Property - Finance leases	Securities	Other collateral	CLN	Central counterparties
1. Secured on-balance sheet credit exposures:	**185,851**	**182,383**	**-**	**-**	**172,928**	**-**	**-**	**-**
1.1 totally secured	173,048	172,928	-	-	172,928	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-
1.2 partially secured	12,803	9,455	-	-	-	-	-	-
- of which non-performing	12,803	9,455	-	-	-	-	-	-
2. Secured off-balance sheet credit exposures	**42,749**	**42,749**	**-**	**-**	**-**	**35,188**	**-**	**-**
2.1 totally secured	1,488	1,488	-	-	-	1,488	-	-
- of which non-performing	-	-	-	-	-	-	-	-
2.2 partially secured	41,261	41,261	-	-	-	33,700	-	-
- of which non-performing	-	-	-	-	-	-	-	-

A.3.1 Secured on-balance and off-balance sheet credit exposures to banks
p.2

	Personal guarantees (2)							Total (1)+(2)
	Credit derivatives			Signature loans				
	Other derivatives							
	Banks	Other financial companies	Other entities	Public administrations	Banks	Other companies assets	Other entities	
1. Secured on-balance sheet credit exposures:	**-**	**-**	**-**	**-**	**-**	**-**	**9,455**	**182,383**
1.1 totally secured	-	-	-	-	-	-	-	172,928
- of which non-performing	-	-	-	-	-	-	-	-
1.2 partially secured	-	-	-	-	-	-	9,455	9,455
- of which non-performing	-	-	-	-	-	-	9,455	9,455
2. Secured off-balance sheet credit exposures	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**35,188**
2.1 totally secured	-	-	-	-	-	-	-	1,488
- of which non-performing	-	-	-	-	-	-	-	-
2.2 partially secured	-	-	-	-	-	-	-	33,700
- of which non-performing	-	-	-	-	-	-	-	-

A.3.2 Secured on-balance and off-balance sheet credit exposures to customers
p.1

	Gross exposure	Net exposure	Collateral (1)				Personal guarantees (2)	
							Credit derivatives	
								Other derivatives
			Property - Mortgages	Property - Finance leases	Securities	Other collateral	CLN	Central counterparties
1. Secured on-balance sheet credit exposures:	**11,132,316**	**10,618,565**	**6,524,126**	**404,965**	**1,441,515**	**461,781**	**-**	**-**
1.1 totally secured	10,870,073	10,435,633	6,501,755	404,479	1,429,146	458,159	-	-
- of which non-performing	934,873	573,701	184,508	46,813	1,124	321,501	-	-
1.2 partially secured	262,243	182,932	22,371	486	12,369	3,622	-	-
- of which non-performing	88,076	10,870	2,819	-	673	3,622	-	-
2. Secured off-balance sheet credit exposures:	**938,651**	**930,484**	**30,512**	**602**	**38,907**	**140**	**-**	**-**
2.1 totally secured	837,634	830,198	30,512	602	34,216	140	-	-
- of which non-performing	44,954	39,770	953	36	5,658	-	-	-
2.2 partially secured	101,017	100,286	-	-	4,691	-	-	-
- of which non-performing	14,554	14,004	-	-	104	-	-	-

A.3.2 Secured on-balance and off-balance sheet credit exposures to customers
p.2

	Personal guarantees (2)							Total (1)+(2)
	Credit derivatives			Signature loans				
	Other derivatives							
	Banks	Other financial companies	Other entities	Public administrations	Banks	Other companies assets	Other entities	
1. Secured on-balance sheet credit exposures:	**-**	**-**	**-**	**519,262**	**221**	**118,437**	**1,076,102**	**10,546,409**
1.1 totally secured	-	-	-	517,991	221	98,457	1,011,420	10,421,628
- of which non-performing	-	-	-	-	29	2,803	14,352	571,130
1.2 partially secured	-	-	-	1,271	-	19,980	64,682	124,781
- of which non-performing	-	-	-	17	-	759	2,250	10,140
2. Secured off-balance sheet credit exposures:	**-**	**-**	**-**	**162**	**-**	**38,174**	**756,781**	**865,278**
2.1 totally secured	-	-	-	150	-	35,192	693,992	794,804
- of which non-performing	-	-	-	-	-	38	33,085	39,770
2.2 partially secured	-	-	-	12	-	2,982	62,789	70,474
- of which non-performing	-	-	-	-	-	83	11,088	11,275

In tables A.3.1 and A.3.2, the columns headed “Collateral” and “Personal guarantees” provide the “fair value” of the guarantees estimated as at the reporting date or, lacking such information, their contractual value. It is noted that both values cannot be greater than the carrying amount of the secured exposures, in line with the requirements of the 6th update of Bank of Italy's Circular no. 262.

B. BREAKDOWN AND CONCENTRATION OF CREDIT EXPOSURE

B.1 Distribution by segment of on- and off-balance sheet credit exposures to customers

p.1

Exposures/Counterparties		Public administrations		Financial companies		Financial companies (of which: insurance companies)	
		Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments
A. On-balance-sheet exposures							
A.1 Bad loans		-	-	83	54,396	-	-
- of which: forborne		-	-	-	137	-	-
A.2 Unlikely-To-Pay exposures		-	-	96,806	38,798	-	-
- of which: forborne		-	-	56,683	9,739	-	-
A.3 Non-performing past due exposures		-	-	687	91	-	-
- of which: forborne		-	-	-	-	-	-
A.4 Performing exposures		1,832,605	760	2,781,826	1,677	-	-
- of which: forborne		17,422	13	4,731	310	-	-
Total (A)		**1,832,605**	**760**	**2,879,402**	**94,962**	**-**	**-**
B. Off-balance-sheet credit exposures							
B.1 Non-performing exposures		-	-	3,626	825	-	-
B.2 Performing exposures		826,801	442	89,204	62	25,047	3
Total (B)		**826,801**	**442**	**92,830**	**887**	**25,047**	**3**
Total (A+B)	**31/01/2020**	**2,659,406**	**1,202**	**2,972,232**	**95,849**	**25,047**	**3**
Total (A+B)	**31/12/2018**	**2,862,797**	**2,606**	**2,760,753**	**129,473**	**25,051**	**5**

B.1 Distribution by segment of on- and off-balance sheet credit exposures to customers

p.2

Exposures/Counterparties		Non-financial companies		Households	
		Net exposure	Overall value adjustments	Net exposure	Overall value adjustments
A. On-balance-sheet exposures					
A.1 Bad loans		43,314	122,039	24,751	32,354
- of which: forborne		8,319	22,368	2,526	2,280
A.2 Unlikely-To-Pay exposures		437,650	292,143	38,837	20,188
- of which: forborne		59,347	44,839	14,224	4,536
A.3 Non-performing past due exposures		9,931	2,530	9,253	1,770
- of which: forborne		-	-	6	1
A.4 Performing exposures		4,067,461	52,921	5,218,509	30,770
- of which: forborne		179,770	11,121	84,960	3,229
Total (A)		**4,558,356**	**469,633**	**5,291,350**	**85,082**
B. Off-balance-sheet credit exposures					
B.1 Non-performing exposures		248,947	18,673	2,325	1,113
B.2 Performing exposures		2,564,631	3,242	238,387	183
Total (B)		**2,813,578**	**21,915**	**240,712**	**1,296**
Total (A+B)	**31/01/2020**	**7,371,934**	**491,548**	**5,532,062**	**86,378**
Total (A+B)	**31/12/2018**	**10,016,354**	**1,416,501**	**6,128,563**	**200,647**

B.2 Breakdown by geographic area of on- and off-balance sheet credit exposures to customers
p.1

Exposures/Geography	Italy		Other European countries		America
	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure
A. On-balance-sheet exposures					
A.1 Bad loans	62,642	196,349	4,518	10,184	938
A.2 Unlikely-To-Pay exposures	572,066	350,660	1,227	468	-
A.3 Non-performing past due exposures	19,837	4,384	25	6	2
A.4 Performing exposures	13,829,701	85,426	67,445	664	1,359
Total (A)	14,484,246	636,819	73,215	11,322	2,299
B. Off-balance-sheet credit exposures					
B.1 Non-performing exposures	254,885	20,605	13	6	-
B.2 Performing exposures	3,716,916	3,925	1,896	7	32
Total (B)	3,971,801	24,530	1,909	13	32
Total (A+B) 31/01/2020	18,456,047	661,349	75,124	11,335	2,331
Total (A+B) 31/12/2018	21,558,109	1,733,012	203,761	15,077	4,553

B.2 Breakdown by geographic area of on- and off-balance sheet credit exposures to customers
p.2

Exposures/Geography	America	Asia		Rest of the world	
	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments
A. On-balance-sheet exposures					
A.1 Bad loans	2,135	-	-	50	121
A.2 Unlikely-To-Pay exposures	1	-	-	-	-
A.3 Non-performing past due exposures	-	5	1	2	-
A.4 Performing exposures	3	1,544	34	352	1
Total (A)	**2,139**	**1,549**	**35**	**404**	**122**
B. Off-balance-sheet credit exposures					
B.1 Non-performing exposures	-	-	-	-	-
B.2 Performing exposures	-	37	-	142	-
Total (B)	**-**	**37**	**-**	**142**	**-**
Total (A+B) 31/01/2020	**2,139**	**1,586**	**35**	**546**	**122**
Total (A+B) 31/12/2018	**998**	**1,388**	**34**	**655**	**111**

B.2.1 Breakdown by geographic area of on- and off-balance sheet credit exposures to customers

Exposures/Geography		North West Italy		North East Italy		Central Italy		South and islands	
		Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments
A. On-balance-sheet exposures									
A.1 Bad loans		41,710	142,225	6,818	23,256	8,808	21,858	5,306	9,010
A.2 Unlikely-To-Pay exposures		520,254	317,015	15,531	12,968	26,658	14,239	9,623	6,438
A.3 Non-performing past due exposures		9,870	1,736	820	154	8,087	2,258	1,060	236
A.4 Performing exposures		6,463,677	58,289	1,742,909	7,957	4,940,302	13,634	682,813	5,546
Total A		**7,035,511**	**519,265**	**1,766,078**	**44,335**	**4,983,855**	**51,989**	**698,802**	**21,230**
B. Off-balance-sheet credit exposures									
B.1 Non-performing exposures		172,032	12,245	34,330	5,505	47,595	2,594	928	261
B.2 Performing exposures		2,450,942	2,930	486,027	201	606,461	742	173,486	52
Total B		2,622,974	15,175	520,357	5,706	654,056	3,336	174,414	313
Total (A+B)	31/01/2020	9,658,485	534,440	2,286,435	50,041	5,637,911	55,325	873,216	21,543
Total (A+B)	31/12/2018	12,876,698	1,267,641	2,999,944	181,611	4,598,382	205,105	1,083,085	78,655

B.3 Distribution by geographic area of on- and off-balance sheet credit exposures to banks
p.1

Exposures/Geography	Italy		Other European countries		America
	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure
A. On-balance-sheet exposures					
A.1 Bad loans	-	-	-	-	-
A.2 Unlikely-To-Pay exposures	-	-	-	-	9,455
A.3 Non-performing past due exposures	-	-	-	-	-
A.4 Performing exposures	3,883,811	35	382,071	327	24,533
Total (A)	3,883,811	35	382,071	327	33,988
B. Off-balance-sheet credit exposures					
B.1 Non-performing exposures	-	-	-	-	-
B.2 Performing exposures	43,106	-	2,160	-	19
Total (B)	43,106	-	2,160	-	19
TOTAL A+B 31/01/2020	3,926,917	35	384,231	327	34,007
TOTAL A+B 31/12/2018	1,210,692	93	271,349	117	44,059

B.3 Distribution by geographic area of on- and off-balance sheet credit exposures to banks
p.2

Exposures/Geography	America	Asia		Rest of the world	
	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments
A. On-balance-sheet exposures					
A.1 Bad loans	-	-	-	-	-
A.2 Unlikely-To-Pay exposures	3,348	-	-	-	-
A.3 Non-performing past due	-	-	-	-	-
A.4 Performing exposures	21	357	-	479	-
Total (A)	3,369	357	-	479	-
B. Off-balance-sheet credit exposures					
B.1 Non-performing exposures	-	-	-	-	-
B.2 Performing exposures	-	-	-	1,558	-
Total (B)	-	-	-	1,558	-
TOTAL A+B 31/01/2020	3,369	357	-	2,037	-
TOTAL A+B 31/12/2018	3,343	4,606	2	1,959	1

B.3.1 Distribution by geographic area of on- and off-balance sheet credit exposures to banks

Exposures/Geography	North West Italy		North East Italy		Central Italy		South and islands	
	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments
A. On-balance-sheet								
A.1 Bad loans	-	-	-	-	-	-	-	-
A.2 Unlikely-To-Pay exposures	-	-	-	-	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-	-	-	-	-
A.4 Performing exposures	76,113	31	88	-	3,807,610	4	-	-
Total (A)	**76,113**	**31**	**88**	**-**	**3,807,610**	**4**	**-**	**-**
B. Off-balance-sheet								
B.1 Non-performing exposures	-	-	-	-	-	-	-	-
B.2 Performing exposures	20,622	-	-	-	22,484	-	-	-
Total (B)	**20,622**	**-**	**-**	**-**	**22,484**	**-**	**-**	**-**
Total (A+B) 31/01/2020	**96,735**	**31**	**88**	**-**	**3,830,094**	**4**	**-**	**-**
Total (A+B) 31/12/2018	**665,118**	**93**	**583**	**-**	**544,991**	**-**	**-**	**-**

B.4 Large exposures:

a) Amount (book value) 11,773,798

b) Amount (weighted value) 2,026,066

c) Number of positions 14

C. SECURITISATIONS

C.1 Securitisations

Qualitative Information

Traditional securitisations

The Carige Group has seven securitisations in place: 1) a securitisation of performing loans, which was carried out by the Parent Company through the SPV Argo Mortgage 2 S.r.l. in the first half of 2004, 2) a securitisation of performing loans carried out by the Parent Company and Banca del Monte di Lucca through the special purpose vehicle Lanterna Finance S.r.l. in 2018, 3) a securitisation of performing loans carried out by the Parent Company and Banca del Monte di Lucca through the special purpose vehicle Lanterna Finance S.r.l. in 2015, 4) a securitisation of performing leases carried out through the special purpose vehicle Lanterna Lease S.r.l. in 2019, 5) a securitisation of non-performing loans carried out by the Parent Company through the special purpose vehicle Pillarstone Italy SPV s.r.l., to facilitate the restructuring of loans granted to a customer and 6) a securitisation of bad loans carried out in 2017 by the three banks of the Group via the Brisca Securitisation s.r.l. vehicle , 7) a securitisation of bad loans carried out through the Riviera N.p.l. s.r.l. vehicle in 2018.

In addition to these securitisations, medium- to long-term funding was raised via three Covered Bond issuing programmes, which are further described in section E.4.

For the purpose of promoting a shared co-ordination and monitoring of securitisation and covered bond transactions originated by the Group, a unit was set up as part of the Finance division, which makes sure that these transactions and related activities are constantly monitored with an across-the-board approach by multiple functions and units of the company.
Specifically, the assessment and control of risks deriving from the above-described securitisations are performed on the Carige Group's Credit Risk Management (CRM) system, which monitors transactions in performing loans; the performance of individual transactions is constantly assessed by the General Management: specific reports are expected to be submitted to the Board of Directors on a half-yearly basis.

As the first four securitisations do not fully meet the conditions for all risks and rewards to be transferred to third parties, they were retained in the transferors' balance sheets.

The securitisation transactions are further explained below.

a) Securitisation of performing loans carried out through the SPV Argo Mortgage 2 S.r.l. in 2004

The transaction involved the transfer without recourse to the special purpose vehicle Argo Mortgage 2 S.r.l. (in which Banca Carige currently has a 60% direct holding) of 13,272 mortgage loans for a total value of EUR 864.5 mln as at 30 June 2004, at a price of EUR 925.6 mln (of which EUR 61.1 mln as deferred price calculated by means of a profit extraction mechanism which specifically took account of the excess spread, net of transaction costs as at each payment date, the level of risk of the loans transferred and early repayment options).

To finance these transactions, Argo Mortgage 2 S.r.l. issued EUR 864.4 mln worth of securities, of which EUR 808.3 mln class A, EUR 26.8 mln class B, EUR 29.4 mln class C, all listed on the Luxembourg stock exchange, and was granted a subordinated loan by Banca Carige for an amount of EUR 22.8 mln which was fully repaid in 2009.

The securities issued as at 31 January 2020 were rated as follows:

SECURITIES	CODE	FITCH	MOODYS
Class B	IT0003694137	BBB+	Aa3
Class C	IT0003694145	BBB+	Aa3

As at 31 January 2020, class A securities and B mezzanine notes were repaid for an amount of EUR 14.3 mln against an issuance of EUR 26.8 mln.

The deferred credit to be paid to Carige as at 31 January 2020 amounted to EUR 40.2 mln.

b) Securitisation of performing loans carried out through the vehicle Lanterna Finance S.r.l. in 2018

The transaction, which was completed in May 2018, involved the transfer without recourse of 4,739 mortgage and land loans by the Parent Company and Banca del Monte di Lucca to the vehicle Lanterna Finance S.r.l. (in which Banca Carige currently has a 5% holding) for a total price of EUR 413 mln (o.w. EUR 382.3 mln by Carige and EUR 30.6 mln by Banca del Monte di Lucca).

The SPV Lanterna Finance S.r.l. issued EUR 260 mln worth of senior bonds and EUR 153 mln worth of junior bonds. The senior tranche was underwritten by an institutional investor, while the Junior tranche was underwritten by the two transferring banks. As a guarantee for the senior bondholders, a EUR 5.2 mln cash reserve was set up. Since the bonds issued were reserved for an institutional investor, they were not rated.

