CONSOLIDATED FINANCIAL REPORT FOR THE PERIOD 01.02.2020-31.12.2020

GRUPPO BANCA CARIGE

BANCA CARIGE GROUP
CONSOLIDATED FINANCIAL REPORT FOR THE PERIOD
01.02.2020-31.12.2020

NOTE 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

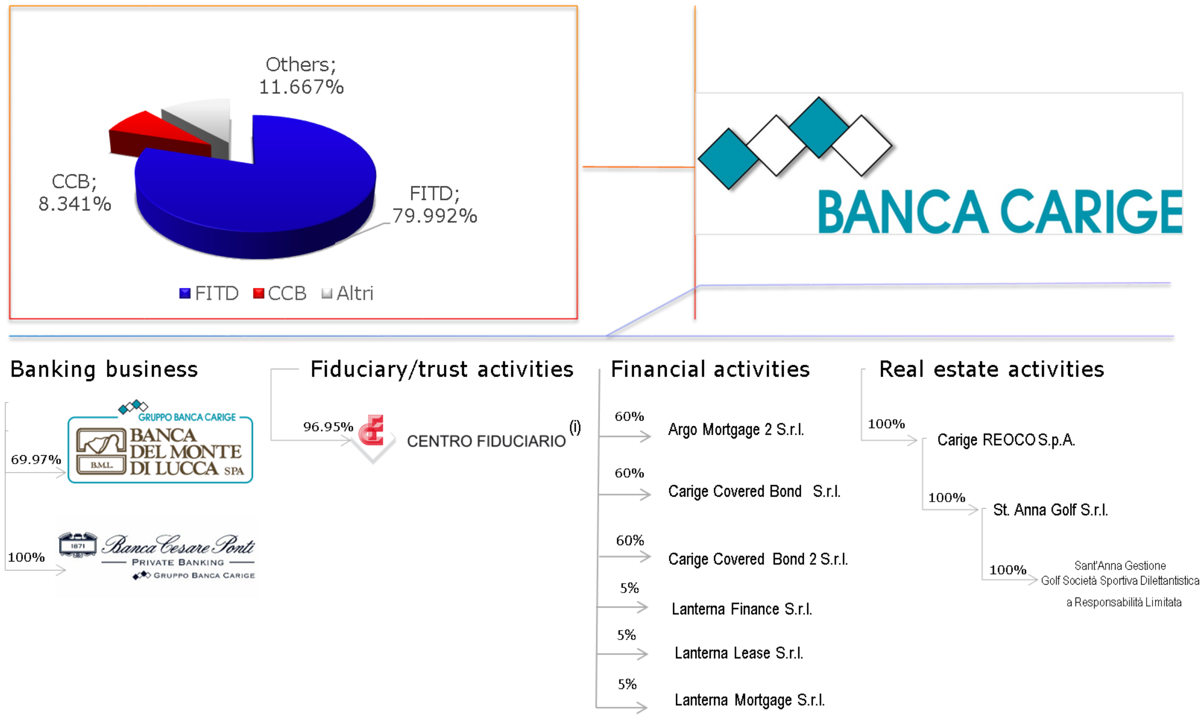
INTRODUCTION

The Banca Carige Group 's Consolidated Financial Statements for the period 1 February 2020 - 31 December 2020 were prepared in accordance with the international accounting standards IAS/IFRS in force as at this reporting date and related interpretations (SIC/IFRIC) officially approved by the European Commission 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), having regard to the additions published on 15 December 2020 to the provisions of the same Circular by the Bank of Italy in the context of the Covid-19 pandemic[1], as well as to the 'Covid-19 - Warning notice on financial statements', published by Consob on 16 February 2021[2].
In the preparation of these Consolidated Financial Statements, account was also taken, as far as applicable, of the interpretative and supporting documents issued by the main European and international institutions that provide recommendations on the information to be disclosed in the Financial Report, in relation to the application of certain standards (in particular IFRS 9) or certain transactions in the context of the Covid-19 pandemic.
This Consolidated Financial Report comprises the Financial Statements as at 31 December 2020, the Explanatory Notes and Annexes, and is accompanied by the Directors' 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 Group's business, as well as main risks and uncertainties encountered, particularly in consideration of the effects arising from the Covid 19 crisis.
The Banca Carige Group's Financial Statements are audited by EY S.p.A.

[1] This communication supplements the provisions governing banks' financial statements contained in Circular 262 of 2005 and subsequent updates, with a view to providing the market with information on the effects that Covid-19 and the measures to support the economy have had on the strategies, objectives and policies of risk management and on the profit/loss and balance sheet position of intermediaries.
[2] Warning notice No. 1/21 of 16 February 2021, re.: Covid-19 - measures to support the economy - Warning notice on the information to be provided: by supervised issuers, supervisory bodies and auditing firms in relation to the 2020 financial statements prepared in accordance with the international accounting standards; by companies publishing 2020 non-financial reports; by listed issuers and supervisory bodies at meetings where resolutions on capital measures are adopted; by preparers of bidding documents and prospectuses; by issuers subject to the Market Abuse Regulation (MAR).

STRUCTURE OF THE BANCA CARIGE GROUP



(i) in liquidation

GRUPPO BANCA CARIGE

PARENT COMPANY'S BOARD OF DIRECTORS, BOARD OF STATUTORY AUDITORS AND INDEPENDENT AUDITORS AS AT 31 DECEMBER 2020

BOARD OF DIRECTORS

CHIEF EXECUTIVE OFFICER
Francesco Guido

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

BOARD OF STATUTORY AUDITORS

CHAIRMAN
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

The Ordinary Shareholders' Meeting of 31/01/2020 appointed the Board of Directors and the Board of Statutory Auditors for the financial years 2020, 2021 and 2022, 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.
Angelo Barbarulo, appointed Deputy Chair of the Board of Directors at the aforementioned Shareholders' Meeting of 31/01/2020, tendered his resignation with immediate effect on 26/06/2020.
Following his resignation, on 14 October 2020 the Board of Directors co-opted, pursuant to Article 2386 of the Italian Civil Code, Director Paolo Ravà, who was concurrently appointed member of the Risk Committee.
The Chairman of Banca Carige S.p.A., Vincenzo Calandra Buonaura, passed away on 28 December 2020.

The Board of Directors also set up the following Board-internal Committees, the composition of which, as at today, is:
= Risk Committee: Miro Fiordi (Chair), Paola Demartini, Paolo Ravà and Leopoldo Scarpa;
= Nomination, Governance and Sustainability Committee: Lucia Calvosa (Chair) and Sabrina Bruno;
= Remuneration Committee: Francesco Micheli (Chair), Sabrina Bruno and Miro Fiordi;
= Related-Parties Committee: Gaudiana Giusti (Chair), Lucia Calvosa and Francesco Micheli.

PARENT COMPANY'S BOARD OF DIRECTORS, BOARD OF STATUTORY AUDITORS AND INDEPENDENT AUDITORS AS AT THE DATE OF PUBLICATION

BOARD OF DIRECTORS

CHAIR
Giuseppe Boccuzzi

DEPUTY CHAIR
Paolo Ravà

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.

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At its meeting on the same day, the Board of Directors appointed Francesco Guido as Chief Executive Officer.
Angelo Barbarulo, appointed Deputy Chair of the Board of Directors at the aforementioned Shareholders' Meeting of 31/01/2020, tendered his resignation with immediate effect on 26 June 2020.
Following his resignation, on 14 October 2020 the Board of Directors co-opted, pursuant to Article 2386 of the Italian Civil Code, Director Paolo Ravà, who was concurrently appointed member of the Risk Committee.
The Chairman of Banca Carige S.p.A., Vincenzo Calandra Buonaura, passed away on 28 December 2020.
On 22 February 2021, the ordinary Shareholders' Meeting appointed Giuseppe Boccuzzi and Paolo Ravà as members of the Board of Directors, to serve until the date of the Shareholders' Meeting called to approve the financial statements for the year ending 31 December 2022; the Shareholders' Meeting further appointed Giuseppe Boccuzzi and Paolo Ravà to serve respectively as Chair and Deputy Chair of the Board of Directors.

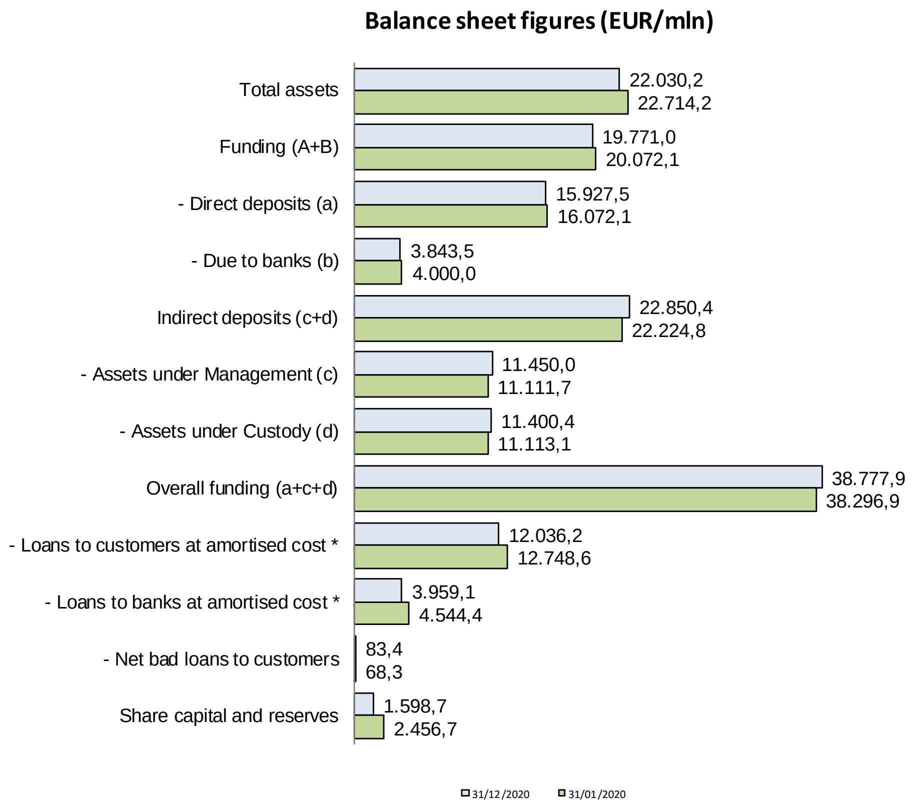
The Board of Directors also set up the following Board-internal Committees, the composition of which, as at today, is:
= Risk Committee: Miro Fiordi (Chair), Paola Demartini, Paolo Ravà and Leopoldo Scarpa;
= Nomination, Governance and Sustainability Committee: Lucia Calvosa (Chair), Giuseppe Boccuzzi and Sabrina Bruno.
= Remuneration Committee: Francesco Micheli (Chair), Sabrina Bruno and Miro Fiordi;
= Related-Parties Committee: Gaudiana Giusti (Chair), Lucia Calvosa and Francesco Micheli.

POWERS AND DELEGATED AUTHORITIES OF THE GOVERNING BODIES

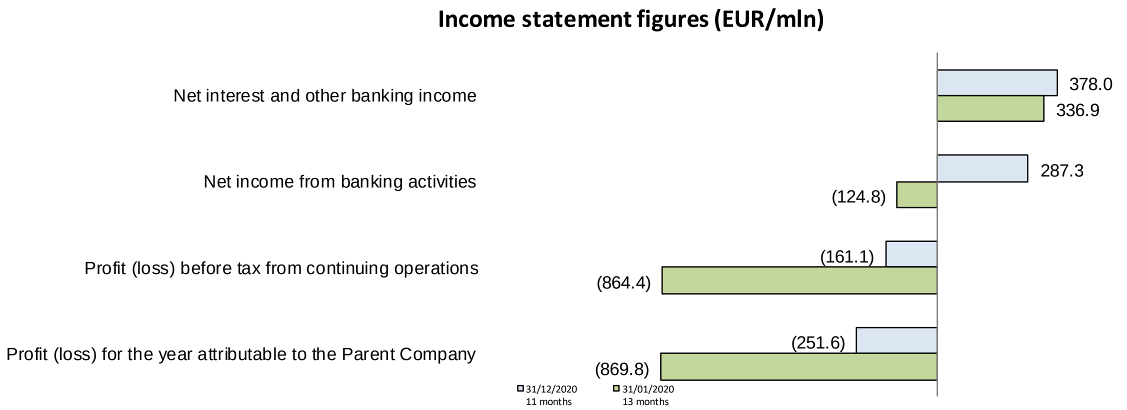
For information regarding the powers and delegated authorities of the Board of Directors, restored as of 31 January 2020, and the Management, please refer to the separate document: "Corporate Governance and Ownership Structure Report for 2020", available in the "Governance" section of the Bank's website at www.gruppocarige.it.

FINANCIAL HIGHLIGHTS FOR THE GROUP

P&L and balance sheet figures as at 31 December 2020 refer to an 11-month period (01.02.2020 – 31.12.2020), after Temporary Administration ended on 31 January 2020.

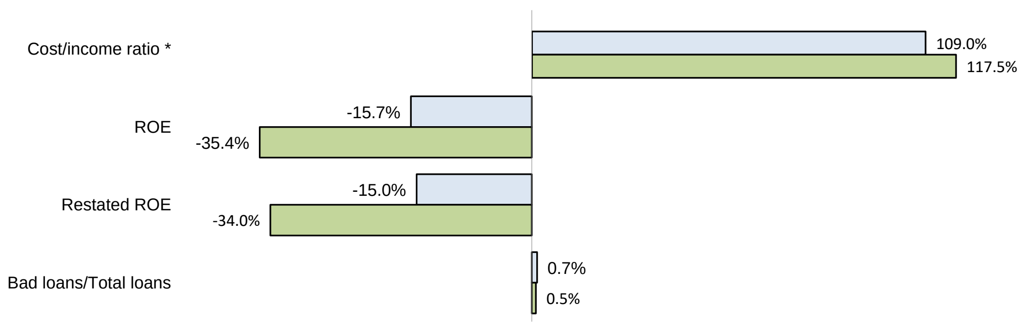


* After value adjustments and debt securities at amortised cost.



	Situation as at	
	31/12/2020	31/01/2020
RESOURCES (end of period)		
Number of branches	380	439
Headcount	3,617	3,714

KPIs (%) (1)



* This indicator differs from that originally published in the Consolidated Financial Statements for the Financial Period under Temporary Administration (145.4%) due to the reclassifications of the Consolidated Financial Statements

(1) In order to facilitate the understanding of the Group's economic and financial performance, some Alternative Performance Measures ("APMs") have been identified. These indicators also represent the tools that help directors identify operating trends and make decisions about investments, allocation of resources and other business decisions.
For a correct interpretation of these APMs, taking into account the guidelines issued by ESMA on 5 October 2015 and in force since 3 July 2016, the following is highlighted:

i. these indicators are constructed on the exclusive basis of the Group's historical data and are not indicative of the future performance of the Group;
ii. APMs are not required by international accounting standards ("IFRS") and, although they are derived from the Group's consolidated financial statements, they are not subject to auditing;
iii. APMs must not be considered as substitutes for the indicators required by the reference accounting standards (IFRS);
iv. APMs shall be referred to in combination with the Group's financial information drawn from the Group's consolidated financial statements;
v. as they do not derive from the reference accounting standards, the definitions of the indicators used by the Group may not be consistent -and hence comparable- with those adopted by other companies / groups.

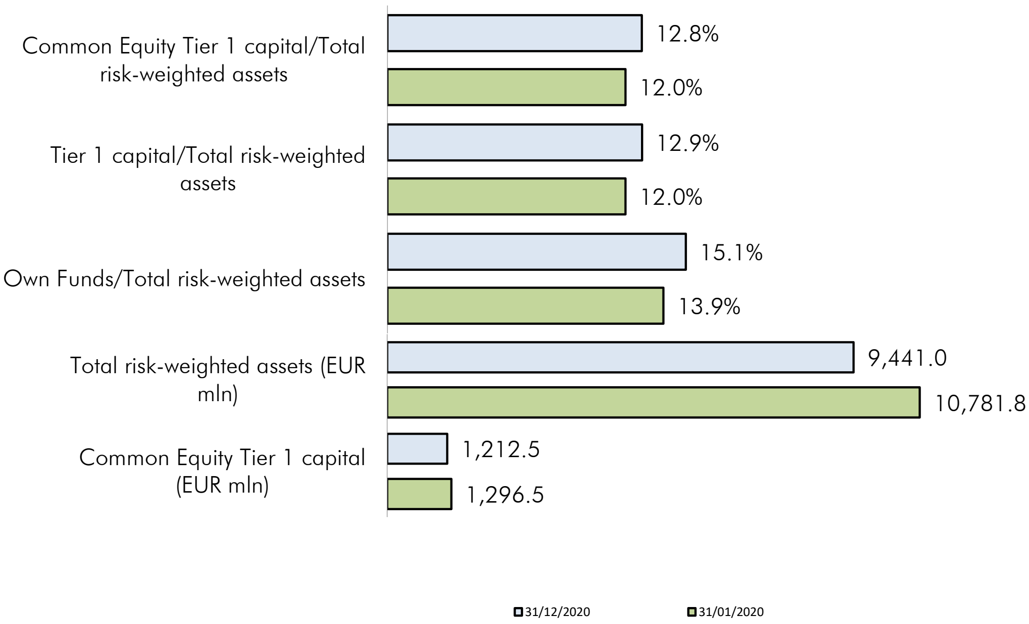
With reference to profitability indicators, the above-mentioned APMs have been selected and described as the Group believes that:

- The Cost / Income ratio, calculated as the ratio between operating expenses and operating income, is one of the main indicators of the Bank's and the Group's management efficiency; the lower the value expressed by this indicator, the greater the efficiency.
- Return on Equity (ROE) obtained by dividing profit (loss) for the period by the Group's equity net of profit (loss) for the period, and the Adjusted Return on Equity (Adjusted ROE), obtained by dividing profit (loss) for the period by the Group's equity net of profit (loss) for the period and valuation reserves, are economic indicators of return on equity. These indicators are used to verify the rate of return on equity, i.e. the return on the equity invested in the company by the shareholders. They can be considered as a synthesis of the overall return on equity, reflecting how the own funds were managed to increase business results.
- The Net bad loans / Loans to customers indicator is reflective of the share of bad loans on total loans to customers.

Reported below are the reference values for the calculation method of selected APMs:

– Cost/income ratio: ratio of operating expenses (Income Statement items 190, 210 and 220, net of tax recoveries under item 230, contributions to the Single Resolution Fund and Deposit Guarantee Scheme, DTA fees, non-recurring net adjustments to/recoveries on property and equipment and intangible assets and net of other charges (item 190) relating to the one-off transactions set forth in the Strategic Plan) and operating income (Items 30, 60, 70, 80, 90, 100 and 110 (both for the securities component only), net of non-recurring items, and Income statement item 230 net of tax recoveries, non-recurring items and, unlike previously reported, net of other charges relating to the one off-transactions set forth in the Strategic Plan;
– ROE: ratio of Net Profit (Loss) for the period attributable to the Parent Company (Income Statement item 350) to the Group's share capital and reserves (Balance Sheet Liabilities items 120, 150, 160, 170 and 180)
– Adjusted ROE: ratio of Net Profit (Loss) for the period attributable to the Parent Company (Income Statement item 350) to the Group's share capital and reserves net of valuation reserves (Balance Sheet Liabilities items 150, 160, 170 and 180)
– Bad loans to total loans: ratio calculated as Net balance-sheet bad loans to customers divided by Net loans to customers (Balance Sheet Assets item 40(a), net of debt securities at amortised cost).

Capital ratios



REPORT ON OPERATIONS

REAL ECONOMY AND MONEY MARKET

After the historic slump in global economic activity in the first part of 2020, caused by the spread of the SARS-CoV-2 virus and the associated respiratory disease Covid-19, the global economy showed signs of recovery with a better-than-expected rebound in GDP in the third quarter of the year, supported by announcements from several pharmaceutical companies that they would soon make effective vaccines available against the disease. The recovery seemed to go along with China's rapid upturn, three months earlier than other world economies and ahead of the health crisis curve. The winter months, however, emphasized the differences between China, which had almost returned to normal, resuming full economic activity, and Europe and the US, plagued by a very intense second wave of the pandemic. Hopes for a gradual mitigation of infections are based on the desirable spread of vaccines in the first months of 2021, although uncertainties remain about the timing and availability of vaccines, their effectiveness when administered on a large scale, and the adequacy of today's production and distribution chain.

There appears to have been no second wave of infection in China, which avoided imposing new restrictions on both personal travel and economic activity. As industry returned to full speed as early as in the second quarter of the year, China's GDP recovered to the levels of 2019, with the growth trend accelerating in the third quarter, although remaining below the pre-crisis average growth rate (of 4.9% in Q3 2020 vs 6.1% in the same period of 2019), giving reason for confidence in a positive year-end and a rebound in 2021. Extensive use of government support schemes and public funding helped consolidate the recovery in investment, up 1.8% year-on-year in October, mainly driven by services, infrastructure and high-tech manufacturing. The tertiary sector, again according to the economic data as at October 2020, registered a robust growth (7.4% Y/Y), as did retail sales (4.3% Y/Y), with limited but significant growth (0.8%) in the restaurant sector, one of the most affected by the restrictions imposed by the pandemic. Growth prospects for the coming quarters remain good, but the crisis has brought to light a number of problems that had faded in recent years, and which may affect growth in the medium term: the imbalanced consumption-investment structure in GDP formation has become more acute, the financial and debt position of businesses, particularly in the state sector, has worsened, with the risk of increased financial fragility as debt moratoria introduced to mitigate the impact of the crisis come to an end. Unemployment in the hospitality and restaurant industry brings about obvious difficulties in workers being reabsorbed into the labour force of high-growth sectors, such as hi-tech manufacturing, due to the different nature of these segments. Finally, an additional element to be considered is the relationship that will be established with the new US administration of President Biden.

In the United States, GDP rebounded 7.4% in Q3 from the previous quarter, but still did not come close to end-2019 levels, settling at -3.5%. In the general recovery of spending, notable growth was observed in consumption of durable goods and residential investment, both already above 2019 levels. Business confidence is reflected in good levels of supply, both in the manufacturing and service sectors. Conversely, household confidence declined in November, particularly in terms of expectations for the future, due both to a new increase in infections and difficulties in labour market recovery, which was unchanged in November from the previous month. More than 6 million jobs are needed to recover to February's pre-crisis employment levels. In November, industrial production continued to grow, albeit only by 0.4% as compared to the previous month, but still 5% lower than in February. Growth in the fourth quarter is expected to settle at a modest 0.7% over the previous quarter and the growth rate in the first quarter of 2021 is likewise expected to stop at 0.5% over the previous quarter, partly as a consequence of the high number of new infections. As for the budgetary policy, after the $908 bn economic stimulus package, agreed upon between Republicans and Democrats, President-elect Biden announced $1.9 trillion in new stimulus measures, not included in the previously adopted scenario.

For the economies of the main European countries, the recovery process, which had started in May, continued with a vigorous, better than expected dynamic during the summer. The easing of restrictions in the third quarter of the year contributed to a robust expansion of GDP which, for some countries including Italy, made it possible to recover the losses of the previous quarter.