As at 31 January 2020, class A notes were repaid for an amount of EUR 207.4 mln against an issuance of EUR 260 mln.

c) Securitisation of performing loans carried out through the vehicle Lanterna Finance S.r.l. in 2015

The transaction, which was completed in October 2015, involved the transfer without recourse of 8,599 mortgage and land loans by the Banks of the Carige Group to the vehicle Lanterna Finance S.r.l. (in which Banca Carige currently has a 5% holding) for a total price of EUR 716.9 mln (o.w. EUR 57.7 mln by Banca del Monte di Lucca).

During 2018, the transaction was updated by cancellation of the securities yet to be redeemed (EUR 5.3 mln in senior notes and EUR 331.8 mln worth of junior notes) and issuance of new securities for the same total amount (EUR 200 mln in senior notes and 137.1 mln in junior notes).

The senior tranche was transferred to an institutional investor in December 2018, while the Junior tranche was underwritten by the two transferring banks. As a guarantee for the senior bondholders, a EUR 9.5 mln cash reserve was set up. The securities issued are rated as follows:

SECURITIES	CODE	DBRS	MOODYS
Class A	IT0005154064	AAA	Aa3
Class B	IT0005154072	N.A.	N.A.

As at 31 January 2020, EUR 52.6 mln of Class A securities were to be repaid.

d) Securitisation of performing leases carried out through the special purpose vehicle Lanterna Lease S.r.l. in 2019

The transaction was carried out in the first half of 2019 and involved the transfer of receivables deriving from lease contracts to the special purpose vehicle Lanterna Lease s.r.l. The portfolio, consisting of 1,186 contracts, was sold at a total price of EUR 231,343,559.
BNP Paribas Securities Services Milan Branch N.A. acted as Account Bank, Calculation Agent and Principal Paying Agent; Banca Carige acted as Servicer, Corporate Servicer and Expenses Account Bank and is the underwriter of the junior bonds; Zenith Service S.p.A. acted as Back-Up Servicer and Representative of the Noteholders.
The transaction Arranger is HSBC France.
The bond issuance (ABS) of Lanterna Lease S.r.l. has the following characteristics:

Class	Amount EUR mln	Rating	Legal maturity	Spread on 3-month Euribor	Features
A	113.7	Unrated	30 Jan 2051	Bps 165	Floor 0%
Z	120.8	Unrated	30 Jan 2051	N/A	N/A

The senior tranche was underwritten by an institutional investor.
As at 31 January 2020, senior securities were repaid for an amount of EUR 37.7 mln against an issuance of EUR 113.7 mln.

e) Securitisation of non-performing loans through the vehicle Pillarstone Italy SPV S.r.l.

The securitisation was carried out in 2016 in order to favour the workout of Banca Carige's non-performing loans to the Premuda Group. Pursuant to Italian law 130/99, the vehicle Pillarstone Italy S.P.V. S.r.l. (not belonging to the Carige Group) was transferred three ship mortgage loans denominated in US dollars to Four Handy Limited for an aggregate amount of EUR 63.2 mln and revolving loan facilities to Premuda SAH for an amount of EUR 25.3 mln.
The transaction is a multioriginator securitisation, the securitised portfolio being made up of loans that were transferred to Pillarstone Italy SPV by several banks.
In exchange for the foregoing transfer, Banca Carige was paid the cash equivalent of 5% of the gross amount of the collateralised loans (EUR 2.7 mln) plus USD 56.2 mln in class B USD-denominated Senior notes and EUR 24.5 mln and USD 5 mln in class C Junior notes in exchange for the difference.
The workout transaction was backed by new liquidity provided to the SPV by an investor. The funds were raised by underwriting class A SuperSenior securities with repayment priority over the two other types of notes.
Pillarstone Italy S.p.A. was engaged as the servicer in the transaction.

In March 2017, a credit facility amounting to EUR 1.15 mln was transferred to the SPV.

Following the considerable losses of Premuda S.p.A., based on the contractual agreements of the transaction, interventions were carried out in 2017 on the securitisation transaction, which profoundly modified the amount of the Bank's exposures thereto, either by restructuring significant amounts of exposure through "swaps to equity" and "write offs" or by rescheduling the shipping loans repayment plans.
Therefore, pursuant to paragraph 21 of IAS 39, in 2017, the Bank derecognised the transferred loans in full and recognised the securitisation notes at their fair value in the IAS category Assets Available for Sale.

As at 31 January 2020, EUR 26.6 mln worth of class B securitisation notes and EUR 13.2 mln in Junior notes were recognised in the Assets section of the financial statements.

f) Securitisation of bad loans carried out by the three banks of the group through the special purpose vehicle Brisca Securitisation S.r.l. in 2017

Banca Carige S.p.A., Banca del Monte di Lucca S.p.A. and Banca Cesare Ponti S.p.A. completed, with date of effect 16 June 2017, a non-recourse sale of bad loans to the SPV Brisca Securitisation s.r.l., for a total gross value of EUR 961.1 mln.
The consideration of the transfer of loans amounted to a total of EUR 309.7 mln, of which EUR 281.4 mln for loans transferred by Banca Carige, EUR 27.4 mln for loans transferred by Banca del Monte di Lucca S.p.A. and EUR 0.9 mln for loans transferred by Banca Cesare Ponti S.p.A.
A series of positions have been excluded from the portfolio in order to comply with the retention obligation provided for by the relevant legislation and these loans consist solely of Banca Carige S.p.A. loans.

On 5 July 2017, the following notes were issued, which were subscribed for by the three transferring banks:

Securities	BANCA CARIGE	B.M.L	B.C.P.	Total nominal amount
Senior	242,952	23,632	816	267,400
Mezzanine	27,705	2,695	100	30,500
Junior	10,657	1,043	100	11,800
Total	281,314	27,370	1,016	309,700

At the same time, the three banks applied for government guarantee on the Senior tranche (a.k.a. GACS).

In August 2017, the Mezzanine and Junior notes of the three Banks of the Group were fully transferred to third parties.

Given that substantially all the risks and rewards of ownership of the financial assets were transferred (IAS 39 para. 20 a), as were the relevant rights to receive cash flows (IAS 39 para. 18 a), the transferred loans were derecognised from the Consolidated and Separate Financial Statements and the GACS-backed Senior notes were recognised as "Assets measured at amortised cost".

As at 31 January 2020, the securitised Senior notes were recognised as financial assets measured at amortised cost for a total of EUR 178.3 mln (of which EUR 162 mln by Carige, EUR 15.8 mln by Banca del Monte di Lucca and EUR 0.5 mln by Banca Ponti).

The securities issued as at 31 January 2020 are rated as follows:

SECURITIES	CODE	MOODYS	DBRS
Class A	IT0005274599	A3	BBB (high)
Class B	IT0005274607	B3	B (low)
Class J	IT0005274615	-	-

g) Securitisation of bad loans carried out by Banca Carige and Banca del Monte di Lucca through the special purpose vehicle Riviera N.P.L. s.r.l. in 2018 .

In order to reduce their non-performing loan exposure, Banca Carige S.p.A. and Banca del Monte di Lucca S.p.A. completed, with date of effect 4 December 2018, a non-recourse sale of bad loans to the SPV Riviera N.p.l. S.r.l., for a total gross value of EUR 859.8 mln.
The consideration of the transfer of loans amounted to a total of EUR 215 mln, of which EUR 207.6 mln for loans transferred by Banca Carige, EUR 7.4 mln for loans transferred by Banca del Monte di Lucca S.p.A.
Banca Carige granted a subordinated loan of EUR 7 mln to the vehicle in support of liquidity for the transaction.
On 17 December 2018, the following notes were issued, which were subscribed for by the two transferring banks:

Securities	Carige	B.M.L	Total nominal amount	Moody's ratings/Scope	Performance
Senior	168,990	6,010	175,000	Baa3/BBB-	Euribor 6M+0,65%
Mezzanine	28,970	1,030	30,000	Ca/B+	Euribor 6M+7%
Junior	9,657	343	10,000	unrated	Floating EUR 6M+10%
Total	207,617	7,383	215,000		

At the same time, the three banks applied for government guarantee on the Senior tranche (a.k.a. GACS).

On 17 December 2018, the Group sold 95% of the junior and mezzanine notes of the two Banks of the Group to a select institutional investor.

Given that substantially all the risks and rewards of ownership of the financial assets were transferred (IAS 39 para. 20 a), as were the relevant rights to receive cash flows (IAS 39 para. 18 a), the transferred loans were derecognised from the Consolidated and Separate Financial Statements, Senior notes were classified as "financial assets measured at amortised cost" and the shares of mezzanine and junior securities still held (5%) were reclassified among "Assets mandatorily measured at fair value".

As at 31 January 2020, the securitised Senior notes were recognised as financial assets measured at amortised cost for a total of EUR 158.8 mln (of which EUR 153.3 mln by Carige and EUR 5.5 mln by Banca del Monte di Lucca) and the mezzanine and junior notes were recognised as financial assets mandatorily at fair value for a total of EUR 0.4 mln.

The securities issued as at 31 January 2020 are rated as follows:

Securities	Moody’s ratings/Scope
Senior	Baa3/BBB-
Mezzanine	Ca/B+
Junior	unrated

Synthetic securitisations

The Liguria Region (Regione Liguria) entrusted FI.L.S.E. S.p.A. with the role of managing a fund to facilitate access to credit for Ligurian SMEs through portfolios of loans made available with a 'Tranched Cover' structure by multiple Banks operating in Liguria. The foregoing loan portfolios are subdivided into two different tranches: a Junior Tranche, exposed to first loss risk, and a lower-risk Senior Tranche.

The guarantee consists in a tranched-cover mechanism whereby the risk of losses on loans within the portfolio upper limit will be broken down into the following tranches:

a) a junior tranche, accounting for 6.75% of the portfolio upper limit to cover any first losses occurring with respect to the overall upper limit amount;

b) a senior tranche, accounting for the remaining 93.25% risk of the bank; it incurs losses if the junior tranche has been exhausted, i.e. whenever total losses exceed 6.75% of loans granted.

Losses on loans granted as part of the “FI.L.S.E. Liguria 2015 Tranched Cover” loan pools are sequentially assigned to tranches a) and b). Therefore, should losses exceed 6.75% of the asset pool drawn amount, the senior tranche becomes due, with risk being borne entirely by the bank.

Synthetically securitised loans were not derecognised. As at 31 January 2020, said loans amounted to gross EUR 5,432 thousand (of which EUR 297 thousand in NPLs), loan loss provisions amounted to EUR 236 thousand (of which EUR 213 thousand in NPLs). Deposits pledged as collateral in the name of FILSE S.p.A. are accounted for in Item 10 - “Financial liabilities measured at amortised cost” (EUR 1,565 thousand as at 31 January 2020).

Quantitative Information

C.1 Exposures arising from major 'own' securitisation transactions broken down by type of securitised asset and exposure

Type of securitised asset/Exposure	On-balance-sheet exposures						Financial guarantees given						Lines of credit					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Book value	Value adjustments/ write-backs	Book value	Value adjustments/ write-backs	Book value	Value adjustments/ write-backs	Net exposure	Value adjustments/ write-backs	Net exposure	Value adjustments/ write-backs	Net exposure	Value adjustments/ write-backs	Net exposure	Value adjustments/ write-backs	Net exposure	Value adjustments/ write-backs	Net exposure	Value adjustments/ write-backs
A. Totally derecognised	315,332	-	27,051	-	13,171	-	-	-	-	-	-	-	-	-	-	-	-	-
A.1 Pillarstone Italy s.p.v. s.r.l.																		
- non-performing loans	-	-	26,629	-	13,170	-	-	-	-	-	-	-	-	-	-	-	-	-
A.2 Brisca Securitisation S.p.v. s.r.l																		
- performing loans	161,959	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A3 Riviera Npl. S.r.l.	153,373	-	422	-	1	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Partially derecognised	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
C. Not derecognised	-	-	3,779	-	157,303	5,380	-	-	-	-	-	-	-	-	-	-	-	-
C.1 Argo Mortgage 2 S.r.l.																		
- performing loans	-	-	3,779	-	34,800	5,380	-	-	-	-	-	-	-	-	-	-	-	-
C2 Lanterna Finance s.r.l. (1St transaction carried out in 2015)																		
- performing loans for loan agreements		-	-	-	43,123	-	-	-	-	-	-	-	-	-	-	-	-	-
C.3 Lanterna Finance s.r.l. (2nd transaction carried out in 2018)																		
- performing loans for loan agreements					9,450													
C.3 Lanterna Lease s.r.l.																		
Performing loans from leases					69,930													

C.3 Securitisation vehicles

Name of securitisation/Name of securitisation vehicle	Registered office	Consolidation	ASSETS			LIABILITIES		
			Loans	Debt securities	Other	Senior	Mezzanine	Junior
Argo Mortgage 2 S.r.l. (1)	Genoa	YES	56,354	-	26,209	47	41,812	40,705
Lanterna Finance s.r.l., transaction carried out in 2015 (2)	Genoa	YES	236,946	-	6,476	52,715	-	190,707
Lanterna Finance s.r.l., transaction carried out in 2018 (2)	Genoa	YES	172,282		4,878	11,745	-	165,415
Pillarstone Italy S.p.v. s.p.a.	Milan	NO	143,698	-	89,258	35,148	199,886	(2,078)
Brisca Securitisation s.r.l.(3)	Conegliano (TV)	NO	167,902	-	14,772	176,594	30,505	(24,426)
Riviera Npl. s.r.l.	Conegliano (TV)	NO	183,137	-	13,735	145,000	30,000	21,872

1) Banca Carige holds 60% of the investment in the vehicle
2) Banca Carige holds 5% of the investment in the vehicle
3) Figure as at 31.12.2019

E. DISPOSALS

A. Financial assets sold and not fully derecognised:

Qualitative Information

Assets sold and not fully derecognised from the Bank financial statements include:

- Loans transferred as part of the securitisations performed through the SPVs Argo Mortgage 2 S.r.l., Lanterna Finance S.r.l. and Lanterna Lease S.r.l., as described in paragraph C of Section E in the Explanatory Notes. With regard to the first transaction, non-derecognition is the result of the recognition of a receivable from the SPV, linked to the deferred price accrued, which involves first-loss risk as well as excess spread securitisation benefits for the Group; for the other securitisation transactions, non-derecognition results from the subscription of junior securities by the transferors. Receivables sold, recognised as assets, are offset by the securities issued by the vehicle and outstanding as at the reporting date net of those repurchased by the transferors.
- Securities (assets) underlying repurchase agreements (liabilities), entered into with banks and customers. The non-derecognition of securities subject to a repurchase transaction, is due to the fact that the Group substantially retains all risks and rewards connected with the security as it is committed to repurchasing the security at a contractually agreed price. These securities are therefore shown in the pertaining accounting portfolios. The amount of the transfer is recognised among liabilities by type of counterparty.

Quantitative Information

E.1 Financial assets sold and fully recognised and associated financial liabilities:

	Financial assets sold and fully recognised				Associated financial liabilities		
	Book value	o.w. securitisations	o.w. subject to sale agreement with repurchase clauses	of which non-performing	Book value	o.w. securitisations	o.w. subject to sale agreement with repurchase clauses
A. Financial assets held for trading	-	-	-	X	-	-	-
1. Debt securities	-	-	-	X	-	-	-
2. Equity instruments	-	-	-	X	-	-	-
3. Loans	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
B. Other financial assets mandatorily at fair value	-	-	-	-	-	-	-
1. Debt securities	-	-	-	-	-	-	-
2. Equity instruments	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
C. Financial assets measured at fair value	-	-	-	-	-	-	-
1. Debt securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
D. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-
1. Debt securities	-	-	-	-	-	-	-
2. Equity instruments	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
E. Financial assets at amortised cost	1,028,529	713,197	315,332	21,330	427,882	175,069	252,813
1. Debt securities	315,332	-	315,332	-	252,813	-	252,813
2. Loans	713,197	713,197	-	21,330	175,069	175,069	-
Total 31/01/2020	1,028,529	713,197	315,332	21,330	427,882	175,069	252,813
Total 31/12/2018	1,222,357	599,602	622,755	30,130	714,475	241,546	472,929

E.3 Sales transactions relating to financial liabilities with recourse only to assets sold and not fully derecognised: fair value

	Fully recognised	Partially recognised	Total	
			31/01/2020	31/12/2018
A. Financial assets held for trading	-	-	-	-
1. Debt securities	-	-	-	-
2. Equity instruments	-	-	-	-
3. Loans	-	-	-	-
4. Derivatives	-	-	-	-
B. Other financial assets mandatorily at fair value	-	-	-	-
1. Debt securities	-	-	-	-
2. Equity instruments	-	-	-	-
3. Loans	-	-	-	-
C. Financial assets measured at fair value	-	-	-	-
1. Debt securities	-	-	-	-
2. Loans	-	-	-	-
D. Financial assets at fair value through other comprehensive	-	-	-	-
1. Debt securities	-	-	-	-
2. Equity instruments	-	-	-	-
3. Loans	-	-	-	-
E. Financial assets at amortised cost (fair value)	756,895	-	756,895	631,553
1. Debt securities	-	-	-	-
2. Loans	756,895	-	756,895	631,553
Total financial assets	756,895	-	756,895	631,553
Total associated financial liabilities	175,069	-	X	X
Net value as at 31/01/2020	581,826	-	756,895	X
Net value as at 31/12/2018	569,655	-	X	631,553

E.4 COVERED BOND TRANSACTIONS

Banca Carige S.p.A. launched three medium/long-term funding programmes, via the issuance of covered bonds, backed by underlying primarily consisting in residential and commercial mortgages.

As part of the programmes, Banca Carige adopted the internal control procedures (also at Group level) suitable for the working plan prescribed for the covered bonds, given the high level of operational and legal innovation and complexity of such transactions and pursuant to applicable regulatory provisions and, in particular, to the supervisory instructions issued by the Bank of Italy with Circular no. 263 of 27 December 2006, as amended (hereinafter referred to as the "Supervisory Instructions").
At the meeting held on 29 August 2008, the Board of Directors acknowledged the organisational model prepared by the Organisation Division for the implementation and management of the Programmes. This organisation model was subsequently updated according to the changes made to the Group's organisational structure.
As part of these programmes, Banca Carige plays the role of issuer, assignor of eligible assets and Master Servicer.
Banca del Monte di Lucca also take parts in the three programmes in its capacity as transferor and additional servicer.
The "Asset Monitor" activities of the three covered bond issuance programmes are performed by BDO Italia S.p.A., which monitors the correctness of the transactions and the integrity of the guarantees for investors. The checks performed and the assessment of the progress of the transactions are reported in a specific annual report addressed also to the Board of Auditors and the Board of Directors of Banca Carige.
The Internal Audit Department of the Parent Company carries out a comprehensive audit of the checks performed, at least on an annual basis, also making use of the information received and the opinions expressed by the Asset Monitor. The results of these audits are reported to the Banca Carige Board of Directors.
On a regular basis, and for each transaction, the risk monitoring department of Banca Carige controls:

- the quality and integrity of the assets transferred, in particular the estimated property value –both residential and non-residential– mortgaged in relation to the land and property loans transferred;
- maximum ratio compliance between the covered bonds issued and the assets transferred as collateral;
- compliance with transfer limits and integration methods;
- the real and adequate risk hedging offered by any derivative contracts signed in relation to the transaction.

In order for the originator to fulfil the obligations of the collateral pledged, Banca Carige uses suitable Asset & Liability Management techniques to ensure a substantial balance between the maturities of cash flows generated by the transferred assets and the maturities of payments due by the issuing bank on the covered bonds issued and other transaction costs.

The programmes were structured in compliance with applicable legal and regulatory provisions allowing the issuance of covered bonds if certain capital requirements for the Group are met.
The Bank periodically carries out the assessments required by the Supervisory Provisions concerning capital requirements for transferors or issuers in covered bond issuance transactions, all necessary controls for compliance with transfer limits, together with thorough assessments of the objectives pursued and the risks associated with Programme implementation.

With respect to the first transfer of assets, each individual transferor, for the pertaining portion, granted a subordinated loan to the special purpose vehicle for it to have the funds necessary to purchase the assets. In subsequent transfers, the SPV used both new subordinated financing and its own liquidity.

From an accounting point of view, the transferors will continue to recognise the mortgage loans transferred to the vehicles in their financial statements under item 40 b) of the Assets "Assets measured at amortised cost - Loans to customers", since the associated risks and rewards were not transferred to the transferees.

The subordinated loans are not recognised in the accounts and therefore they are not measured for the purposes of credit risk due to the fact that these risks are entirely reflected in the measurement of mortgage loans transferred, which continue to be recognised in the financial statements of the transferors.

Banca del Monte di Lucca receives a commission from the Parent Company Banca Carige for the guarantee given and discloses the assets transferred in part B of the Explanatory Notes, Other information section, table “1. Commitments and guarantees given”, table 2 “Guarantees given c) - Banks”.

Loans transferred are described by the issuer, Banca Carige S.p.A., in part B of the Explanatory Notes, 'Other information' section, Table "3. Assets pledged as collateral for own liabilities and commitments" under item no. 3) "Financial assets measured at amortised cost".

a) First medium/long-term funding programme through the issuance of Covered Bonds

The first Covered Bond issuance programme was implemented through the SPV, Carige Covered Bond S.r.l., in 2008 and was renewed by the Board of Directors on 16 September 2013.

As at 31 January 2020, residential and commercial mortgages amounting to EUR 2,844 mln were segregated in the special purpose entity, of which EUR 2,738 mln were transferred by Banca Carige and EUR 106 mln by Banca del Monte di Lucca.

The issuances by the Parent Company until 31 January 2020 and not yet coming to maturity are listed below and amount to EUR 2,250.5 mln in total.

Amount issued	Date of Issuance	Maturity date
*75,000,000	20.09.2010	20/09.2030
20,000,000	04.10.2010	25.10.2022
*20,000,000	25.10.2010	25.10.2040
20,000,000	25.10.2010	25.10.2040
18,500,000	15.11.2010	25.11.2030
*20,000,000	25.11.2010	25.11.2030
*40,000,000	27.12.2010	27.12.2030
30,000,000	23.04.2012	23.04.2032
*150,000,000	31.10.2012	25.10.2022
*17,000,000	02.11.2012	02.11.2032
*50,000,000	05.11.2012	05.11.2032
*10,000,000	06.11.2012	26.10.2032
5,000,000	16.01.2013	25.01.2023
5,000,000	25.01.2013	25.01.2028
10,000,000	29.08.2013	29.08.2033
10,000,000	05.06.2014	25.05.2029
*500,000,000	28.10.2015	28.01.2021
500,000,000	25.02.2016	25.02.2021
150,000,000	28.11.2016	25.01.2022
600,000,000	25.10.2018	25.10.2021
2,250,500,000		

Securities issued in 2016 are held by Banca Carige and used for refinancing operations with the European Central Bank.

At the reporting date, the securities issued were assigned the following ratings: BBB+ by Fitch, Baa3 (only for securities marked with *) by Moody's and BBB by DBRS.

b) Second medium/long-term funding programme in the period, through the issuance of Covered Bonds.

The second Covered Bond issuance programme was implemented in 2012, through the SPV, Carige Covered Bond 2 S.r.l., and commercial mortgages originated by the Parent Company and Banca del Monte di Lucca were primarily used as collateral.

As at 31 January 2020, residential and commercial mortgages amounting to EUR 432 mln were segregated in the special purpose entity, of which EUR 401 mln were transferred by Carige and EUR 31 mln by Banca del Monte di Lucca.

As at 31 January 2020, there was an amount of EUR 265 mln outstanding in bonds issued by the Parent Company, currently held in the securities portfolio and used for refinancing operations with the European Central Bank.

At the reporting date, the securities issued were assigned the following ratings: Baa1 by Moody's and A (Low) by DBRS.

c) Third medium/long-term funding programme through the issuance of Covered Bonds

The third Covered Bond issuance programme was implemented in 4Q 2016, through the SPV, Carige Covered Bond S.r.l., with residential and commercial mortgages originated by the Parent Company and the subsidiary Banca del Monte di Lucca S.p.A. used as collateral.

As at 31 January 2020, residential and commercial mortgages amounting to EUR 710 mln were segregated in the special purpose entity, of which EUR 680 mln were transferred by Banca Carige and EUR 30 mln by Banca del Monte di Lucca.

The issuances by the Parent Company until 31 January 2020 and not yet coming to maturity are listed below and amount to EUR 530 mln in total.

Amount issued	Date of Issuance	Maturity date
370/000,000	29.12.2016	25.05.2022
115,000,000	23.04.2018	25.05.2023
45/000,000	18.10.2018	25.10.2023
530,000,000		

The line of covered bonds issued in December 2016 was sold to third party investors in June 2019, while the bonds issued in April and October 2018 are currently held by Banca Carige and used for refinancing operations with the European Central Bank.

At the reporting date, the securities issued were rated A2 by Moody’s and BBB (High) by DBRS.

F. PRUDENTIAL CONSOLIDATED PERIMETER - CREDIT RISK MEASUREMENT MODELS

The provisioning policies for the Group's loan portfolio are based on a specific Credit Assessment Model which envisages differentiated value adjustment measurement methods, based on asset quality and in line with the current accounting standards.

In particular, with regard to performing loans, counterparties are classified into two different stages, based on a Significant Credit Risk Increase (SCRI) threshold that identifies the significant increase in counterparty risk.

For each stage and counterparty, a one-year Expected Credit Loss (ECL) is calculated, which is the product obtained by applying the respective Probability of Default (PD) and Loss Given Default (LGD) to each individual credit exposure.

Finally, adjustment provisions are determined by projecting the Expected Credit Loss to the expected maturity date of the exposure (Life Time). The projection is made using Forward Looking Information (FLI) parameters that link the trend of the expected loss of the portfolio to macro-economic factors.

With regard to non-performing loans, the evaluation takes place using statistical mechanisms (by means of LGD, duly adjusted by FLI parameters) for entries of irrelevant dimensions and an individual analytical assessment for positions of a significant amount. With specific reference to the aggregate being analysed, which accounts for a predominant share of non-performing loans, the loss forecasts are determined on the basis of rigorous policies, which involve, among other things, the application of prudential haircuts when assessing the real estate collateral for bad loans.

All the parameters used for the collective write-downs of performing loans and those of a statistical nature for the part of the non-performing portfolio have been recalibrated in order to incorporate the most recent developments in the risk profile of the Group's loan portfolio and the expected macro-economic scenarios.

SECTION 2 – MARKET RISK

2.1 INTEREST RATE RISK AND PRICE RISK – REGULATORY TRADING PORTFOLIO

Qualitative Information

The Board of Directors of the Parent Company defines the strategic policies and guidelines related to the assumption of market risk and identifies the levels of Risk Appetite and Risk Tolerance within the scope of the Risk Appetite Framework.

The Risk Control Committee monitors the dynamics of market risk and compliance with the limits, whereas the Finance and ALM Committee monitors the market risk management actions, operationally implemented by the Finance department.

The Risk Management Function guarantees the ongoing measurement and control of Group exposure to market risk by monitoring the Value at Risk (VaR) on a daily basis, also under stress scenarios.

A. General aspects

The main sources of interest rate risk are activities carried out on bond-related financial assets and derivatives, both regulated and OTC.

The main sources of price risk are activities carried out on equity-related financial assets, equity funds and equity derivatives.

The regulatory trading portfolio has a prudential risk profile, mainly due to the very limited size of the portfolio. The modified duration of the portfolio –net of the intra-group component– was approx. 0.01 as at 31/01/2020.

B. Management processes and measurement methods for interest rate and price risk

For operational management purposes, the Parent Company Risk Management Function ensures daily monitoring of interest rate risk and price risk in the regulatory trading portfolio, at the same time checking compliance with the established operational limits.

Interest rate risk and price risk are measured by calculating the Value at Risk (VaR) and its breakdown into Interest Rate and Stock Risk factors. Risk Management uses VaR for operational management purposes, with the objective of measuring both the risks associated with financial instruments held in HFT portfolios (Other Business Model - OBMFT) and the risks associated with financial instruments allocated in banking book portfolios (HTC&S and HTC), monitoring dynamics over time and constantly verifying compliance with the operational limits defined in the Risk Appetite Framework.

The VaR is calculated using a methodology based on a 1-year historical approach, with a 99% confidence interval and a 10-day holding period. Stress test analyses are also carried out that highlight the impact in terms of both VaR and present value resulting from pre-set shocks that refer to specific past events. Stress scenarios are defined by Risk Management on the basis of particularly severe market conditions, taking into account the actual portfolio composition.

The Balance Sheet impact is analysed hereunder, in terms of interest income, net interest and other banking income, profit and shareholders' equity in parallel shifts of the curve (+100 bps up, and -100 bps down). The table reflects the overall impact and breakdown of the regulatory trading portfolio (figures in EUR/mln):

	+100 bp	-100 bp
Net Interest Income	16.44	-18.17
- of which Trading book	-0.20	0.23
Net interest and other banking income	11.73	-12.00
- of which Trading book	-4.91	6.4
Profit [1]	7.85	-8.03
- of which Trading book	-3.28	4.28
Shareholders' equity	-10.99	12.39
- of which Trading book	-3.28	4.28

[1] Amounts estimated assuming a 33.07% tax rate.

Quantitative Information

1. Regulatory trading book: breakdown of balance sheet assets/liabilities and financial derivatives by term to maturity (repricing date)
Currency: EURO

Type/Term to maturity	On demand	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	5 to 10 years	Over 10 years	Indefinite life
1. Balance-sheet assets	-	-	-	5	5	102	-	-
1.1 Debt securities	-	-	-	5	5	102	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	5	5	102	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Balance-sheet liabilities	-	-	-	-	-	-	-	-
2.1 Sell/buy back repos (liabilities)	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying securities								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	243	-	-	-	178	65	-
+ Short positions	-	242	-	-	-	178	65	-
3.2 Without underlying securities								
- Options								
+ Long positions	-	11,438	83,908	6,029	54,970	30,440	6,893	-
+ Short positions	-	6,916	79,358	6,029	55,040	30,384	15,950	-
- Other derivatives								
+ Long positions	-	73,469	78,678	2,923	46,183	631	25,286	-
+ Short positions	-	99,312	80,749	2,903	43,726	631	25,286	-

1. Regulatory trading book: breakdown of balance sheet assets/liabilities and financial derivatives by term to maturity (repricing date)
Currency: OTHER CURRENCIES

Type/Term to maturity	On demand	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	5 to 10 years	Over 10 years	Indefinite life
1. Balance-sheet assets	-	-	-	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Balance-sheet liabilities	-	-	-	-	-	-	-	-
2.1 Sell/buy back repos (liabilities)	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying securities								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying securities								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	29,511	-	381	-	-	-	-
+ Short positions	-	3,755	399	395	-	-	-	-

2.2 INTEREST RATE AND PRICE RISK – BANKING BOOK

Qualitative Information

A. General aspects, management processes and measurement methods for interest rate risk and price risk

The interest rate risk of the banking book is the risk that a variation in market interest rates may have a negative effect on the value of equity (a risk associated with equity) and on Net Interest Income (a risk associated with earnings) in relation to assets and liabilities in the Financial Statements that are not allocated to the trading book for supervisory purposes.
The exposure to such type of risk, with reference to transactions with a floating interest rate, is a direct consequence of balance sheet structures that are mismatched in terms of both maturity dates (maturity gap) and interest refixing (refixing gap). Exposure for transactions with a fixed interest rate depends on the maturity gap.

The Board of Directors of the Parent Company defines the strategic policies and guidelines related to the assumption of interest rate risk in the banking book and identifies the levels of Risk Appetite and Risk Tolerance within the scope of the Risk Appetite Framework. The Risk Control Committee monitors the dynamics of interest rate risk in the banking book and compliance with the limits, whereas the Finance and ALM Committee monitors the actions for managing interest rate risk in the banking book, which are operationally implemented by the Finance department.
The Risk Management Function guarantees the ongoing measurement and control of Group exposure to interest rate risk for the banking book, from both an equity and earnings perspective.

From an equity point of view, the objective of monitoring the interest rate risk in the banking book consists in measuring the impact of variations in interest rates on the fair value of equity in order to maintain its stability. The variability in the economic value of equity after a market interest rate shock is measured according to two distinct approaches:

i) Duration analysis: the variation in the economic value of the equity is approximated by applying the duration to aggregates of transactions classified in a time bucket according to the date of expiry or repricing. As at 31 January 2020, this indicator was lower, at a consolidated level, than the 20% of own funds requirement.
ii) Sensitivity analysis: the variation in the economic value of equity is measured, for each individual transaction, as the fair value difference before and after the indicated shock. As at 31 January 2020, this indicator was lower, at a consolidated level, than the 15% of own funds requirement set as the warning threshold.

From an income point of view, the objective of monitoring the interest rate risk in the banking book consists in measuring the impact of variations in interest rates on the interest income expected over a predefined time period (gapping period).
The variability in the interest income following a market interest rate shock is measured via a gap analysis approach, according to which this variability depends on both the reinvestment (refinancing) at new market conditions -not known ex ante- of the capital cash flows maturing during the period of reference, and on the variation of interest cash flows (for floating interest rate transactions).

The Balance Sheet impact is analysed hereunder, in terms of interest income, net interest and other banking income, profit and shareholders' equity in parallel shifts of the curve (+100 bps up, and -100 bps down). The table reflects the overall impact and breakdown of the banking book (figures in EUR/mln):

	+100 bp	-100 bp
Net Interest Income	**16.44**	**-18.17**
- of which Banking book	16.64	-18.40
Net interest and other banking income	**11.73**	**-12.00**
- of which Banking book	-16.64	-18.40
Profit	**7.85**	**-8.03**
- of which Banking book	11.14	-12.31
Shareholders' equity	**-10.99**	**12.39**
- of which Banking book	-7.71	8.11

[1] Amounts estimated assuming a 33.07% tax rate.