In Germany, third-quarter GDP increased by 8.5%, a more modest growth rate than in Italy, due to a more limited economic impact in the first half of the year. The contribution of domestic demand was

appreciable, foreign demand contributed less and the contribution of changes in inventories was negative. As happens in Italy, growth in Germany is driven by consumption, by households in particular, Public consumption, on the contrary, which had not fallen during the year, is recovering at a slower pace. The contribution of investment to GDP growth was limited and reflected a cyclical downturn in the construction sector and growing capital investment. In foreign trade, good recovery was observed in the exports of goods (21%), performing much better than services. Partial recovery (14% as compared to the previous quarter) was registered in the manufacturing and private service sector (7.2%), whose contribution to GDP growth was mainly driven by a pick-up in trade and the liberal, scientific and technical professions.
Likewise, in Q3, French GDP increased by 18.7% over the previous quarter, again on the back of a major contribution from domestic demand, with a significant increase observed in all key items, from household consumption to investment and public spending. Among the items of domestic demand, investment in motor vehicles stands out for such a sustained growth rate that pre-crisis levels were reached. Growth in the manufacturing sector (24%) was less intense than in Italy, while the pace of growth in construction (38%) was similar. The 16.5% growth in the private service sector was primarily concentrated in trade and the liberal, scientific and technical professions.
In Spain, the q/q rebound in GDP in the third quarter was only a partial rebound by 16.7%, resulting in the country showing the widest gap to pre-crisis levels in the EMU. Similarly, the improvement in Spain's economic activity is largely attributable to domestic demand, with a marked cyclical increase in both household consumption and investment. During the economic cycle, recovery in manufacturing was robust, while services only registered a partial pick-up.
In the EMU area as a whole, a vigorous recovery of GDP was observed in the third quarter, which grew by 12.5% on the previous quarter. In November, however, the aggregate indicator worsened significantly (-4%) as compared to the levels of October, with a widespread drop in all major countries. The forecast for the fourth quarter is for a 2.3% contraction from the previous quarter, which would lead to a 7.2% average annual decline in EMU GDP.
For the first time since 2016, the Harmonised Index of Consumer Prices has been in negative territory in the major countries of the euro area since July, due both to energy prices, which are still low despite recovering from the February slump, and to a VAT rate reduction in Germany, which has had an impact on inflation throughout the area; in the other countries, the marked weakening of inflation is undoubtedly a reflection of the restrictions imposed by the pandemic and changes in the consumption behaviour of households. Inflation is set to return to positive territory as early as 2021. Inflation in Italy is expected to average an annual rate of -0.2% in 2020, turn positive in 2021 and grow to an estimated 1.4% in 2023.
The effects of the pandemic on public finance in the EMU area have produced an unprecedented increase in both public debt and deficit. The aggregate deficit-to-GDP ratio is estimated to increase by 8%, from 0.6% in 2019 to 8.5% in 2020. An even gloomier picture emerges from a closer look at the resulting increase in the debt-to-GDP ratio, which is expected to rise by more than 13 percentage points to almost 100%. In order to cope with the consequences of the pandemic, major support measures in the order of 5% of GDP were approved during the year to finance healthcare systems and provide relief to workers and businesses that had to stop operating. State guarantees were extended to the liquidity of private individuals. Loans to this segment account for approximately 17% of GDP, even though only 25% of the entire amount available is in fact drawn by the beneficiaries. The measures were directed towards all countries in the area, albeit with varying degrees of intensity. Budget deficits are projected to average 6% of EMU GDP in 2021, partly as a consequence of the new growth-enhancing measures included in the Budgetary Planning Documents and additional plans being developed in response to the resurgence of the pandemic in several countries, including Italy. The rules of the Stability and Growth Pact will be suspended also for 2021, with corrective action to be taken only 'when economic conditions allow'. Projections indicate that the euro area's deficit-to-GDP ratio should be 2 percentage points higher in 2023 than it was in 2019, with public debt constantly around 100% of GDP. It is worth noting that, on 10 and 11 December 2020, the European Council approved the "Plan for European Recovery", introducing a new EU budget, and the Next Generation EU (NGEU) recovery package for a total of EUR 1.8 trillion. If the additional instruments used for pandemic crisis management are considered, such as SURE (Support to mitigate Unemployment Risks in an Emergency), the ESM Pandemic Crisis Support to help member states cover health costs and the EIB Pan-European Guarantee Fund providing financing to European businesses for investment projects, the total resources to be deployed over the next seven years

amount to EUR 2,340 bn and account for approximately 18% of EU GDP. The quota for Italy of these extraordinary funds totals approximately EUR 270 bn, corresponding to more than 15% of GDP.
In December, the European Central Bank decided to increase its bond purchases by EUR 500 bn in addition to the EUR 1,350 bn programme delivered in the previous months. The ECB also decided to extend by an additional twelve months the period over which the interest rate applied on all outstanding TLTRO operations will be 50 basis points below the average interest rate on overnight deposits and scheduled three additional auctions, which will give banks the opportunity to raise medium-term funding until the end of 2021.
The second wave of infection prompted the Italian Government to implement new measures to manage the emergency, with restrictions on movement and economic activities, while at the same time financing new spending for market players most affected by restrictions and small/medium-sized enterprises with major losses in turnover. Specifically, the government intervened with non-refundable grants, suspension of social security contributions and tax payments, cancellation of the second instalment of the municipal property tax (IMU), allowances for workers and support for certain sectors, such as tourism, entertainment, sports and publishing, extension of the wage supplement scheme under the redundancy fund to six weeks, extension of the emergency income and additional investments in the healthcare sector, as further detailed in the four "Ristori Decrees" (financial aid package) approved between the end of October and the end of November, with a total capacity of about EUR 18 bn, financed with savings from control over the funds allocated under the previous decrees and an additional EUR 8 bn increase in Italy's budget deficit. Over and above the EUR 100 bn package delivered under the "Cura Italia", "Rilancio" and "Agosto" decrees, these measures drive Italy's 2020 pandemic-related debt to EUR 108 bn (6.6% of GDP). Moreover, the intention to request an additional budgetary deviation of EUR 20 bn for 2021 has already been announced. Debt-to-GDP is estimated to increase by 24 percentage points in 2020, with Italy's public debt set to rise to nearly 160% of GDP and unlikely to fall below 155% in 2023. It is worth noting, however, that the increase in debt in 2020 and 2021 is expected to be fully covered by ECB purchases and access to EU financing programmes.
After three financial quarters of economic contraction, the growth rate of private consumption in Italy recorded a positive 12.4% in the third quarter, primarily driven by growth in the purchase of durable goods (46.8%) and, to a lesser extent, semi-durable goods (20.9%) and services (16.4%). An increase was also observed in the consumption of non-durable goods (+5.5%). As a trend, therefore, the decline in private consumption settled at 7.4%. Against the negative forecast of a decline by almost 10% in Q4 as compared to the same period in 2019, private consumption is expected to fall by 10.3% in 2020, with a limited 4.3% rebound in 2021, yet not set to return to pre-crisis levels euntil after 2023.
As early as in the second quarter of 2020, the recovery in equity prices observed since the end of March, the rise in bond prices driven by the fall in interest rates and a strong increase in the propensity to save contributed to making up for around 75% of the losses in financial assets incurred in the first quarter, with the value of wealth in June still 1.3% lower than it was at the end of 2019. The positive trend, which continued in the second half of the year, is expected to result in a year-end growth of 1.1%. The preference of Italian households for liquidity increased further in 2020, with deposits being recognised as a safe haven during periods of great uncertainty. Households started investing not only in insurance products but also in forms of asset management from as early as April 2020. A reduction is likely to take place in government and bank debt securities, given the expected low interest rate scenario, while the equity market looks set to recover.
In the third quarter, a significant increase in capital investments and a modest increase in intangible investments were observed as compared to the previous quarter. Among property and equipment used in the business, the increase in motor vehicles stands out, although it is not enough to reach pre-crisis levels. For 2020, investments, net of construction, are expected to fall 8.9% on average, with forecasts of a poor performance in the last quarter of the year likely to continue into the first part of 2021, due to the fact that companies, faced with the uncertainty surrounding the evolution of the health situation and the worsening of their budget deficits, may cancel their investment projects or at least postpone them in anticipation of better growth prospects and disbursement of the Next Generation EU funds, which, together with the recovery of the economic cycle, are expected to give new momentum to investments from the second half of 2021. An average 8% upturn in the economic cycle, again net of construction, is anticipated for the last two quarters of 2021, with a good performance of both the private and public sectors. The average annual increase for 2021 is therefore set at 9.1%, rising to an estimated 13.7% for

2022. Likewise in the third quarter, a 45% recovery was observed in construction investments, driven by both the public and private sectors, the latter favoured by the tax incentives in force since July.
Data available as at October 2020 shows a loss of nearly 400,000 jobs in our country, half of which held by young people aged between 15 and 34, who are more likely to be employed on fixed-term contracts that were not renewed as a result of the pandemic. Despite the prospect of recovery from spring 2021 onwards, it is estimated that employment levels at the end of 2023 will still be around 45,000 short of the pre-Covid baseline.
As for tourism, EU travellers spent 23% less in the third quarter (vs. 65% less in the first half of the year), while non-EU travellers' spending remained stable at -70%.
Long-term yields on Italian bonds were driven by lower risk-free (German) rates and a spread hovering just over 110 basis points in December 2020, that is even likely to decline further to around 100 basis points in the forecast horizon, despite an estimated debt-to-GDP level of approximately 160% in 2020.
As regards the banking sector, it should be noted that lending to businesses continued to grow at a sustained rate even after the summer (+7.4% in October as compared to the same month last year), driven in particular by moratoria and state guarantees, which are expected to be extended until mid-2021. While monetary policy made a growing contribution to net interest income, the q/q contribution from fees and commissions on services decreased due to difficulties in the placement of asset management products and reduced transactional volumes following the adoption of new restrictions on business activity. The moratorium on loans, which was extended to end-June 2021, combined with the use of guarantees, may delay the emergence of non-performing loans. This is the reason why banks have been urged to carefully assess credit risk beyond their traditional indicators, so as to prevent NPLs form emerging late, as happened during the previous crisis. The second wave of the pandemic is expected to lead to an increase in the amount of NPLs. However, the total stock for 2023 remains consistent with the amounts forecast in the previous quarter, offset by an increase in disposals. Provisions are estimated to absorb nearly 60% of net interest income in 2021, falling to about 40% in 2023. Faced with the further negative P&L impact of higher expected losses on assets, banks will need to accelerate the process of reducing the operating expenditures of their traditional physical structures -partly on the back of the changes that have occurred in the habits of customers during the pandemic- and push instead on investments in digital transformation, which could lead to new M&As, facilitated *inter alia* by the new ECB guide outlining the supervisory approach to consolidation in the banking sector and by the Government's tax incentives in 2021. In Italy, more than in other Eurozone countries, the expansion of lending to the private sector continued, driven primarily by loans to non-financial companies, supported by the Government's measures to finance the liquidity needs resulting from the drop in cash flows due to the reduction in economic activity. A good performance was also observed in loans to households, likewise supported by moratoria, and loans to personal businesses backed *inter alia* by guarantees from the Central Guarantee Fund. Loans to businesses also performed well, with particularly accommodative terms of the loan proposition, for an estimated amount of around EUR 82 bn in 2020. From 2021 to 2022, it is estimated that loans to households will grow at a sustained rate (average annual growth of around 3.8%) and loans to businesses will grow by 2.1% on average over the two-year period. At the moment, credit quality is not affected by the economic crisis, with the impairment rate of loans to non-financial companies declining to around 1.2% and the impairment rate of loans to households stable at around 1%. Between January and October 2020, the amount of gross bad loans decreased by almost EUR 8 bn, following non-performing loan disposals for the same amount, which were reflected in the ratio of bad loans to total loans to businesses falling to 6.5%. A further EUR 45 bn is expected to be sold over the next few years, which will reduce the stock of gross bad loans to around EUR 39 bn by the end of 2023, with an NPE ratio of 2.1%. The significant uncertainty stemming from the ongoing crisis has induced businesses and households to increase their liquidity; deposits in 2020 are estimated to have increased by 9.4%, with an annual flow of over EUR 170 bn, driven by current accounts (+15.2% p.a.), as against a negative contribution from both bond issuances and foreign funding (down 10.5% and 5.7% respectively) as a result of the ample liquidity available from the ECB for an amount of approximately EUR 140 bn. From 2022, it is legitimate to expect a decumulation of current account deposits to finance the investment cycle, combined with a recovery in consumption and a less conservative approach, as households shift towards higher-return forms of investment.
The capitalisation of significant banks increased further in the third quarter, with a fully loaded CET1 ratio of 14.3% (+120 bp on 2019), closing the gap with other European banks. The total capital ratio was up 206 bp from the end of 2019, driven by hybrid and subordinated debt issuances, to take advantage of

the diversification of the Pillar 2 Requirement and meet the TLAC and MREL targets. The ECB has also opened up to the possibility of a prudent distribution of dividends, as was done by the Bank of England, to make sure that Europe's listed banks are not put at a competitive disadvantage to their Swiss and US peers, which had not been subject to similar dividend payment restrictions. The banking sector's ROE, declining in 2020 and gradually improving as of 2021, will nevertheless be lower than projected in the pre-Covid scenario and still below 4% until 2023.

COVID-19: REGULATORY MEASURES AND CARIGE GROUP INITIATIVES

OVERVIEW OF THE MAIN REGULATORY AND SUPERVISORY INTERVENTIONS IN SUPPORT OF THE ECONOMY

After the impacts of the lockdown on the Chinese economy in February 2020 and its gradual recovery in the following months, the rapid spread of the SARS-CoV-2 virus and the associated respiratory disease Covid-19 in Europe and the rest of the world has had devastating economic effects on the global economy.

In order to contain the economic impact of the Covid 19 pandemic on businesses, workers and all citizens in general, support measures were introduced, both at national and supranational level, which are summarised below with reference to the European and Italian economies.

Below is a summary of the key measures introduced from March 2020 to counter the economic impact of the pandemic.

Measures to support the economy introduced by the EU

With the spread of the Covid-19 pandemic across the European continent, the introduction of significant measures of direct support to the economy by the European institutions has been observed since March 2020, with the most relevant being the:

- Adoption of a State Aid Temporary Framework by the European Commission on 19 March 2020 to allow member states to make full use of the flexibility provided for in the regulatory framework to support the economy in the Covid-19 crisis. The measures set out in the Temporary Framework are intended to preserve the continuity of economic activity of any undertakings that may face insufficient liquidity due to the rapid deterioration of the market environment in which they operate, primarily by authorising member states to grant public guarantees on loans so as to enable banks to ensure access to finance for their customers. The Temporary Framework was repeatedly expanded and modified in the months after 3 April 2020, with the introduction, *inter alia*, of measures to support research and production in connection with the containment of the Covid-19 respiratory distress, with a view to protecting jobs more effectively. At a later stage, the scope of the Framework was extended on 8 May 2020 by setting out criteria based on which member states can provide recapitalisations and subordinated debt to companies in need, in addition to an aid package in support of the Italian economy. The scope was further broadened on 2 July 2020, with amendments comprising the inclusion of micro or small enterprises in the list of the eligible beneficiaries of State aid that were already in difficulty on 31 December 2019, provided that they correspond to a set of pre-defined circumstances.

- As part of the Temporary Framework, the European Commission has approved several support measures, communicated by the Italian Government. On 14 April 2020, Italy's largest aid scheme to support the economy in the context of the coronavirus outbreak was approved for a total budget communicated by the Italian authorities of EUR 200 bn.This was followed by the approval of other measures notified by Italy for smaller amounts, including two support schemes for agriculture, forestry, fisheries and aquaculture for a total of EUR 150 mln (21 April 2020), four aid schemes to support companies and self-employed workers for a total estimated budget of 7.6 bn (26 June 2020) and the EUR 6.2 bn grants scheme to support small businesses and self-employed workers (8 July 2020).

- Adoption by the European Council on 19 May 2020 of the SURE (Support to mitigate Unemployment Risks in an Emergency) fund set up by the European Union. SURE is a temporary fund that will provide up to EUR 100 bn assistance in the form of loans supporting short-time work schemes and similar measures to help member states protect jobs and thus employees and self-employed against the risk of unemployment and loss of income. On 25 September 2020, the Council approved EUR 87.4 bn in financial support to 16 Member States in the form of EU loans under the SURE programme. The quota for Italy totalled EUR 27.4 bn.

- On 21 July 2020, the European Council approved the Next Generation EU Recovery instrument, announced by the European Commission on 27 May 2020, with a budget of EUR 750 bn to support the recovery of Member States affected by the economic crisis caused by the Covid-19 pandemic, boost private investment, support ailing companies and accelerate the transition to a greener and more digital economy.

- On 10 November 2020, the European Commission announced that it welcomed the agreement between the European Parliament and EU Member States in the Council on Europe's next long-term budget and NextGenerationEU. Once adopted, the package of a total of €1.8 trillion will help rebuild a post-COVID-19 Europe, which will be greener, more digital, more resilient and better fit for the current and forthcoming challenges.

Significant regulatory and supervisory measures have also been introduced by the **European Central Bank**, with a view to enabling the credit system to maximise support for the real economy through lending, the main contents of which are set out below.

- Governing Council Decision of 12 March 2020 (Press Release "ECB *Banking Supervision provides temporary capital and operational relief in reaction to coronavirus*"), with the particularly significant measure allowing banks to operate temporarily below the level of capital defined by the Pillar 2 Guidance (P2G), the Capital Conservation Buffer (CCB) and the Liquidity Coverage Ratio (LCR) of 100%. The decision additionally makes it possible to partially use Additional Tier 1 or Tier 2 instruments to meet the Pillar 2 Requirement, bringing forward a measure that was initially scheduled to come into effect in 2021, as part of the Capital Requirements Directive (CRD V). The decision also introduces a relief measure whereby the preferential treatment currently foreseen for NPLs guaranteed or insured by Official Export Credit Agencies will now be extended to the guaranteed portion of the exposures expected to become non-performing that will benefit from government guarantees issued in the context of public interventions relating to the coronavirus (COVID-19) pandemic. This means that banks will face a 0% minimum coverage expectation for the first seven years of the NPE vintage count under the "calendar provisioning" included in the ECB Addendum.

- Governing Council Decision of 12 March 2020 (Press Release *"ECB announces easing of conditions for targeted longer-term refinancing operations* (TLTRO III)"), introducing regulatory changes to the TLTRO III operations programme in terms of increased maximum total borrowing amounts, easing of conditions for participating banks, rules concerning the earlier repayment option for the amounts borrowed.

- Governing Council Decision of 12 March 2020 (Press Release *"ECB announces measures to support bank liquidity conditions and money market activity"*), introducing a series of additional longer-term refinancing operations (LTROs) to provide immediate liquidity support to banks and to safeguard money market conditions. As part of the package, a temporary envelope of additional net asset purchases of EUR 120 bn was assigned to the existing asset purchase programme (APP) until the end of 2020.

- Launch by the Governing Council of a new asset purchase programme of private and public sector securities for an overall amount of EUR 750 bn to counter the risks posed by the outbreak of the coronavirus, known as the Pandemic Emergency Purchase Programme (PEPP), with a view to limiting the yield of government bonds issued by member states. On 4 June 2020, the Governing Council decided to increase the PEPP envelope by EUR 600 bn to a total of EUR 1,350 bn, with net asset purchases under the PEPP being extended to at least the end of June 2021.

- ECB Communication of 20 March, postponing by 6 months the existing deadline for remedial actions imposed on supervised banks in the context of on-site inspections, the verification of compliance with qualitative SREP measures and internal model investigations.
- Governing Council Decision of 7 April 2020 (Press Release "*ECB announces package of temporary collateral easing measures*"), announcing measures to ease the conditions at which credit claims are accepted as collateral in Eurosystem refinancing operations.

- Governing Council decision of 22 April 2020 (Press Release "*ECB takes steps to mitigate impact of possible rating downgrades on collateral availability*"), complementing the decision adopted on 7 April 2020 with the introduction of temporary measures to mitigate the effect of the economic fallout from the coronavirus (COVID-19) pandemic on collateral availability in Eurosystem refinancing operations. These measures will remain in place until September 2021, when the Governing Council will assess whether an extension is required.

- Governing Council decision of 30 April 2020 (Press Release "*Monetary policy decisions*"), amending the terms of the TLTRO III programme. The decision, which has eased the conditions on the refinancing operations in terms of both interest rate and incentives for bank lending, introduces a new series of *non-targeted Pandemic Emergency Longer-Term Refinancing Operations* (PELTROs), to support liquidity conditions in the euro area financial system including after the maturity date of the LTROs introduced on 12 March 2020.

- Recommendation of 28 July 2020 (Press Release "*ECB extends recommendation not to pay dividends until January 2021 and clarifies timeline to restore buffers*") whereby the ECB extended its 27 March recommendation to banks on dividend distributions and share buy-backs until 1 January 2021 and encouraged banks to use their capital and liquidity buffers to continue lending to households and businesses, and thereby help stabilise the real economy, clarifying that banks will be allowed to operate below P2G (Pillar 2 Guidance - P2G) and CCB (Capital Conservation Buffer) until at least end-2022 and below the LCR (Liquidity Coverage Ratio) until at least end-2021.

As far as banking regulations are concerned, Regulation (EU) 2020/873 was published in the Official Journal of the European Union on 26 June 2020. The Regulation reflects the Banking Package previously proposed by the European Commission to facilitate lending to households and businesses in the EU via a review of the CRR and CRR II. In summary, the most relevant contents of Regulation (EU) 2020/873 are:

- amendment of the transitional arrangements that phase-in the impact of IFRS 9 (2020-2024) for the calculation of the supervisory ratios of expected credit loss provisions arising on portfolios of loans classified as stage 1 and stage 2 with the first time adoption of the new accounting standard (IFRS 9 *First Time Adoption*). The amendment allows institutions to fully add back to their Common Equity Tier 1 capital (CET 1) a decreasing percentage of any increase in the IFRS 9 expected credit loss provisions, ranging from 100% in 2020 and 2021, to 75% in 2022, 50% in 2023 and 25% in 2024;
- with reference to the prudential backstop requirement for non-performing exposures, the preferential treatment currently foreseen for NPLs guaranteed or insured by Official Export Credit Agencies (such as the Italian export credit agency, SACE) will now be extended to the guaranteed portion of all exposures that will benefit from government guarantees (meaning 0% minimum coverage expectation for the first seven years, with write-off and 100% provisioning only in the 8th year);
- advancement from June 2021 to the date of entry into force of the Regulation (27 June 2020) of the date of application of the SME supporting factor (possibility of applying lower risk weights for

the calculation of RWAs relating to SME exposures) and the reduction in the risk weights to be applied to fifth-of salary/pension-backed loans for calculation of credit RWAs;

- advancement of the date of application of the EBA Regulatory Technical Standards (RTS) for the deduction from CET1 capital of intangible assets consisting in certain software assets as at the date of entry into force of the RTS (currently being developed) in order to further support the transition towards a more digitalised banking sector;
- introduction of a temporary prudential filter relating to the OCI reserve on government bonds until 31 December 2022, to mitigate the negative impact of volatility in the financial markets and increased levels of central government debt on regulatory capital.
- application -for the calculation of credit risk- of more favourable risk weights to public debt issued by a Member State in the currency of another Member State.

Again consistently with the aim of supporting bank lending to the real economy, the EBA (***European Banking Authority***) issued a set of documents and guidelines to mitigate the impacts that the automatic adoption of loan classification and measurement criteria could have had as a result of the activation of moratoria on loan repayments, either by law or private initiative, and of other credit support measures introduced to counter the economic impacts of the Covid-19 pandemic. With the publication of the "*Statement on the application of the prudential framework regarding Default, Forbearance and IFRS9 in light of Covid-19 measures*" on 25 March 2020, the EBA clarified that public and private moratoria granted in response to the COVID-19 pandemic do not have to be automatically classified as forbearance measures, as for IFRS9 and the definition of default. The possibility of discontinuing automatic transitions between risk stages, in particular to stage 2, means that the expected loss does not necessarily have to be calculated using a time horizon corresponding to the total expected life of the credit exposure instead of 12 months, with a consequent reduction in loan loss provisions and lower negative economic impacts suffered by the credit institutions that granted the moratoria on loan payments. On 2 April 2020, the EBA thus published guidelines (the "*Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the Covid-19 crisis*") clarifying the criteria that public and private general payment moratoria granted by 30 June 2020 (i.e. moratoria that are supposed to address systemic risk by offering support to a large group of businesses facing temporary liquidity shortages) have to fulfil not to trigger classification under the definition of forbearance and distressed restructuring. The Guidelines issued on 2 April further clarify that private and public general payment moratoria are similar when it comes to discontinuing the calculation of days past due during the application of the moratorium.

Noteworthy among the measures adopted by the European Institutions which had an impact on the industry's regulatory or supervisory framework was the clarification issued by the ***Single Resolution Board*** (SRB) on 8 April 2020 about the SRB's approach to *Minimum Requirements for own funds and Eligible Liabilities*(MREL) having regard to the economic scenario that the COVID-19 pandemic has brought about in the European continent, pointing out that the SRB is working to ensure that MREL requirements are well calibrated in order to avoid that constraints may prevent banks from lending to business and the real economy. The SRB clarified that new MREL targets will be set and implemented according to a transition period, i.e. setting the first binding intermediate target for compliance by 2022 and the final target by 2024.

<u>*Measures to support the economy introduced by the Italian Government*</u>

Since March 2020, the Italian Government has also implemented a range of measures to support the economy. In coordination with the initiatives phased in at European level, the Italian government measures have the specific objective of ensuring full support from the national banking industry in response to the liquidity needs of businesses and citizens in general, following the Covid-19 outbreak. Here follows a concise description of the contents and purposes of the two law decrees, which have already been enacted.

Italian Decree-Law No. 18/2020 of 17 March 2020 (a.k.a "Cura Italia") allows (retail and corporate) customers of banks to suspend the payment of their existing loans or take out new loans on favourable terms, taking advantage of guarantees provided by the State. At the same time, this measure increases the banks' lending ability through a substantial reduction in the credit risk they incur thanks to the state guarantees attached to the loans they grant.

The decree has introduced a first set of measures aimed at sustaining the enormous effort made by the National Health System, both by providing resources to increase the recruitment of medical and nursing staff and by adapting and expanding healthcare facilities. The decree contains an elaborate set of measures to support workers and families, including the extension to all companies of the possibility of using existing ‘social dampeners’ such as the Ordinary layoff compensation scheme (*Cassa Integrazione Guadagni Ordinaria*), Wage Supplement Fund (*Fondo di Integrazione Salariale*) and Special layoff compensation scheme (*Cassa Integrazione Guadagni in Deroga*) or new shock absorbers, such as the national Covid-19 layoff compensation scheme (*Cassa Integrazione Covid-19 nazionale*) and the suspension of redundancies for economic reasons for the entire duration of the emergency period.
Decree-Law No. 18/2020 introduces a series of articles aimed at guaranteeing companies’ access to bank credit and the maintenance or replenishment of the necessary liquidity to ensure business continuity, in light of the collapse in turnover that many companies have suffered following the reduction or stoppage of their sales of goods or services and the fall in demand. The mechanisms intended to support the real economy and at the same time help private citizens primarily include the postponement of tax payment deadlines, suspension of mortgage and loan instalments for businesses and individuals (moratoria) until 30 September 2020, the prohibition for banks to revoke existing loans or reduce the amount of loans not fully drawn by the customer. To further facilitate the flow of credit to the economy, banks are granted a State guarantee on one third of the loans for which a moratorium is in force, the Central Guarantee Fund for SMEs has been increased and a State guarantee has been introduced for exposures undertaken by Cassa Depositi e Prestiti, in favour of banks and financial intermediaries lending to businesses affected by the emergency and operating in certain sectors.
In order to encourage the sale of non-performing loans that companies have accumulated in recent years, including as a result of the financial crisis, and with the aim of supporting them, from a liquidity standpoint, in facing the current context of economic uncertainty, a new tax benefit has been introduced under art. 55, namely the possibility, for a company that sells its non-performing loans by 31 December 2020, to convert its tax losses and pre-existing unused benefit under the Economic Growth Stimulus (*Aiuto alla Crescita Economica*, ACE) into tax credit at the corporate income tax (IRES) rate, to the extent of 20% of the nominal value of the loans sold, up to a maximum nominal amount of EUR 2 bn.
On 29 April 2020, the "Cura Italia" decree was converted into Law No. 27/2020, undergoing a number of changes, including an increase in the number of private individuals eligible for the application of a loan moratorium through the "first home" mortgage solidarity fund (a.k.a. the Gasparrini fund) and an increase in the maximum amount of mortgage loans eligible for a repayment moratorium to EUR 400,000.
A second Decree-Law was passed on 8 April 2020 (Decree-Law No. 23/2020, a.k.a. the «Liquidity Decree»), later converted into law on 7 June 2020, to ensure access to credit for businesses that, as a consequence of the impact of the pandemic, are suffering a shortage of the liquidity they need to continue operating. The Liquidity Decree includes detailed measures whereby loans granted to businesses by banks are guaranteed by Italy's Official Export Credit Agency, SACE, or the Guarantee Fund for SMEs to a different percentage extent depending on the characteristics of the business and type of financing (articles 1 and 13). Among the various provisions contained in the decree, letter e) of paragraph 1 of art. 13 provides that the Fund's direct guarantee may extend to 80% of a loan resulting from restructuring of a previous loan on condition that the bank increases the total amount of the loan by at least 25% (the initial 10% increase was raised to 25% when the decree was converted into law), thus encouraging the banking system to enter into loan restructuring and expansion plans with businesses on their existing credit facilities, thanks to the reduction in credit risk which the bank may take advantage of not only for new loans but also for part of the loans it already has in place.
The Council of Ministers No. 61 of 7 August 2020 approved Italian Law Decree No. 104 (the “August Decree”), which laid down urgent measures to support and relaunch the economy. With this Decree, the Italian Government allocated an additional EUR 25 bn stimulus package to pursue and further strengthen the recovery of the country from the fallout of the COVID-19 pandemic and support workers, households and businesses, with particular regard to the most disadvantaged areas of Italy. Following the August decree, the total resources deployed to face the emergency amount to EUR 100 bn, accounting for 6% of Italy's GDP.
On 27 October, the Council of Ministers approved the “Ristori Decree” (Italian Law Decree No. 137 of 28 October 2020), introducing urgent measuresregardinghealth protection, support for workers and businesses, justice and safety, in relation to the Covid-19 pandemic. Totalling more than EUR 5 bn, this

package of measures is designed to provide immediate relief to the categories of businesses and workers who are directly or indirectly affected by the restrictive measures adopted under the new Decree of the President of the Council of Ministers issued just a few days before.
On 7 November 2020, the Council of Ministers meeting No. 72 approved a Law Decree (the 'Ristori *Bis* Decree'), allocating an additional EUR 2.8 bn in relief measures.
On 21 November, the Council of Ministers meeting No. 78 approved a Law Decree (the 'Ristori *Ter* Decree'), allocating EUR 1.95 bn in additional financial aid for 2020.
The Council of Ministers meeting No. 81 of 29 November approved a Law Decree (the 'Ristori *Quater* Decree'), which allocated an additional EUR 8 bn in subsidies, using a new deviation from Italy's budget deficit target, to strengthen and extend the measures required to provide economic support to the sectors most affected by the pandemic, in additionto other emergency-related provisions.