Quantitative Information

1. Banking book: breakdown of financial assets and liabilities by term to maturity (repricing date)
Currency: EURO

Type/Term to maturity	On demand	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	5 to 10 years	Over 10 years	Indefinite life
1. Balance-sheet assets	**2,982,916**	**7,106,984**	**1,021,438**	**420,507**	**2,600,879**	**1,776,509**	**1,294,713**	**-**
1.1 Debt securities	1,363	369,493	572,969	40,001	251,065	607,979	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	1,363	369,493	572,969	40,001	251,065	607,979	-	-
1.2 Loans to banks	320,712	1,011,897	67	67	1,968	3,136	4,704	-
1.3 Loans to customers	2,660,841	5,725,594	448,402	380,439	2,347,846	1,165,394	1,290,009	-
- current accounts	1,274,111	-	-	-	34,830	1,027	-	-
- other loans	1,386,730	5,725,594	448,402	380,439	2,313,016	1,164,367	1,290,009	-
- with early repayment option	239,489	5,517,239	243,707	339,235	1,742,443	878,921	1,195,270	-
- other	1,147,241	208,355	204,695	41,204	570,573	285,446	94,739	-
2. Balance-sheet liabilities	**10,387,392**	**5,243,812**	**429,427**	**282,133**	**1,580,918**	**334,669**	**548,776**	**-**
2.1 Due to customers	9,959,989	560,544	159,164	196,282	543,416	3,560	203,275	-
- current accounts	8,990,301	216,460	157,583	194,596	534,070	-	-	-
- other liabilities	969,688	344,084	1,581	1,686	9,346	3,560	203,275	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	969,688	344,084	1,581	1,686	9,346	3,560	203,275	-
2.2 Due to banks	399,956	4,503,475	89,153	1,334	10,692	6,050	-	-
- current accounts	164,685	-	-	-	-	-	-	-
- other liabilities	235,271	4,503,475	89,153	1,334	10,692	6,050	-	-
2.3 Debt securities	25,545	179,793	181,110	84,517	1,026,810	325,059	345,501	-
- with early repayment option	4,724	-	-	-	-	319,671	60,285	-
- other	20,821	179,793	181,110	84,517	1,026,810	5,388	285,216	-
2.4 Other liabilities	1,902	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	1,902	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**663,853**	**602,747**	**125,213**	**308,974**	**250,000**	**68,500**	**-**
3.1 With underlying securities	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying securities	-	663,853	602,747	125,213	308,974	250,000	68,500	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	663,853	602,747	125,213	308,974	250,000	68,500	-
+ Long positions	-	647,811	443,600	57,275	10,062	-	68,500	-
+ Short positions	-	16,042	159,147	67,938	298,912	250,000	-	-
4. Other off-balance sheet transactions	**2,062,617**	**135,599**	**12,065**	**4,131**	**32,337**	**12,799**	**13,710**	**-**
+ Long positions	976,155	85,432	12,809	25,622	14,953	7,481	48,601	-
+ Short positions	1,086,462	50,167	-	-	-	-	-	-
+ Short positions	907,861	-	-	-	-	-	-	-

1. Banking book: breakdown of financial assets and liabilities by term to maturity (repricing date)
Currency: OTHER CURRENCIES

Type/Term to maturity	On demand	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	5 to 10 years	Over 10 years	Indefinite life
1. Balance-sheet assets	**104,363**	**8,806**	**45,875**	**8,813**	**79,103**	**108,167**	**58,552**	**-**
1.1 Debt securities	-	-	28,340	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	28,340	-	-	-	-	-
1.2 Loans to banks	9,317	450	-	-	-	-	-	-
1.3 Loans to customers	95,046	4,523	17,535	8,813	79,103	108,167	58,552	-
- current accounts	298	-	-	-	-	-	-	-
- other loans	94,748	4,523	17,535	8,813	79,103	108,167	58,552	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	94,748	4,523	17,535	8,813	79,103	108,167	58,552	-
2. Balance-sheet liabilities	**31,784**	**2,855**	**110**	**-**	**-**	**85,360**	**-**	**-**
2.1 Due to customers	28,783	2,533	110	-	-	-	-	-
- current accounts	28,783	2,533	110	-	-	-	-	-
- other liabilities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	3,001	322	-	-	-	85,360	-	-
- current accounts	2,786	-	-	-	-	-	-	-
- other liabilities	215	322	-	-	-	85,360	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**459,800**	**22,620**	**-**	**-**	**-**	**-**	**-**
3.1 With underlying securities	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying securities	-	459,800	22,620	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	459,800	22,620	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	459,800	22,620	-	-	-	-	-

4. Other off-balance sheet transactions	413	413	-	-	-	-	-	-
+ Long positions	-	413	-	-	-	-	-	-
+ Short positions	413	-	-	-	-	-	-	-

2.3 FOREIGN EXCHANGE RATE RISK

Qualitative Information

A. Foreign exchange risk: general aspects, management procedures and measurement methods

The Bank has strategically elected not to take positions in exchange rate risk, providing for substantial matching of positions in foreign currencies.

B. Hedging of exchange rate risk

The exchange rate risk position of Banca Carige is constantly monitored, at Group level, by Treasury in order to ensure the systematic hedging of risk.

Quantitative Information

1. Breakdown of assets and liabilities and derivatives by currency

	Currency					
	USD	GBP	YEN	CAD	CHF	OTHER CURRENCIES
A. Financial assets	404,795	929	235	849	2,482	1,677
A.1 Debt securities	28,340					
A.2 Equity instruments	1,379					
A.3 Loans to banks	5,458	880	138	849	537	1,647
A.4 Loans to customers	369,618	49	97		1,945	30
A.5 Other financial assets						
B. Other assets	5,872	1,253	281	370	2,442	1,213
C. Financial liabilities	115,566	2,133	85	317	1,166	844
C.1 Due to banks	88,215	61	12	90	97	207
C.2 Due to customers	27,351	2,072	73	227	1,069	637
C.3 Debt securities						
C.4 Other financial liabilities						
D. Other liabilities	682	8			17	5
E. Financial derivatives						
- Options						
+ Long positions						
+ Short positions						
- Other derivatives						
+ Long positions	29,371	6	381		63	72
+ Short positions	480,286	18	745	841	3,791	1,288
Total assets	440,038	2,188	897	1,219	4,987	2,962
Total liabilities	596,534	2,159	830	1,158	4,974	2,137
Difference (+/-)	(156,496)	29	67	61	13	825

SECTION 3 – DERIVATIVE INSTRUMENTS AND HEDGING POLICIES

3.1 TRADING FINANCIAL DERIVATIVES

A. FINANCIAL DERIVATIVES

A.1 Trading financial derivatives: end-of-period notional amounts

Underlying assets/Type of derivatives	Total 31/01/2020				Total 31/12/2018			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting agreement	Without netting agreement			With netting agreement	Without netting agreement	
1. Debt securities and interest rates	-	184,746	84,578	-	-	193,809	99,765	-
a) Options	-	26,310	20,385	-	-	22,426	22,618	-
b) Swaps	-	158,436	64,193	-	-	171,383	77,147	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity instruments and stock indices	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Exchange rates and gold	-	-	3,001	-	-	-	11,624	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forward	-	-	3,001	-	-	-	11,624	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Other	-	-	-	-	-	-	-	-
Total	-	184,746	87,579	-	-	193,809	111,389	-

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

Type of derivatives	Total 31/01/2020				Total 31/12/2018			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counter parties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting agreement	Without netting agreement			With netting agreement	Without netting agreement	
1. Positive Fair Value								
a) Options	-	22	-	-	-	112	2	-
b) Interest rate swap	-	83,676	1,556	-	-	34,780	1,185	-
c) Cross currency swap	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-
e) Forward	-	-	22	-	-	-	118	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	-	83,698	1,578	-	-	34,892	1,305	-
2. Negative Fair Value								
a) Options	-	7	13	-	-	-	99	-
b) Interest rate swap	-	42,408	-	-	-	35,255	-	-
c) Cross currency swap	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-
e) Forward	-	-	4	-	-	-	109	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	-	42,415	17	-	-	35255	208	-

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

Underlying activities	Central counterparties	Banks	Other financial companies	Other entities
Contracts not subject to netting agreements				
1) Debt securities and interest rates				
- notional value	X	1,065	8,607	74,906
- positive fair value	X	-	161	1,395
- negative fair value	X	-	-	13
2) Equity instruments and stock indices				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Exchange rates and gold				
- notional value	X	381	-	2,620
- positive fair value	X	-	-	22
- negative fair value	X	3	-	1
4) Commodities				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts subject to netting agreements				
1) Debt securities and interest rates				
- notional value	-	184,747	-	-
- positive fair value	-	41,290	-	-
- negative fair value	-	42,415	-	-
2) Equity instruments and stock indices	-			
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Exchange rates and gold	-			
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Commodities	-			
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other	-	-	-	-
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Term to maturity of OTC trading financial derivatives: notional amounts

Underlying assets/Term to maturity	Up to 1 year	1 to 5 years	Over 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	81,989	115,350	71,986	269,325
A.2 Financial derivatives on equities and stock indices	-	-	-	-
A.3 Financial derivative contracts on exchange rates and gold	3,001	-	-	3,001
A.4 Financial derivative on other values	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31/01/2020	84,990	115,350	71,986	272,326
Total 31/12/2018	101,909	119,272	84,017	305,198

B. CREDIT DERIVATIVES

No trading credit derivative contracts were in place as at 31 December 2018 or as at 31 January 2020.

3.2 HEDGING POLICIES

Qualitative Information

A. Fair value hedging

Interest risk hedged transactions mainly concern the funding and lending component with medium/long-term initial duration. Fair value hedging aims to immunise changes in the fair value of deposits and loans against changes in the financial market.

The Risk Management Department monitors hedge effectiveness for hedge accounting purposes in compliance with international accounting standards, with particular reference to the identification and documentation of the hedging relation through the production of "hedging cards". Hedge effectiveness is tested through both prospective and retrospective testing on a quarterly basis.

The aims and strategies underlying these hedging transactions are to reduce interest rate risk by entering into unquoted OTC derivative contracts.

B. Cash flow hedging

Risk hedging transactions carried out according to the Cash Flow Hedge methodology are aimed at avoiding that unexpected variations in market interest rates may have negative repercussions on Net Interest Income. In particular, the aim of cash flow hedges is to immunise changes in cash flows against changes in the interest rate curve.

Interest rate risk is hedged using unlisted derivative instruments (interest rate swaps). The effectiveness of this hedge is tested periodically by the Risk Management Department. As at 31 January 2020, hedges were in place in respect of bonds issued for a nominal amount of EUR 370 mln.

C. Hedging of investments in foreign operations

As at 31 January 2020, no hedges of investments in foreign operations were in place.

D. Hedges

Hedges used in fair value hedge relations consist in OTC IRS contracts.

E. Hedged items

Fair-value hedged financial instruments include securities (assets), interest-bearing postal bonds, loans and bonds issued. Overall, assets for a nominal amount of EUR 626.0 mln and liabilities for a nominal amount of EUR 570.7 mln were hedged as at 31 January 2020.

Quantitative Information

A. HEDGING FINANCIAL DERIVATIVES

A.1 Hedging derivatives: end-of-period notional amounts

Underlying assets/Type of derivatives	Total 31/01/2020				Total 31/12/2018			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting agreement	Without netting agreement			With netting agreement	Without netting agreement	
1. Debt securities and interest rates	-	1,567,015	-	-	-	788,551	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	1,567,015	-	-	-	788,551	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity instruments and stock indices	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Exchange rates and gold	-	-	482,420	-	-	-	448,368	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forward	-	-	482,420	-	-	-	448,368	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Other	-	-	-	-	-	-	-	-
Total	-	1,567,015	482,420	-	-	788,551	448,368	-

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

Type of derivatives	Positive and negative fair value								Changes in value used to calculate hedge effectiveness	
	Total 31/01/2020				Total 31/12/2018					
	Over the counter			Organised markets	Over the counter			Organised markets	Total 31/01/2020	Total 31/12/2018
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties				
		With netting agreement	Without netting agreement			With netting agreement	Without netting agreement			
Positive Fair Value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swap	-	8,913	-	-	-	12,942	-	-	-	-
c) Cross	-	-	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-	-	-
e) Forward	-	-	174	-	-	-	900	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-	-	-
Total	-	8,913	174	-	-	12,942	900	-	-	-
Negative Fair Value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swap	-	221,029	-	-	-	199,761	-	-	-	-
c) Cross	-	-	-	-	-	-	-	-	-	-
d) Equity swap	-	-	-	-	-	-	-	-	-	-
e) Forward	-	-	3,998	-	-	-	5,108	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-	-	-
Total	-	221,029	3,998	-	-	199,761	5,108	-	-	-

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

Underlying activities	Central counterparties	Banks	Other financial companies	Other entities
Contracts not subject to netting agreements				
1) Debt securities and interest rates				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
2) Equity instruments and stock indices				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Exchange rates and gold				
- notional value	X	482,420	-	-
- positive fair value	X	174	-	-
- negative fair value	X	3,998	-	-
4) Commodities				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts subject to netting agreements				
1) Debt securities and interest rates				
- notional value	-	1,567,015	-	-
- positive fair value	-	8,913	-	-
- negative fair value	-	221,029	-	-
2) Equity instruments and stock indices				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Exchange rates and gold				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Commodities				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Term to maturity of OTC hedging financial derivatives: notional amounts

Underlying assets/Term to maturity		Up to 1 year	1 to 5 years	Over 5 years	Total
A.1 Financial derivatives on debt		501,373	597,142	468,500	1,567,015
A.2 Financial derivatives on equities		-	-	-	-
A.3 Financial derivatives on exchange rates and gold		482,420	-	-	482,420
A.4 Financial derivative on other values		-	-	-	-
A.5 Other financial derivatives		-	-	-	-
Total	31/01/2020	983,793	597,142	468,500	2,049,435
Total	31/12/2018	606,953	311,465	318,500	1,236,918

B. HEDGING CREDIT DERIVATIVES

No hedging credit derivative contracts were in place as at 31 December 2018 or as at 31 January 2020.

3.3 OTHER INFORMATION ON DERIVATIVE INSTRUMENTS (TRADING AND HEDGING)

A. FINANCIAL AND CREDIT DERIVATIVES

A.1 OTC financial and credit derivatives: net fair value by counterparty

	Central counterparties	Banks	Other financial companies	Other entities
A. Financial derivatives				
1) Debt securities and interest rates				
- notional value	-	979,837	-	-
- Positive net fair value	-	40,099	-	-
- Negative net fair value	-	227,281	-	-
2) Equity instruments and stock indices				
- notional value	-	-	-	-
- Positive net fair value	-	-	-	-
- Negative net fair value	-	-	-	-
3) Exchange rates and gold				
- notional value	-	-	-	-
- Positive net fair value	-	-	-	-
- Negative net fair value	-	-	-	-
4) Commodities				
- notional value	-	-	-	-
- Positive net fair value	-	-	-	-
- Negative net fair value	-	-	-	-
5) Other				
- notional value	-	-	-	-
- Positive net fair value	-	-	-	-
- Negative net fair value	-	-	-	-
B. Credit derivatives				
1) Credit enhancement purchases				
- notional value	-	-	-	-
- Positive net fair value	-	-	-	-
- Negative net fair value	-	-	-	-
2) Credit enhancement sales				
- notional value	-	-	-	-
- Positive net fair value	-	-	-	-
- Negative net fair value	-	-	-	-

SECTION 4 – LIQUIDITY RISK

Qualitative Information

A. Liquidity risk: general information, operational processes and measurement methods

Liquidity risk, in its main meaning as funding liquidity risk, is the risk of the Bank not being able to meet its cash outflow obligations (both expected and unexpected) and its need for collateral at an economical price, without jeopardising the core business or financial situation of the Group. Liquidity risk can be generated by events that are closely connected with the Group and its core business (idiosyncratic) and/or with external events (systemic).
The Board of Directors of the Parent Company defines the strategic policies and guidelines related to the assumption of liquidity risk. The Risk Control Committee monitors the dynamics of liquidity risk and compliance with the limits, whereas the Finance and ALM Committee monitors the actions for managing liquidity risk, which are operationally implemented by the Finance department. The Risk Management Department regularly guarantees the measurement and control of the Group's exposure to operational (short-term) and structural (medium-long term) liquidity risk.

The objective of controlling operational liquidity (short-term) is to guarantee that the Group will be able to face its expected and unexpected payment obligations over a reference period of 12 months, without jeopardising day-to-day operations. Operational liquidity is measured and monitored on a daily basis, using the operational maturity ladder. The operational maturity ladder enables an analysis of the distribution of positive and negative cash flows over time, any gaps, as well as the reserves (counterbalancing capacity) that are available to deal with such gaps.

The Risk Management Department constantly monitors the observance of the operating limits that apply to the balances of cash flows only, or to the total balances of cash flows and reserves. The Group also performs a stress test activity against the maturity ladder in use with a view to analysing the effect of exceptional albeit realistic crisis scenarios on the liquidity position and assessing the adequacy of liquidity reserves in place.
In addition to liquidity indicators, the Liquidity Coverage Ratio (LCR) is monitored, which compares the value of high quality liquid assets with that of net cash outflows in a 30-day stress scenario. At consolidated level, the value was 156% as at the end of 2017.

The Group’s treasury position as at 31 January 2020 shows an amount of unencumbered collateral and liquidity reserves that is adequate to meet future commitments.

The objective of controlling structural liquidity is to guarantee the maintenance of a suitable ratio between assets and liabilities, establishing restrictions to the possibility of financing medium-term assets with short-term liabilities and therefore limiting pressure on short-term funding.
Medium- to long-term liquidity is measured and monitored with the structural maturity ladder. The structural maturity ladder is based on the maturity mismatch model and includes demand items covering a period of up to 20 years and beyond and includes certain or modelled capital flows generated by all the balance sheet items. In this regard, the Risk Management Function has defined indicators in terms of a gap ratio on maturity dates beyond one year and the relative monitoring limits.

In addition to monitoring operating indicators, the Net Stable Funding Ratio (NSFR) is monitored, which compares the amount of funding available with compulsory funding, according to the characteristics of liquidity and the residual useful life of the various assets held.
Medium/long-term liquidity management policies, at Group level, take these limits into account when planning strategies and budget.

Lastly, the Group has adopted a Liquidity Contingency Plan (LCP) to protect the Group and its individual companies from stress conditions or from any other type of crisis, guaranteeing business continuity when faced with a sudden reduction of available liquidity. For this reason, Early Warning Indicators (EWI) that can forecast the emergence of stress conditions or liquidity crisis are monitored.

Quantitative Information

1. Time breakdown of financial assets and liabilities by contractual term to maturity
Currency: EURO

Items/time bands	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Indefinite life
A. Balance-sheet assets	2,956,633	122,721	34,134	164,510	947,446	719,781	913,156	4,847,199	6,808,518	448,271
A.1 Government securities	58	100,012	25,004	50,013	25,537	5,033	55,037	497,534	600,099	-
A.2 Other debt securities	70	-	-	-	-	40,226	40,226	30,127	685,667	18,932
A.3 Units in UCITS	14,101	-	-	-	-	-	-	-	-	-
A.4 Financing	2,942,404	22,709	9,130	114,497	921,909	674,522	817,893	4,319,538	5,522,752	429,339
- Banks	320,866	-	-	17,359	616,358	155	217	2,103	7,840	378,126
- Customers	2,621,538	22,709	9,130	97,138	305,551	674,367	817,676	4,317,435	5,514,912	51,213
B. Balance-sheet liabilities	10,442,179	87,076	14,918	149,475	1,255,710	318,789	469,800	5,281,901	908,185	-
B.1 Deposits and current accounts	10,232,898	36,751	13,667	27,055	138,987	157,583	194,596	535,635	-	-
- Banks	365,864	-	-	-	-	-	-	-	-	-
- Customers	9,867,034	36,751	13,667	27,055	138,987	157,583	194,596	535,635	-	-
B.2 Debt securities	6,150	160	-	12,056	15,325	144,068	253,506	1,135,906	645,500	-
B.3 Other liabilities	203,131	50,165	1,251	110,364	1,101,398	17,138	21,698	3,610,360	262,685	-
C. Off-balance sheet transactions										
C.1 Financial derivatives with exchange of principal										
- Long positions	59	36,659	87,252	88,770	474,776	95,747	561	514	2,826	-
- Short positions	-	16,895	309	572	2,518	1,453	376	529	329,826	-
C.2 Financial derivatives without exchange of principal										
- Long positions	36,078	-	-	1,196	608	2,118	4,089	-	-	-
- Short positions	35,354	-	-	-	-	1,630	2,574	-	-	-
C.3 Deposits and borrowings to be received										
- Long positions	-	-	50,167	-	-	-	-	-	-	-
- Short positions	-	-	50,167	-	-	-	-	-	-	-
C.4 Commitments to disburse funds										
- Long positions	873,861	268	92	19	1,874	19,708	20,261	106,060	65,922	-
- Short positions	1,088,066	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	9,376	-	-	-	-	-	188	2,260	38	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

1. Time breakdown of financial assets and liabilities by contractual term to maturity. Currency: OTHER CURRENCIES

Items/time bands	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Indefinite life
A. Balance-sheet assets	**84,197**	**546**	**1,014**	**2,410**	**4,918**	**37,187**	**18,341**	**82,205**	**218,038**	**29,500**
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	29,500
A.3 Units in UCITS	-	-	-	-	-	-	-	-	-	-
A.4 Financing	84,197	546	1,014	2,410	4,918	37,187	18,341	82,205	218,038	-
- Banks	18,233	-	-	373	126	-	-	-	-	-
- Customers	65,964	546	1,014	2,037	4,792	37,187	18,341	82,205	218,038	-
B. Balance-sheet liabilities	**40,925**	**-**	**23**	**45**	**1,098**	**1,232**	**-**	**-**	**93,015**	**-**
B.1 Deposits and current accounts	40,599	28	23	45	1,098	1,232	-	-	-	-
- Banks	2,691	-	-	-	-	-	-	-	-	-
- Customers	37,908	-	302	603	1,951	110	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	326	-	-	-	-	-	-	-	93,015	-
C. Off-balance sheet transactions										
C.1 Financial derivatives with exchange of principal										
- Long positions	-	7,336	314	585	2,544	1,519	402	-	-	-
- Short positions	62	33,486	88,490	89,298	150,966	90,290	589	-	-	-
C.2 Financial derivatives without exchange of principal										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and borrowings to be received										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Commitments to disburse funds										
- Long positions	-	163	-	-	-	-	-	-	-	-
- Short positions	163	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	157	-	-	-	-	-	647	48	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal										
- Long positions	-	-	-	-	-	120	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

SECTION 5 – OPERATIONAL RISK

Qualitative Information

Operational risk consists in the risk of incurring losses deriving from internal or external fraud, inadequacy or incorrect functioning of company procedures, human resource or internal system errors or deficiencies, interruptions or malfunctioning of services or systems (including IT), errors or omissions when performing the offered services, or exogenous events. Operational risk also includes legal risk (for example, customer claims and risks connected with the distribution of products that do not comply with regulations governing the provision of banking, investment and insurance services, and sanctions deriving from regulatory violations as well as non-compliance with procedures relative to the identification, monitoring and management of risks), but does not include strategic or reputational risk. The main sources of operational risk include the instability of operating processes, poor IT security, increasing use of automation, outsourcing of company functions, use of a reduced number of suppliers, changes in strategy, fraud, errors, recruitment, training and retaining the loyalty of personnel, and finally, social and environmental impacts. It is not possible to identify a permanently prevalent source of operational risk: operational risk differs from credit and market risks as it is not taken on by the Group as a result of strategic decisions, but is inherent in its operations.

In order to control this risk, the Banca Carige Group adopted a specific Operational Risk Management (ORM) framework that provides for a process of identification of operational risks, aimed at measuring and collecting operational risk information through the coherent and coordinated processing of all relevant sources in order to build a complete and coherent database with the Group's activity.

Consistent with the principle of safeguarding the clarity and logical coherence of the framework adopted, this information is collected on the basis of some reference models aimed at ensuring a uniform classification of the data itself. These models are the basis of the two processes characterising the identification of operational risks:

- the collection of operational losses (LDC – Loss Data Collection), in order to build a dataset of operational risk events;
- the self-assessment activity on operational risks, aimed at a future assessment of exposure to operational risks.

The Loss Data Collection process consists in the structured collection of information about operational (and reputational) events occurring within the Group's operations. The Group has implemented a methodology to ensure the availability of uniform, complete and reliable data, a prerequisite for the use of operational risk measurement and management tools. The method of collection is defined continuously to intercept malicious events in the shortest possible time period. Specifically, the operating event collection system involves the Bank's departments in identifying and reporting operational events; this will be increasingly decentralised over time. The involvement of the Bank's departments at different levels also aims to guarantee a higher quality of the information collected, as this is done by expert risk owners of the activities under their own responsibility, who progressively certify the correctness and conformity of the loss data, leading to a more aware use, also from a strategic viewpoint integrated in the decisions taken by the Management. The objective of this process of gathering operational and reputational events is therefore to build a solid and structured system with all the historical loss data, ensuring the timely reporting and management of events and the completeness and coherence of the information collected, also to appropriately identify any mitigation actions to be taken and therefore prevent operational and reputational risk events from reoccurring.

The process of Risk Self-Assessment is built with a forward-looking approach, identifying and evaluating the potential occurrence of operational events. The methodology implemented by the Banca Carige Group aims, through the collection of subjective ex-ante estimates, provided by the professional experts within the Group, to obtain a set of information useful for identifying and evaluating the potential degree of exposure to operational risks. Subjective estimates collected during the risk self-assessment process help to identify the Group's vulnerable areas and consequently define mitigation actions. The methodology implemented by the Banca Carige Group requires the risk self-assessment to be carried out at company level by the Operational Risk Control office on an annual basis. The result of the aggregation of the evaluations provided by the risk owners and any mitigation actions to be implemented are presented to the Board of Directors.

In 2019, a new specific framework for IT risk measurement, monitoring and management was implemented, taking due account of recent regulatory updates and the new layout of the Group after the IT systems were fully outsourced.

The Operational Risk Management Framework also includes a measurement, management and reporting phase.

For the purpose of quantifying its First Pillar capital, the Group has been using a "standardised" measurement approach since 31/12/2015, which involves measuring the capital requirement separately for each individual regulatory business line on the basis of a relevant indicator and specific, predetermined risk ratios. The Business lines and their ratios are defined by the Supervisory Authority (Title III of EU Regulation 575/2013). For the purposes of measuring Pillar 2 capital (ICAAP), an operational risk VaR model was developed, duly calibrated and benchmarked against strategic guidelines, using the Group's time series of operating losses.

With a view to progressive development, the management process involves the definition of operational risk assumption, reduction and transfer policies to be implemented in relation to the exposure to the Group's operational risk. This process is carried out on the basis of a conscious, targeted and objective cost/benefit analysis carried out by organisational bodies with the support of the CRO area. In general, the management tools available are: 1) reducing risk, i.e. reducing risk exposure through the implementation of risk mitigation and prevention actions. Generally this choice is connected to events with a high frequency of occurrence and a low economic impact; (2) the transfer of risk which requires the use of traditional insurance mitigation or other techniques based on financial schemes (i.e. Alternative Risk Transfer), which, while leaving the risk factors unchanged, allow the transfer of the relevant financial impact. This choice is generally connected to events with a low frequency of occurrence and higher impact; 3) the assumption of risk (passive management) foresees the acceptance by the Group of a certain level against which capital should be set aside. This choice is generally connected to events with a low frequency of occurrence and lower impact.

The Banca Carige Group has also implemented a process of monitoring and reporting of operational risks, deriving from the results obtained from the processes of identification, measurement and management of operational risks, in order to analyse and monitor the evolution of the exposure over time and guarantee adequate information towards the Top Management in a strategic and operational perspective.

As part of the Operational Risk Management (ORM) processes, the activities for preparing and populating the Italian Operating Loss Database (*Database Italiano Perdite Operative* - DIPO) established in 2003 by the Italian Banking Association (ABI), and which the Carige Group has contributed to since its establishment, were suitably integrated.

Quantitative Information

The impact, in terms of operating losses[1], for the Temporary Administration period (01/01/2019 - 31/01/2020) for Banca Carige was EUR 23.1 mln.

Risks related to ongoing proceedings

Further to the investigations initiated by the Genoa Public Prosecutor's Office, criminal proceedings no. 10688/2013 of the General Register of Crimes were instituted, in which the Bank's former Chairman Giovanni Berneschi is indicted for the offences set out in articles 2622, paragraphs 3 and 4 (false corporate communications to the detriment of the company, shareholders or creditors) and 2637 (market manipulation) of the Italian Civil Code, as well as embezzlement under art .646 of the Italian Criminal Code. To the Bank's knowledge, the facts involved in the charge were partly inferred from the findings identified by the Bank of Italy and Consob as a result of their inspections.

As part of the above, with regard to the offences that constitute a precondition for the entity's liability pursuant to Legislative Decree no. 231, being such offences attributed to a person in a senior position, the Bank was recorded in the roll of suspects due to the administrative offence resulting from a crime under article 25-ter of Legislative Decree no. 231 for false corporate communications to the detriment of the company, shareholders or creditors (art. 2622 of the Italian Civil Code) and for market manipulation (art. 2637 of the Italian Civil Code). The investigations focused, among other aspects, on the regularity of loan granting and the overall management of relations with borrowers, as well as on the compliance of the internal organisational models for loan granting and management and the preparation of financial statements with the banking industry's legislation. It should be noted that, regardless of any evaluation of the legitimacy of the charge levelled against the Bank, the risks resulting from the most severe sanctioning treatment theoretically applicable to the Bank for the unlawful acts contested are estimated not to exceed EUR 2 mln.

After the foregoing proceedings no. 10688/2013 of the General Register of Crimes were transferred to the Public Prosecutor's office of Rome for reasons of territorial jurisdiction, proceedings no. 61126/2015 of the General Register of Crimes were initiated at the Public Prosecutor's office in Rome, levelling charges of obstruction of public regulators (pursuant to article 2638 of the Italian Civil Code) and market manipulation (pursuant to article 2637 of the Italian Civil Code). The above-mentioned charges were levelled against the whole Board of Directors in office at the time of the facts for both cases, whereas the criminal offence of obstruction of public regulators was also levelled against the then General Manager and other bank executives. Banca Carige is being investigated under Legislative Decree no. 231/2001 in relation to the Company's direct liability for administrative offences committed in its interest or for its benefit pursuant to article 25-ter section s) of Legislative Decree no. 231/2001 and article 25-ter section r) of Legislative Decree no. 231/2001.

[1]Data refers to gross losses, including provisions to the fund for risks and charges, recognised for the first time during the 13 months under review. For the same period, EUR 2.26 mln worth of recoveries (recoveries from provisions, insurance recoveries and other recoveries) were recorded.

The first preliminary hearing was held on 4 May 2019, in which the Bank entered an appearance before the court and filed a document seeking to bring a civil action only against the natural persons, the Bank of Italy (for art. 2638 of the Italian Civil Code, i.e. obstruction of supervisory control), Consob (for art. 2638 of the Italian Civil Code) and Codacons (for both charges, i.e. obstruction of supervisory control and market manipulation pursuant to art. 2637 of the Italian Civil Code); in this respect, it should be noted that, at the subsequent hearing held on 13 July 2019, the Preliminary Hearing Judge admitted the entries of appearance against the defendants by Consob and the Bank of Italy solely with reference to the charge referred to in art. 2638 of the Italian Civil Code, by the shareholders solely with reference to the charge referred to in art. 2637, and by Codacons with reference to both charges; the Preliminary Hearing Judge declared that the remaining part of the claimed civil action was inadmissible (and so were the charges against Banca Carige as the indicted entity pursuant to Legislative Decree 231/01). The preliminary hearing was therefore postponed to other 3 dates reserved for discussions of all the parties; the hearing reserved for Banca Carige was held on 26 October 2019.

During the foregoing hearing, the Preliminary Hearing Judge, Ms. Marzano, after discussion of all pleas in defence, requested indictment for the Bank (as the indicted entity pursuant to Legislative Decree no. 231/01) and the other defendants, adjourning the hearing to 5 March 2020 before the Court of Rome. At the same hearing, the deadline of 25 February 2020 was set for submitting the list of witnesses.

On 5 March 2020, the first hearing took place before the Court of Rome. On that date, a new document seeking to pursue civil claims was lodged by the Bank. Having established that notices had duly been served on the defendants, the parties formally joined the proceedings before the Court.

Numerous parties have filed an application to join the proceedings as civil claimants (some also against the indicted entity pursuant to Legislative Decree 231/01). Some requests have also been made (first and foremost by CONSOB, Codacons and by the Union for Consumer Protection) to hold Banca Carige liable under civil proceedings.

The Court thus declared that the deadline for filing claims for compensation had expired, and adjourned the case to the hearing of 30 May 2020 for the objections raised by the defence in connection with the claimants' applications.

An additional hearing has been scheduled for 7 October 2020 for the party liable at civil law to join the proceedings and refer preliminary questions to the Court.

Following the Covid19 pandemic, the hearings of 30 May and 7 October were postponed, pursuant to the law, to 13 October 2020 for the same purposes.

With reference to possible liability of the Bank, the risk of the Bank losing the case was judged only possible by the lawyers.
For further information, see Part B - Liabilities, Section 10.6 "Allowances for risks and charges - other allowances", "Contingent liabilities" of the Explanatory Notes.

Criminal proceedings are additionally pending before the Court of Genoa (no. 17008/2014 of the General Register of Criminal Offences, Genoa Public Prosecutor's Office / no. 4281/2015 of the General Register of the Court of Genoa) with charges for criminal offences including criminal association, fraud, money laundering and others, connected with the management of the Group's former Insurance companies, levelled against Mr Berneschi and other individuals. The Bank is the civil claimant in the foregoing proceedings.

At the end of the trial phase, on 22 February 2016 the Court of Genoa delivered a judgement of first instance against, among others, Mr. Giovanni Berneschi, sentencing him to eight years and two months in prison, in addition to the confiscation of assets for an amount of EUR 26.8 mln and payment of damages to the Bank, to be determined in civil proceedings.

The conviction in criminal proceedings also led to a third party liability against the defendants that were held responsible for the crime of depletion of assets of the claimants (the Bank and the insurance companies).

The Court of Genoa referred the assessment of the caused damage to the competent civil court in light of the complexity of the transactions carried out.

The Court's sentence highlighted Berneschi's dominant role in the management of the Bank's loan positions, which enabled the former Chairman to acquire unlawful profits and gains.

All of the defendants challenged the decision of 22 February 2017 and proceedings were therefore brought before the Court of Appeal of Genoa; the proceedings ended on 6 July 2018, when the Court of Appeal of Genoa delivered the judgement against the defendants Berneschi, Calloni, Menconi, Cavallini, Averna, Giorgi di Vistarino, Priori and Vallebuona: the prison sentences against the defendants (with the exception of Messrs. Averna, Giorgi di Vistarino and Priori) were increased, most likely by virtue of the aggravating factor of transnationality referred to in art. 4 of Legislative Decree 146/2006 (the aggravating factor had instead been excluded by the court at first instance).

In particular, the sentence against Giovanni Berneschi was increased to 8 years and 7 months of imprisonment.

The amount of the confiscation ordered against Berneschi was also redetermined at EUR 21,461,657 (EUR 23,562,657 for Menconi and EUR 11,716,657 for Cavallini).

With reference to the position of the Bank, a civil claimant in the foregoing proceedings, the decision of the first instance was confirmed, which had ordered the defendants to pay damages, referring the settlement to the civil court; the defendants were also ordered to reimburse the costs of the appeal proceedings.

This judgement was appealed by the defendants; on 11 July 2019, the Issuer's counsel of choice was served with a notice of a hearing scheduled for 16 October 2019 before the Second Criminal Chamber of the Supreme Court of Cassation.

In its ruling of 16 October 2019, the Supreme Court annulled the first- and second-instance conviction issued by the Court of Genoa and the Court of Appeal of Genoa, respectively, as well as the decree ordering the proceedings, identifying the Court of Milan as the competent jurisdiction.

More specifically, the Supreme Court upheld the jurisdiction plea –taking over all other issues challenged- raised by the defendants as of the preliminary hearing; the arguments on this point put forward by the Judge for the preliminary hearing and, at a later stage, by the Court and the Court of Appeal of Genoa were judged incorrect in the light of the intervening ruling on legitimacy (United Chambers) no. 53390/2017, which - resolving a previous case-law conflict- established that for the purposes of a potential teleological connection between crimes under art. 12, letter c) of the Code of Criminal Procedure (eligible for causing a change of jurisdiction), "no identity equivalence is required between the perpetrators of the final crime and those of the intermediate crime".

In this specific case, after having ascertained that Mr. Enderlin certainly contributed to the aims of the criminal association (which all defendants, including Mr. Enderlin, were charged with) being himself involved in money laundering -a crime that was ordered to be tried separately by the Preliminary

Hearing Judge of Genoa and transferred to the Court of Milan-, the Court of Cassation, on the basis of this teleological connection between the crimes and the fact that no identity equivalence is required between the perpetrators, has ordered that all the crimes charged against the defendants be referred to the jurisdiction of the Court of Milan, as the most serious and the most remote money laundering act was committed there (i.e. the act attributed to Mr. Enderlin, which the Court of Genoa dismissed for lack of jurisdiction).