The measures to strengthen the Guarantee Fund provided for under the Liquidity Decree will remain in force until 30 June 2021 to respond to the immediate financial needs of businesses and self-employed workers facing the consequences of the Covid-19 pandemic. The deadline initially set for 31 December 2020 was in fact postponed by six months by the 2021 Italian Budget Law (Article 1, para. 244). SMEs and self-employed workers will therefore continue to use the measures provided for in Art. 13, para. 1, of the Liquidity Decree: 100% guarantee on loans up to EUR 30,000, 90% coverage for higher amounts with the possibility of 100% being covered via the additional intervention of a credit guarantee consortium (Confidi), maximum guaranteed amount of EUR 5 mln, credit facility approval with no assessment of financial statements data, guarantees issued on prior facilities granted, etc.
The measures provided for in Art. 13, para. 1 of the Liquidity Decree for businesses with a number of employees ranging between 250 and 499 have conversely been extended by only two months. The 2021 Italian Budget Law (Art. 1, para. 245) extended the measures until 28 February 2021.

Other measures to support the economy introduced at a national or regional level
In addition to the measures introduced by the European institutions and the Italian Government, the Italian Banking Association (ABI) has also taken action to mitigate the impact of the Covid-19 pandemic on businesses and depositors by introducing a number of measures, including the Addendum of 9 March 2020 to the Credit Agreement of 15 November 2018 (possibility of suspending the payment of principal on loans to businesses for 12 months) and the "Agreement on social advance payments in favour of workers receiving wage subsidies under articles 19 to 22 of Decree-Law No. 18/20" of 30 March 2020, which defined the procedures to allow partner banks to make advance payments on wage subsidies (specifically provided for by the regulator for the Covid-19 emergency) for an amount up to EUR 1,400 to the employees working for businesses that have applied for direct payment of this service by the National Institute for Social Security (INPS). The Bank has joined the Agreement.
On 17 December 2020, the Italian Banking Association announced the renewal of the initiatives to suspend mortgage and loan instalments already regulated under previous agreements.

On 19 March 2020, the Carige Group announced the introduction of interest-free 'loans of honour' and credit lines up to EUR 5,000, promptly disbursed thanks to the online processing of loan applications and repayable in 12 months after a 6-month grace period (loans of honour) or with flexibility within 18 months (opening of current account credit facilities).

MEASURES ADOPTED BY THE BANCA CARIGE GROUP

Initiatives adopted to protect Group employees and customers
Since the onset of the emergency, all necessary measures have been taken with utmost promptness to protect the Group's employees and customers, in compliance with the rules and guidelines issued by the Government, the Bank of Italy and the Trade Association, as well as on the Group's own initiative.
The following functions were involved in crisis management:

- A monitoring unit comprising: the Group's Doctor, the Company Safety Representative (*Delegato Aziendale della Sicurezza* - DASL), the Head of the Protection and Prevention Service (*Responsabile del Sistema di Prevenzione e Protezione* - RSPP) and the Head of Safety, to whom employees may send communications and/or claims by writing to a specific email address. Claims are daily

examined by the monitoring unit and managed involving the Operations Area and the HR department.
- A working group for emergency management, made up of the Chief Operating Officer (COO)/Head of HR and the key Contacts of the two structures, which has constantly monitored the evolution of the situation and the initiatives to be adopted accordingly. At the climax of the pandemic, *inter alia* in view of the most significant restrictions by the government, a response team was set up consisting of resources who, working from home with differentiated timetables, provided the Working Group with the necessary support in the monitoring and initial analysis of developments over time. Liaising with the Chief Executive Officer, the Working Group coordinated response to the key events with the whole management team.
  The Company Safety Representative (DASL) and the COO, in addition to aligning with top and middle management for operational aspects, have also liaised with the Company's main Bodies and Committees for emergency or critical situations on a regular or event-driven basis.

The Board of Directors of the Parent Company has constantly been informed about the evolution of the situation and the management of the emergency with dedicated reports. The JST and the Bank of Italy have regularly been updated and the competent units of the Parent Company have replied to all requests for further information from these authorities.
The Supervisory Board pursuant to Legislative Decree No. 231/2001 has also been informed in due time about the initiatives adopted, in the aim to obtain an assessment of their effectiveness for the purposes of the administrative liability of legal entities.

The hygiene and prophylaxis instructions provided by the competent authorities and the Group's Doctor have been distributed to the employees and regularly updated. These recommendations have been collated in a single document, available on the Group intranet, called "Covid-19 Emergency Management Regulations: precautionary measures and operating instructions".

Here follows a brief overview of the key strategic initiatives adopted.
- Branch operations: more stringent rules have gradually been adopted to access company premises, introducing different branch opening procedures, within the limit of 100 branches, allowing one customer in at a time for each available teller/consultant, always by appointment and only for transactions that could not be done remotely. With the gradual easing of lockdown rules, and later, with the introduction of differentiated measures according to the risk class of each area while continuing to pay the utmost attention to the measures for protecting the health of employees and customers, a 5-day-a-week opening of branches was phased in for the morning hours only, with the possibility of scheduling appointments with customers in the afternoon as well. Since October 2020, almost all of the branches have been open Monday through Friday by appointment, only in the morning for over-the-counter bankingtransactions via the teller, or throuhout the day for advisory services.
- Agile working: work from home has been promoted for all Group employees, including staff in the Branch Network, seeing to it that business continuity is preserved. Since the start of the emergency, more than 1,600 smart workstations have been activated, accounting for over 50% of total headcount, while maintaining security measures and operational controls (SOC, Anti DDOS, etc.) in place, that are structured to manage and scale up cybersecurity if needed to counter any cyber attack events. Technical measures were also implemented for the mitigation of social engineering attacks perpetrated via company email against internal and external users, with the adoption of advanced AntiPhishing/Antimalware products and the anti-spoofing DMARC protocol.
- Health protection equipment: to safeguard the health of colleagues and customers, all Group work units are equipped with personal protective equipment and hygiene devices (face masks and disinfectant gel); in addition, the branches have been supplied with additional personal protective equipment (dividers, ground marking for customers and disposable gloves). Finally, the cleaning service of the premises has been intensified and extraordinary maintenance has been implemented on the air treatment and air conditioning systems of all the offices.
- Parenting: since the beginning of the pandemic, particular attention has been paid to parenting, with company measures that, in addition to the parental leaves provided for by national legislation and contracts, make it possible to reconcile work with the care of children. In particular, paid leaves up to

a maximum of 14 days were granted to employees with children under 12 years of age with no other person to take care of them, and up to a maximum of 5 days were granted to employees with children under 16 years of age staying in prudential quarantine and/or with children attending their second and third year of junior secondary school on a distance teaching basis.

- Customer information: in order to inform customers and make them aware of the need to comply with mutual safety instructions, three distinct explanatory signs were distributed to the branches and visibly displayed for customers to see. The corporate website includes a special search option to locate branches, including a form to book an appointment.

<u>*Initiatives implemented to support households and businesses*</u>
Since the very beginning of the Covid-19 crisis, the Banca Carige Group has adopted all the necessary measures to protect the safety of customers and employees, while at the same time ensuring proximity and a listening approach to families, businesses and the local community, inter alia by implementing - and widening the scope of- government provisions to support individuals and companies.

Among the first banks in Italy and even prior to the entry into force of government support measures, the Carige Group offered its customers loans of honour and zero-interest loans with remote loan application processing to simplify and speed up disbursement and support small businesses and self-employed workers in the initial phase of the emergency. Thereafter, the Group gradually implemented all the afore-mentioned measures adopted by the government and the banking system.

In the lockdown period, access to the company premises was limited to undeferrable, essential transactions, with utmost attention for the needs of customers in the aim to minimise inconvenience. Very few branches remained closed, some branches were open to the public on alternate days, always ensuring continuity of service for customers at their branch of choice.
Since May, branch operations have gradually been expanded, resuming all activities with access remaining by appointment only, in full compliance with the emergency regulations in force at any given time.
In the pressing context of the pandemic crisis and in the spirit of a shift towards digital channels, the new remote signature service was introduced. Offered free of charge, it is intended for all customers as an easy-to-use solution for a wide range of documents.
The rapid adoption of work from home practices (most widespread among head office units) has made it possible to maintain high levels of operational efficiency and continuity of service while guaranteeing the best security standards for employees.

Since the onset of the Covid-19 outbreak, customers have been encouraged to use the Group's Digital Banking services, with the promotion of remote transactional banking through the Group's online and mobile channels, which allow customers to carry out most banking transactions by themselves without going to the teller.

Furthermore, the Contact Center service has been strengthened with a larger number of phone operators and a focus on the most congested time slots, with a view to meeting the growing demand for remote support from customers.

Significant attention has been paid to communication with all stakeholders, in the aim to maximise the dissemination of information with a multi-channel approach.

- website and social media: a section focusing on all support measures in favour of households and businesses has been created and constantly updated on the corporate website, with details about target recipients, advantages and remote sales procedures set forth in the government decrees. The website has also hosted real time service information about the operations of the branches, useful phone numbers and security measures in force at any given time;
- e-mail and text messaging: email and texts made it possible to reach almost all customers with the most relevant and urgent information (government regulations, safety rules, debt maturities and pension payments, fundraising promoted by the bank to support the emergency response, etc.);
- press, TV and radio: mass media were used, mainly through local campaigns, to reach communities with guidance on the measures introduced to support the local areas, households and businesses, as

well as with explanatory and informative content on how to overcome the health emergency and use remote channels or payment instruments;
- points of sale: POS premises have been equipped with constantly updated signage and information material.

Credit policies and strategies

The magnitude and rapid spread of the Covid-19 pandemic has had severe economic repercussions affecting almost all sectors of the Italian economy with varying intensity.

In response to this emergency, the Carige Group took prompt action to implement a set of measures aimed, on the one hand, at financially supporting its customers and, on the other, at recalibrating the Group's credit strategy. Confirming its current approach, based on forecasts of risk-weighted growth and sectoral attractiveness (relationship development, monitoring and control), the recalibration of the Group's credit strategy was intended to preserve the quality level of the loan portfolio, while maintaining full consistency between the Strategic Plan objectives and the operating levers for their achievement.

In order to support the implementation of the initiatives introduced by the government measures (the 'Cura Italia' and 'Liquidity' decrees), initial guidelines were provided in April for the granting and management of credit in light of the ongoing emergency situation and in line with the evolving regulatory framework (New Definition of Default, Calendar Provisioning, Loan Origination and Monitoring).

On 15 July, within a more stable macroeconomic and regulatory framework, new operational guidelines were approved by the Board of Directors. Incorporating the guidance emerging from updated sectoral outlooks and government/industry measures, these guidelines reflect a review of the credit assessment approach, which is being oriented towards supporting performing customers whose pre-crisis economic-financial fundamentals were sound and not reflective of any prior difficulties, who will continue to benefit from credit support until the end of the emergency phase.

To this end, a perimeter of loans to customers was identified and broken down by segment, type of loan and regularity of payment. Within this framework, priority initiatives were put in place, consisting in the identification of potential customers to be targeted with the most appropriate measures, depending on the type of financial needs under the risk circumstances (debt moratorium/workout, consolidation of exposures, new credit facilities backed by the Central Guarantee Fund or Italy's Official Export Credit Agency - SACE, etc.). The initiatives were implemented by engaging the network of branches and relationship managers. To support the effort, "smart" lending tools were applied to lists of customers identified on the basis of the credit policies' acceptance criteria and with different levels of priority depending on the type of initiative.

At the same time, a daily monitoring system was set up with a view to screening the performance of the loans and moratoria granted within the framework of government and industry Covid-19 initiatives. This system has the twofold objective of informing the top management about activities underway and directing the Network towards the adoption of support tools for customers that are more tailored to their financial needs (e.g. with a transition from moratoria to the measures introduced under the Liquidity Decree).

All credit facilities granted as part of the Covid-19 initiatives have been registered with type-specific codes in order to track their performance over time. A monitoring report on the initiatives is submitted to the Board of Directors on a quarterly basis.

The resurgence of the virus in autumn led to a new economic slowdown in the fourth quarter of 2020, which is continuing into this first part of 2021, and the prospects for an early return to pre-crisis levels, especially in specific sectors, remain very uncertain. In particular, the magnitude of risk related to the financial strength of companies operating in the worst-hit sectors is increasing. The competent units of the Group closely monitor the development of the situation, informing the Board of Directors about any changes in the risk of the exposures in its portfolio.

STRATEGY AND BUSINESS PERFORMANCE

As a result of the pursuit of a potential business combination during the period of the Bank's Temporary Administration, 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, a final update to the 2019-2023 Strategic Plan was approved on 26 July 2019, which illustrated the structure of the Bank's capital strengthening and commercial relaunch transaction requested by the counterparties (VIS, FITD and CCB), with an industrial outreach in line with the previous version of the Plan, drawn up by the Temporary Administrators in February 2019.
On 20 December 2019, the comprehensive Capital Strengthening and Derisking transaction was completed, which was set out in the Strategic Plan and consisted in a EUR 700 mln Capital Increase, with a EUR 313.2 mln tranche paid-in by way of a set off of the receivables resulting from the repayment of the subordinated bonds named "Banca Carige S.p.A. 2018-2028 Tasso Fisso (Fixed Rate) *Tier II*".
EUR 200 mln worth of Tier 2 subordinated bonds -entirely subscribed for by leading institutional investors- were issued and settled within the framework of the Bank's capital strengthening transaction.
As a further integral part of the Capital Strengthening and turnaround of the Bank, the non-performing loan disposal to AMCO - Asset Management Company was finalised, enabling the achievement of a radical derisking of the Group's assets. On 10 September 2020, Banca Carige, together with AMCO, Marinvest and Società Ignazio Messina, announced their finalisation of the agreements for the restructuring of the Messina Group, as a pre-condition for Banca Carige to definitively sell part of its Messina Group receivables to AMCO for an overall GBV of EUR 324.3 mln as at 30 June 2020. The Newco Ro.Ro. Italia, 52% owned by Marinvest S.p.A. and 48% owned by the Messina Group, has taken over the outstanding portion of Carige's loan exposure to the Messina Group, consisting in shipping loans.

The strategic guidelines set forth in the Strategic Plan approved in July 2019 are still the reference point for the Group's operations. However, since they were drawn in a pre-Covid macroeconomic and market environment, updating their economic and financial reverberations was deemed appropriate to embed, in the 2021 Budget forecasts, the Covid-19 impacts observed in 2020 and those expected in the medium term.
On 23 February 2021, Banca Carige's Board of Directors therefore resolved to approve the Group's 2021 Budget and an updated revision of the 2023 targets of the Strategic Plan approved in 2019, despite the context of utmost uncertainty surrounding the impact that the spread of the Covid-19 virus will have in the medium-long term. The following was factored in:

- profit (loss) for the 2020 reporting period;
- the macroeconomic scenario included in the Forecast Report as at December 2020 by a leading provider of advisory services;
- impacts associated with the changes in, as well as the characteristics and timing of, the derisking transaction (Hydra), with specific reference to the sale of a non-performing leasing portfolio scheduled for the first quarter of 2021;
- the new laws introduced at both European and national level in 2020;
- access to TLTROIII refinancing operations;
- institutional funding recalibration to liquidity management needs;
- the Group's funding and lending growth rates, as updated following the footprint and structure reorganisation approved in October 2020, inclusive of new plans for the Wealth Management business, by assuming a partial recovery of the overall funding gaps that emerged in the two-year period 2019-2020 as compared to the July 2019 Strategic Plan.

In particular, the updated forecasts identify the 2021 targets on the basis of: a macroeconomic scenario characterised by still-negative interest rates for the banking system and a partial rebound in GDP (+4.8%) after its expected collapse by over 9% in 2020 following the impacts on the real economy caused by the spread of the Covid-19 pandemic; the commercial restart aimed at partially recovering the gap in overall funding that emerged during the two-year period 2019-2020 as compared to the targets

of the July 2019 Strategic Plan; the one-off transaction consisting in the sale of a portfolio of non-performing leases, which complements the derisking strategy set out in the Plan with a forward-looking projection of the estimates for 2023 on the basis of an improving macroeconomic scenario, with a return of the banking system's long-term interest rates to positive territory and full-scale unfolding of the effects of the management actions contained in the Plan. In consideration of the above, it is estimated that the achievement of the target expected for 2020 will be delayed until 2021. Accordingly, the targeted break-even result before tax will foreseeably be achieved in 2022 and net profit as of 2023.
The updated estimates of a gradual cost of credit reduction after the impacts caused by the Covid-19 pandemic reflect the assumption of a gradual return to normal thanks to the implementation, *inter alia*, of initiatives aimed at a proactive management of credit that will minimise default rates. The monitoring of credit quality will allow the Group to maintain a ratio of non-performing loans to total loans in line with market best practices.

Revenues will be boosted by the review of the Group Service Model approved by the Board of Directors of Banca Carige on 15 October 2020 and effective as of January 2021, via a reorganisation of the whole commercial supply chain and sizeable IT investments designed to ensure the best customer proposition and service standards, which are now all the more important in response to new customer needs magnified by the pandemic.
As part of the overall reoganisation of the distribution model, Banca Cesare Ponti will strengthen its synergies with Banca Carige's private banking network and will also qualify as a financial advisor and Wealth Management product factory, standing out as an engine for service quality and a new source of value generation for the Group.
Head-office and network organisational units will be revised; investment advisory will be enriched with remote transactional solutions interfacing with the advanced workstations of private bankers and Head Office support units, to bring the Group in alignment with the best market practices in terms of tools and reports available to customers and relationship managers, including via the use of artificial intelligence. Banca Cesare Ponti will see its role evolve into becoming the Group's financial services advisor and Wealth Management product factory, specialising in the issuance of Investment Certificates and the design of Portfolio Management solutions which will be distributed by the other two Banks of the Group. The overall reorganisation of the distribution model will boost commercial growth, particularly in terms of asset management fees and commissions. The growth in net fees and commissions will be significantly contributed to by the proposed issuance of *Investment Certificates* and their placement through the branch networks of the Group banks, as well as by the distribution of non-life (property and casualty) insurance products.

With reference to the business outlook, the Parent Company's share of profit/loss for the the period 1 February 2020 - 31 December 2020 amounts to a negative EUR 251.6 mln, with Net Interest Income amounting to EUR 123.6 mln, Net fee and commission income totalling EUR 186.7 mln, a cost of credit of EUR 91.8 mln and Operating expenses amounting to EUR 453.2 mln.
Direct funding from retail and corporate customers amounted to EUR 12.8 bn, on a 6.9% increase since January 2020. Conversely, institutional/wholesale funding , fell to EUR 3.1 bn (-23.8%) as a consequence of the EUR 1 bn repayment of the government-backed bonds issued under Law Decree No. 1/2019. Total direct funding amounted to EUR 15.9 bn, (vs. EUR 16.1 bn in January 2020; -0.9%).
Indirect funding totalled EUR 22.9 bn (+2.8%), as a result of an uptrend in both Assets under Custody (+3%) and Assets under Management (+2.6%).
Loans to customers, totalling EUR 11.5 bn, were largely stable (+1.5%), while the institutional component totalled 1 bn, on a downtrend compared to EUR 2 bn as at January 2020 primarily due to trends in repos (assets).
With regard to the liquidity profile, the Group had a Liquidity Coverage Ratio (LCR) of 172% as at the end of December 2020, higher than the minimum regulatory level (100%) and the RAF risk tolerance (129%).

KEY EVENTS IN THE REPORTING PERIOD

THE PARENT COMPANY, BANCA CARIGE

Governance
On 31 January 2020, the Parent Company's Temporary Administration procedure, initiated by the ECB on 2 January 2019, came to a close and new governing and control bodies were appointed by the Shareholders' Meeting, restoring a situation of ordinary, stable governance.

On 11 February 2020, the Board of Directors vested the Nomination and Governance Committee with 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 sustainability-related 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.

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, 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 Shareholders' Meeting approved the court challenge filed against the resolution adopted by the Extraordinary Meeting of Ordinary Shareholders on 20 September 2019, brought against the Bank by the Common Representative and the increase of the Fund established under Article 146, para. 1, letter c) of Legislative Decree No. 58/1998.

On 29 May 2020, the Bank held the Extraordinary and Ordinary Shareholders' Meeting, convened on 29 April 2020, which was attended, by proxy, by many shareholders, representing 83.37% of the ordinary share capital.
The extraordinary session of the Shareholders' Meeting resolved to:
- approve the Optional Conversion of the Bank's savings shares into newly-issued ordinary shares, at a conversion ratio of 20,500 ordinary shares for each savings share converted;
- approve the Reverse Split of ordinary and savings shares outstanding, at a ratio of 1 new ordinary share, with regular dividend entitlement, for every 1,000 ordinary shares outstanding and 1 new savings share, with regular dividend entitlement, for every 1,000 savings shares outstanding;
- approve any amendments to the Articles of Association ensuing from the resolutions above;
- vest the Board of Directors with the powers to carry out the foregoing transactions.

The Ordinary session of the Shareholders' Meeting resolved to:
- authorise the Board of Directors to waive the liability actions previously taken against former Directors Cesare Castelbarco Albani and Piero Luigi Montani;
- approve the engagement of the independent auditing firm, Deloitte & Touche S.p.A. for financial years 2021-2029 and determine their compensation, based on the justified recommendation issued by the Board of Statutory Auditors pursuant to regulations in force;

- approve the Banca Carige Group's remuneration policy and implementing procedures for the financial year to come, along with the criteria for determining the compensation to be agreed with all personnel in the event of early termination of the employment relationship or early termination of office;
- take note, by non-binding vote, of the report on the implementation of the Remuneration Policies during the previous financial year and the report on compensation paid in 2019;
- authorise that third-party liability insurance be taken out for members of the corporate bodies (a.k.a. Directors and Officers Liability - D&O), determining its maximum groupwide amount and total gross annual premium and vesting the Chief Executive Officer with the power to define the renewals of the policy at the best market conditions by its due dates, subject to an obligation of annual reporting to the Shareholders' Meeting.

At the request of the Common Representative of Savings Shareholders, the Special Meeting of Savings Shareholders was held on 30 June 2020. The meeting resolved to appoint the common Representative of savings shareholders, determining his remuneration, and authorised him to challenge the resolutions passed by the Extraordinary Shareholders' Meeting held on 29 May 2020 relating to the "Proposal for a reverse split of ordinary and savings shares outstanding, at a ratio of 1 (one) new ordinary share with regular dividend entitlement for every 1,000 (one thousand) ordinary shares held and 1 (one) new savings share with regular dividend entitlement every 1,000 (one thousand) savings shares held. Ensuing amendment to art. 5 of the Articles of Association. Related and ensuing resolutions" and "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".
The Bank has clarified that the vote expressed by the Savings Shareholders' Meeting on agenda items 4 and 5 does not modify Banca Carige's intention to continue with the implementation of the transactions for the optional conversion of the Bank's savings shares into ordinary shares and the reverse split of ordinary and savings shares, as both transactions are considered to be part of a reorganisation process that is in the primary interest of Banca Carige and its shareholders.
In fulfilment of the resolutions adopted by the Bank's Shareholders Meeting of 29 May 2020, the Bank initiated the Optional Conversion of its savings shares into newly issued ordinary shares at a conversion ratio of 20,500 newly issued Ordinary Shares for each Savings Share opted in for conversion; on 4 December 2020, upon conclusion of the optional conversion period, the Bank's share capital was unchanged in the amount of EUR 1,915,163,696, divided into 755,371,204,973 ordinary shares and 20,403 savings shares, with no indication of par value.
Later, on 14 December 2020, effect was given to the Reverse Split of ordinary and savings shares outstanding, at a ratio of 1 new ordinary share, with regular dividend entitlement, for every 1,000 ordinary shares outstanding and 1 new savings share, with regular dividend entitlement, for every 1,000 savings shares outstanding; upon conclusion of the afore-mentioned period, the Bank's share capital, was unchanged in the amount of EUR 1,915,163,696 and is to date divided into 755,371,204 Ordinary Shares and 20 Savings Shares, with no indication of par value.

By a letter dated 26 June 2020, Mr. Angelo Barbarulo, Deputy Chair of the Board of Directors and Chair of the Risk Committee of the Bank, tendered his irrevocable resignation with immediate effect, due to personal reasons. Following his resignation, on 14 October 2020 the Board of Directors co-opted, pursuant to Article 2386 of the Italian Civil Code, Director Paolo Ravà, who was concurrently appointed member of the Risk Committee.

Further to the demise of the Chairman of Banca Carige S.p.A., Mr. Vincenzo Calandra Buonaura on 28 December 2020, an urgent meeting of the Bank's Board of Directors was held on 30 December 2020 and the decision was taken not to appoint a new Chair by co-opting a new member of the Board of Directors but rather refer to the Shareholders' Meeting the decision to appoint the members necessary to restore the original 10-member composition of the Board of Directors and appoint the Chair and Deputy Chair of the Board. The Board accordingly convened the Bank's Ordinary Shareholders' Meeting for 22 February 2021 to vote on the following items on the agenda:
1. Appointment of Members of the Board of Directors: related and ensuing resolutions;
2. Appointment of the Chair of the Board of Directors;
3. Appointment of the Deputy Chair of the Board of Directors.