The decision of the Supreme Court resulted in the invalidity of all the contested measures, with the proceedings being brought before the Public Prosecutor's Office at the Court of Milan for the Public Prosecutor to decide about the new course of court proceedings against the defendants.

On 5 March, Lawyer Mr. Francesco Mucciarelli, in his capacity as Banca Carige's counsel, was served the summons for a preliminary hearing before the Court of Milan (judge Ms. Mascarino) to be held on 11 June 2020. Pursuant to the law, the hearing will be postponed probably until after 30/07/2020 due to the current health crisis.

Further to a jurisdictional plea raised by the defence of one of the defendants in the foregoing proceedings, the indictment position of the afore-mentioned defendant was ordered to be tried separately and transferred to the Court of Milan as part of new criminal proceedings, now in the trial phase; the Bank is likewise the civil claimant in the latter proceedings (no. 27020/2015 of the general register of criminal offences of the Milan Public Prosecutor's Office - no. 7015/16 Court of Milan).

On 30 May 2018, the Court of Milan, Section XI (criminal proceedings), as a collegiate body, delivered a judgment (with statement of reasons filed on 17 July) against the defendant Enderlin Davide Domenico, who was sentenced to 5 years and 6 months of imprisonment, in addition to a EUR 15,000.00 fine, with perpetual disqualification from public office, legal disqualification during enforcement of penalties and compensation for damages to the civil claimants to be settled under separate proceedings.

On 21 May 2019, the Milan Court of Appeal, Fourth Criminal Section, overturning the first-instance ruling for the crimes of conspiracy and money laundering, acquitted the defendant, Mr. Davide Domenico Enderlin, because the fact does not constitute a crime.

Pursuant to the requests made by the General Prosecutor and the civil claimant, Amissima Assicurazioni S.p.a., the Bank sought confirmation of the first instance ruling. On 4 September 2019, the General Prosecutor at the Milan Court of Appeal appealed against the acquittal of the defendant, Mr Enderlin. The Supreme Court annulled the acquittal sentence, referring the case to a new section of the Milan Court of Appeal.

Part F

SHAREHOLDERS' EQUITY

SECTION 1 – SHAREHOLDERS' EQUITY

A. Qualitative Information

The new Basel III supervisory regulations defined by EU Regulation 575/2013 (CRR) came into force on 1 January 2014. These regulations were implemented by the Bank of Italy in its Circular 285/2013 and subsequent updates based on which the Banca Carige Group adopts the measures required to maintain an adequate amount of capital in order to face the risks connected with its operations.

Share capital as at 31 January 2020 amounted to EUR 1,915,163,696 and consisted of 755,265,855,473 ordinary shares and 25,542 savings shares; the shares have no indication of par value.

For additional information, see the Consolidated Report on Operations and Explanatory Notes.

B. Quantitative information

B.1 Shareholders' equity: breakdown

Items/Amounts	Amount 31/01/2020	Amount 31/12/2018
1. Share capital	1,915,164	1,845,164
2. Share premium reserves	623,958	-
3. Reserves	(77,155)	202,191
- from profits	(263,774)	15,572
a) legal reserve	-	-
b) statutory reserve	-	-
c) treasury shares	15,572	15,572
d) other	(279,346)	-
- other	186,619	186,619
4. Equity instruments	-	-
5. (Treasury shares)	(15,572)	(15,572)
6. Valuation reserves	(92,170)	(104,892)
- Equity instruments at fair value through other comprehensive income	3,483	2,426
- Hedging of equity instruments at fair value through other comprehensive income	-	-
- Financial assets (other than equity instruments) at fair value through other comprehensive income	(204)	(3,081)
- Property and equipment	-	-
- Intangible assets	-	-
- Hedges of foreign investments	-	-
- Cash flow hedges	(73,585)	(86,042)
Hedging instruments (non-designated elements)	-	-
- Exchange differences	-	-
- Non-current assets held for sale and discontinued operations	-	-
- Financial liabilities measured at fair value through profit or loss (own creditworthiness changes)	-	-
- Actuarial gains (losses) on defined benefit plans	(21,864)	(18,195)
- Share of valuation reserves of equity investments valued at equity	-	-
- Special revaluation laws	-	-
7. Net Profit (Loss) for the year	(850,470)	(279,784)
Total	1,503,753	1,647,107

B.2 Valuation reserves of financial assets at fair value through other comprehensive income: breakdown

Asset/Amounts	Total 31/01/2020		Total 31/12/2018	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	-	204	-	3,081
2. Equity instruments	4,243	760	2,808	382
3. Loans	-	-	-	-
Total	4,243	964	2,808	3,463

Valuation reserves of financial assets at fair value through other comprehensive income: annual changes

	Debt securities	Equity instruments	Loans
1. Opening balance	(3,081)	2,426	-
2. Increases	2,919	1,571	-
2.1 Increases in fair value	2,631	1,571	-
2.2 Losses on impairment	1	X	-
2.3 Reversal to profit and loss of negative reserves: following disposal	287	X	-
2.4 Transfers to other comprehensive shareholders' equity (equity instruments)	-	-	-
2.5 Other increases	-	-	-
3. Decreases	(42)	(514)	-
3.1 Decreases in fair value	(33)	(514)	-
3.2 Recoveries on impairment	(9)	-	-
3.3 Reversal to profit and loss of positive reserves: following disposal	-	X	-
3.4 Transfers to other comprehensive shareholders' equity (equity instruments)	-	-	-
3.5 Other decreases	-	-	-
4. Closing balance	(204)	3,483	-

B.4 Valuation reserves relating to defined benefit plans: annual changes

	Employee termination indemnities	Company pension fund	Total
1. Opening balance	(6,303)	(11,892)	(18,195)
2. Increases	(1,914)	(3,292)	(5,206)
3. Decreases	633	904	1,537
4. Closing balance	(7,584)	(14,280)	(21,864)

SECTION 2 – OWN FUNDS AND REGULATORY RATIOS

The own funds and capital adequacy information provided is a Groupwide absolute disclosure that falls within the Pillar 3 disclosure to the public provided by the Parent Company Banca Carige at a consolidated level.

Some information is also contained in the Report on Operations of these Financial Statements.

Part G

BUSINESS COMBINATIONS

SECTION 1 – TRANSACTIONS PERFORMED DURING THE YEAR

1.1. Business combinations

During the year, no business combinations, as regulated by IFRS 3, paras 59 a, 60 and 63 were carried out.

Conventionally, this section includes “business combinations between entities under common control”.

SECTION 2 – TRANSACTIONS PERFORMED AFTER THE END OF THE REPORTING PERIOD

2.1. Business combinations

No business combinations were performed after the end of the reporting period.

SECTION 3 – RETROSPECTIVE ADJUSTMENTS

No retrospective adjustments were made after the end of the 2019 reporting period.

Part H

RELATED-PARTY TRANSACTIONS

This section contains information regarding related parties as required by IAS 24 "Related Party Disclosures".

This section also supplies information on most significant transactions excluded from the application of procedures set out pursuant to Consob notice no. 17221 of 12 March 2010, in accordance with the provisions set forth by the Regulation on transactions with related parties adopted by the Board of Directors of Banca Carige.

1. Information on compensation of Key Management Personnel

1.1 Information on compensation paid to directors, statutory auditors and executives with strategic responsibilities

The table below does not take into account the remuneration of the bodies set up during the Temporary Administration period (Temporary Administrators and members of the Surveillance Committee), appointed by the ECB on 2 January 2019.

	31/01/2020	31/12/2018
Remuneration for Directors (*)	-	2,596
Remuneration for Auditors (**)	-	319
Remuneration for executives with strategic responsibility	3,071	2,386
Total	**3,071**	**5,301**

(EUR/000)

(*) Remuneration gross of the amounts paid to Directors ceasing to hold office and of the amounts paid to the Directors of the Subsidiaries for functions carried out.
(**) Payments net of VAT and social security contributions for the industry.

The amounts indicated refer to compensation paid to directors, statutory auditors and executives with strategic responsibilities.

2. Information on related-party transactions

2.1 Relations with shareholders exercising significant influence and investees (EUR/000)

	Assets	Liabilities	Guarantees and commitments	Income	Expenses	Dividends paid
Shareholders that may exercise significant influence and company of the Group to which they belong	303	-	-	-	9,962	-

	Assets	Liabilities	Guarantees and commitments	Income	Expenses	Dividends collected
Subsidiaries	281,315	339,521	821	16,946	5,794	-
Companies subject to significant influence and their subsidiaries	-	3,324	51	-	5	9,399
TOTAL	281,315	342,845	872	16,946	5,799	9,399

2.2 Relations with other related parties (EUR/000)

Type of relationship	**Total**	**Revenues**	**Costs**
Assets	651	8	-
Liabilities	1,205	-	8
Guarantees	-	-	-
Costs for purchasing assets and services	-	-	-

(EUR/000)

Details on investees can be found under “Relations with investee companies” in the Report on Operations.

Other related parties include:

a) “executives with strategic responsibility for the entity" refers to those who have the power and responsibility, directly or indirectly, for the management and control of the Bank's activities, including Directors, Statutory Auditors, the Chief Executive Officer and key Managers;

b) "close relatives of one of the parties referred to under item a) above" refers to persons who are expected to influence, or be influenced by, the interested party in their relations with the Bank and therefore, by way of example, may include the cohabitant partner and dependents of the interested party or cohabitant partner;

c) “parties controlled by, jointly controlled by or subject to the significant influence of one of the parties referred to under items above or in which such parties hold significant direct or indirect voting rights”.

2.3 Most significant transactions

Described below are the most significant transactions with related parties and connected persons resolved upon during Temporary administration, all falling under the assumption of exemption from the decision-making process laid down in the Regulation for related parties and connected persons:

- in their meeting of 30 April 2019, the Temporary Administrators approved transactions related to the covered bond issuance programmes and the securitisation transactions Lanterna Lease, Lanterna Finance and Argo Mortgage 2 Lanterna Consumer, with the counterparties being Carige Covered Bond S.r.l., Carige Covered Bond 2 S.r.l., Lanterna Lease S.r.l., Lanterna Finance S.r.l. and Argo Mortgage 2, which are related parties to Banca Carige S.p.A. and connected parties to the Banca Carige Group. Although of greater relevance, the transactions at issue were exempt from being subject to the afore-mentioned decision-making process required by the above Regulation inasmuch as they were carried out with companies with which there is a relationship of total control or because there are no significant interests of other related parties in the transactions;
- in their meeting of 22 October 2019, the Temporary Administrators resolve to repurchase receivables relating to positions included in the scope of project "Hydra", with the counterparties being Carige Covered Bond S.r.l., Carige Covered Bond 2 S.r.l. and Lanterna Finance S.r.l., which are related parties to Banca Carige S.p.A. and connected parties to the Banca Carige Group. Although of greater relevance, the transactions at issue were exempt from being subject to the afore-mentioned decision-making process required by the above Regulation inasmuch as they were carried out with companies with which there is a relationship of total control or because there are no significant interests of other related parties in the transactions. A similar transaction, likewise exempt from being subject to the decision-making process required by the afore-mentioned Regulation, was approved by the Board of Directors of the subsidiary Banca del Monte di Lucca S.p.A. at its meeting of 8 November 2019.

Part I

SHARE-BASED PAYMENTS

A. Qualitative Information

1. Description of share-based payment agreements

The Remuneration Policies were approved by Banca Carige's Temporary Administrators at their meeting of 9 April 2019. The policies were not submitted to the Ordinary Shareholders' Meeting, as no Ordinary Shareholders' Meeting was held in 2019. The Temporary Administrators decided to approve a Remuneration Policy document for 2019, which, although lacking an actual performance-related variable given the company's performance and situation, was -from a prudential, forward-looking perspective- the basis for both full regulatory compliance and the implementation of the new Supervisory Provisions on the subject (Circ. 285/2013 - 25th update of 23/10/2018). During the reporting period, no incentive scheme was established at a group and bank level and, therefore, no financial instruments linked to the value of the Parent Company shares were assigned during the reporting period to any potential recipient (Identified Staff) of the aforementioned scheme.
It should also be noted that, at the request of the Supervisory Authority, no issues relating to the Remuneration Policies were put on the agenda of the Shareholders' Meeting of 31/1/2020 (end date of the Temporary Administration period).

B. Quantitative Information

1. Annual changes

There were no annual changes.

2. Other information

There are no remaining deferred shares of incentives schemes for prior periods.

Part L

SEGMENT REPORTING

Segment reporting is provided on a consolidated level.

Part M

LEASING

SECTION 1 - LESSEE

Qualitative Information

a) Scope

The Group has defined the amount of Euro 5 thousand as the threshold for identifying lease contracts in which the underlying asset is of low value and has elected not to apply the accounting criteria provided for by IFRS 16 to such contracts, mainly for tablets, personal computers, printers, photocopiers, telephones and small office furniture[1] [2].
Payments under such lease contracts are recognised as administrative expenses spread out on a straight-line pro rata basis over the lease term.

The scope of application of IFRS 16 within the Group only refers to property and equipment (there are in fact no cases relating to intangible assets) and includes the following three areas:

- ✓ Land and buildings[3];
- ✓ Cars;
- ✓ Automated Teller Machines (ATMs).

b) Criteria adopted by the Group

✓ Interest rate

Since the interest rate implicit in the lease was generally not available, payments due for leasing were discounted for all outstanding contracts using the Bank's own incremental borrowing rate at the date of initial application. Similarly, to the interest rate implicit in the lease, this rate takes into account the creditworthiness of the lessee, the lease term, the nature and quality of the collateral, and the economic environment in which the transaction takes place and is therefore in line with IFRS16.
The rate was identified as the "amortizing internal transfer rate (ITT)" of funding and was determined for each lease contract, taking into account the term of the contract and the frequency of payments.

✓ Lease payments

Lease payments payable only include rents and exclude value added tax charges (VAT)[4].
On the basis of the definition of "lease payment" - whereby payments under a lease contract are those made by the lessee to the lessor - all administrative expenses relating to leased assets other than lease payments (maintenance costs, operational costs of buildings, insurance policy premiums, overheads, etc.) are excluded from the carrying amount of the right of use asset and liability, since they relate to a counterparty other than the lessor.

The "low value" exemption is applicable to all possible categories of leased assets, with an assessment for each lease contract.
[2] Following first-time adoption of IFRS 16, however, the Group has elected not to apply the accounting criteria in IFRS 16 to short-term leases.
[3] This is the most relevant area and refers to the following types of lease agreements:

- lease of buildings for commercial use;
- lease of buildings to be used by employees (housing);
- lease of parking spaces;
- lease agreements (mainly, areas for installing ATMs or similar).

[4]VAT is in fact a tax levied by the lessor on behalf of the tax authority and is therefore recognised independently as an administrative expense.

With reference to real estate leases, variable lease payments payable exist which depend on an index (National Statistics Institute, ISTAT); such payments are initially valued on the basis of the initial rent and are subsequently reviewed on the basis of the timing of the update and the value of the ISTAT index specific to each lease contract.

- ✓ Lease term

The lease term is the non-cancellable period of a lease, together with both:
(a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
(b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

The general application criteria adopted by the Group to define the lease term for the three areas within the scope are:

Renewal options

- ✓ Land and buildings
  - o contracts entered into for a fixed term, i.e. with no possibility of renewal: no renewal;
  - o contracts with extension period options: a period of extension beyond the initial period.

  With regard to contracts with "extraordinary maintenance of third party premises", it was deemed necessary to ensure consistency between the end date of amortisation of multi-year charges and the end date of the lease term in accordance with IFRS16.
- ✓ Cars

  Even if the contract includes renewal provisions, the Group does not consider it reasonable to exercise the renewal option.

  These are generally fixed term contracts.
- ✓ Automated Teller Machines (ATMs)

  All contracts expire on 31 December 2028, i.e. the date on which the IT system outsourcing agreement will expire.

Early repayment option

For all types of leases, the early repayment option can only be considered under specific circumstances, in which there is evidence that the option has been exercised (for example, in the event of an agreement with the lessor or withdrawal, including on the basis of the Group's plan for branch disposal).
The lease term is updated for lease contracts for premises used by branches which were identified for closure by a resolution adopted as part of the Group's business plans, with termination of contract being formalised.
The lease term does not include the periods in which the Group pays the lessor monthly occupancy allowances, as during these periods the premises are not being used for the financial rewards associated with the Group's operations.[5]

Lease term exceptions to the foregoing general application criteria are only possible if there is clear and documented evidence.

✓ <u>Separation of lease components</u>

The Group has elected not to apply the practical expedient provided for in paragraph 15 of IFRS 16. Therefore, leases are accounted for by separating the lease components from the non-lease components.
Within the scope of application of IFRS 16 for the Group, the types of contracts that contain both a lease and non-lease component and that are accounted for separately in accordance with other applicable accounting standards are:
- <u>lease of cars</u>: car rental also includes a "service charge" which is kept separate from the lease component and is normally recognised under administrative expenses;
- <u>lease of ATMs</u>: lease payments only take into account the share of the rent relating to the hardware component of the ATM and not that relating to software, which is recognised in accordance with IAS 38.

✓ <u>Estimated costs of restoring or dismantling the right-of-use assets</u>

Right of use assets recognised by the Group's banks generally do not include the estimated costs of restoring or dismantling.
As a rule, no such charge exists for leased cars and ATMs.
In the case of real estate, contracts are usually entered into with a clause whereby the bank waives refunds for improvements made and may, at its discretion, vacate the premises in the state in which they are (leaving fixtures behind at its discretion and without any obligation to restoring the site).

[5] In such cases, under contractual agreements with the lessor, the contract is terminated but a certain subsequent period (in which monthly occupancy allowances are paid) is required to fully vacate the premises.

- ✓ Initial direct costs incurred by the lessee

With the exception of taxes and duties, in the Group's case only the agency fees paid to the intermediary for the lease of the property, if any, would be recognised as initial direct costs.
However, considering that, as a rule, agency fees are equal to one month's rent, they are not included (as they are not material) in the value of the right of use but are rather charged directly to the income statement.