On 22 February 2021, the ordinary Shareholders' Meeting appointed Giuseppe Boccuzzi and Paolo Ravà as members of the Board of Directors, to serve until the date of the Shareholders' Meeting called to approve the financial statements for the year ending 31 December 2022; the Shareholders' Meeting further appointed Giuseppe Boccuzzi and Paolo Ravà to serve, respectively, as Chair and Deputy Chair of the Board of Directors.

Progress of the Strategic Plan and development of the NPE Strategy

The previous section described the evolution of the 2019-2023 Strategic Plan, which was approved, in its final version, on 26 July 2019. Considering the significant change in the context of reference, caused by the Covid-19 pandemic, although the strategic guidelines still remain the reference point for the Group's operations, updating their economic and financial reverberations was deemed appropriate to embed, in the 2021 Budget forecasts, the Covid-19 impacts observed in 2020 and those expected in the medium term.

NPE Strategy Development

In the pursuit of the derisking objective through the reduction of Non-Performing Loans, as part of the capital strengthening and turnaround of the Bank, the non-performing loan disposal to AMCO S.p.A., operating in the NPE sector, was finalised on 20 December 2019, enabling the radical derisking of the Group's assets.

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.

On 10 September 2020, the Bank, together with AMCO, Marinvest S.r.l. and the company Ignazio Messina & Co. S.p.A. (the Messina Group), announced the closing of the restructuring agreements of the Messina Group. The closing of said restructuring agreements was the pre-condition for the Bank to definitively sell part of its Messina Group receivables to AMCO for an overall GBV of EUR 324.3 mln as at 30 June 2020.

As at 31 December 2020, the conditions had not yet been met for the derecognition of the residual portion of the loan book being disposed of, consisting in a portfolio of non-performing leases.

In line with the criteria of the internal impairment models, the P&L and balance sheet effects of the foregoing transactions were reflected in the measurement of the afore-mentioned credit exposures as at 31 December 2020.

Directors believe that the disposal of the non-performing leasing portfolio *is* close to completion.

With a view to reaching the NPE ratios set forth as targets in the Bank's Strategic Plan as soon as possible and further improving the quality of the loan portfolio, at its meeting of 11 November 2020, the Board of Directors resolved upon the bulk transfer of a portfolio of unsecured bad loans, written down by more than 90%, for a maximum amount of EUR 60 mln.

On 16 December 2020, AMCO signed an agreement with Banca Carige S.p.A. for the non-recourse bulk purchaseof an NPE portoflio of EUR 54.1 mln in gross book value (GBV) by AMCO, primarily consisting in loans to corporate customers (11% unsecured), entirely classified as bad loans. With this transaction, the Bank continues to improve the quality of its assets, without any negative economic effect on its 2020 financials.

The Group's Wealth Management Project and review of the Sales Plan and Distribution Network

With a view to obtaining the distribution network optimisation and rationalisation set forth in the 2019-2023 Strategic Plan "Carige: Winning back our Future", at its meeting of 16 September 2020, the Board of Directors resolved, among other things, to proceed with the closure of 56 branches of Banca Carige S.p.A. by the end of 2020. Subsequently, at its meeting of 14 October 2020, it approved the guidelines of the new service model for the Group's distribution network and the ensuing methods and timing for its implementation.

For the purpose of restoring business volumes in terms of both funding and lending to support the growth in revenues, at its meeting of 14 October 2020, the Parent Company's Board of Directors approved the new Wealth Management model, which, among other things, provides for:

- the phased-in opening of 26 Private Banking Branches (25 of Banca Carige S.p.A. and 1 of

Banca del Monte di Lucca S.p.A.), beginning in December 2020 and continuing through June 2021;
- the allocation to Banca Carige of portfolios with significant shares of wallet of private banking customers between Carige and Banca Cesare Ponti S.p.A., who have maintained a predominant relationship with the Parent Company. The allocation from Banca Cesare Ponti S.p.A. to Banca Carige S.p.A. shall be implemented by a bulk transfer of the legal relationships pursuant to art. 58 of the Consolidated Law on Banking (in turn approved at the BoD's subsequent meeting of 11 November 2020);
- the underwriting of Banca Cesare Ponti S.p.A.'s newly issued subordinated debt (Tier 2 subordinated bonds) for a maximum notional amount of EUR 10 mln to cover the capital shortfall resulting from the issuance of investment certificates by Banca Cesare Ponti S.p.A. for a maximum amount of EUR 1,000 mln.

Relations with the Supervisory Authorities

In 2020, quarterly monitoring reports on ongoing on-site and remote inspections were regularly sent to the ECB; in the Bank's opinion, all the remedial actions envisaged in the action plans resulting from such inspections were completed and notice of their completion was given to the ECB:
- *Internal Governance and Risk Management*
- *Internal Governance*
- *Capital position calculation accuracy*
- *Internal and external reporting quality*
- *NPL Thematic Review.*

As a consequence of the Covid-19 outbreak, on 3 March 2020 the ECB initiated discussions with individual supervised institutions about adjustments to processes, timelines and deadlines, considering a postponement of certain supervisory measures and requests for non-critical data. In this perspective, reasserting the content of the announcement it had made on 12 March 2020[3], the ECB -with its recommendation of 28 July 2020- encouraged banks to use their capital and liquidity buffers to support the economy by providing credit to households and businesses, clarifying that it will not require banks to start replenishing their capital buffers before the peak in capital depletion is reached. In any case, the ECB commits to allowing banks to operate below the Pillar 2 Guidance (P2G) and the Capital Conservation Buffer (CCB) until at least end-2022, and below the LCR until at least end-2021. For further details on the measures taken by the ECB, please refer to the section of this report entitled "Covid-19: Regulatory measures and Carige Group initiatives”.
The Supervisory Authorities have also implemented a close monitoring of lending data, including via the support measures introduced at both national and European level to face the difficulties arising from the health emergency.
On 16 September 2020, the Bank responded to the ECB detailing the actions it had put in place to ensure the efficient and effective management of credit risk arising from the economic shock stemming from the Covid-19 pandemic; on 29 January 2021, the Bank provided additional feedback on credit risk identification and measurement in the context of the Covid-19 pandemic.

On 10 June 2020, upon conclusion of its Supervisory Review and Evaluation Process (SREP) conducted for the period ending 31 December 2019, the ECB notified Banca Carige of its new SREP decision on prudential requirements to be complied with on a consolidated basis pursuant to Art. 16 of EU Regulation No. 1024/2013. According to the outcome of the ECB's Supervisory Review and Evaluation Process, the ECB requires that the Bank should maintain, on a consolidated basis, a total SREP capital requirement (TSCR) of 10.75% (inclusive of the additional Pillar 2 own funds requirement of 2.75%). By that decision, the Supervisory Authority announced a 50 bps reduction of the additional Pillar 2 Requirement ("P2R"), as compared to the previous requirement set forth in the 2017 SREP decision, lowering the P2R own funds requirement from 3.25% to 2.75%, specifying that the aforementioned additional requirement shall be held in the form of 56.25% of Common Equity Tier 1 (CET1) capital and 75% of Tier 1 capital, as a minimum.

[3] Governing Council Decision of 12 March 2020 (Press Release “*ECB Banking Supervision provides temporary capital and operational relief in reaction to coronavirus*”).

As far as prudential requirements are concerned, having assessed the arrangements, strategies, processes and mechanisms implemented by the Bank to ensure risk coverage, the ECB has concluded that no additional liquidity requirements are necessary.
In the same letter, with specific reference to the coverage of Non-Performing Exposures ("NPEs")(), the ECB made a recommendation (non-binding and subject to the ongoing, structured dialogue between Carige and the ECB) for the Bank to phase in a gradual adjustment of its coverage of the stock of exposures classified as NPEs on 31 March 2018 (as part of a complementary approach to the expectations set out in the Addendum to the ECB Guidance to banks on Non-Performing Exposures generated as of April 2018). In particular, for secured NPEs older than 7 years, it is recommended that 40% coverage is achieved by year end 2020, with a linear adjustment path to full coverage by year end 2026; for unsecured NPEs older than 2 years, it is recommended that 50% coverage is achieved by year end 2020, with a linear adjustment path to full coverage by year end 2025.

On 19 October 2020, the Bank of Italy launched an inspection aimed at assessing compliance with regulations and supervisory guidance on transaction transparency and fairness of customer relationships, which was completed on 29 January 2021. The Parent Company is awaiting the outcome of the inspection.

In December 2020, the Bank submitted the Group's Recovery Plan to the ECB in line with EU Directive 2014/59/EU, an exercise conducted by all credit institutions and investment firms at least once a year to set out the measures and processes designed to restore their capital, business and financial situation following a significant deterioration.

In 2020, the Bank's competent structures regularly returned the feedback templates used by the Supervisory Authority to monitor the credit disbursement and management process in the Covid-19 pandemic situation in light of the regulatory measures that followed.

As part of its dialogue with the Single Resolution Board (SRB), on 13 March 2020 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 April. 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 November 2020. In 2020, the Bank monitored its MREL requirement level on a quarterly basis and regularly sent the statistical reporting template on its eligible financial instruments to the SRB.

Liquidity management
As at 31 December 2020, the liquidity position of the Group showed a Liquidity Coverage Ratio (LCR) of 172%, in excess of the 129% RAF risk tolerance.

As concerns the operating procedures of the liquidity management process, it is noted that on 26 February 2020 and, later, on 20 May 2020 and 17 December 2020, the Board of Directors of Banca Carige S.p.A approved the implementation of certain initiatives in the course of the year, to allow the Group to maintain an adequate level of liquidity and reserves.

Based on the above resolutions and other specific decisions by the Chair of the Board of Directors, the following transactions were completed, among others, during the period from 1 February 2020 to 31 December 2020:

(i) disposal of residential and commercial mortgage loans originated or renegotiated by Banca Carige and Banca del Monte di Lucca to the special purpose vehicle Carige Covered Bond S.r.l., under the scope of the OBG1 and OBG3 programmes, for a nominal amount of approximately EUR 441 mln;
(ii) disposal of government debt securities (German Government bonds) to the special purpose vehicle Carige Covered Bond S.r.l. under the the OBG1 programme, for a nominal amount of approximately EUR 130 mln;
(iii) unwinding of the Lanterna Finance securitisation transaction structured in 2018, through the repurchase of all outstanding loans by the transferors (Banca Carige and Banca del Monte di Lucca) and structuring of a new securitisation transaction via the disposal of a portfolio of performing

mortgage and signature loans to Lanterna Finance for an overall nominal amount of EUR 357.5 mln and the issuance of EUR 362.5 mln worth of notes. The notes issued were subscribed for by the transferring banks and the senior notes (EUR 225 mln), initially used as collateral for monetary policy operations carried out by the European Central Bank, were later placed with third-party investors;

(iv) the launch of a new securitisation transaction via the disposal to Lanterna Mortgage of a portfolio of performing residential mortgage loans originated, renegotiated or subrogated by Banca Carige and Banca del Monte di Lucca, which, at the transfer date, had a Loan To Value of over 80% and the subsequent issuance of notes. The notes issued by Lanterna Mortgage were subscribed for by the transferring banks and the senior notes (EUR 185 mln) were used for refinancing transactions with the ECB; in January 2021, the senior notes were partly placed with third-party investors;

(v) total or 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 265 mln and consequent withdrawal of surplus liquidity deposited with the transferees. Against the cancellation and aforementioned disposals under item (i), the Bank has withdrawn surplus cash from the vehicles of the OBG1, OBG2 and OBG3 programmes, in compliance with current and forward-looking tests for an overall amount of EUR 375 mln.

(vi) early repayment of certain covered bonds issued under the OBG1 programme and placed with institutional investors, for an overall amount of EUR 58.5 mln;

(vii) early repayment of EUR 1,800 mln worth of TLTRO II and borrowing of EUR 800 mln worth of funds under the TLTRO III programme at the auction of March 2020; the repayment of EUR 700 mln worth of TLTRO II and borrowing of EUR 1,700 mln worth of funds under the TLTRO III programme at the auction of June 2020; the early repayment of EUR 500 mln worth of TLTRO II coming to maturity in March 2021 and borrowing of EUR 1,000 mln worth of funds under the TLTRO III programme at the auction of September 2020. As a result of these repayments and borrowings, the Group has to date taken up EUR 3.5 bn worth of funds under the TLTRO III programme.

In line with its Strategic Plan, the Bank carried out the following disposals of the Bank of Italy's shares in excess of the 3% dividend-bearing stake:

- August 2020: 200 shares, for a nominal value of EUR 25,000 each, to Banca di Verona Società Cooperativa per Azioni - Gruppo Bancario Cooperativo Iccrea at a price equal to the shareholding's overall nominal value of EUR 5 mln, coinciding with its historical cost;
- November 2020: 400 shares, for a nominal value of EUR 25,000 each, to Banca San Giorgio Quinto Valle Agno at a price equal to the shareholding's overall nominal value of EUR 10 mln, coinciding with its historical cost;
- December 2020: 133 shares, for a nominal value of EUR 25,000 each, to Valpolicella Benaco Banca Credito Cooperativo – Società Cooperativa at a price equal to the shareholding's overall nominal value of EUR 3.325 mln, coinciding with its historical cost.

After the aforementioned disposals, as at 31 December 2020, the Carige Group held 9,762 shares, corresponding to a 3.254% shareholding.

Other events

On 10 June 2020, the Bank announced that, acknowledging IBM's intention to acquire Carige's entire shareholding in Dock Joined in Tech S.r.l. ("Dock"), the Board of Directors had resolved to proceed with the finalisation of the deed of sale, for a total consideration of EUR 2.1 mln as determined by Deloitte Financial Advisory S.r.l. based on the estimated book value of Carige's shareholding in Dock. The sale was completed on 30 June 2020 at values higher than the book value.

On 31 December 2020, 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. On 29 October 2020, Moody's affirmed the Bank's ratings and changed the outlook to positive from stable. This last rating action reflects the recognition by the Agency of the positive developments at the bank since the end of its Temporary Administration (on 31 January 2020, with the appointment of a new Board of Directors); the Bank's comprehensive, significant reduction of asset risk, together with the levels of capitalisation achieved, lie at the basis of the issuer ratings assigned to the Bank. The Bank's Baseline Credit Assessment (BCA) and the long-term deposit rating were affirmed at 'caa1' and 'Caa1', respectively.

- Fitch Ratings: 'B-' for the long term and 'B' for the short term. In its latest rating action dated 16 November 2020, Fitch Ratings affirmed the Bank's Issuer Default Rating (IDR) at 'B-' (the rating had been upgraded to 'B-' from 'CCC' on 9 January 2019) with a negative outlook, the senior unsecured rating at 'CCC' and the Viability Rating (VR) at 'b-'. The Negative Outlook reflects the Agency's view that Carige might encounter difficulties in achieving planned revenue growth in the recession context caused by the pandemic and with capital buffers that the Agency views as tight relative to the regulatory requirements.

  Carige's long- and short-term deposit ratings are in line with the Issuer Default Rating (IDR), both at 'B-'.

OTHER GROUP COMPANIES

On 28 April 2020, the Shareholders' Meeting of Carige REOCO S.p.A. appointed its new Board of Directors; Chair Gabriele Delmonte and Director Luciano Pasquale (who later resigned from office for personal reasons on 22 June 2020) were confirmed; Marcello Pasini (who was appointed to serve as CEO of the company by the Board of Directors' meeting held on the same date), Antonio Berardi and Federico Maria Perrotta (Managers of the Parent Company) were appointed to serve as Directors. The latter resigned on 22 January 2021.
Likewise on 28 April 2020, the new Board of Statutory Auditors was appointed, with the following composition: Alberto Giussani (Chair); Pierpaolo Singer and Paolo Ravà (who resigned on 15 October 2020) serving as Standing Auditors; Vincenzo Miceli and Silvia Muzi serving as Alternate Auditors.
In July 2020, the acquisition of 100% of the company Sant'Anna Golf S.r.l. (in turn holding 100% of Sant'Anna Gestione Golf s.s.d. a r.l.) took place as part of a debt restructuring transaction with the Parent Company Banca Carige, pursuant to art. 182-*bis* of the Bankruptcy Law. This transaction marked the completion of the acquisition of real estate contracts carried out in July 2019 through the merged company Abitare R.E. S.r.l.
In November 2020, the merger by absorption of subsidiary Abitare R.E. was completed, with fiscal and accounting effect as of 1 January 2020, with a view to simplifying and streamlining the management of real estate contracts, as the reason for retaining the company Abitare R.E. S.r.l. was no longer deemed to exist, considering that no negotiations were underway with Group-external parties potentially interested in acquiring it.

On 29 April 2020, the Ordinary Shareholders' Meeting of Banca Cesare Ponti S.p.A. approved the Financial Statements of Banca Cesare Ponti S.p.A. for 2019, which closed with a net loss of EUR 693,959.25, to be covered as follows:

- Use of reserves: EUR 691,524.74;
- Use of share premium: EUR 2,434.51

On 22 June 2020, the Ordinary Shareholders' Meeting of Banca Cesare Ponti appointed the new Board of Directors, comprising: Cesare Ponti (Chair), Franco Anelli (Deputy Chair), Maurizio Zancanaro (Member of the Board of Directors recommended to serve as CEO), Grazia Bonante and Gianluca Caniato (Members of the Board of Directors); the latter tendered his resignation on 19 January 2021. The Board of Directors, which met on the same day, appointed Director Maurizio Zancanaro to serve as Chief Executive Officer.

On 23 October 2020, the Board of Directors of Banca Cesare Ponti resolved to delegate the Chief Executive Officer with the power to arrange, through the competent structures of the Bank and its Parent Company, for payment to the Revenue Agency, using the procedure for the voluntary correction of tax return errors, of approximately EUR 1.3 mln due to the fact that the Revenue Agency had not received the Bank's tax monitoring data for 2017 because of an error in the data flow transmitted by the IT outsourcer.

The Ordinary Shareholders' Meeting of Banca del Monte di Lucca, convened on first call on 29 April 2020, approved the 2019 Financial Statements, which closed with a net loss of EUR 16,899,838.62, to be covered as follows:

- Use of share capital and reserves as proposed by the Extraordinary Shareholders' Meeting for a total amount of EUR 9,241,272.25;
- Carry forward of the residual loss of EUR 7,658,566.37.

The Shareholders' Meeting also resolved to appoint Gabriele Delmonte as Deputy Chair and Michela Sossella as Director. Both had been co-opted at the meeting of 19 March 2020.

Thereafter, the Bank's Extraordinary Shareholders' Meeting approved the overall capital-strengthening manoeuvre, resolving upon:

1) the elimination of the indication of the per-share par value of the Banca del Monte di Lucca shares;
2) approval of partial coverage of losses and negative reserves by a reduction of reserves available and, for the remaining part (EUR 30,201,415.28) by a reduction of share capital;
3) elimination of the obligation to replenish valuation reserves;
4) a EUR 13.5 mln share capital increase against consideration with inclusion of the rights of option, through the issuance of up to 45,254,806 shares, with no indication of par value, at a share price of EUR 0.29831086, of which EUR 3,500,164.28 as share capital and EUR 9,999,835.72 as share premium;
5) amendments to art. 5 of the Articles of Association following the resolutions referred to under items 1), 2) and 4) above.

In May 2020, the foregoing capital strengthening transaction was fully subscribed for by the shareholder, Banca Carige.

On 30 June 2020, the EUR 4 mln Tier 2 subordinated bond issuance maturing on 30 June 2030 was launched and proportionally subscribed for by the shareholders. The transaction, approved by the Board of Directors on 18 June 2020, complemented the capital strengthening effort submitted to the Shareholders' Meeting of 29 April 2020 and contributes to compliance with the regulatory ratios.

OWNERSHIP STRUCTURE

As at 31 December 2020, Banca Carige's share capital amounted to EUR 1,915,163,696.00, represented by 755,371,224 shares with no indication of par value, of which 755,371,204 ordinary and 20 convertible savings shares.

With the share capital remaining the same, the change in the number of shares has been determined by the reverse split of the bank's ordinary shares and savings shares outstanding, at a ratio of 1 new ordinary share, with regular dividend entitlement, for every 1,000 ordinary shares outstanding and 1 new savings share, with regular dividend entitlement, for every 1,000 savings shares outstanding, which was resolved upon by the Extraordinary Shareholders' Meeting on 29 May 2020 and executed on 14 December 2020.

According to the shareholder register and based on notifications received in compliance with the applicable legislation and other information available to the Company, the shareholders directly or indirectly owning interests amounting to over 5% of the ordinary share capital, are as follows:

Declarant or subject at the top of the investment chain	**Direct shareholder**		**% held**	
	Name	**Type of possession**	**% held**	**o.w. without voting rights**
				% held
FONDO INTERBANCARIO DI TUTELA DEI DEPOSITI (FITD)	FONDO INTERBANCARIO DI TUTELA DEI DEPOSITI (FITD)	Ownership	79.992	0.000
		Total	79.992	0.000
	Total		**79.992**	**0.000**
CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO	Ownership	8.341	0.000
		Total	8.341	0.000
	Total		**8.341**	**0.000**
OTHER SHAREHOLDERS	***Total***		**11.667**	**-**

Further information concerning shareholders and shareholders' agreements is available in the "Governance" section of the Bank's website at www.gruppocarige.it.

CORPORATE GOVERNANCE

Adoption of the Corporate Governance Code for Listed Companies, approved by the Borsa Italiana S.p.A. Corporate Governance Committee, was approved for the first time by the Carige Board of Directors in February 2001; since that time, the governance of the Bank has been continuously updated in line with the Code's criteria, most recently approved by the Corporate Governance Committee in July 2018.
In January 2020, the Corporate Governance Committee of Borsa Italiana S.p.A. published a new version of the Code, which shall apply from the first financial year starting after 31 December 2020.
For information pursuant to article 123 *bis* of the Consolidated Law on Finance (TUF) regarding Banca Carige's corporate governance and ownership structure, please refer to the separate document: "Corporate Governance and Ownership Structure Report for 2020", approved and published in conjunction with these financial statements and available in the "Governance" section of the Bank's website at www.gruppocarige.it.
In accordance with article 2391 *bis* of the Italian Civil Code, the Corporate Governance and Ownership Structure Report may also be referred to for a description of the rules adopted by the Bank, in line with Consob principles and supervisory regulations, to ensure the transparency as well as the substantial and procedural correctness of transactions with related parties and connected persons, as set forth in the "Regulation governing the process with related parties and connected persons", available under the "Governance" section of the Bank's website. For details on existing relations with related parties, which

are part of the Bank’s business and are regulated according to market conditions, please refer to part H of the Explanatory Notes to the Consolidated Financial Statements.

NON-FINANCIAL REPORT

For information regarding the Non-financial Report, please refer to the separate file: “Dichiarazione Non Finanziaria 2020 Gruppo Banca Carige - 1/2/2020-31/12/2020” (2020 Non-Financial Report for the Banca Carige Group), available for consultation only in Italian, in the “*Sostenibilità*” (Sustainability) section of the Bank’s website at www.gruppocarige.it.

CARIGE SHARE PRICE

Carige shares (both ordinary and savings shares) have been suspended from trading on the regulated market since 2 January 2019 (Consob resolutions No. 20771 of 1/1/2019 and No. 20772 of 2/1/2019).
On 4 December 2020, the optional conversion of savings shares into newly issued ordinary share was completed. During the optional conversion period, requests were submitted for the conversion of a total of 5,139 savings shares, equal to 20.12% of the savings share capital and corresponding (as a result of the application of the conversion ratio) to 105,349,500 newly issued ordinary shares.
Upon conclusion of the optional conversion period, the Bank’s share capital remained unchanged in the amount of EUR 1,915,163,696, divided into 755,371,204,973 ordinary shares and 20,403 savings shares, with no indication of par value.
On 14 December 2020, the Bank executed the reverse stock split of Carige’s 755,371,204,973 no-par value ordinary shares and Carige’s 20,403 no-par value savings shares.
Following the Reverse Stock Split, the total number of ordinary shares was 755,371,204, whereas the total number of savings shares was 20[1]. In this regard, it should be noted that cash settlement of the fractions of ordinary and savings shares arising from the reverse split took place on 8 March 2021.
With reference to the Terms and Conditions of the “Warrant Banca Carige S.p.A. 2020-2022” (the “Warrants”) approved by Carige’s Extraordinary Shareholders' Meeting of 20 September 2019, it is noted that, pursuant to the provisions of article 4.2(d) of the aforesaid Terms and Conditions, the number of conversion shares that could be subscribed to for each Warrant and the exercise price were accordingly modified, in order to reflect the Reverse Split ratio for the ordinary shares, namely 1 new ordinary share for every 1,000 existing ordinary shares.

DISTRIBUTION CHANNELS

The Carige Group’s distribution system is organised into traditional and remote channels.
As at 31 December 2020, the Carige Group branch network consisted of 380 branches, down from 439 as at January 2020 due to the optimisation and rationalisation of the branch network set out in the 2019-2023 Strategic Plan.
Traditional channels are based on a customer service specialisation model in which relationship managers are dedicated to the various customer segments. More specifically, the model envisages private banking, affluent and mass-market advisors dedicated to the relationship with -and growth of- the retail customer base; corporate banking and small business advisors are instead dedicated to the various categories of business customers.

[1] The newly issued ordinary and savings shares are identified by new ISIN codes, respectively: IT0005428195 for the ordinary shares and IT0005428203 for the savings shares.

The personal financial advisory service for higher-profile customers is based on a total of 78 private banking relationship managers and 459 affluent customer relationship managers.
In addition to the personal financial advisory service comes the financial advisory service for businesses which relies on 153 corporate banking advisors, (2 large corporate and 151 mid corporate) and 304 small business advisors.
Remote channels include 'Bancomat' ATMs, cash-in ATMs and on line services (internet banking, mobile banking and the contact centre). A total of 528 Bancomat ATMs were operating at the end of December 2020 (562 as at January 2020). In order to reduce the workload for branches and speed up over-the-counter transactions for current account holders, the Group can rely on 161 cash-in machines for cash or cheque processing in 157 branches. In the branches involved, 47.1% of payments, which could be migrated, were transferred to the automatic cash-in process from 1 February 2020 to 31 December 2020.
Noteworthy in the on-line segment is the platform for retail customers to access the Group's services via web (Carige OnLine) and smartphones (Carige Mobile), which was gradually unified and implemented; the number of Internet Banking contracts for retail customers amounted to 395,391.

DISTRIBUTION NETWORK

A) TRADITIONAL CHANNELS

	31/12/2020		31/01/2020	
	number	%	number	%
NORTH WEST	**215**	**56.6**	**247**	**56.3**
Liguria	138	36.3	162	36.9
- Genoa	74	19.5	88	20.0
- Savona	32	8.4	39	8.9
- Imperia	16	4.2	18	4.1
- La Spezia	16	4.2	17	3.9
Lombardy	41	10.8	45	10.3
Piedmont	35	9.2	39	8.9
Aosta Valley	1	0.3	1	0.2
NORTH EAST	**41**	**10.8**	**48**	**10.9**
Veneto	30	7.9	33	7.5
Emilia Romagna	11	2.9	15	3.4
CENTRE	**79**	**20.8**	**87**	**19.8**
Tuscany	54	14.2	59	13.4
Lazio	21	5.5	24	5.5
Marche	2	0.5	2	0.5
Umbria	2	0.5	2	0.5
SOUTH AND ISLANDS	**45**	**11.8**	**57**	**13.0**
Sicily	31	8.2	40	9.1
Sardinia	8	2.1	10	2.3
Apulia	6	1.6	7	1.6
Total number of branches	**380**	**100.0**	**439**	**100.0**

	31/12/2020	31/01/2020
Private banking relationship managers	78	79
Corporate banking relationship managers	153	154
Affluent segment relationship managers	459	474
Small business relationship managers	304	297
Total relationship managers	**994**	**1,004**

B) REMOTE CHANNELS

Bancomat ATMs	528	562
Cash-in machines (1)	161	158
Of which in Bancacontinua Self-Service areas	36	-
(1)	-	17
Retail Internet Banking (2)	395,391	387,791

(1) Since the end of 2020, Bancacontinua self-service areas are no longer counted, as they have been superseded by self-service branches, which guarantee cash-in operations when the branch is closed in secure locations with independent access. Advanced ATMs (with cash-in functionality), which in self-service branches can be more than one, are included.

(2) Number of contracts.

HR MANAGEMENT

In December 2020, the Group's headcount totalled 3,617 employees (3,714 in January 2020), of whom 3,615 on open-ended contract. Executives and middle managers accounted respectively for 1.2% (43 units) and 26.5% (957 units) of the aggregate, with the rest of personnel accounting for 72.4% (2,617 units). Front-end staff make up 76.7% of total headcount (2,774 units).
Women account for 50.8% of the Group's total workforce; 52.7% of female personnel are based in Liguria. The average age of Group employees is about 49 years, and the average length of service is 23 years. The breakdown of employees by level of education shows a share of graduates of nearly 41%.
The period from 1 February 2020 to 31 December 2020 registered 101 employment relationship terminations (71 of which for attaining eligibility for retirement, including incentive-based retirement and 44 in the Solidarity Fund) and 4 new hires.

BREAKDOWN OF PERSONNEL

	31/12/2020		31/01/2020	
	number	%	number	%
Grade				
Executives	43	1.2	45	1.2
Middle managers	957	26.5	945	25.4
Other employees	2,617	72.4	2,724	73.3
Total	**3,617**	**100.0**	**3,714**	**100.0**
Assets				
Head office	*843*	*23.3*	*865*	*23.3*
Market	*2,774*	*76.7*	*2,849*	*76.7*

SALES AND INNOVATION

The cross-channel approach lies at the basis of the Banca Carige Group service model, which aims to serve customers with a full-fledged product and service proposition by maintaining standards of high quality in terms of know-how and expertise, regardless of the channel chosen, be it physical, remote or mobile.
In 2020 the key proposition for retail customers, and more specifically for Households, both residing and not residing in Italy was "Conto Davvero"; this offering includes an ordinary current account, a debit card to be issued to one of the account holders and the activation of Carige OnLine with internet and phone banking service for each account holder who does not have one. The product is offered via an innovative, easier-to-use sale process, entailing graphometric signature activation for all account holders who have not yet activated it, a key factor to reduce the time needed to open accounts and make transactions once the account is operating.
Companies can also rely on the long-established current accounts dedicated to professional or entrepreneurial activity: "Carige Stile Affari", "Carige SeiInAffari" and "Carige SeiInAffari Maxi"; "Carige Condominio" for condominium managers.
The offering dedicated to the younger customer target was enriched with 'Carige Già Grande', a free-of-charge savings account for children up to 13 years of age, which is particularly advantageous in terms of interest earned, and 'Conto Giovani', a current account for the 14-17 age group, which, in addition to paying interest on savings, is transactionally functional to suit the needs of teenagers, with the possibility for parents to authorise expenses above certain amounts.
Since 2011, the Fund for Study, named "Diamogli Futuro", which is managed by Consap S.p.A., has been refinanced every year. The Fund is designed to facilitate access to credit for students and offers the

guarantees they need to obtain loans for their education or completion of training from member banks. Consap issues first-demand, direct, explicit, unconditional and irrevocable guarantees to the lending banks, covering 70% of the eligible loans’ principal.
Digital access to the Group’s banking services via internet, smartphone or telephone is possible through the portals “Carige Online” for retail customers and “Carige Online Business” and “Carige OnDemand for businesses. Users of “Carige Online” and “Carige Online Business” can also use the app “Carige Mobile” for iOs and Android devices.
The security level of online services is high: when the contract is opened, the authentication service is automatically activated by text message, with the account holder receiving a one-time password ("OTP") on his mobile, to be used for access to the services and to confirm payment orders. As an alternative to the text message, the Group's token app, Carige Pass, has been implemented, allowing authentication by entering a PIN in one's approved mobile phone or even by fingerprint or face recognition. By the end of 2020, Carige Pass was selected as a security method by over 91,000 customers.
The on-line documents service ("Documenti In Linea") is always included free of charge, allowing customers to electronically view, save and print the main transparency notices sent by the Bank. The documents remain available on the Internet for five years and have the same legal validity as hard-copy communications sent by regular mail.
In 2020, there were about 278,000 users of Carige Online, over 61,000 users of Carige OnDemand and nearly 8,000 users of Carige Online Business.
As for direct funding, the catalogue of deposit products on offer in 2020 remained in line with 2019, with some fine-tuning of the pricing in use.
In assets under management, sales collaboration continued with the asset management company, Arca SGR, the Groups' reference fund house since 2014, enabling access to a complete and diversified catalogue of products including open-ended funds and fixed-term funds.
As part of the funds placed with different time windows, distribution started for the coupon funds “Arca Multi-Strategy Prudente 2025” class R, which continued with the editions II, III and IV. In the second quarter of 2020, class W of the fund “Arca Multi-Strategy Prudente 2025” was also placed and was reserved to customers who were not holders of Arca funds. Since July, class W has been replaced by class F, reserved both for customers who are not or are holders of Arca funds but with no other Arca funds disinvested during the placement period. Class P fund “Arca Cedola Attiva 2020” was placed in May 2020, with the subscription period closing ahead of schedule on 8 June, due to changed market conditions. The flexible time window fund “Arca Opportunità Sostenibili 2025" continued to be marketed in editions II, III, and IV, focusing primarily on companies with a significant commitment to environmental, social and governance (ESG) issues and investments.
During the year, following new legislative changes the possibility of subscribing for Individual Savings Plans (it. PIR) of the Arca Italian Real Economy segment was reopened.
The 5 segments of the Luxembourg open-ended collective investment scheme Sidera Funds of the asset management company Arca Fondi SGR continued to be marketed during the year. Each segment is subdivided into two classes, one for capital accumulation and one for the payout of annuities.
The catalogue of collective investment funds available to all customers was integrated with selected funds from Eurizon SGR. Starting from the end of January, the placement of certificates resumed with the distribution of two financial instruments issued by Banca IMI, one on the FTSE Mib index and one on Euro Stoxx50.
At the end of August, to meet the needs of small-medium net worth customers for their investments to be managed by professionals, the Bank started marketing the "Gamma GP Retail" funds, for portfolios with a minimum access threshold of EUR 10,000.
In Private banking, the range of open-architecture financial instruments offered primarily via the “Allfunds” platform continued to be integrated with selected top quality products from leading international fund houses. In parallel, the use of model portfolios has been further expanded to increase the efficiency of customer portfolios, in compliance with regulations in force. With specific regard to this customer segment, the placement of managed portfolios continued with a catalogue of 14 lines offered.
Distribution continued for the 4 lines of the Open-ended Pension Fund, ‘Arca Previdenza’, differentiated by maturities and risk appetite. At year-end, Arca integrated the investment strategies of the segments “Rendita”, “Crescita” and “Alta Crescita” with environmental, governance social aspects and sustainable investment principles.

In "Bancassurance", distribution continued to focus on the Line 1 insurance products "Carige Soluzione Rendimento III" and "Carige Soluzione Assicurata 2015 edition" , which were replaced by "Carige Soluzione Rendimento 2020 Edition" and "Carige Soluzione Assicurata 2020 edition", in addition to unit-linked Line 3 products "Carige UnitPiù" and the multi-line policies "Carige Multisoluzione II" and "Multisoluzione Più II" which make it possible to allocate the invested premium to different Line 1 and Line 3 combinations.

In the non-life insurance segment, the proposition and sale of insurance policies continued, in collaboration with Amissima Assicurazioni.

With reference to third party motor liability, "Carige AutoPiù" was introduced, i.e. a policy with three different guarantee packages (Basic, Comfort and Premium) to meet the different insurance needs of different customer profiles. In October 2019, innovations were introduced as far as ancillary guarantees are concerned, in order to guarantee an increasingly tailored service and a higher level of customer protection, with the land vehicles accessory guarantees to be combined with compulsory motor liability.

Among non-life policies, in addition to the well-established "Protezione Famiglia" which protects family members against damage involuntarily caused in their own private or family life to third parties, the "Carige Incendio e Furto, Rc Proprietà e Assistenza" multiguarantee policy has met with success. In addition to protecting the home and its contents, via two separate policies, this product indemnifies the policy holder against damage unintentionally caused to third parties in connection with the owned building or thereto associated items (such as equipment and fixtures), benefiting from technical assistance in case of emergency repair and maintenance work. Covered risks are separately and independently defined but packaged into a single contract template.

The accident and injury insurance policies "Carige Tutto Bene", "Carige Niente Male", "Carige Esco Sereno" and the dental insurance "Carige Sorridenti" complete the offering.

With regard to customer profiling and due diligence activities, in 2020 the Bank continued to collect MiFID questionnaires from customers not yet profiled and to update expired questionnaires.

The MiFID II and IDD compliance programme, initiated in 2017, continued with several Investor Protection initiatives (disclosure of costs, charges and incentives related to financial products held, annual portfolio monitoring, product governance policy, reporting of potential losses on portfolios under custody, control of the cost-benefit ratio if the portfolio management line is changed, portfolio adequacy assessment of customer ability to sustain losses).

Lending to retail customers continues with the offering of fixed- and floating-rate loans, centred around two products in particular: "Carige Miglior Casa", with diversified conditions depending on the borrower's LTV (loan to value) and debt to income ratio, and "Mutuo Carige Giovani". Targeting customers aged under 35, this loan is designed for buying a home, restructuring it and increasing its energy efficiency.

To cover the loans taken out, the Bank offers Carige Domani Mutuo CPI (Credit Protection Insurance), individually underwritten collective insurance contracts marketed in partnership with Amissima Assicurazioni. Life insurance "Carige Domani Mutuo Vita" covers the risk of death, while the non-life insurance policy "Carige Domani Mutuo Danni" and its "Light" lower premium version offer coverage for the policy holder against events that can make loan repayment difficult, such as total permanent disability due to injury and illness, temporary total disability due to injury and illness, involuntary unemployment and serious illness. A similar specific policy is available for businesses: "Carige Domani Mutuo Impresa", for protection against events that may limit the capacity of loan, mortgage or unsecured loan repayment.

Following the Covid-19 outbreak and the resulting economic and liquidity crisis, the Bank implemented several initiatives to support households and businesses, giving effect to the legislative provisions in force at any given time.

As for support to households, the measures introduced included the possibility of a moratorium on first-home mortgage loans (Law Decree No. 18/2020, art. 54) and other consumer loans/instalment loans (Italian Banking Association/Consumer Associations agreement of 21 April 2020) and advance payments of wage subsidies under the Redundancy Fund, with the opening of zero-interest current account credit facilities (Law Decree No. 18/2020, art. 19 and 22), subject -*inter alia*- to the agreements between the Italian Banking Association (ABI) and the Regional holding company for economic development, FI.L.S.E. S.p.A., to facilitate the access for workers living in Liguria.

With regard to support for businesses, the measures implemented included: the possibility of a moratorium on fixed-term mortgage , instalment and non-instalment loans and maintenance of revolving lines of credit (Law Decree no. 18/2020, art. 56); the suspension or rescheduling of loans for SMEs (the Italian

Banking Association Moratorium for Businesses - Addendum to the 2019 Credit Agreement); disbursement of subsidised loans (FI.L.S.E S.p.A. "Covid-19 emergency" tender in support of liquidity for Ligurian micro, small and medium enterprises (MSMEs); granting of signature loans backed by the Central Guarantee Fund for SMEs (Law Decree No. 23/2020, Art. 13 - the "Liquidity Decree") or by Italy's Official Export Credit Agency, SACE S.p.A. (Law Decree No. 23/2020, art.1); granting of signature loans to MSMEs in Sicily for non-repayable direct grants to financed businesses (agreement between the Sicilian agency of the Italian Banking Association and the holding for the development of Sicily, I.R.F.I.S. S.p.A., of 15 April 2020).
The Bank also stepped in to support municipalities, provinces and other local authorities by granting moratoria on existing loans (agreement between the Italian Banking Association, ANCI - the Italian association of national municipalities - and UPI - the union of Italian provinces - of 6 April 2020).
In order to support customers in accessing the tax deductions on building requalification for owners of single-family houses or units in multi-family buildings and businesses introduced by the 2020 Relaunch Decree, Carige has successfully proposed, -including in consideration of particularly competitive conditions- the "Carige Superbonus Casa" product, featuring a wide range of solutions ranging from the transfer of tax credit, through the granting of loans for renovation works to related assistance and advisory services.
In consumer lending, the proposition focuses on "Mysura", a fixed or indexed unsecured loan offered by Creditis Servizi Finanziari S.p.A., which, in its capacity as the issuing company, provides potential customers with a SEPA direct debit loan from the customer's current account to be repaid in instalments after creditworthiness assessment.
To cover the risk of insolvency, the bank's product proposition includes Lucky and Luckynet, respectively a Life and Non-Life Payment Protection Insurance (PPI) policy.
With regard to debit cards, distribution of the international debit card for retail customers, Carige Pay Debit (issued in partnership with Nexi Payments on the Mastercard circuit), continued and reached a stock level of 128,707 cards outstanding. The other debit cards in the catalogue, Carigecash Europa / Internazionale have reached a stock level of 396,235 units.
The marketing of riCarige prepaid cards ended in July 2020, when Carige Pay Prepaid was launched in replacement. Also available in its Young version, for customers aged under 18, it allows worldwide spending on the Visa Circuit and is issued in collaboration with Nexi Payments. As at year-end, the stock of Carige Pay Prepaid cards totalled 54,355 units.
The stock of Carige Pay Credit cards saw a slight decrease from the previous year (-3%) to 180,365 units.

In addition to strictly complying with customer protection regulations, the Carige Group makes considerable effort to adopt the required compliance framework. In this view, the Carige Group joined the Banking Ombudsman Scheme in 1993, which in 2007 became part of the Financial Banking Conciliator Association, managing other instruments for out-of-court dispute settlement, including Conciliation and Arbitration; the Banking and Financial Arbitrator, ABF, has been operational since 15 October 2009, taking action in disputes regarding banking and financial services; the Arbitrator for Financial Disputes (ACF) has been operational at CONSOB since 2017, acting as an out-of-court dispute resolution system between retail investors and banks / intermediaries.
The Group Banks' websites include a special "Complaints" section providing all information on legally enforceable customer protection levels, from complaint submission to out-of-court dispute settlement and relating statistical data.
Centralised with the Parent Bank's Complaints Office, are all obligations arising from Art. 7 of Legislative Decree 196/2003 (Privacy Code), Regulation (EU) 2016/679 (GDPR) and the "Code of Conduct" for information systems managed by private entities with regard to consumer credit, reliability and timeliness of payments, and the exercise of the interested parties' rights to access, modify and/or cancel any of their personal data processed by the Group Banks.

PROFIT &LOSS RESULTS

It should be noted that the figures shown for comparative purposes in the income statement are derived from the "Consolidated Financial Statements for the Financial Year Under Temporary Administration: 01.01.2019-31.01.2020" relating to a 13-month period, while P&L and balance sheet figures as at 31 December 2020 refer to an 11-month period (01.02.2020 – 31.12.2020). Changes are therefore shown only in absolute terms and express changes relating to non-comparable periods

As at 31 December 2020, the Parent Company's income statement posted a net loss for the 11-month period of EUR 251.6 mln, as against the EUR 869.8 mln loss posted for the 13-month period ended January 2020[2]. This result incorporates the effects of the estimates that the Bank has made with regard to the potential consequences when measuring the expected credit losses related to the Covid-19 pandemic that broke out in Italy in early 2020 and is still ongoing.

INCOME STATEMENT *(EUR/000)*

	Situation as at		Change
	31/12/2020 11 months	31/01/2020 13 months	Absolute
10. Interest and similar income	266,604	370,100	(103,496)
o.w.: interest income calculated using the effective interest rate method	283,700	377,101	(93,401)
20. Interest and similar expense	(142,982)	(246,556)	103,574
30. NET INTEREST INCOME	**123,622**	**123,544**	**78**
40. Fee and commission income	207,443	262,207	(54,764)
50. Fee and commission expense	(20,729)	(42,322)	21,593
60. NET FEE AND COMMISSION INCOME	**186,714**	**219,885**	**(33,171)**
70. Dividends and similar income	10,817	10,733	84
80. Net profit (loss) from trading	6,273	14,029	(7,756)
90. Net profit (loss) from hedging	(1,780)	789	(2,569)
100. Profits (losses) on disposal or repurchase of:	44,838	(28,716)	73,554
a) financial assets at amortised cost	*39,951*	*(28,204)*	*68,155*
b) financial assets at fair value through other comprehensive income	*4,775*	*31*	*4,744*
c) financial liabilities	*112*	*(543)*	*655*
110. Profits (losses) on financial assets/liabilities at fair value through profit or loss	7,511	(3,359)	10,870
b) other financial assets mandatorily at fair value	*7,511*	*(3,359)*	*10,870*
120. NET INTEREST AND OTHER BANKING INCOME	**377,995**	**336,905**	**41,090**
130. Net losses/recoveries on impairment of:	(92,035)	(462,489)	370,454
a) financial assets at amortised cost	*(91,841)*	*(462,500)*	*370,659*
b) financial assets at fair value through other comprehensive income	*(194)*	*11*	*(205)*
140. Gains (losses) due to contractual modifications not resulting in derecognition	1,315	813	502
150. NET INCOME FROM BANKING ACTIVITIES	**287,275**	**(124,771)**	**412,046**
180. NET INCOME FROM BANKING AND INSURANCE ACTIVITIES	**287,275**	**(124,771)**	**412,046**
190. Administrative expenses	(416,684)	(634,897)	218,213
a) personnel expenses	*(217,472)*	*(394,521)*	*177,049*
b) other administrative expenses	*(199,212)*	*(240,376)*	*41,164*
200. Net provisions for risks and charges	(31,630)	(30,815)	(815)
a) commitments and guarantees given	*5,804*	*9,694*	*(3,890)*
b) other net provisions	*(37,434)*	*(40,509)*	*3,075*
210. Net adjustments to/recoveries on property and equipment	(39,435)	(58,913)	19,478
220. Net adjustments to/recoveries on intangible assets	(12,997)	(10,294)	(2,703)
230. Other operating income/expense	47,589	(13,455)	61,044
240. OPERATING EXPENSES	**(453,157)**	**(748,374)**	**295,217**
250. Profits (losses) on equity investments	4,655	8,235	(3,580)
280. Profits (losses) on disposal of investments	140	517	(377)
290. PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	**(161,087)**	**(864,393)**	**703,306**
300. Taxes on income from continuing operations	(91,561)	(15,788)	(75,773)
310. PROFIT (LOSS) AFTER TAX FROM CONTINUING OPERATIONS	**(252,648)**	**(880,181)**	**627,533**
320. Profit (loss) after tax from discontinued operations	-	3,758	(3,758)
330. PROFIT (LOSS) FOR THE PERIOD	**(252,648)**	**(876,423)**	**623,775**
340. Non-controlling interests	*(1,007)*	*(6,646)*	*5,639*
350. NET PROFIT (LOSS) FOR THE PERIOD ATTRIBUTABLE TO THE PARENT COMPANY	**(251,641)**	**(869,777)**	**618,136**

More specifically, Net Interest Income amounted to EUR 123.6 mln (EUR 123.5 mln as at January 2020). In particular, with reference to assets and liabilities at amortised cost, Net Interest Income from customers totalled EUR 237.6 mln, whereas Net Interest Income from banks was a negative EUR 4.5 mln.

[2] The result included several non-recurring items.

Interest income stood at EUR 266.6 mln and interest expense totalled EUR 143 mln.
The trend in net interest income shows a reduction in interest income on loans to customers caused by lower margins and a downturn in funding and lending volumes, further compressed by the gradual de-risking of assets. This trend was counterbalanced by the reduced cost of funding, specifically on account of lower interest expense on securities issued, which last year included interest expenses on the Tier 2 subordinated debt issued in November 2018 which, by rate (16% vs 8.25%) and amount (EUR 320 mln vs EUR 200 mln), was more expensive than the subordinated debt issued in December 2019 as part of the comprehensive Capital Strengthening Transaction. Interest accrued on the TLTRO III refinancing operations (EUR 14.7 mln, mainly in the second half of the year) also gave a significant positive contribution to NII.

INTEREST AND SIMILAR INCOME *(EUR/000)*

	31/12/2020 11 months	31/01/2020 13 months	Change Absolute
Financial assets at fair value through profit or loss	1,274	2,565	(1,291)
- financial assets held for trading	31	329	(298)
- other financial assets mandatorily at fair value	1,243	2,236	(993)
Financial assets at fair value through other comprehensive income	556	2	554
Financial assets at amortised cost:	271,432	391,029	(119,597)
- loans to banks	284	346	(62)
- loans to customers	271,148	390,683	(119,535)
Hedging derivatives	(24,885)	(27,665)	2,780
Other assets	3,454	3,586	(132)
Financial liabilities	14,773	583	14,190
Total interest and similar income	**266,604**	**370,100**	**(103,496)**

INTEREST AND SIMILAR EXPENSE *(EUR/000)*

	31/12/2020 11 months	31/01/2020 13 months	Change Absolute
Financial liabilities at amortised cost	105,429	188,006	(82,577)
- due to central banks	-	1,288	(1,288)
- due to banks	4,739	9,651	(4,912)
- due to customers	33,559	47,295	(13,736)
- securities issued	67,131	129,772	(62,641)
Other liabilities and funds	211	198	13
Hedging derivatives	17,959	39,921	(21,962)
Financial assets	19,383	18,431	952
Total interest and similar expense	**142,982**	**246,556**	**(103,574)**

Net fee and commission income stood at EUR 186.7 mln, as against EUR 219.9 mln as at January 2020.
Fee and commission income totalled EUR 207.4 mln, down compared to last year, primarily on the back of fees on current accounts, fees on collection and payment services and commissions from distribution of third-party products. This downturn is closely associated with the unprecedented situation due to the Covid-19 lockdown, which affected customer behaviour and prevented a full-thrust roll out of the sales and distribution effort.
Fee and commission expense amounted to EUR 20.7 mln, vs. EUR 42.3 mln as at January 2020. The decrease was mainly due to charges related to the State guarantee on the new lines of bonds issued in the first quarter of 2019 (two issuances of EUR 1 bn each) repaid, respectively, in January and July 2020.

FEE AND COMMISSION INCOME *(EUR/000)*

	31/12/2020 11 months	31/01/2020 13 months	Change Absolute
Guarantees issued	4,460	6,332	(1,872)
Portfolio management, brokerage and advisory services:	81,725	99,569	(17,844)
1. Trading of financial instruments	*144*	*55*	89
2. Currency trading	*857*	*1,576*	(719)
3. Portfolio management	*2,435*	*2,709*	(274)
4. Custody and administration of securities	*1,479*	*1,673*	(194)
6. Placement of securities	*37,915*	*41,823*	(3,908)
7. Receipt and issue of orders	*3,532*	*4,597*	(1,065)
8. Consulting services	*33*	*41*	(8)
9. Distribution of third-party services	*35,330*	*47,095*	(11,765)
- portfolio management	*1,961*	*2,266*	(305)
- insurance products	*20,445*	*24,760*	(4,315)
- other products	*12,924*	*20,069*	(7,145)
Collection and payment services	32,237	42,332	(10,095)
Factoring services	488	724	(236)
Maintenance and management of current accounts	48,178	98,481	(50,303)
Other services	40,355	14,769	25,586
Total fee and commission income	**207,443**	**262,207**	**(54,764)**

FEE AND COMMISSION EXPENSE *(EUR/000)*

	31/12/2020 11 months	31/01/2020 13 months	Change Absolute
Guarantees received	4,241	17,867	(13,626)
Portfolio management and brokerage services	1,440	1,754	(314)
1. Trading of financial instruments	*190*	*213*	(23)
3. Portfolio management	*160*	*145*	15
4. Custody and administration of securities	*1,078*	*1,388*	(310)
5. Placement of financial instruments	*12*	*8*	4
Collection and payment services	7,799	9,159	(1,360)
Other services	7,249	13,542	(6,293)
Total fee and commission expense	**20,729**	**42,322**	**(21,593)**

Net gains (losses) from disposal/repurchase of financial assets and liabilities[3] amounted to a positive EUR 27.7 mln.

More specifically, dividends, mainly traceable to the stake held in the Bank of Italy, totalled EUR 10.8 mln (EUR 10.7 mln in January 2020); net profit (loss) from trading amounted to a positive EUR 6.3 mln (EUR 14 mln in January 2020) and net profit (loss) from hedging was a negative EUR 1.8 mln (as compared to a positive EUR 789 thousand in January 2020).

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

	31/12/2020 11 months	31/01/2020 13 months	Change Absolute
Debt securities	1,726	55	1,671
Financial derivatives	(1,331)	(416)	(915)
Exchange differences	3,462	23,702	(20,240)
Other financial assets/liabilities from trading	2,416	(9,312)	11,728
Total profit (loss) from trading	**6,273**	**14,029**	**(7,756)**

Profits on disposal of financial assets at amortised cost totalled EUR 40 mln and are traceable to the disposal of Italian government bonds (nominal amount of EUR 600 mln) recognised in the Held-To-Collect (HTC) portfolio (approximately EUR 15 mln) and the disposal of a performing loan portfolio (approximately EUR 24 mln) for an overall amount of about EUR 76 mln.