- ✓ Impairment

Pursuant to IAS 36, an impairment test is performed to assess whether there is any indication that a right of use asset may be impaired.
It may, for example, happen that, although the use of the assets has terminated, the obligation to pay the lease for a certain period stills remain in place. In these cases, impairment losses are recognised in the income statement to reduce the carrying amount of the Right-of-Use (RoU) to zero.

Quantitative disclosure

Reference should be made to the information contained in the following tables in sections "B - Balance Sheet" and "C - Income Statement" of the Explanatory Notes:

- rights of use acquired under leases
  - ✓ table "8.6 - Property and equipment used in the business: annual changes", specifically required for rights of use acquired under leases;
  - ✓ table "12.1 - Net adjustments to/recoveries on property and equipment: breakdown", with reference to depreciation, impairment losses and recoveries relating to rights of use acquired under leases.

- lease liabilities
  - ✓ tables "1.1 Financial liabilities at amortised cost: breakdown of due to banks", "1.2 Financial liabilities at amortised cost: breakdown of due to customers" and "1.6 Lease liabilities";
  - ✓ table "1.3 Interest and similar expense: breakdown".

- administrative expenses for short-term, low-value leases and variable lease payments due not included in the valuation of lease liabilities:
  - ✓ footnote to table "10.5 Other administrative expenses: breakdown".

SECTION 2 - LESSOR

Qualitative Information

Banca Carige operates in the financial lease sector. Its products are also placed by subsidiary banks. Operations are mainly focused on real estate assets for civil and industrial use. Purchases of equipment, vehicles and boats are also financed.

The Bank does not operate in the operating lease sector.

Quantitative disclosure

1. Balance Sheet and Income Statement information

Receivables from finance leases, net of write-downs, are shown in Part B - Assets of the Explanatory Notes, in table 4.2 (Financial assets at amortised cost: breakdown of loans to customers), item 1.5 (Finance leases), for a total of EUR 476,999 thousand. EUR 7,799 thousand worth of receivables under work-in-progress lease contracts are posted under item 1.7 (Other loans).
Net non-performing lease receivables amount to a total of EUR 51,543 thousand, of which EUR 50,213 thousand posted to item 1.5 and EUR 1,330 thousand to item 1.7 of table 4.2 of loans to customers.
As at 31/01/2020, there were no receivables relating to finance leases with banks.

Interest income from finance leases is shown in Part C of the Explanatory Notes, table "1.1 Interest and similar income" under "o.w. interest income from finance leases" and amounts to EUR 9,026 thousand.

2. Financial leases

The following table shows lease payments receivable according to the time bands (maturity analysis) set out in paragraph 94 of IFRS 16. The amounts are shown net of value adjustments and of the unguaranteed residual value due to the lessor, while they include unearned finance income.

For the purposes of reconciling the amount shown in the table and the amount shown in Part B - Assets of the Explanatory Notes, Table 4.2 (Financial assets at amortised cost: breakdown of loans to customers), item 1.5 (Lease receivables), it is therefore necessary to deduct the unearned financial income and add the unguaranteed residual value.

Time bands	Total 31/01/2020 Payments to be received for leasing
Up to 1 year	105,879
1 to 2 years	52,269
2 to 3 years	44,229
3 to 4 years	38,010
4 to 5 years	34,896
Over 5 years	154,966
Total payments to be received for leasing	430,249
Reconciliation with lease financing	46,750
Non-accrued financial gains (-)	89,308
Non-guaranteed outstanding amount (+)	136,058
Leasing	476,999

The Group elected not to provide comparative data for the previous year, pursuant to IFRS16 on first-time adoption.

2.2 Other information

Reported below is a table showing gross implicit receivables broken down by type of underlying asset:

2.2 Breakdown of gross implicit receivables by type of leased asset

	31/01/2020	31/12/2018
Industrial properties	280,227	298,322
Residential properties	206,775	234,001
Equipment, plant and machinery	62,747	73,207
Motor vehicles	8,300	9,959
Boats	1,252	5,611
Total	**559,301**	**621,100**

ANNEXES

Disclosure pursuant to art. 149-*duodecies* of the Consob Issuers' Regulation

This table reports the fees for the period 01.01.2019 - 31.01.2020 relating to auditing services and services other than auditing provided by the independent auditing firm Reconta EY S.p.A. and/or entities belonging to the auditing firm's network (*).

Type of services	Service provider	User of the service	Remuneration (EUR/000)
Auditing	EY S.p.A.	Banca Carige S.p.A.	566
Certification	EY S.p.A.	Banca Carige S.p.A.	30
Services relating to the share capital increase	EY S.p.A.	Banca Carige S.p.A.	250
Other services	EY S.p.A.	Banca Carige S.p.A.	110
Total			**956**

(*)Fees net of VAT and out-of-pocket expenses

SUMMARY INFORMATION ON SUBSIDIARIES

SUMMARY INFORMATION ON DIRECTLY CONTROLLED SUBSIDIARIES WHICH HAVE NOT ADOPTED THE INTERNATIONAL ACCOUNTING STANDARDS

(EUR/000)	Centro Fiduciario SpA in liquidation	Carige REOCO SpA
BALANCE SHEET	(1)	(2)
ASSETS		
Loans to banks	49	11,561
Other loans	-	359
Securities	380	-
Equity investments	-	-
Tangible and intangible fixed assets	-	3,742
Other assets	36	22,490
Total assets	**465**	**38,152**
LIABILITIES		
Due to banks	261	19,332
Other payables	94	724
Other liabilities	110	134
Shareholders' equity	-	17,962
Total liabilities	**465**	**38,152**
INCOME STATEMENT		
Profit (loss) on operating activities	(515)	145
Extraordinary profit (loss)	-	(1,302)
Taxes	-	(57)
Net Profit (Loss) for the year	**(515)**	**(1,214)**

(1) Financial Statements as at 31/12/2018 drafted by the Board of Directors (latest available set of approved financial statements).

(2) Financial Statements as at 31/12/2019 drafted by the Board of Directors.

Shareholders' equity is inclusive of profit/loss for the year.

SUMMARY INFORMATION ON DIRECTLY CONTROLLED SUBSIDIARIES WHICH PREPARE THE FINANCIAL STATEMENTS ON THE BASIS OF THE INTERNATIONAL ACCOUNTING STANDARDS (IAS/IFRS)

(EUR/000)	Banca del Monte di Lucca SpA	Banca Cesare Ponti SpA	Argo Mortgage 2 Srl	Carige Covered Bond Srl	Carige Covered Bond 2 Srl	Lanterna Finance Srl	Lanterna Lease Srl	Lanterna Consumer Srl
BALANCE SHEET	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
ATTIVO								
Financial assets measured at fair value through profit and loss	322	83	18,590					
Financial assets at amortised cost	593,249	307,397	59,018	10	10	10	10	5
a) Loans to banks	127,208	220,620	59,018	10	10	10	10	5
b) Loans to customers	444,817	43,035	-	-	-	-	-	-
c) Securities issued	21,224	43,742	-	-	-	-	-	
Equity investments	-	-	-	-	-	-	-	-
Property & equipment and intangible assets	20,097	12,181	-	-	-	-	-	-
Other assets	64,611	16,756	1,942	6	7	6	4	6
Total assets	678,279	336,417	79,550	16	17	16	14	11
LIABILITIES								
Financial liabilities at amortised cost	582,043	285,907	84,161	-	-	-	-	-
a) Due to banks	17,657	38,542	40,734	-	-	-	-	-
b) Due to customers	524,380	247,365	-	-	-	-	-	-
c) Securities issued	40,006	-	43,427	-	-	-	-	-
Financial liabilities held for trading at fair value	10	-	-	-	-	-	-	-
Other liabilities	63,678	27,892	92	6	7	6	4	1
Shareholders' equity	32,548	22,618	(4,703)	10	10	10	10	10
Total liabilities	678,279	336,417	79,550	16	17	16	14	11
INCOME STATEMENT								
Net interest and other banking income	18,128	10,057	26	-	-	-	-	-
Net losses/recoveries on impairment losses	(14,755)	(1,066)	-	-	-	-	-	-
Operating expenses	(21,078)	(9,759)	(80)	-	-	-	-	-
impairment off goodwill	-	-	-	-	-	-	-	-
Other profit and income	471	18	-	-	-	-	-	-
Taxes	334	56	-	-	-	-	-	-
Net profit (loss) for the year	(16,900)	(694)	(54)	-	-	-	-	-

(1) Financial Statements as at 31/12/2019 drafted by the Directors.

Shareholders' equity is inclusive of profit/loss for the year.

SUMMARY INFORMATION ON COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE

(EUR/000)	Autostrada dei Fiori SpA	Nuova Erzelli Srl
BALANCE SHEET	(1)	(2)
ASSETS		
Loans to banks	59,410	14
Other loans	18,028	-
Securities	-	-
Equity investments	28,263	2,987
Tangible and intangible fixed assets	557,623	-
Other assets	166,379	11
Total assets	**829,703**	**3,012**
LIABILITIES		
Due to banks	-	-
Other payables	238,906	152
Other liabilities	114,789	7
Shareholders' equity	476,008	2,853
Total liabilities	**829,703**	**3,012**
INCOME STATEMENT		
Profit (loss) on operating activities	63,663	(9)
Extraordinary profit (loss)	-	-
Taxes	(18,138)	-
Net profit (loss) for the year	**45,525**	**(9)**

(1) Reporting package as at 31/12/2019 drafted by the Directors.
(2) Financial statements as at 31/12/2017 (latest available set of approved financial statements).

Shareholders' equity is inclusive of profit/loss for the year.

INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS OF BANCA CARIGE S.P.A.

Report on the Audit of the Financial Statements
(Translation from the original Italian text)

To the Temporary Administrators of
Banca Carige S.p.A. – Cassa di Risparmio di Genova e Imperia

Opinion

We have audited the financial statements for the period of the Temporary Administration of Banca Carige S.p.A. – Cassa di Risparmio di Genova e Imperia (the "Company" or the "Bank"), which comprise the balance sheet at January 31, 2020, the income statement, the statement of comprehensive income, the statement of changes in equity, and the cash flow statement for the period from January 1, 2019 to January 31, 2020 and the notes to the financial statements.

In our opinion, the financial statements for the period of the Temporary Administration of Banca Carige S.p.A. – Cassa di Risparmio di Genova e Imperia at January 31, 2020 have been prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing article 9 of Legislative Decree n. 38, dated February 28, 2005 and article 43 of Legislative Decree n. 136, dated August 18, 2015.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in section *Auditor's Responsibilities for the Audit of the Financial Statements for the Period of the Temporary Administration* of our report. We are independent of the Company in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

Without modifying our conclusions, we draw attention on the material uncertainties on the Company's ability to continue as a going concern in a foreseeable future described in paragraph "Going concern" of the explanatory notes of the financial statements for the period of the Temporary Administration.

Specifically, the Temporary Administrators inform that they have assessed both the execution of the Capital Strengthening and the reconstitution of an ordinary and stable governance the significant uncertainties connected to the current macroeconomic context and to the potential consequences of the spread of the coronavirus pandemic, of which the Temporary Administrators point out that they are not able to fully measure the effects on the Bank's activity and on its accounts after January 31, 2020, and on the achievement of the 2019-2023 Strategic Plan objectives within the expected timetable.

The extraordinary Commissioners also report that, at the closing date of the Temporary Administration, not all the derisking actions planned by them in the 2019-2023 Strategic Plan were completed, even if they remain planned for the financial year 2020 despite the macroeconomic context following the Covid-19 pandemic, which significantly increased the uncertainty associated with their completion both in terms of time and modality.

Finally, the Temporary Administrators highlight how the aforementioned uncertainties are however mitigated, in addition to the complex countercyclical measures implemented by the Italian Government and, within the European Union, also by the specific and recent interventions of the ECB of March 12, 2020 which allow the banks, given the current situation, to operate temporarily below the minimum capital thresholds provided by the *Pillar 2 Guidance* and the *Capital Conservation Buffer*, respectively.

On the basis of the foregoing, despite the significant uncertainties described above, the Temporary Administrators believe that the Company has the reasonable expectation of continuing in operational existence in the foreseeable future and of complying with the minimum prudential requirements regarding own funds and of liquidity and, therefore, have prepared the financial statements for the period of the Temporary Administration on a going concern basis.

Other matters

This auditor's report is not issued pursuant to the provisions of the Italian law, since the Company is subject to the Temporary Administration and the financial statements have been prepared for the purposes of article 75, paragraph 2 of Italian Legislative Decree 385/93.

Responsibilities of the Temporary Administrators and of the Supervisory Board for the financial statements for the period of the Temporary Administration

The Temporary Administrators are responsible for the preparation of the financial statements for the period of the Temporary Administration which give a true and fair view in accordance with Italian rules governing the criteria for the preparation of the financial statements and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Temporary Administrators are responsible for assessing the Company's ability to continue as a going concern and, when preparing the financial statements for the period of the Temporary Administration, for the appropriateness of the application of the going concern assumption, and for appropriate disclosure thereof. The Temporary Administrators prepare the financial statements for the period of the Temporary Administration on a going concern basis unless they either intend to liquidate the Company or to cease trading, or have no realistic alternative but to do so.

The Supervisory Board of the Temporary Administration ("Consiglio di Sorveglianza") is responsible, within the terms provided by the law, for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements for the period of the Temporary Administration

Our objectives are to obtain reasonable assurance about whether the financial statements for the period of the Temporary Administration as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements for the period of the Temporary Administration.

As part of an audit in accordance with International Standards on Auditing (ISAs), we exercised professional judgment and maintained professional skepticism throughout the audit. Furthermore:

- we identified and assessed the risks of material misstatement of the financial statements for the period of the Temporary Administration, whether due to fraud or error; we designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- we evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Temporary Administrators;
- the financial statements for the period of the Temporary Administration has been prepared on the going concern assumption; we concluded on the appropriateness of Temporary Administrators' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures or, if such disclosures are inadequate, to evaluate that circumstance while forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- we evaluated the presentation, structure and content of the financial statements for the period of the Temporary Administration, as a whole, including related disclosures and whether the financial statements for the period of the Temporary Administration represent the underlying events.

We communicated with the Temporary Administrators regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Genoa, May 28, 2020

EY S.p.A.
Signed by: Marco Bozzola, auditor

This report has been translated into the English language solely for the convenience of international readers.

List of IAS/IFRS standards endorsed by the European Commission as at 31.01.2020

1) International accounting standards (IAS/IFRS)

IAS/IFRS	DESCRIPTION	ENDORSING EC REGULATION
Framework (1)	Framework	Reg. 2075/2019 (06/12/2019)
IAS 1	Presentation of Financial Statements	Reg. 1274/2008 (18/12/2008); Reg. 53 (22/01/2009), Reg. 70 (24/01/2009), Reg. 494 (12/06/2009), Reg. 243/2010 (24/03/2010); Reg. 149/2011 (19/02/2011); Reg. 475/2012 (06/06/2012); Reg. 301/2013 (28/03/2013); Reg. 1255/2012 (29/12/2012); Reg. 2113/2015 (24/11/2015); Reg. 2406/2015 (19/12/2015); Reg. 2067/2016 (29/11/2016), Reg. 1905/2016 (29/10/2016), EU Reg. 2019/2104 (10/12/2019); Reg. 2075/2019 (06/12/2019)
IAS 2	Inventories	Reg. 1126/2008 (29/11/2008), Reg. 70 (24/01/2009); Reg. 1255/2012 (29/12/2012); Reg. 2067/2016 (29/11/2016), Reg. 1905/2016 (29/10/2016)
IAS 7	Statement of Cash Flows	Reg. 1126/2008 (29/11/2008), Reg. 1260 (17/12/2008), Reg. 1274 (18/12/2008), Reg. 70/2009 (24/01/2009); Reg. 494/2009 (12/06/2009); Reg. 243/2010 (24/03/2010); EU Reg. 1174/2013 (20/11/2013); EU Reg. 1990/2017 (09/11/2017)
IAS 8	Accounting Policies, Changes in Estimates and Errors	Reg. 1126/2008 (29/11/2008), Reg. 1274 (18/12/2008), Reg. 70/2009 (24/01/2009); Reg. 1255/2012 (29/12/2012); Reg. 2067/2016 (29/11/2016); EU Reg. 2019/2104 (10/12/2019); Reg. 2075/2019 (06/12/2019)

IAS 10	Events after the Reporting Period	Reg. 1126/2008 (29/11/2008), Reg. 1274 (18/12/2008), Reg. 70/2009 (23/01/2009), Reg. 1142 (27/11/2009); Reg. 1255/2012 (29/12/2012); Reg. 2067/2016 (29/11/2016)

IAS 12	Income Tax	Reg. 1126/2008 (29/11/2008), Reg. 1274 (18/12/2008), Reg. 495 (12/06/2009); Reg. 1255/2012 (29/12/2012); EU Reg. 1174/2013 (20/11/2013); Reg. 2067/2016 (29/11/2016), Reg. 1905/2016 (29/10/2016); EU Reg. 1989/2017 (09/11/2017); Reg. 412/2019 (15/03/2019)
IAS 16	Property, Plant and Equipment	Reg. 1126/2008 (29/11/2008), Reg. 1260 (17/12/2008), Reg. 1274 (18/12/2008), Reg. 70/2009 (24/01/2009); Reg. 495 (12/06/2009); Reg. 1255/2012 (29/12/2012); Reg. 301/2013 (28/03/2013); Reg. 28/2015 (09/01/2015); Reg. 2113/2015 (24/11/2015); Reg. 2231/2015 (03/12/2015), Reg. 1905/2016 (29/10/2016)
IAS 17	Leasing	Reg. 1126/2008 (29/11/2008), Reg. 243/2010 (24/03/2010); Reg. 1255/2012 (29/12/2012); Reg. 2113/2015 (24/11/2015)
IAS 19	Employee Benefits	Reg. 1126/2008 (29/11/2008), Reg. 1274 (18/12/2008), Reg. 70/2009 (24/01/2009); Reg. 475/2012 (06/06/2012); Reg. 1255/2012 (29/12/2012); Reg. 29/2015 (09/01/2015); Reg. 2343/2015 (16/12/2015); Reg. 182/2018 (08/02/2018); Reg. 402/2019 (14/03/2019)

IAS 20	Accounting for Government Grants and Disclosure of Government Assistance	Reg. 1126/2008 (29/11/2008), Reg. 1274 (18/12/2008), Reg. 70/2009 (24/01/2009); Reg. 1255/2012 (29/12/2012); Reg. 2067/2016 (29/11/2016)
IAS 21	The Effects of Changes in Foreign Exchange Rates	Reg. 1126/2008 (29/11/2008), Reg. 1274 (18/12/2008), Reg. 69 (24/01/2009), Reg. 494 (12/06/2009); Reg. 149/2011 (19/02/2011); Reg. 1255/2012 (29/12/2012); Reg. 2067/2016 (29/11/2016)
IAS 23	Financial charges	Reg. 1260 (17/12/2008), Reg. 70/2009 (24/01/2009); Reg. 2113/2015 (24/11/2015); Reg. 2067/2016 (29/11/2016); Reg. 412/2019 (15/03/2019)

IAS 24	Related Party Disclosures	Reg. 1126/2008 (29/11/2008), Reg. 1274 (18/12/2008), Reg. 632/2010 (20/07/2010); EU Reg. 1174/2013 (20/11/2013); Reg. 28/2015 (09/01/2015)
IAS 26	Accounting and Reporting by Retirement Benefit Plans	Reg. 1126/2008 (29/11/2008)
IAS 27	Separate Financial Statements	Reg. 1126/2008 (29/11/2008), Reg. 1274 (18/12/2008), Reg. 69/2009 (24/01/2009), Reg. 70/2009 (24/01/2009), Reg. 494/2009 (12/06/2009); Reg. 1254/2012 (29/12/2012); Reg. 1174/2013 (21/11/2013); Reg. 2441/2015 (18/12/2015)
IAS 28	Investments in Associates and Joint Ventures	Reg. 1126/2008 (29/11/2008), Reg. 1274 (18/12/2008), Reg. 70/2009 (24/01/2009), Reg. 494 (12/06/2009), Reg. 495 (12/06/2009); Reg. 149/2011 (19/02/2011); Reg. 1254/2012 (29/12/2012); Reg. 1255/2012 (29/12/2012); Reg. 2441/2015 (18/12/2015); Reg. 1703/2016 (23/09/2016); Reg. 2067/2016 (29/11/2016); Reg. 2067/2016 (29/11/2016); Reg. 182/2018 (08/02/2018); Reg. 237/2019 (11/02/2019)

IAS 29	Financial Reporting in Hyperinflationary Economies	Reg. 1126/2008 (29/11/2008), Reg. 1274 (18/12/2008), Reg. 70/2009 (24/01/2009)
IAS 32	Financial instruments: presentation	Reg. 1126/2008 (29/11/2008), Reg. 1274 (18/12/2008), Reg. 53/2009 (22/01/2009), Reg. 70/2009 (24/01/2009), Reg. 494 (12/06/2009), Reg. 495 (12/06/2009), Reg. 1293/2009 (24/12/2009); Reg. 149/2011 (19/02/2011); Reg. 1255/2012 (29/12/2012); Reg. 1256/2012 (29/12/2012); Reg. 301/2013 (28/03/2013); EU Reg. 1174/2013 (20/11/2013); Reg. 1905/2016 (29/10/2016), Reg. 2067/2016 (29/11/2016)
IAS 33	Earnings per Share	Reg. 1126/2008 (29/11/2008), Reg. 1274 (18/12/2008), Reg. 494 (12/06/2009), Reg. 495 (12/06/2009); Reg. 1255/2012 (29/12/2012); Reg. 2067/2016 (29/11/2016)

IAS 34	Interim Financial Reporting	Reg. 1126/2008 (29/11/2008), Reg. 1274 (18/12/2008), Reg. 70/2009 (24/01/2009), Reg. 495 (12/06/2009); Reg. 149/2011 (19/02/2011); Reg. 1255/2012 (29/12/2012); Reg. 301/2013 (28/03/2013); EU Reg. 1174/2013 (20/11/2013); Reg. 2343/2015 (16/12/2015); Reg. 2406/2015 (19/12/2015), Reg. 1905/2016 (29/10/2016); Reg. 2075/2019 (06/12/2019)
IAS 36	Impairment of Assets	Reg. 1126/2008 (29/11/2008), Reg. 1274 (18/12/2008), Reg. 69/2009 (24/01/2009), Reg. 70/2009 (24/01/2009), Reg. 495 (12/06/2009), Reg. 243/2010 (24/03/2010); Reg. 1255/2012 (29/12/2012); Reg. 1374/2013 (20.12.2013); Reg. 2113/2015 (24/11/2015); Reg. 2067/2016 (29/11/2016), Reg. 1905/2016 (29/10/2016)

IAS 37	Provisions, Contingent Liabilities and Contingent Assets	Reg. 1126/2008 (29/11/2008), Reg. 1274 (18/12/2008), Reg. 495 (12/06/2009); Reg. 28/2015 (09/01/2015); Reg. 2067/2016 (29/11/2016), Reg. 1905/2016 (29/10/2016); Reg. 2075/2019 (06/12/2019)
IAS 38	Intangible assets	Reg. 1126/2008 (29/11/2008), Reg. 1260 (17/12/2008), Reg. 1274 (18/12/2008), Reg. 70/2009 (24/01/2009), Reg. 495 (12/06/2009), Reg. 243/2010 (24/03/2010); Reg. 1255/2012 (29/12/2012); Reg. 28/2015 (09/01/2015); Reg. 2231/2015 (03/12/2015), Reg. 1905/2016 (29/10/2016); Reg. 2075/2019 (06/12/2019)
IAS 39	Financial Instruments: recognition and measurement	Reg. 1126/2008 (29/11/2008), Reg. 1274 (18/12/2008), Reg. 53 (22/01/2009), Reg. 70 (24/01/2009); Reg. 494 (12/06/2009), Reg. 495 (12/06/2009), Reg. 824/2009 (10/09/2009); Reg. 839/2009 (16/09/2009); Reg. 1171/2009 (01/12/2009); Reg. 243/2010 (24/03/2010); Reg. 149/2011 (19/02/2011); Reg. 1255/2012 (29/12/2012); EU Reg. 1174/2013 (20/11/2013); Reg. 1375/2013 (20/12/2014); Reg. 28/2015 (09/01/2015); Reg. 2343/2015 (16/12/2015); Reg. 2067/2016 (29/11/2016), Reg. 1905/2016 (29/10/2016); Reg. 34/2020 (16/01/2020)

IAS 40	Investment Property	Reg. 1126/2008 (29/11/2008), Reg. 1274 (18/12/2008), Reg. 70/2009 (24/01/2009); Reg. 1255/2012 (29/12/2012); Reg. 1361/2014 (18/12/2014); Reg. 2113/2015 (23/11/2015), Reg. 1905/2016 (29/10/2016); Reg. 2018/400 (15/03/2018)
IAS 41	Agriculture	Reg. 1126/2008 (29/11/2008), Reg. 1274 (18/12/2008), Reg. 70/2009 (24/01/2009); Reg. 1255/2012 (29/12/2012); Reg. 2113/2015 (24/11/2015)

IFRS 1	First-time Adoption of International Financial Reporting Standards	Reg. 1126/2008 (29/11/2008), Reg. 1260 (17/12/2008), Reg. 1274 (18/12/2008), Reg. 69 (24/01/2009), Reg. 70 (24/01/2009), Reg. 254 (26/03/2009), Reg. 494 (12/06/2009), Reg. 495 (12/06/2009), Reg. 1136 (26/11/2009), Reg. 1164 (01/12/2009), Reg. 550/2010 (24/06/2010), Reg. 574/2010 (01/07/2010), Reg. 662/2010(24/07/2010); Reg. 149/2011 (19/02/2011); Reg. 1255/2012 (29/12/2012), Reg. 183/2013 (05/03/2013), Reg. 301/2013 (28/03/2013), Reg. 313/2013 (04/04/2013); EU Reg. 1174/2013 (20/11/2013); Reg. 2173/2015 (25/11/2015); Reg. 2343/2015 (16/12/2015); Reg. 2441/2015 (18/12/2015); Reg. 2067/2016 (29/11/2016), Reg. 1905/2016 (29/10/2016); Reg. 182/2018 (08/02/2018)
IFRS 2	Share-based Payment	Reg. 1126/2008 (29/11/2008), Reg. 1261 (17/12/2008), Reg. 495 (12/06/2009), Reg. 243/2010 (24/03/2010); Reg. 244/2010 (24/03/2010); Reg. 1255/2012 (29/12/2012); Reg. 28/2015 (09/01/2015); Reg. 2067/2016 (29/11/2016); Reg.289/2018 (27/02/2018); Reg. 2075/2019 (06/12/2019)
IFRS 3	Business Combinations	Reg. 1126/2008 (29/11/2008), Reg. 495/2009 (12/06/2009); Reg. 149/2011 (19/02/2011); Reg. 1255/2012 (29/12/2012); EU Reg. 1174/2013 (20/11/2013); Reg. 1361/2014 (18/12/2014); Reg. 28/2015 (09/01/2015); Reg. 2067/2016 (29/11/2016), Reg. 1905/2016 (29/10/2016); Reg. 412/2019 (15/03/2019); Reg. 2075/2019 (06/12/2019)

IFRS 4	Insurance Contracts	Reg. 1126/2008 (29/11/2008), Reg. 1274/2008 (18/12/2008), Reg. 494/2009 (12/06/2009), Reg. 1165/2009 (01/12/2009); Reg. 1255/2012 (29/12/2012); Reg. 2406/2015 (19/12/2015); Reg. 2067/2016 (29/11/2016), Reg. 1905/2016 (29/10/2016); Reg. 1988/2017 (09/11/2017)

IFRS 5	Non-current Assets Held for Sale and Discontinued Operations	Reg. 1126/2008 (29/11/2008), Reg. 1274/2008 (18/12/2008), Reg. 70/2009 (24/01/2009); Reg. 494/2009 (12/06/2009), Reg. 1142/2009 (27/11/2009), Reg. 243/2010 (24/03/2010); Reg. 1255/2012 (29/12/2012); Reg. 2343/2015 (16/12/2015); Reg. 2067/2016 (29/11/2016)
IFRS 6	Exploration for and Evaluation of Mineral Resources	Reg. 1126/2008 (29/11/2008); Reg. 1255/2012 (29/12/2012); Reg. 2075/2019 (06/12/2019)
IFRS 7	Financial instruments: disclosures	Reg. 1126/2008 (29/11/2008),Reg. 1274/2008 (18/12/2008), Reg. 53/2009 (22/01/2009), Reg. 70/2009 (24/01/2009), Reg. 495/2009 (12/06/2009), Reg. 824/2009 (10/09/2009); Reg. 1165/2009 (01/12/2009), Reg. 574/2010 (01/07/2010); Reg. 149/2011 (19/02/2011); Reg. 1205/2011 (22/11/2011); Reg. 1256/2012 (29/12/2012); EU Reg. 1174/2013 (20/11/2013); Reg. 2343/2015 (16/12/2015); Reg. 2406/2015 (19/12/2015); Reg. 2067/2016 (29/11/2016); Reg. 182/2018 (08/02/2018); Reg. 34/2020 (16/01/2020)
IFRS 8	Operating segments	Reg. 1126/2008 (29/11/2008), Reg. 1274/2008 (18/12/2008), Reg. 243/2010 (24/03/2010); Reg. 632/2010 (20/07/2010); Reg. 28/2015 (01/01/2015); Reg. 2406/2015 (19/12/2015)
IFRS 9	Financial instruments	Reg. 2016/1905 (22/09/2016); EU Reg. 2067/2016 (29/11/2016); Reg. 498/2018 (26/03/2018); Reg. 237/2019 (11/02/2019); Reg. 34/2020 (16/01/2020)
IFRS 10	Consolidated Financial Statements	Reg. 1254/2012 (29/12/2012); Reg. 313/2013 (04/04/2013); Reg. 1174/2013 (21/11/2013); Reg. 2441/2015 (18/12/2015); Reg. 1703/2016 (23/09/2016); Reg. 182/2018 (08/02/2018)
IFRS 11	Joint arrangements	Reg. 1254/2012 (29/12/2012); Reg. 313/2013 (04/04/2013); Reg. 2173/2015 (25/11/2015); Reg. 2441/2015 (18/12/2015); Reg. 412/2019 (15/03/2019)

IFRS 12	Disclosure of interests in other entities	Reg. 1254/2012 (29/12/2012); Reg. 313/2013 (04/04/2013); Reg. 1174/2013 (21/11/2013); Reg. 1703/2016 (23/09/2016); Reg. 182/2018 (08/02/2018)
IFRS 13	Fair Value Measurement	Reg. 1255/2012 (29/12/2012); Reg. 1361/2014; Reg. 28/2015 (18/12/2014); Reg. 2067/2016 (29/11/2016)
IFRS 15	Revenue from Contracts with Customers	Reg. 1905/2016 (29/10/2016); Reg. 1987/2017 (09/11/2017)
IFRS 16	Leasing	Reg. 1986/2017 (09/11/2017)

2) Interpretations (SIC/IFRIC)

SIC/IFRIC	DESCRIPTION	ENDORSING EC REGULATION (Date of publication in the Official Journal of the European Community)
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	Reg. 1126/2008 (29/11/2008), Reg. 1260/2008 (17/12/2008), Reg. 1274/2008 (18/12/2008)
IFRIC 2	Members' Shares in Co-operative Entities and Similar Instruments	Reg. 1126/2008 (29/11/2008), Reg. 53/2009 (22/01/2009), Reg. 301/2013 (28/03/2013); Reg. 2067/2016 (29/11/2016)
IFRIC 4	Determining Whether an Arrangement Contains a Lease	Reg. 1126/2008 (29/11/2008), Reg. 254/2009 (26/03/2009)

IFRIC 5	Rights arising from interests in Decommissioning, Restoration and Environmental Rehabilitation Funds	Reg. 1126/2008 (29/11/2008); Reg. 2343/2015 (16/12/2015); Reg. 2067/2016 (29/11/2016)
IFRIC 6	Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment	Reg. 1126/2008 (29/11/2008)
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies	Reg. 1126/2008 (29/11/2008), Reg. 1274/2008 (18/12/2008); Reg. 2343/2015 (16/12/2015)
IFRIC 10	Interim Financial Reporting and Impairment	Reg. 1126/2008 (29/11/2008), Reg. 1274/2008 (18/12/2008); Reg. 2067/2016 (29/11/2016); Reg. 2075/2019 (06/12/2019)
IFRIC 12	Service Concession Arrangements	Reg. 254/2009 (26/03/2009); Reg. 2231/2015 (03/12/2015); Reg. 2067/2016 (29/11/2016), Reg. 1905/2016 (29/10/2016)
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	Reg. 1263/2008 (17/12/2008); Reg. 1274/2008 (18/12/2008), Reg. 633/2010 (20/07/2010)
IFRIC 16	Hedges of Net Investment in a Foreign Operation	Reg. 460/2009 (05/06/2009); Reg. 243/2010 (24/03/2010); Reg. 2067/2016 (29/11/2016)
IFRIC 17	Distributions of Non-cash Assets to Owners	Reg. 1142/2009 (27/11/2009)

IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	Reg. 662/2010 (24/07/2010); Reg. 2067/2016 (29/11/2016); Reg. 2075/2019 (06/12/2019)
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	Reg. 1255/2012 (29/12/2012); Reg. 2075/2019 (06/12/2019)
IFRIC 21	Levies	Reg. 634/2014 (14/06/2014) (see amendment to Reg. 634 of 08.2014 page 11)
IFRIC 22	Foreign Currency Transactions and Advance Consideration	Reg. 519/2018 (03/04/2018); Reg. 2075/2019 (06/12/2019)
IFRIC 23	Uncertainty over Income Tax Treatments	Reg. 1595/2018 (24/10/2018)
SIC 7	Introduction of the Euro	Reg. 1126/2008 (29/11/2008), Reg. 1274/2008 (18/12/2008), Reg. 494/2009 (12/06/2009)
SIC 10	Government Assistance – No Specific Relation to Operating Activities	Reg. 1126/2008 (29/11/2008), Reg. 1274/2008 (18/12/2008)
SIC 15	Operating Leases – Incentives	Reg. 1126/2008 (29/11/2008), Reg. 1274/2008 (18/12/2008)
SIC 25	Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders	Reg. 1126/2008 (29/11/2008), Reg. 1274/2008 (18/12/2008)
SIC 27	Evaluating the Substance of Transactions in the Legal Form of a Lease	Reg. 1126/2008 (29/11/2008), Reg. 1905/2016 (29/10/2016)
SIC 29	Disclosure – Service Concession Arrangements	Reg. 1126/2008 (29/11/2008), Reg. 1274/2008 (18/12/2008), Reg. 254/2009 (26/03/2009)
SIC 32	Intangible Assets – Web Site Costs	Reg. 1126/2008 (29/11/2008), Reg. 1274/2008 (18/12/2008), Reg. 1905/2016 (29/10/2016); Reg. 2075/2019 (06/12/2019)

The framework of the international accounting standards is not an applicable accounting standard and it cannot be used to justify exceptions to the standards adopted.
However, it can be used to interpret and apply existing standards. The objectives of the reference framework include support to the IASB and national accounting standard boards for the development of new standards and the implementation of convergence projects for national and international standards.
In case of conflict between the reference framework and some accounting standards, the international accounting standard shall always prevail.
It is divided into four main sections: a) the objective of the financial statements; b) the qualitative characteristics that determine the usefulness of information in financial statements; c) the definition, recognition and measurement of the elements that form the financial statements; d) concepts of capital and capital conservation.