[3] Income Statement items 70, 80, 90, 100 b), c) and 110

Profits on disposal of financial assets measured at fair value through other comprehensive income amounted to EUR 4.8 mln and derive from multiple disposals of Italian government bonds.
Net profit (loss) from financial assets and liabilities at fair value through profit or loss amounted to a positive EUR 7.5 mln (as against the EUR 3.4 mln loss posted as at January 2020), mainly on the back of capital gains on the loan component.

Net interest and other banking income thus totalled EUR 378 mln (EUR 336.9 mln in January 2020).

Net losses on impairment of loans totalled EUR 92 mln and incorporate the projected impact on expected credit losses from the Covid-19 pandemic, for an amount of approximately EUR 38 mln, as per the estimates of the Bank's competent structures. The balance as at 31 January 2020 reflected the effects of the successful completion of the Hydra transaction, which resulted in the radical derisking of the loan portfolio of the Group.

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

	31/12/2020 11 months	31/01/2020 13 months	Change Absolute
Financial assets at amortised cost:	91,841	462,500	(370,659)
1. Loans to banks	1,457	177	1,280
2. Loans to customers	90,276	462,349	(372,073)
3. Debt securities	108	(26)	134
Financial assets at fair value through other comprehensive income	194	(11)	205
Total net losses/recoveries on credit risk and other financial items	**92,035**	**462,489**	**(370,454)**

Net income from banking activities therefore totalled EUR 287.3 mln (-EUR 124.8 mln in January 2020).

Operating expenses totalled EUR 453.2 mln (EUR 748.4 mln in January 2020). More specifically:

- personnel expenses amounted to EUR 217.5 mln, as against EUR 394.5 mln in January 2020 (which included provisions concerning registration with the Redundancy Fund for an amount of EUR 120.8 mln), a decrease in line with expectations as per the union agreements entered into in 2017 and 2019;
- Other administrative expenses, amounting to EUR 199.2 mln, were down compared to January 2020 (EUR 240.4 mln), despite the higher costs caused by the outbreak of the Covid-19 pandemic, including costs for disinfection and the purchase of personal protective equipment, partly offset by the contraction of other expenses (e.g. travels, refund of expenses and business trips); the item is inclusive of EUR 11.2 mln in contributions to the National Resolution Fund (EUR 10.5 mln as at January 2020), ordinary and extraordinary contributions to the Italian Deposit Protection Fund for an amount of EUR 14.8 mln (EUR 10.5 mln as at January 2020) and EUR 12.8 mln worth of DTA charges (EUR 15.1 mln as at January 2020).

Net provisions for risks and charges amounted to EUR 31.7 mln. The item includes provisions for lawsuits, provisions against the first outcome of the inspection conducted by the Bank of Italy on transparency and the estimated charges due to indemnities that the Group may be liable to pay following the disposal of NPLs and for failure to meet contractual business targets, made even more challenging by the Covid-19 pandemic.
Net loan losses on property & equipment and intangible assets totalled EUR 52.4 mln (EUR 69.2 mln as at January 2020) and include a EUR 19.2 mln write-down on the real estate portfolio.

OPERATING EXPENSES *(EUR/000)*

	31/12/2020 11 months	31/01/2020 13 months	Change Absolute
Personnel expenses	217,472	394,521	(177,049)
Other administrative expenses	*199,212*	*240,376*	(41,164)
- overhead expenses	*113,310*	*148,523*	*(35,213)*
- contribution to the National Resolution Fund and FITD	*26,081*	*21,002*	*5,079*
- indirect taxes (1)	*47,047*	*55,712*	*(8,665)*
- DTA charges	*12,774*	*15,139*	*(2,365)*
Net provisions for risks and charges	31,630	30,815	815
- commitments and guarantees given	*(5,804)*	*(9,694)*	3,890
- other net provisions	*37,434*	*40,509*	(3,075)
Amortisation on:	52,432	69,207	(16,775)
- tangible assets	*39,435*	*58,913*	*(19,478)*
- intangible assets	*12,997*	*10,294*	*2,703*
Other operating income (expense)	(47,589)	13,455	(61,044)
Total operating expenses	**453,157**	**748,374**	**(295,217)**

(1) Taxes recovered from customers are posted to item 220 of the Income Statement "Other operating income (expenses)".

Other net operating income amounted to EUR 47.6 mln (vs. charges for an amount of EUR 13.5 mln as at January 2020). The amount as at January 2020 included charges arising from the settlement agreements entered into with the Apollo/Amissima Group (EUR 44.3 mln) and Credito Fondiario (EUR 24.5 mln).

This item also includes the result of REOCO S.p.A.'s operations in terms of management of the properties it holds, which began in 2019 (also through the merged company, Abitare RE) and the charges related to sanctions paid to the Italian Revenue Agency (EUR 1.3 mln).

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

	31/12/2020 11 months	31/01/2020 13 months	Change Absolute
Lease payments receivable	2,811	3,130	(319)
Third-party charges:	41,690	55,934	(14,244)
recovery of credit facility fees	*4,510*	*11,578*	*(7,068)*
recovery of taxes (1)	*36,928*	*44,032*	*(7,104)*
customer insurance premiums	*252*	*324*	*(72)*
Profits (losses) on disposal of property and equipment classified as inventories (IAS 2)	*1,876*	*1,344*	*532*
Other income	11,735	13,970	(2,235)
Total other income	**58,112**	**74,378**	**(16,266)**
Losses on lawsuits and out-of-court settlements	(3,606)	(78,739)	75,133
Expenses for tax disputes	(1,265)	-	(1,265)
Routine maintenance expenses on investment property	(36)	(168)	132
Expenses for improvement of third parties' assets	(181)	(323)	142
Charges for covered bond and securitisation transactions	(790)	(2,228)	1,438
Other expenses	(4,645)	(6,375)	1,730
Total other expenses	**(10,523)**	**(87,833)**	**77,310**
Total operating income/expense	**47,589**	**(13,455)**	**61,044**

(1) The item consists of taxes recovered from customers, whose cost is posted to sub-item 180 b) "Other administrative expenses" in the income statement.

In light of the considerations above and having regard to profits on equity investments and disposal of investments for an aggregate amount of EUR 4.8 mln, the Group's profit (loss) before tax from continuing operations was a negative EUR 161.1 mln as against a negative EUR 864.4 mln in January 2020.

Taxes amounted to a negative EUR 91.6 mln, reflecting both the decision not to recognise new DTAs on losses accrued in the period and the derecognition of DTAs recognised in previous years in the amount of EUR 66.3 mln (for further details, please see Paragraph "Income tax treatment", "Part A - Accounting policies", "Section 2 - Preparation criteria" of the Explanatory Notes); the loss for the period amounted to EUR 252.6 mln.

Net of the non-controlling interests' share of loss for the period, the Parent Company's share of profit (loss) for the period amounted to a negative EUR 251.6 mln (-EUR 869.8 mln in January 2020).
Including the income components directly booked to equity, the Parent Company’s share of total comprehensive income was a negative EUR 240.4 mln.

BALANCE SHEET ITEMS, FUNDING AND LENDING

It should be noted that the figures shown for comparative purposes in the tables below refer to the Financial Statements for the period under Temporary Administration ended on 31 January 2020. This procedure spanned a 13-month period from 1 January 2019 to 31 January 2020.

ASSETS *(EUR/000)*

		Situation as at		Change	
		31/12/2020	31/01/2020	Absolute	%
10.	CASH AND CASH EQUIVALENTS	267,695	256,660	11,035	4.3
20.	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	168,601	157,473	11,128	7.1
20. a)	FINANCIAL ASSETS HELD FOR TRADING	1,728	1,715	13	0.8
20. c)	OTHER FINANCIAL ASSETS MANDATORILY AT FAIR VALUE	166,873	155,758	11,115	7.1
30.	FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	2,608,558	783,696	1,824,862	...
40.	FINANCIAL ASSETS AT AMORTISED COST MEASURED AT FAIR VALUE	16,323,653	18,551,726	(2,228,073)	(12.0)
40. a)	LOANS TO BANKS	3,959,143	4,544,378	(585,235)	(12.9)
40. b)	LOANS TO CUSTOMERS	12,364,510	14,007,348	(1,642,838)	(11.7)
50.	HEDGING DERIVATIVES	9,355	9,087	268	2.9
70.	EQUITY INVESTMENTS	94,257	98,153	(3,896)	(4.0)
90.	PROPERTY AND EQUIPMENT	850,624	883,261	(32,637)	(3.7)
100.	INTANGIBLE ASSETS	85,594	78,441	7,153	9.1
110.	TAX ASSETS	1,413,628	1,664,189	(250,561)	(15.1)
110. a)	CURRENT	586,154	587,960	(1,806)	(0.3)
110. b)	DEFERRED	827,474	1,076,229	(248,755)	(23.1)
130.	OTHER ASSETS	208,271	231,549	(23,278)	(10.1)
	TOTAL ASSETS	**22,030,236**	**22,714,235**	**(683,999)**	**(3.0)**

LIABILITIES AND SHAREHOLDERS' EQUITY *(EUR/000)*

		Situation as at		Absolute change	
		31/12/2020	31/01/2020	Absolute	%
10.	FINANCIAL LIABILITIES AT AMORTISED COST	19,771,001	20,072,079	(301,078)	(1.5)
10. a)	DUE TO BANKS	3,843,524	3,999,981	(156,457)	(3.9)
10. b)	DUE TO CUSTOMERS	12,819,390	11,819,364	1,000,026	8.5
10. c)	SECURITIES ISSUED	3,108,087	4,252,734	(1,144,647)	(26.9)
20.	FINANCIAL LIABILITIES HELD FOR TRADING	1,056	1,165	(109)	(9.4)
40.	HEDGING DERIVATIVES	247,079	266,295	(19,216)	(7.2)
60.	TAX LIABILITIES	10,229	10,762	(533)	(5.0)
60. a)	CURRENT	3,025	5,068	(2,043)	(40.3)
60. b)	DEFERRED	7,204	5,694	1,510	26.5
80.	OTHER LIABILITIES	326,496	430,598	(104,102)	(24.2)
90.	EMPLOYEE TERMINATION INDEMNITIES	38,245	42,796	(4,551)	(10.6)
100.	ALLOWANCES FOR RISKS AND CHARGES:	276,223	290,599	(14,376)	(4.9)
100. a)	COMMITMENTS AND GUARANTEES GIVEN	18,831	24,636	(5,805)	(23.6)
100. b)	POST-EMPLOYMENT BENEFITS	26,523	29,073	(2,550)	(8.8)
100. c)	OTHER ALLOWANCES FOR RISKS AND CHARGES	230,869	236,890	(6,021)	(2.5)
120.	VALUATION RESERVES	(79,996)	(91,146)	11,150	(12.2)
150.	RESERVES	(844,873)	24,257	(869,130)	...
160.	SHARE PREMIUM RESERVE	623,922	623,958	(36)	(0.0)
170.	CAPITAL	1,915,164	1,915,164	-	-
180.	TREASURY SHARES (-)	(15,536)	(15,572)	36	(0.2)
190.	NON-CONTROLLING INTERESTS (+/-)	12,867	13,057	(190)	(1.5)
200.	NET PROFIT (LOSS) FOR THE PERIOD (+/-)	(251,641)	(869,777)	618,136	(71.1)
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**22,030,236**	**22,714,235**	**(683,999)**	**(3.0)**

Overall funding from customers – direct and indirect deposits – totalled EUR 38,777.9 mln as at 31 December 2020, up 1.3% as compared to January 2020, primarily on the back of trends in indirect funding, which totalled EUR 22,850.4 mln (+2.8%), as against a slight contraction in direct funding (EUR 15,927.5 mln; -0.9%). Indirect funding accounts for 58.9% of overall funding from customers, with 50.1% consisting in Assets under Management and 49.9% in Assets under Custody.

OVERALL FUNDING *(EUR/000)*

	Situation as at		Change	
	31/12/2020	31/01/2020	absolute	%
Total (A+B)	**38,777,906**	**38,296,934**	**480,972**	**1.3**
Direct deposits (A) (1)	**15,927,477**	**16,072,098**	**(144,621)**	**(0.9)**
% share of total	*41.1%*	*42.0%*		
Indirect deposits (B)	**22,850,429**	**22,224,836**	**625,593**	**2.8**
% share of total	*58.9%*	*58.0%*		
- Assets under Management	11,450,004	11,111,729	338,275	3.0
% share of total	*29.5%*	*29.0%*		
% share of Indirect deposits	*50.1%*	*50.0%*		
- Assets under Custody	11,400,425	11,113,107	287,318	2.6
% share of total	*29.4%*	*29.0%*		
% share of Indirect deposits	*49.9%*	*50.0%*		

(1) Items 10 b), 10 c) and 30 of Balance Sheet liabilities.

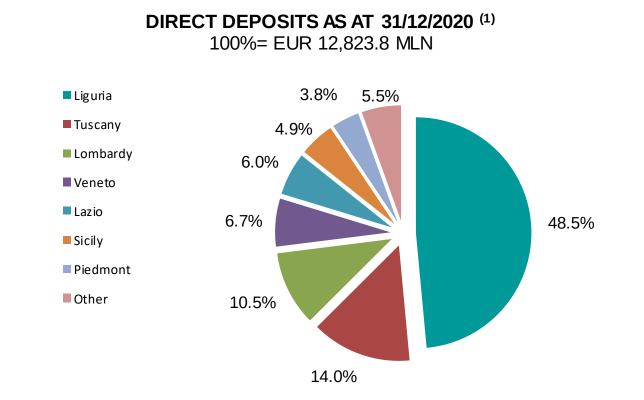
Overall funding, including direct funding and deposits from banks, amounted to EUR 19,771 mln, down 1.5% from January 2020.
Direct deposits decreased by 0.9% to EUR 15,927.5 mln; more specifically, direct retail funding, for a total amount of EUR 12,823.8 mln, has increased by 6.9% since January 2020, whereas institutional funding (EUR 3,103.6 mln) has decreased by 23.8% as compared to January 2020.
With regard to direct funding, amounts due to customers totalled EUR 12,819.4 mln, up 8.5%, primarily on the back of a positive trend in current accounts and demand deposits, which account for 88.4% of the aggregate and amounted to EUR 11,326.7 mln.
Securities issued totalled EUR 3,108.1 mln, on a downturn from EUR 4,252.7 mln in January 2020, due to the amounts coming to maturity during the period, more specifically the EUR 1 bn government-backed bond issuance pursuant to Law No. 1/2019 repaid at maturity in July 2020.

Amounts due to banks stood at EUR 3,843.5 mln, as against EUR 4,000 mln as at January 2020. The overall amount of refinancing operations with the ECB (TLTRO III) totalled EUR 3,500 mln.

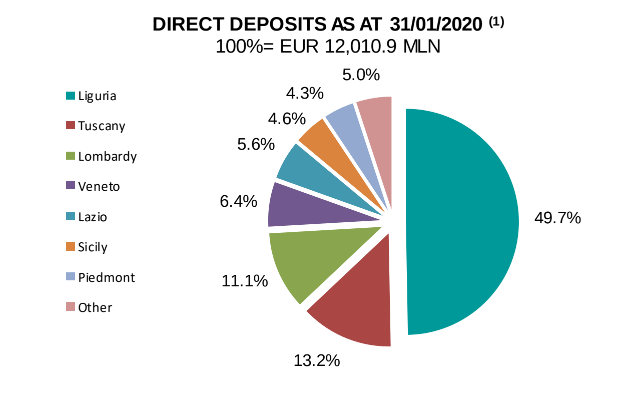
FUNDING *(EUR/000)*

	Situation as at		Change	
	31/12/2020	31/01/2020	Absolute	%
Total (A + B)	**19,771,001**	**20,072,079**	**(301,078)**	**(1.5)**
Direct deposits (A)	**15,927,477**	**16,072,098**	**(144,621)**	**(0.9)**
Due to customers	12,819,390	11,819,364	1,000,026	8.5
current accounts and demand deposits	*11,326,698*	*9,944,656*	*1,382,042*	*13.9*
term deposits	*1,289,919*	*1,669,592*	*(379,673)*	*(22.7)*
loans	*2,091*	*2,311*	*(220)*	*(9.5)*
lease liabilities	*49,265*	*58,426*	*(9,161)*	*(15.7)*
other payables	*151,417*	*144,379*	*7,038*	*4.9*
Securities issued	*3,108,087*	*4,252,734*	*(1,144,647)*	*(26.9)*
bonds	*3,107,622*	*4,252,128*	*(1,144,506)*	*(26.9)*
other securities	*465*	*606*	*(141)*	*(23.3)*
short-term	11,818,675	10,693,043	1,125,632	10.5
% share of total	*74.2*	*66.5*		
medium-long term	4,108,802	5,379,055	(1,270,253)	(23.6)
% share of total	*25.8*	*33.5*		
Due to banks (B)	**3,843,524**	**3,999,981**	**(156,457)**	**(3.9)**
Due to central banks	3,485,273	3,500,000	(14,727)	(0.4)
Current accounts and demand deposits	9,745	8,402	1,343	16.0
Repurchase agreements	228,464	252,813	(24,349)	(9.6)
Loans	118,358	229,895	(111,537)	(48.5)
Lease liabilities	1,674	2,598	(924)	(35.6)
Other payables	10	6,273	(6,263)	(99.8)

Regional data highlights Liguria's prevailing share of direct funding with 48.5% of total. Tuscany is the second-ranking region with a share of 14%, followed by Lombardy (10.5%). Veneto's share of total is 6.7% and Lazio's 6%. The other regions hold shares of less than 5%.



(1) Net of institutional funding.



(1) Net of institutional funding.

67.1% of amounts due to customers were from households and amounted to EUR 8,606.2 mln; non-financial companies and personal businesses (EUR 2,467.9mln) accounted for 19.3%. Financial and insurance companies contributed EUR 695.4 mln worth of deposits (5.4% of total), private social institutions EUR 629.7 mln (4.9% of total) and public administrations EUR 420.2 mln (3.3% of total).

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

	Situation as at			
	31/12/2020		31/01/2020	
		%		%
Public Administration	420,212	3.3%	369,473	3.1%
Financial and insurance businesses	695,421	5.4%	1,190,797	10.1%
Non-financial businesses and personal businesses	2,467,855	19.3%	1,562,508	13.2%
Private social institutions and non-classified entities	629,688	4.9%	597,939	5.1%
Households	8,606,214	67.1%	8,098,647	68.5%
Total by business segment	**12,819,390**	**100.0%**	**11,819,364**	**100.0%**
Total deposits from customers	**12,819,390**		**11,819,364**	
Securities issued	**3,108,087**		**4,252,734**	
Total direct deposits	**15,927,477**		**16,072,098**	

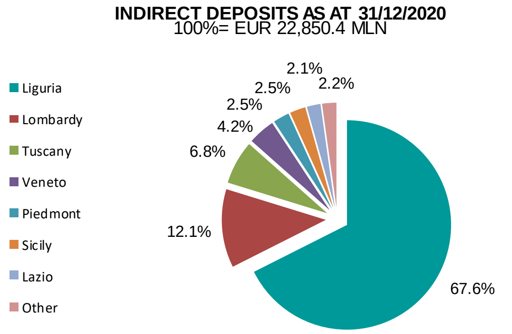
Indirect deposits, amounting to EUR 22,850.4 mln, were up 2.8%.
Assets under Management stood at EUR 11,450 mln, up 3% as a result of the trend in mutual funds and open-ended collective investment schemes (SICAV), which increased by 3.6% to EUR 5,094.6 mln and portfolio management, which rose to EUR 457.2 mln (vs EUR 258.9 mln in January 2020). A 0.6% decrease was instead registered in bancassurance products, which totalled EUR 5,898.2 mln.
Assets under Custody amounted to EUR 11,400.4 mln, up 2.6% on the back of trends in assets pertaining to Amissima Assicurazioni amounting to EUR 7,290.6 mln (up 9.1%); a decrease was registered in government bonds (-8.1% to EUR 2,100.2 mln); bonds totalled EUR 330.6 mln (-19.2%), while shares amounted to EUR 1,679 mln (-3.1%).

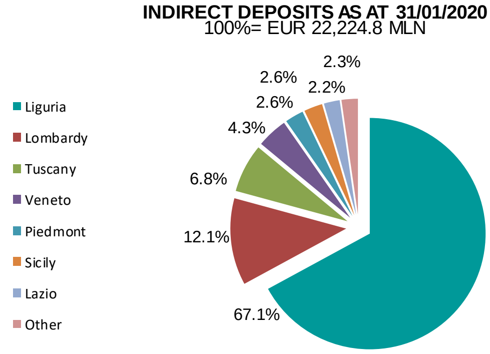
INDIRECT DEPOSITS[1] *(EUR/000)*

	Situation as at		Change	
	31/12/2020	31/01/2020	absolute	%
Total (A+B)	**22,850,429**	**22,224,836**	**625,593**	**2.8**
Assets under Management (A)	**11,450,004**	**11,111,729**	**338,275**	**3.0**
Mutual funds and open-end collective investment schemes	5,094,613	4,918,462	176,151	3.6
Portfolio management	457,194	258,894	198,300	76.6
Bancassurance products	5,898,197	5,934,373	(36,176)	(0.6)
Assets under Custody (B)	**11,400,425**	**11,113,107**	**287,318**	**2.6**
Government securities	2,100,191	2,285,950	(185,759)	(8.1)
Bonds	330,561	408,886	(78,325)	(19.2)
Shares [2]	1,679,026	1,733,098	(54,072)	(3.1)
Other	7,290,647	6,685,173	605,474	9.1

(1) The breakdown of indirect funding (Assets under Management and Assets under Custody) is by type of product and by type of relationship manager. Assets under Management therefore include products that are not directly managed by companies of the Carige Group.
(2) The aggregate includes EUR 916.4 mln worth of Carige shares, with the ordinary shares being valued at the latest available market price before suspension from trading (EUR 1.5 on 28 December 2018, as per the reverse stock split completed at the end of 2020).

As far as indirect deposits are concerned, the Liguria region contributed the highest share, i.e. 67.6% of the total, followed by Lombardy (12.1%) and Tuscany (6.8%). The remaining regions contributed less than 5% each.





In terms of breakdown by segment, the two main customer segments -households and financial and insurance companies- respectively contributed 58.8% and 36.9% of the total; the share contributed by non-financial businesses and personal businesses was 3.1%.

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

	Situation as at			
	31/12/2020		31/01/2020	
		%		%
Public Administration	138,638	0.6%	156,965	0.7%
Financial and insurance businesses	8,426,229	36.9%	7,846,830	35.3%
Non-financial businesses and personal businesses	699,190	3.1%	701,075	3.2%
Private social institutions and non-classified entities	150,112	0.7%	164,485	0.7%
Households	13,436,260	58.8%	13,355,481	60.1%
Total indirect deposits	**22,850,429**	**100.0%**	**22,224,836**	**100.0%**

Net loans to customers (Balance Sheet item 40 b) totalled EUR 12,364.5 mln, down from EUR 14,007.3 mln in January 2020, primarily as a consequence of the reduction in repurchase agreements and debt securities (mainly Government Bonds, subject to disposal or repayment) 62.3% of the item is accounted for by mortgages.

LOANS TO CUSTOMERS AT AMORTISED COST *(EUR/000)*

	Situation as at		Change	
	31/12/2020	31/01/2020	Absolute	%
Current accounts	665,362	1,008,985	(343,623)	(34.1)
Repurchase agreements	385,873	1,351,835	(965,962)	(71.5)
Mortgage loans	7,945,597	8,023,885	(78,288)	(1.0)
Credit cards, personal loans and fifth of salary-backed loans	82,915	85,275	(2,360)	(2.8)
Leasing	447,810	476,999	(29,189)	(6.1)
Factoring	56,536	72,587	(16,051)	(22.1)
Other loans	2,452,084	1,729,017	723,067	41.8
Debt securities	328,333	1,258,765	(930,432)	(73.9)
Total	**12,364,510**	**14,007,348**	**(1,642,838)**	**(11.7)**

Gross of value adjustments and net of debt securities at amortised cost, loans to customers totalled EUR 12,491.9 mln (-6.4% as compared to January 2020).
Excluding the institutional component, gross loans to retail customers amounted to EUR 11,532 mln, up 1.5% on January 2020. As part of this aggregate, an increase was registered in loans to households (+1% to EUR 5,399.1 mln) and loans to businesses (+1.2% to EUR 5,855 mln).
The short-term component, accounting for 12.5% of total, amounted to EUR 1,561.8 mln (-48.6%); the medium-long term component amounted to EUR 10,652.2 mln (+5.7%). Bad loans were up (+22.3%) to EUR 277.8 mln.
Loans to banks, net of debt securities at amortised cost and gross of loan losses for an amount of EUR 5.2 mln, totalled EUR 3,964.3 mln, up from EUR 4,548.1 mln as at January 2020; 92.3% of this aggregate is accounted for by short-term loans.

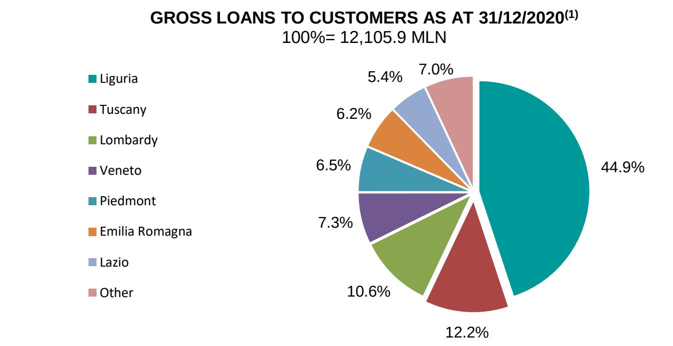
The net interbank position (difference between loans to and deposits from banks, net of debt securities at amortised cost) shows a credit position of EUR 115.6 mln, as compared to a credit position of EUR 544.4 mln in January 2020.

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

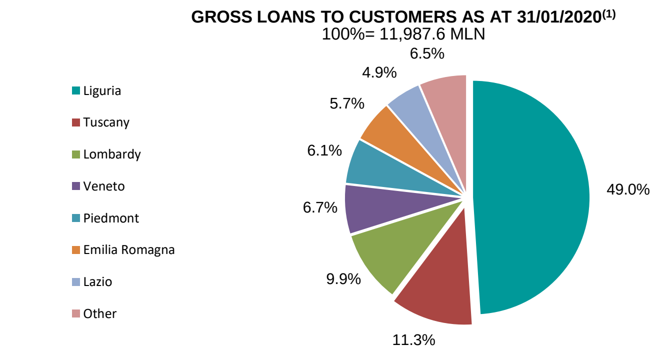
	Situation as at		Change	
	31/12/2020	31/01/2020	Absolute	%
Total (A+B)	**15,995,320**	**17,292,961**	**(1,297,641)**	**(7.5)**
Loans to customers (A)	**12,036,177**	**12,748,583**	**(712,406)**	**(5.6)**
- Gross exposure [2]	12,491,861	13,339,540	(847,679)	(6.4)
current accounts	*644,028*	*986,004*	*(341,976)*	*(34.7)*
repurchase agreements	*385,934*	*1,351,990*	*(966,056)*	*(71.5)*
mortgage loans	*7,832,467*	*7,564,633*	*267,834*	*3.5*
credit cards, personal loans and fifth of salary-backed loans	*83,223*	*85,375*	*(2,152)*	*(2.5)*
leasing	*408,555*	*430,474*	*(21,919)*	*(5.1)*
factoring	*56,911*	*72,929*	*(16,018)*	*(22.0)*
other loans	*2,448,738*	*1,716,918*	*731,820*	*42.6*
non-performing assets	*632,005*	*1,131,217*	*(499,212)*	*(44.1)*
- short term	1,561,770	3,036,680	(1,474,910)	(48.6)
% share of nominal value	*12.5*	*22.8*		
- medium/long term	10,652,242	10,075,615	576,627	5.7
% share of nominal value	*85.3*	*75.5*		
- Bad loans	277,849	227,245	50,604	22.3
% share of nominal value	*2.2*	*1.7*		
-Value adjustments (-)	455,684	590,957	(135,273)	(22.9)
Loans to banks (B)	**3,959,143**	**4,544,378**	**(585,235)**	**(12.9)**
- Gross exposure [2]	3,964,332	4,548,110	(583,778)	(12.8)
compulsory reserves	*3,303,858*	*3,745,343*	*(441,485)*	*(11.8)*
current accounts and demand deposits	*20,331*	*18,840*	*1,491*	*7.9*
repurchase agreements	-	*119,762*	*(119,762)*	*(100.0)*
loans	*627,107*	*651,362*	*(24,255)*	*(3.7)*
non-performing assets	*13,036*	*12,803*	*233*	*1.8*
-short term	3,660,528	4,261,513	(600,985)	(14.1)
% share of nominal value	*92.3*	*93.7*		
-medium/long term	303,804	286,597	17,207	6.0
% share of nominal value	*7.7*	*6.3*		
-Value adjustments (-)	5,189	3,732	1,457	39.0

(1) As at 31/12/2020, net of debt securities at amortised cost amounting to EUR 328,333 thousand (loans to customers), and as at 31/01/2020, net of debt securities at amortised cost amounting to EUR 1,258,765 thousand (loans to customers).
(2) Before value adjustments.

In terms of a geographical breakdown, Liguria accounts for 44.9% of loans to customers. Tuscany is the second-ranking region, with a share of 12.2%, Lombardy ranks third with a share of 10.6%.



(1) Net of Buy/sell-back repurchase agreements with financial institutions



(1) Net of Buy/sell-back repurchase agreements with financial institutions

In terms of a breakdown by segment, non-financial companies and personal businesses account for 46.8% of loans to customers, for a total of EUR 5,669.8 mln; the households' share of total (39.9%) is mostly comprised of mortgages for the purchase of homes. The public administrations' share of total is 9.9%, while financial and insurance companies account for 2.5% of total.

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

	Situation as at			
	31/12/2020	%	31/01/2020	%
Public Administration	1,200,738	9.9%	1,463,253	12.2%
Financial and insurance businesses	305,879	2.5%	339,258	2.8%
Non-financial businesses and personal businesses	*5,669,760*	46.8%	*5,148,229*	42.9%
Wholesale and retail trade; repair of motorvehicles and motorcycles	*1,305,504*	*10.8%*	*1,048,183*	*8.7%*
Manufacturing	*1,166,967*	*9.6%*	*954,832*	*8.0%*
Real Estate	*704,035*	*5.8%*	*714,948*	*6.0%*
Construction	*582,882*	*4.8%*	*509,284*	*4.2%*
Transportation and storage	*468,441*	*3.9%*	*757,972*	*6.3%*
Other	*1,441,931*	*11.9%*	*1,163,010*	*9.7%*
Private social institutions and non-classified entities	93,495	0.8%	89,812	0.7%
Households	4,836,055	39.9%	4,946,998	41.3%
Total breakdown by business segment	**12,105,927**	**100.0%**	**11,987,550**	**100.0%**
Buy/sell-back repos (assets) with financial institutions	385,934		1,351,990	
Total loans to customers	**12,491,861**	**100.0%**	**13,339,540**	**100.0%**

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

Loans mandatorily at fair value amounted to EUR 113.5 mln, compared to EUR 102.7 mln as at January 2020, of which EUR 80.9 mln in loans to customers and EUR 32.6 mln in loans to banks.

LOANS MANDATORILY AT FAIR VALUE [1] *(EUR/000)*

	Situation as at		Change	
	31/12/2020	31/01/2020	Absolute	%
Total (A+B)	**113,466**	**102,680**	**10,786**	**10.5**
Loans to customers (A)	**80,879**	**77,534**	**3,345**	**4.3**
Performing	80,879	77,534	3,345	4.3
Loans to banks (B)	**32,587**	**25,146**	**7,441**	**29.6**
Performing	32,587	25,146	7,441	29.6

(1) Net of securities and units in UCITS mandatorily at fair value, totalling EUR 53,407 thousand at as at 31/12/2020 and EUR 53,078 thousand as at 31/01/2020.

On balance sheet non-performing loans to customers at amortised cost amounted to EUR 632 mln, down compared to January 2020 (EUR 1,131.2 mln), mainly as a result of the closing of the restructuring agreements of the Messina Group in September 2020, which led to the definitive transfer to AMCO of part of the Bank's loan exposure to the Messina Group. The corresponding share of gross non-performing loans to customers out of total gross loans to customers ("gross NPE ratio") settles at 5.1%.

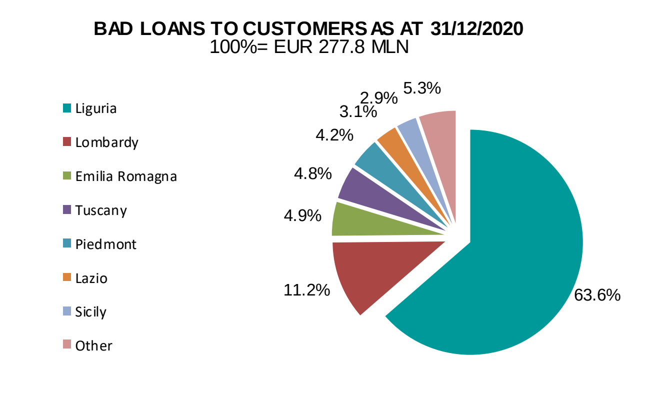
In particular, gross bad loans to customers totalled EUR 277.8 mln, up 22.3% compared to January 2020, and account for 2.2% of the aggregate.
Gross Unlikely-To-Pay exposures to customers were down sharply to EUR 329.9 mln (EUR 879.4 mln in January 2020), primarily on the back of the overall restructuring of the Messina Group exposure, already described in this document, which saw the partial disposal of the Messina Group exposure (gross EUR 324.3 mln as at 30 June 2020) to AMCO S.p.A. and the takeover -with a corresponding return to performing status- of the portion of the Messina Group exposure which was not included in the scope of disposal.
Past due exposures, consisting entirely in loans to customers, totalled EUR 24.3 mln, down 1.2% from January 2020.
The percentage of coverage of non-performing on-balance-sheet loans to banks and customers was 52.1%; in particular, the coverage for bad loans, unlikely-to-pay and past due exposures respectively stood at 70%, 39.9% and 18%.
As a whole, losses on loans to customers (including performing exposures) amounted to EUR 455.7 mln.
Performing loans totalled EUR 15,811.2 mln, (EUR 16,743.6 mln as at January 2020), of which EUR 11,859.9 to customers (EUR 12,208.3 mln as at January 2020) and EUR 3,951.3 mln to banks (EUR 4,535.3 mln as at January 2020). More specifically, 85.9% of gross loans to customers are classified in stage 1 and 14.1% are classified in stage 2 (vs. respectively 84.8% and 15.2% as at January 2020). The corresponding coverage level was 0.33% for stage 1 loans (0.20% as at January 2020) and 5.45% for stage 2 loans (3.66% as at January 2020).

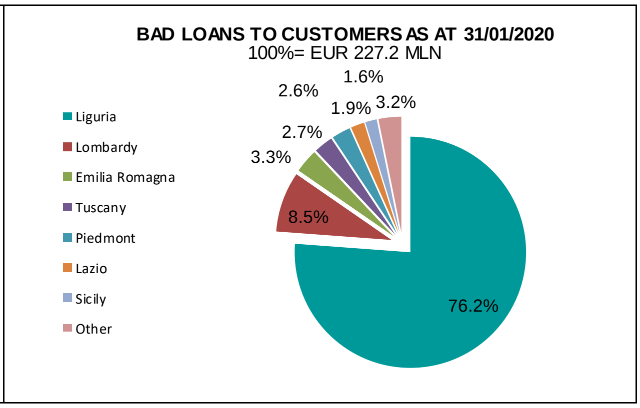
QUALITY OF LOANS AT AMORTISED COST (1) *(EUR/000)*

	31/12/20				31/01/20			
	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	277,849	194,490	83,359	70.0	227,245	158,909	68,336	69.9
- customers	277,849	194,490	83,359	70.0	227,245	158,909	68,336	69.9
Unlikely-To-Pay exposures	342,932	136,968	205,964	39.9	892,208	342,299	549,909	38.4
- banks	13,036	5,000	8,036	38.4	12,803	3,348	9,455	26.2
- customers	329,896	131,968	197,928	40.0	879,405	338,951	540,454	38.5
Past due	24,260	4,369	19,891	18.0	24,567	4,446	20,121	18.1
- customers	24,260	4,369	19,891	18.0	24,567	4,446	20,121	18.1
Total non-performing loans	**645,041**	**335,827**	**309,214**	**52.1**	**1,144,020**	**505,654**	**638,366**	**44.2**
- banks	**13,036**	**5,000**	**8,036**	**38.4**	**12,803**	**3,348**	**9,455**	**26.2**
- customers	**632,005**	**330,827**	**301,178**	**52.3**	**1,131,217**	**502,306**	**628,911**	**44.4**
- of which Forborne	**250,810**	**102,675**	**148,135**	**40.9**	**243,587**	**89,085**	**154,502**	**36.6**
Performing loans								
- banks	3,951,296	189	3,951,107	0.0	4,535,307	384	4,534,923	0.0
- customers	11,859,856	124,857	11,734,999	1.1	12,208,323	88,651	12,119,672	0.7
Total performing loans	**15,811,152**	**125,046**	**15,686,106**	**0.8**	**16,743,630**	**89,035**	**16,654,595**	**0.5**
- of which Forborne	**185,360**	**13,527**	**171,833**	**7.3**	**307,954**	**14,865**	**293,089**	**4.8**
Total on-balance-sheet loans	**16,456,193**	**460,873**	**15,995,320**	**2.8**	**17,887,650**	**594,689**	**17,292,961**	**3.3**
- banks	**3,964,332**	**5,189**	**3,959,143**	**0.1**	**4,548,110**	**3,732**	**4,544,378**	**0.1**
- customers	**12,491,861**	**455,684**	**12,036,177**	**3.6**	**13,339,540**	**590,957**	**12,748,583**	**4.4**

(1) As at 31/12/2020, net of debt securities at amortised cost amounting to EUR 328,333 thousand (loans to customers), and as at 31/01/2020, net of debt securities at amortised cost amounting to EUR 1,258,765 thousand (loans to customers).

A geographic breakdown of bad loans shows that Liguria has the largest share of total (63.6%), followed by Lombardy (11.2%) and Emilia Romagna (4.9%).





The breakdown by business segment shows a total amount of bad loans for non-financial companies and personal businesses of EUR 195.5 mln (70.4% of total). The highest share of bad loans is in the "Wholesale and retail trade; repair of motor vehicles and motorcycles" segment (EUR 54 mln, 19.5%), followed by "Manufacturing activities" (EUR 45.3 mln, 16.3%).
The "Households" segment ranks second in volume and accounts for 28.6% of the total.

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

	Situation as at			
	31/12/2020	%	31/01/2020	%
Public Administration	1,051	0.4%	999	0.4%
Financial businesses	988	0.4%	68,763	30.3%
Non-financial businesses and personal businesses	195,495	70.4%	105,380	46.4%
Wholesale and retail trade; repair of motorvehicles and motorcycles	54,046	*19.5%*	24,229	*10.7%*
Manufacturing	45,301	*16.3%*	26,108	*11.5%*
Construction	31,603	*11.4%*	18,769	*8.3%*
Real Estate	17,785	*6.4%*	12,936	*5.7%*
Accommodation and food services	8,260	*3.0%*	3,881	*1.7%*
Other	*38,500*	*13.9%*	*19,457*	*8.6%*
Private social institutions and non-classified entities	905	0.3%	252	0.1%
Households	79,410	28.6%	51,851	22.8%
Total bad loans	**277,849**	**100.0%**	**227,245**	**100.0%**

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

The gross bad loans/total loans ratio is 2.2%.

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

	Situation as at	
	31/12/2020	31/01/2020
Public Administration	0.1%	0.1%
Financial businesses	0.3%	20.3%
Non-financial businesses and personal businesses	3.4%	2.0%
- of which (2):		
Wholesale and retail trade; repair of motorvehicles and motorcycles	*4.1%*	*2.3%*
Manufacturing	*3.9%*	*2.7%*
Real Estate	*2.5%*	*1.8%*
Construction	*5.4%*	*3.7%*
Transportation and storage	*1.4%*	*0.5%*
Private social institutions and non-classified entities	1.0%	0.3%
Households	1.6%	1.0%
Total (3)	**2.2%**	**1.7%**

(1) Gross of value adjustments and net of debt securities at amortised cost.
(2) Main business segments in terms of overall credit exposure.
(3) Total amount includes Buy/sell-back repurchase agreements assets with financial businesses in the denominator (gross loans)

The securities portfolio amounted to EUR 2,990.5 mln, up 42.7% as compared to January 2020.
As shown in the table below, debt securities (EUR 2,711.3 mln) make up 90.7% of the portfolio (although consisting mainly of government securities, this item also includes securities issued by securitisation vehicles). Equities amount to EUR 268.5 mln and include the 3.25% equity investment in the Bank of

Italy, totalling EUR 244 mln. Units in UCITS (Undertakings for Collective Investment in Transferable Securities) totalled EUR 10.7 mln.
Net of the stake in the Bank of Italy, Italian Government bonds account for 87.0% of the total with a financial duration of 0.7 years.
As regards the breakdown under the international accounting standards (IAS/IFRS), securities at amortised cost totalled EUR 328.3 mln and accounted for 11% of the securities portfolio; financial assets at fair value through other comprehensive income amounted to EUR 2,608.6 mln (87.2% of the securities portfolio); financial assets mandatorily measured at fair value stood at EUR 53.4 mln, whereas securities Held For Trading (HFT) totalled EUR 159 thousand.

SECURITIES PORTFOLIO *(EUR/000)*

		Situation as at		Absolute change	
		31/12/2020	31/01/2020	Absolute	%
Debt securities		**2,711,300**	**1,794,625**	**916,675**	**51.1**
	Held for trading	159	114	45	39.5
	Mandatorily at fair value	42,126	40,236	1,890	4.7
	At fair value through other comprehensive income	2,340,682	495,510	1,845,172	...
	At amortised cost	328,333	1,258,765	(930,432)	(73.9)
Equity instruments		**268,473**	**288,904**	**(20,431)**	**(7.1)**
	Mandatorily at fair value	597	718	(121)	(16.9)
	At fair value through other comprehensive income	267,876	288,186	(20,310)	(7.0)
Units in UCITS		**10,684**	**12,124**	**(1,440)**	**(11.9)**
	Mandatorily at fair value	10,684	12,124	(1,440)	(11.9)
Total		**2,990,457**	**2,095,653**	**894,804**	**42.7**
of which:					
	Held for trading	159	114	45	39.5
	Mandatorily at fair value	53,407	53,078	329	0.6
	At fair value through other comprehensive income	2,608,558	783,696	1,824,862	...
	At amortised cost	328,333	1,258,765	(930,432)	(73.9)

As at 31 December 2020, the book value of the Group's exposures to sovereign states amounted to EUR 2,386.8 mln. The tables below show that the nominal value of these exposures amounted to EUR 2,335.1 mln, while their fair value stood at EUR 2,385.4 mln.

Total exposure to sovereign states as at 31/12/2020 *(EUR/000)*

	Nominal value	Book value	Fair Value
Exposure to EU countries			
Italy	2,005,101	2,056,601	2,055,187
Germany	330,000	330,234	330,234
Total exposure to EU countries	**2,335,101**	**2,386,835**	**2,385,421**
Exposure to other countries			
Argentina	47	-	-
Total exposure to other countries	**47**	**-**	**-**
Total Carige Group	**2,335,148**	**2,386,835**	**2,385,421**

	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 to EU countries				
Italy	62	2,010,448	46,091	2,056,601
Germany	-	330,234	-	330,234
Total exposure to EU countries	**62**	**2,340,682**	**46,091**	**2,386,835**
Exposure to other countries				
Argentina	-	-	-	-
Total exposure to other countries	**-**	**-**	**-**	**-**
Total Carige Group	**62**	**2,340,682**	**46,091**	**2,386,835**

EUR/000

Tax assets and liabilities respectively amounted to EUR 1,413.6 mln and EUR 10.2 mln.
Deferred tax assets totalled EUR 827.5 mln.

FIXED ASSETS AND EQUITY INVESTMENTS

The value of property and equipment amounted to EUR 850.6 mln, down 3.7% Y/Y. Assets used in the business (EUR 535.7 mln) were down 4.7%, while those held for investment (EUR 179.8 mln) were up 1.2%.
Intangible fixed assets amounted to EUR 85.6 mln, up compared to EUR 78.4 mln in January 2020.
Equity investments totalled EUR 94.3 mln (EUR 98.2 mln in January 2020) and were mainly in relation to 'Autostrada dei Fiori' (a company subject to significant influence, valued at equity) and companies carried at cost.

ANNUAL CHANGES IN EQUITY INVESTMENTS *(EUR/000)*

		31/12/20	31/01/20
A.	**Opening balance**	**98,153**	**99,318**
B.	**Increases**	**293**	**11**
	B.1 Purchases	293	11
	B.2 Write-backs	-	-
	B.3 Revaluations	-	-
	B.4 Other increases	-	-
C.	**Decreases**	**4,189**	**1,176**
	C1. Sales	-	-
	C2. Value adjustments	152	1,152
	C3. Write-downs		-
	C4. Other increases	4,037	24
D.	**Closing balance**	**94,257**	**98,153**

CASH FLOW STATEMENT, SHAREHOLDERS' EQUITY AND RISK MANAGEMENT

In the reporting period, liquidity generated in operations amounted to a total of EUR 23.5 mln: operations generated a negative flow of EUR 76 mln, financial assets generated EUR 545.4 mln in liquidity, and financial liabilities absorbed EUR 445.9 mln worth of cashflows. Investment activities used liquidity for an amount of EUR 12.5 mln, while funding used liquidity for a total of EUR 11 thousand. The total net cash flow generated in the year amounted to EUR 11 mln.
After deducting treasury shares for an amount of EUR 15.5 mln[1], equity totalled EUR 1,347 mln as at 31 December 2020, and consisted of: share capital for an amount of EUR 1,915.2 mln, share premiums amounting to EUR 623.9 mln, negative reserves totalling EUR 844.9 mln, negative valuation reserves for an amount of EUR 80 mln (of which EUR 64.4 mln referring to the negative cashflow hedge reserve) and a loss for the period totalling EUR 251.6 mln.

The Parent Company's share of consolidated shareholders' equity and consolidated net profit (loss) for the period are obtained from Banca Carige's shareholders' equity and net profit (loss) for the period through the following changes:

RECONCILIATION BETWEEN PARENT COMPANY AND CONSOLIDATED EQUITY AND PROFIT (LOSS) FOR THE PERIOD

(EUR/000)

	Shareholders' equity	o.w. net Profit (Loss) for the period February-December 2020
Balance as at 31/12/2020 - as per Parent Company financial statements	**1,262,565**	**(252,916)**
Difference from carrying amount	(63,643)	(9,651)
Impairment of goodwill recognised in the consolidated financial statements	(51,931)	-
Cancellation, at consolidated level, of impairment of equity investments in subsidiaries	205,036	20,737
Dividends distributed by associated companies and written off	(9,700)	(9,700)
Other	4,713	(111)
Consolidated balance as at 31/12/2020	**1,347,040**	**(251,641)**

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.

[1] After the Reverse Stock Split carried out on 14 December 2020, the Bank held a total of 219 treasury shares as at 31 December 2020.

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 results are subject to periodic reporting to the Board of Directors, Risk Committee, Risk Control Committee and Top Management.

Partly in light of the observations made by the ECB under the Supervisory Review and Evaluation Process (SREP) and further to subsequent inspections, progress was made throughout the year in improvement initiatives aimed at further strengthening group-wide risk management and control.

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The Group's capital ratios as at 31 December 2020 are as follows: phased-in Total Capital Ratio (TCR) of 15.1%, phased-in Tier I Ratio (T1R) of 12.9% and a phased-in Common Equity Tier 1 Ratio (CET1R) of 12.8%.

BREAKDOWN OF CONSOLIDATED OWN FUNDS

(EUR/000)

	Situation as at	
	31/12/2020 (1)	31/01/2020
Common Equity Tier 1 capital before deductions	**1,641,455**	**1,847,599**
Share capital	1,915,164	1,915,164
Reserves from profit and other reserves	(844,873)	24,257
Share premium reserve	623,922	623,958
Profit (+) / Loss (-) for the period	(251,641)	(869,777)
OCI reserves	(79,996)	(91,146)
IFRS9 Phase-in impact on CET1	278,879	245,144
Deductions from common equity Tier 1 capital	**428,936**	**551,100**
Goodwill	-	-
Bis III deductions with 10% threshold	23,779	35,182
Bis III deductions with 17.65% threshold	-	-
Excess of deduction from AT1 items over AT1 capital	-	-
Other negative elements and prudential filters	405,157	515,918
Common Equity Tier 1 capital (CET1)	**1,212,519**	**1,296,499**
Additional Tier 1 capital (AT1)	**1,285**	**175**
AT1 instruments (capital)	0	0
AT1 instruments (share premium)	0	0
Innovative capital instruments (Grandfathering)	1,285	175
Excess of deduction from AT1 items over AT1 capital	-	-
Tier 1 (T1) (CET1+AT1)	**1,213,804**	**1,296,674**
Tier 2 (T2)	**208,515**	**206,796**
Own Funds (T1+T2)	**1,422,319**	**1,503,469**

(1) Amounts refer to the 11-months results (01/02/2020 - 31/12/2020).

CONSOLIDATED OWN FUNDS AND SOLVENCY RATIOS

(EUR/000)	Situation as at	
	31/12/2020 (1)	31/01/2020
Own Funds		
Common Equity Tier 1 capital	1,212,519	1,296,499
Additional Tier 1 capital	1,285	175
Tier 1 capital	1,213,804	1,296,674
Tier 2 capital	208,515	206,796
Own Funds	1,422,319	1,503,469
Risk-weighted assets		
Credit risk	8,206,857	9,293,758
Credit risk Bis III (2)	509,519	680,094
Market risk	2,479	3,093
Operational risk	722,177	804,880
Total risk-weighted assets	9,441,032	10,781,824
Capital requirements		
Credit risk	656,549	743,501
Credit risk Bis III	40,762	54,408
Market risk	198	247
Operational risk	57,774	64,390
Total	755,283	862,546
Ratios		
Common Equity Tier 1 capital/Total risk-weighted assets	12.8%	12.0%
Tier 1 capital/Total risk-weighted assets	12.9%	12.0%
Own Funds/Total risk-weighted assets	15.1%	13.9%

(1) Amounts refer to the 11-months results (01/02/2020 - 31/12/2020).

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

Capital ratios as at 31/12/2020 exceed the levels required by the ECB in its SREP Decision of 8 June 2020, including as a result of regulatory updates on the prudential amortisation of intangible assets, government-backed loans granted as a consequence of the pandemic and the progress made in the de-risking transactions in 2020.

The CET1 Ratio is higher than the 8.55% Overall Capital Requirement threshold required by the ECB under the SREP process for 2020 and higher than the Pillar 2 Guidance threshold of 10.10%.

The T1 Ratio is higher than the 10.56% Overall Capital Requirement threshold required by the ECB under the SREP process for 2020 and higher than the Pillar 2 Guidance of 12.11%.

The TC Ratio is higher than the 13.25% Overall Capital Requirement threshold required by the ECB under the SREP process for 2020 and higher than the Pillar 2 Guidance of 14.80%.

The fully-phased in TCR is 12.4%, the T1R is 10.2% and the CET1R is 10.2%.

For completeness of information, below is a comparison of the Banca Carige Group consolidated ratios with the requirements, including in consideration of the ECB requests and recommendations contained in the SREP Decision of 8 June 2020.
It is highlighted that in view of the emergency linked to the spread of the Covid-19 pandemic, the ECB has announced a set of supervisory flexibility measures effective from 12 March 2020 until at least 31 December 2022, which will allow banks to operate temporarily below the level of capital defined by the Pillar 2 Guidance (P2G) and the Capital Conservation Buffer (CCB).
Capital ratios are reflective of art. 473 *bis* para. 7 bis contained in new Regulation (EU) No. 2020/873, amending Regulations (EU) No. 575/2013 and (EU) 2019/876 as regards certain adjustments in response to the Covid-19 pandemic.

	Value as at 31 December 2020	A = Pillar I Requirement	B = Pillar II Requirement	C = A + B = TSCR = Total SREP Capital Requirement	D = Capital Conservation Buffer	E = C + D = OCR = Overall Capital Requirement	F = P2G = Pillar II Guidance	G = E + F = OCR + P2G
Common Equity Tier 1/RWAs (CET1r)	12.8%	4.5%	1.55%	6.05%	2.5%	8.55%	1.55%	10.10%
Tier 1 capital/RWAs (T1r)	12.9%	6.0%	2.06%	8.06%	2.5%	10.56%	1.55%	12.11%
Own Funds/RWA (TCr)	15.1%	8.0%	2.75%	10.75%	2.5%	13.25%	1.55%	14.80%

GROUP COMPANIES

Provided below is a summary of the Profit and Loss and Balance Sheet results of the Group companies. Data for the subsidiary banks and Carige Reoco are drawn from the separate Financial Statements for the period ending 31 December 2020, as approved by their respective governing bodies; it should be noted that these data do not correspond to those used in the consolidation process as they refer to the ordinary 12-month period.
For further details on the scope of consolidation and related-party transactions, please refer to Part A - Accounting Policies, Section 3 – Scope and methods of consolidation and Part H – Related-party transactions of the Explanatory Notes.

A. The Parent Company: Banca Carige

As at 31 December 2020, overall funding from customers of the Parent Company, **Banca Carige S.p.A.** totalled EUR 36,001.7 mln, on a slight upturn as compared to January 2020 (+0.9%). Direct deposits amounted to EUR 15,062.6 mln, whilst indirect deposits totalled EUR 20,939.1 mln.
Loans to customers, net of value adjustments for an amount of EUR 446 mln, totalled EUR 12,107.8 mln. Gross of provisions, the aggregate settles at EUR 12,553.9 mln, down 4.8% on January 2020.
Mid-long term loans (EUR 10,321.4 mln) account for 82.2% of total loans; short-term loans (EUR 1,957.1 mln) account for 15.6% of total loans. Bad loans were up 21.4% to EUR 275.3 mln.
The securities portfolio amounts to EUR 2,758.5 mln, up 33.4% as compared to January 2020.
As at 31 December 2020, the income statement posted a net profit of EUR 252.9 mln for the 11-month period, as against the EUR 850.5 mln loss in January 2020: net interest income totalled EUR 116 mln (EUR 112.7 mln in January 2020) and net fee and commission income amounted to EUR 176.5 mln (EUR 210.2 mln in January 2020). Profits (losses) on disposal of financial assets at amortised cost totalled EUR 40 mln and are traceable to the disposal of Italian government bonds recognised in the Held-To-Collect (HTC) portfolio (approximately EUR 15 mln) and the disposal of a performing loan portfolio (approximately EUR 24 mln).
Profits on disposal of financial assets measured at fair value through other comprehensive income amounted to EUR 4.8 mln and derive from multiple disposals of Italian government bonds.
Net profit (loss) from financial assets and liabilities at fair value through profit or loss amounted to a positive EUR 7.6 mln (as against the EUR 3.1 mln loss posted as at January 2020), mainly on the back of capital gains on the loan component.
Net losses on impairment of loans totalled EUR 89.1 mln and incorporate the projected impact on expected credit losses from the Covid-19 pandemic, for an amount of approximately EUR 36 mln, as per the estimates of the Bank's competent structures.
Operating expenses totalled EUR 423.7 mln (EUR 717.9 mln in January 2020). Personnel expenses amounted to EUR 203.8 mln compared to EUR 371.2 mln in January 2020 (which was inclusive of the EUR 114.5 mln provisions concerning registration with the Redundancy Fund).
Net provisions for risks and charges amounted to EUR 28.2 mln. The item includes provisions for lawsuits, provisions against the first outcome of the inspection conducted by the Bank of Italy on transparency and the estimated charges due to indemnities that the Bank may be liable to pay following the disposal of NPLs and for failure to meet contractual business targets, made even more challenging by the Covid-19 pandemic.
Net loan losses on property & equipment and intangible assets totalled EUR 44.9 mln (EUR 66.4 mln as at January 2020) and include a EUR 13.5 mln writedown on the real estate portfolio held for investment purposes.
Other net operating income amounted to EUR 42.4 mln (vs. expense amounting to EUR 22.1 mln in January 2020). The amount as at January 2020 included charges arising from the settlement agreements entered into with the Apollo/Amissima Group (EUR 44.3 mln) and Credito Fondiario (EUR 24.5 mln).
The item Profits (losses) on equity investments was a negative EUR 20.7 mln as a result of the write-down of the equity investments held in Banca del Monte di Lucca and Carige Reoco. Taking account of gains

on disposal of investments for an aggregate amount of EUR 140 thousand, profit (loss) before tax was a negative EUR 161.6 mln.
The item "Taxes" (-EUR 91.3 mln) was weighed down by both the decision not to recognise any DTAs on losses accrued in the period and the derecognition of DTAs recognised in prior periods (EUR 66.3 mln); the loss for the period therefore amounted to EUR 252.9 mln.

B. Subsidiary banks.

Since 2006, Banca Carige has been the Group's sole retail bond issuer, with all other Group banks being in charge of placement. Accordingly, in order to manage maturity transformation more effectively, Carige's Board of Directors resolved to cover the medium/long-term financial demand of subsidiary banks via Carige's subscription to bonds issued by the subsidiaries. For subsidiaries, this process results in a higher amount of assets under custody and bonds issued, with a lower amount of funds borrowed on the interbank lending market.

As at 31 December 2020, **Banca del Monte di Lucca S.p.A.**'s overall funding totalled EUR 1,019.9 mln, up from EUR 958.8 mln in December 2019. In particular, direct deposits amounted to EUR 615.9 mln, up 9.1% Y/Y, while indirect deposits amounted to EUR 404 mln, up 2.4%.
Loans to customers, before value adjustments, amounted to EUR 495.9 mln and were up 9.9% compared to December 2019; net of value adjustments (EUR 9.3 mln), loans to customers stood at EUR 486.6 mln (+9.4%). Mid-long term loans (EUR 445.3 mln) account for 89.8% of total loans, up 14.4%; short-term loans, totalling EUR 48.2 mln and accounting for 9.7% of total, decreased by 21.9%. The securities portfolio amounts to EUR 18.2 mln and includes EUR 17.9 mln in debt securities at amortised cost.
As at 31 December 2020, the income statement posted a negative result of EUR 3.4 mln, as against a negative EUR 16.9 mln as at December 2019. Net Interest Income totalled EUR 7.8 mln, down 21.7% from December 2019; net fees and commissions amounted to EUR 7.3 mln, as compared to EUR 7.5 mln as at December 2019 (-1.9%). Net profit (loss) from trading amounted to a positive EUR 91 thousand and Net profit (loss) from hedging amounted to a negative EUR 37 thousand. Losses on disposal or repurchase of financial assets at amortised cost amounted to EUR 8 thousand (vs. profits of EUR 491 thousand in December 2019, traceable to the non-performing loan disposal to AMCO carried out during the period). Net interest and other banking income totalled EUR 15.1 mln (EUR 18.1 mln in December 2019).
Net losses on impairment amounted to EUR 3.1 mln as compared to EUR 14.8 mln in December 2019, which reflected the effects of the successful completion of the Hydra transaction during the year that resulted in the disposal of almost the entirety of the Bank's non-performing loans.
Operating expenses amounted to EUR 15.3 mln, down from EUR 21.1 mln in December 2019; personnel expenses amounted to EUR 8 mln, down compared to EUR 14.2 mln as at December 2019, which included EUR 5.9 mln in provisions made to the industry's Solidarity Fund after the union agreement signed in November 2019; other administrative expenses totalled EUR 6.6 mln, down as compared to EUR 7.4 mln in December 2019 (-10%).
Profit (loss) before tax from continuing operations amounted to a negative EUR 3.3 mln; considering EUR 129 thousand in income tax, the net profit (loss) for the period was a negative EUR 3.4 mln.

As at 31 December 2019, **Banca Cesare Ponti S.p.A.**'s overall funding from customers totalled EUR 1,735.5 mln, slightly down compared to 1,739.2 mln in December 2019, primarily on the back of the trend in direct funding.
In particular, direct deposits amounted to EUR 226.6 mln, down 8.4% in the period, while indirect deposits amounted to EUR 1,508.8 mln, up 1.1%.
Loans to customers, gross of loan loss provisions, totalled EUR 43.4 mln (EUR 43.3 mln as at December 2019; +0.1%); net of loan loss provisions (EUR 377 thousand), the aggregate totalled EUR 43 mln (-0.1%). Mid-long term loans (EUR 37 mln, -1%) account for 85.2% of total loans; short-term loans (EUR 6.3 mln) account for 14.4% of total loans (+5.1%). Bad loans amounted to EUR 142 thousand and account for 0.3% of total loans.

The securities portfolio amounts to EUR 46.6 mln (vs. EUR 43.8 mln as at December 2019).
The income statement for the period posted a net loss of EUR 2.3 mln, compared to a net loss of EUR 694 thousand as at December 2019. Net Interest Income totalled EUR 1.6 mln (EUR 1.6 mln in December 2019). Net fees and commissions amounted to EUR 7.7 mln (up EUR 156 thousand compared to December 2019). Net profit (loss) from trading amounted to a positive EUR 196 thousand (EUR 281 thousand in December 2019) while hedging amounted to a negative EUR 617 thousand (vs a positive EUR 302 thousand in December 2019). Net losses on impairment of loans totalled EUR 82 thousand, as against EUR 1.1 mln in December 2019, which reflected the effects of the successful completion of the Hydra transaction during the year that resulted in the disposal of almost the entirety of the Bank's non-performing loans. Operating expenses stood at EUR 11 mln, up 12.7% as against EUR 9.8 mln as at December 2019: personnel expenses amounted to EUR 5.7 mln, down 5.8% compared to December 2019, while other administrative expenses totalled EUR 4.9 mln, down 3.5% on December 2019. Other operating income and expenses amounted to EUR 993 thousand, down from EUR 2.8 mln in December 2019, mainly due to fines (EUR 1.3 mln) for errors in data reporting to the Tax Inspectorate.
Profit (loss) before tax from continuing operations amounted to a negative EUR 2.2 mln; considering EUR 89 thousand in income tax, the net loss for the period was EUR 2.3 mln.

C. Financial subsidiaries.

Argo Mortgage 2 S.r.l., a special purpose vehicle for the securitisation of mortgage loans to retail customers, established by Banca Carige in June 2004, posted collections for an overall amount of EUR 1,013.3 mln, EUR 6.4 mln of which in the period from 1 February 2020 to 31 December 2020. As at 31 December 2020, securities were outstanding for a total amount of EUR 36.7 mln, of which Class B notes for an amount of EUR 7.4 mln (of which, EUR 2.7 mln were repaid in January 2021) and Class C notes for an amount of EUR 29.3 mln.

Carige Covered Bond S.r.l. is the vehicle company, which was set up to back two medium / long-term funding programmes.
With regard to the first programme launched in 2008 ("OBG1"), the Company has purchased EUR 8.7 bn worth of loans originated by the banks of the Banca Carige Group, whose outstanding debt as at 31 December 2020 totalled EUR 2.7 bn, and registered collections for an amount of EUR 587.7 mln in the period from 1 February 2020 to 31 December 2020.
In the period from 1 February 2020 to 31 December 2020, EUR 150 mln worth of securities issued were cancelled and EUR 58.5 mln repaid, whereas no new issuance was made. Covered bonds issued under the bond issuance programme and not yet re-paid amount to EUR 2 bn.

With reference to the programme launched in 2016 ("OBG3"), the Company purchased EUR 971.3 mln worth of loans originated by the banks of the Banca Carige Group, whose outstanding debt totalled EUR 647.1 mln as at 31 December 2020, and registered collections for an amount of EUR 143.2 mln in the period from 1 February 2020 to 31 December 2020.
As at 31 December 2020, covered bonds issued under the bond issuance programme and not yet re-paid amounted to EUR 485 mln. In the period from 1 February 2020 to 31 December 2020, EUR 45 mln worth of securities issued were cancelled and no new issuance was made.

Carige Covered Bond 2 S.r.l. is the special purpose vehicle set up to back an additional medium to long-term issuance programme for a maximum amount of EUR 5 bn.
As at 31 December 2020, the Company purchased EUR 1.5 bn worth of loans originated by the banks of the Banca Carige Group, whose outstanding debt totals approximately EUR 387 mln, and registered collections for an amount of EUR 47.8 mln in the period from 1 February 2020 to 31 December 2020.
As at the same date, covered bonds issued under the bond issuance programme and not yet re-paid amounted to EUR 195 mln, whereas EUR 70 mln worth of securities issued were cancelled in the period from 1 February 2020 to 31 December 2020 and no new issuance was made.

Lanterna Finance S.r.l. is a special purpose vehicle for the securitisation of retail/corporate mortgage and signature loans, established by Banca Carige in 2015, which posted an overall EUR 563.5 mln in collections, EUR 31.1 mln of which in the period from 1 February 2020 to 31 December 2020. The following securities were outstanding for a total amount of EUR 165.6 mln as at 31 December 2020: Class A notes for an amount of EUR 28.4 mln (EUR 9.4 mln repaid in January 2021) and Class B notes for an amount of EUR 137.1 mln.

In 2018, as part of a new securitisation, Lanterna Finance S.r.l. purchased an additional portfolio of retail/corporate mortgage loans for an overall amount of EUR 412.7 mln and issued EUR 413 mln worth of notes: the transaction was completed in the first half of 2020 through a buyback of receivables and repayment of the remaining securities.
Moreover, in 2020, Lanterna Finance S.r.l. finalised a third securitisation transaction through the purchase of a portfolio of retail/corporate mortgage and signature loans for an overall amount of EUR 362.4 mln and the issuance of EUR 362.5 mln worth of notes. With reference to this transaction, from the launch of the securitisation (May 2020) to 31 December 2020, collections were recognised for an amount of EUR 118.4 mln, whereas securities were outstanding for an amount of EUR 306.9 mln as at 31 December 2020, of which Class A1 notes for an amount of EUR 149.4 mln (EUR 62 mln repaid in January 2021), Class A2 notes for an amount of EUR 20 mln and Class B notes for an amount of EUR 137.5 mln.

Lanterna Lease S.r.l., a special purpose vehicle established in 2016 and restructured in 2019 for the securitisation of receivables arising from financial lease agreements originated by Banca Carige, posted an overall amount of EUR 71.3 mln in collections, of which EUR 30.6 mln in the period from 1 February 2020 to 31 December 2020. As at 31 December 2020, securities were outstanding for a total amount of EUR 171.6 mln, of which Class A notes for an amount of EUR 50.8 mln (7.1 mln repaid in January 2021) and Class B notes for an amount of EUR 120.8 mln.

Finally, during 2020 a further securitisation transaction was completed through which the special purpose vehicle Lanterna Mortgage S.r.l. acquired a portfolio of mortgages loans to retail customers for a total amount of EUR 249.4 mln and EUR 254.1 mln worth of notes were issued. From the launch of the transaction (June 2020) to 31 December 2020, collections were recognised for an amount of EUR 13.6 mln, whereas securities were outstanding for an amount of EUR 248.8 mln as at 31 December 2020, of which Class A1 notes for an amount of EUR 168.8 mln (EUR 7.8 mln repaid in January 2021), Class A2 notes for an amount of EUR 11.2 mln and Class B notes for an amount of EUR 69 mln.

D. Other main subsidiaries.

As it was no longer in the Carige Group's interest to continue operating in the trust services sector, on 2 February 2018, the Board of Directors of the Parent Company vested the Chief Executive Officer with the powers to communicate to the subsidiary Centro Fiduciario C.F. S.p.A. that conditions were not there for the company to obtain registration as a trust in the new Register pursuant to art. 106 of Legislative Decree no. 385/93 and therefore asked the subsidiary to fulfil its obligations towards its customers and the Supervisory Authorities as are required to discontinue operations and relinquish the procedures for obtaining registration in the above-mentioned Register.
On 28 March 2018, the Shareholders' Meeting of Centro Fiduciario C.F. S.p.A. resolved to wind up the company, appointing a receiver. To date, all customer accounts have been closed and the wind-up is in its final stages.

Financial year 2020 for Carige REOCO S.p.A was marked by intense activity, with a reorganisation of its internal structure and of its equity investments.
The newly appointed Board of Directors carried out two transactions: the acquisition of 100% of Sant'Anna Golf S.r.l. (in turn holding 100% of Sant'Anna Gestione Golf s.s.d. a r.l.) carried out as part of a debt restructuring transaction with the Parent Company Banca Carige, pursuant to art. 182-*bis* of the Bankruptcy Law. This transaction marked the completion of the acquisition of real estate contracts carried out in July 2019 through the merged company Abitare R.E. S.r.l. and the merger by absorption of the subsidiary Abitare R.E.

The socio-economic scenario induced by the prolonged effects of the pandemic in which the company operated, led to a slowdown in absorption and a contraction in prices, which, in turn, had repercussions on the value of the company's assets, especially medium to long-term development properties.
Against this background, the 2020 ordinary course of business showed a negative result of EUR 1.8 mln, mainly due to the management of the real estate projects of former Abitare R.E. Sr.l., the handover and full operation of which has continued during this year, even though it was weighed down more than other projects by the unfavourable conditions of the current real estate market. Net profit (loss) for the period was also affected by EUR 5.6 mln worth of writedowns on real estate assets, following expert appraisals of the entire real estate portfolio by a leading real estate appraisal firm, and EUR 2.9 mln in additional provisions, mainly connected with land reclamation costs for the development of some recently acquired assets.
In light of the above, financial year 2020 for Carige REOCO S.p.A. closed with a net loss of EUR 10.3 mln. Given that the company's shareholders equity has thus fallen below the limits set out in art. 2446 of the Italian Civil Code, a Sole Shareholder Meeting needs to be convened for the adoption of the resolutions required. In this regard, since Carige REOCO S.p.A.'s Sole Shareholder is the Parent Company Banca Carige and given the close time proximity to the scheduled Ordinary Shareholders' Meeting called to approve the full-year results, the decision was made to convene a Shareholders' Meeting in one call to discuss and approve both the 2020 full-year results and resolve upon the company's assets.

SOCIAL AND CULTURAL PROMOTION ACTIVITIES

In the past year characterised by the outbreak of the health emergency, Carige attached increasing priority to the proximity and bond it has with its footprint areas. The Bank paid the utmost attention to the demand for liquidity and financial support coming from people and businesses, mobilising its forces to such an extent that, in Covid-related loans, expressed a three times higher operating multiple than its market share in Liguria and Italy.
The critical economic and social difficulties caused by the Covid-19 pandemic have led the Bank to reinforce its social responsibility towards the community with tangible measures. The Bank continued to support a number of projects for the dissemination of culture in its various forms of expression (e.g. music, art, literature and publishing), and to promote sports activities with the aim of spreading the values of solidarity and cohesion.
These initiatives uphold the Bank's reputation of being focused on the needs of its area of footprint, according to a logic of multi-localism, awareness of footprint area peculiarities and flexibility.
The Group continued to cooperate with many representatives of the business community and the academic world by organising events for discussing about current economic and financial topics, involving both industry players and the general public in an inclusive approach.
Financial education initiatives are aimed at training both (customer and non-customer) younger generations and adults to develop the citizenship skills they need to make sustainable economic decisions over time.
The Banca Carige Group also continued to be active in solidarity, by supporting numerous voluntary associations in the projects they carry out at both local and national level. As happened in previous years, the Bank has decided to continue supporting a number of various non-profit organisations and common-interest associations.
Worthy of note is the renewal of the long-standing partnership with the Gaslini Children's Hospital to support a significant social initiative aimed at fighting child abuse and maltreatment.

MAIN RISKS AND UNCERTAINTIES[1] AND OUTLOOK ON OPERATIONS

Main risks and uncertainties

2020 unfolded in a macroeconomic scenario characterised by the outbreak of the health emergency related to the spread of the Covid-19 pandemic during the first quarter, which caused major repercussions on the world economy and a historic slump in global economic activity. In macroeconomic terms, a high degree of uncertainty persists, fuelled primarily by the future evolution of the pandemic, the worsening of which could significantly affect the short-term scenario and whose duration will depend first and foremost on the vaccination schedule. Likewise uncertain are the effectiveness of the initiatives implemented by the Authorities in the various countries, the resilience and responsiveness of businesses and households, and the role that the banking system will be able to play in supporting the economy.

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 and are aggravated by the global recession impact of the pandemic. Monetary conditions are bound to remain very accommodative in the future, due to the uncertainty surrounding the shock absorption capacity over time.

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 the lending process 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, difficulties in compressing operating expenses further, combined with the need to support investments in digitisation, high provisions and/or losses on loan portfolios.

The restoration of the Bank's viability was preparatory to the end of the Temporary Administration period, which took place in conjunction with the change in Governance on 31 January 2020, when the Shareholders' Meeting appointed the new governing bodies for the Bank's return to ordinary administration, reflective of the new shareholding structure (with 80% of the share capital owned by FITD and 8.3% by CCB).

The return to ordinary administration -attesting to the end of a 13-month Temporary Administration period, during which Group aimed to pursue a constructive operational and commercial approach, while implementing sections of the Strategic Plan that were preparatory to the streamlining of the organisational structure and processes, as well as to the relaunch of the Bank's business- coincided with the urgency for the Bank to cope, from the start, with the outbreak of the pandemic and the business disruption caused by the lockdown measures. Now that the Group has averted insolvency scenarios, risks remain as to the Group's ability to reaffirm its brand on the market after several years of difficulty, including from a reputational perspective, and go back to doing business in conditions of profitability by assuming adequate levels of risk. In March 2020, all of the Group's energies were devoted to supporting customers in

[1] The methods used by the Group to manage risks are reported in Part E of the Notes to these Financial Statements.

difficulty with moratoria and measures to secure the Bank's loan portfolio, *inter alia* pursuant to the Decrees issued by the Italian Government to sustain the economy. Although these transactions are low profit margin contributors, positive effects were observed in terms of lower capital absorption of the exposures secured by State guarantees. Coupled with the ECB's capital flexibility measures, this will mitigate the capital erosion triggered by the severity of the current scenario, which is putting pressure on today's business model.

<u>Going concern</u>

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, when preparing the consolidated Financial Statements as at 31 December 2020, the Bank's Directors attentively assessed the going concern assumption, also considering the effects of the current macroeconomic environment, which is still strongly affected by the uncertainties connected with the ongoing Covid-19 pandemic.

Against this background, the consolidated Financial Statements as at 31 December 2020 show a loss for the period significantly in excess of the 2019-2023 Strategic Plan forecasts. The consolidated capital requirements set by the ECB in the SREP Decision of June 2020 are, however, complied with as explained in the paragraph "Cash Flow Statement, Shareholders’ Equity and Risk Management" of the Directors' Report. In February 2021, the Directors updated the 2019-2023 Strategic Plan targets. Although confirming the guidelines originally set out therein, the revised targets reflect the changed macroeconomic environment and the estimated trends in revenues, funding and lending volumes, as well as the risks and uncertainties related thereto, and point to net losses for the financial years 2021 and 2022 that are significantly different from the results previously assumed in the Strategic Plan, and a return to profitability in 2023.

The revised economic forecasts, underlying the updated Strategic Plan targets, contribute to maintaining a significant degree of uncertainty regarding the recovery time of the tax assets recognised in the financial statements, the recoverability of which is linked to the achievement of positive taxable income, as highlighted in the sensitivity analyses developed in the paragraph "Income tax treatment", "Part A - Accounting policies", "Section 2 - Preparation criteria" of the Explanatory Notes.

Moreover, as described in detail in the paragraph "Net provisions for risks and charges - Other lawsuits", "Part A - Accounting Policies", "Section 2 - Preparation Criteria" of the Explanatory Notes to the Financial Statements, and in the paragraph "Risks related to ongoing proceedings", "Part E – Information on risks and risk hedging policies", "1.5 Operational risks" of the Explanatory Notes to the Financial Statements, the Directors remain committed to the ongoing monitoring and management of significant legal and tax risks connected with outstanding disputes, which represent an additional element of uncertainty, even though they consider the risk of losing as remote.

Partly as a result of the considerations made when the 2019-2023 Strategic Plan's economic and financial targets were updated in the light of more recent and reliable information on the current pandemic, in their assessment of the going concern assumption, the Directors consider that the results of the financial years to come will benefit from the positive effects associated with:

- the significant amount of new loans granted as part of the measures provided for in the "Cura Italia" and "Liquidity" Decrees, which continued in the months following 31 December 2020. In addition to offsetting the ordinary outflows of loans being repaid, these new loans form the basis for the growth in volume forecasts and consequent support to profitability;
- the expected growth in funding and lending volumes, updated on the basis of the footprint and structure reorganisation, the forecasts factor inthe work streams identified for the Wealth Management business which are due to be fully implemented in 2021 and expected to contribute to the growth in net fee and commission income;
- the expected reduction in the cost of credit, as a result of the completion of the ongoing derisking process initiated by the Temporary Administrators, which saw (i) the closing of the disposal of the Messina Group exposure in July 2020, (ii) an additional disposal of NPEs for an amount of EUR 54.1 mln in December 2020 and (iii) continuation of the activities (close to finalisation) for the disposal of a non-performing leasing portfolio. The completion of the derisking process marks the end of the large-amount NPE disposals carried out by the Group in recent years, with an expected Gross NPL Ratio of 5% by the end of 2021, as highlighted in the updated economic and financial targets of the 2019-2023 Strategic Plan approved in February 2021;

- the actions taken in previous years to contain costs, including measures to reduce personnel expenses, which will be fully effective from 2021 as a result of the significant voluntary redundancies planned as part of the Bank's access to the Solidarity Fund for the banking industry.

The assessment process put in place by the Directors additionally took into account the ECB's specific measures of 12 March 2020 (that were confirmed on 28 July 2020) which allow banks, in the current situation, to operate temporarily (until at least 31 December 2022) below the minimum level of capital defined by the Pillar 2 Guidance and the Capital Conservation Buffer. Moreover, the Directors took into account the Group's liquidity position -steadily in excess of the requirements- and the measures taken to maintain an adequate level of liquidity at all times.

In summary, despite the significant uncertainties described above, the Directors believe that the Bank and the Group have the reasonable expectation of continuing to operate as a going concern in the foreseeable future and of complying with the SREP minimum prudential requirements for own funds and liquidity in the next 12 months, in consideration of the provisions contained in the ECB's communication of 28 July 2020, which allows the Banks to temporarily operate below capital requirements using the Pillar 2 Guidance and the Capital Conservation Buffer.

Therefore, based on the foregoing considerations, the Group's consolidated Financial Statements at 31 December 2020 were prepared on a going concern basis.

CONSOLIDATED FINANCIAL REPORT

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

		Situation as at 31/12/2020	31/01/2020
10.	CASH AND CASH EQUIVALENTS	267,695	256,660
20.	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	168,601	157,473
20. a)	FINANCIAL ASSETS HELD FOR TRADING	1,728	1,715
20. c)	OTHER FINANCIAL ASSETS MANDATORILY AT FAIR VALUE	166,873	155,758
30.	FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	2,608,558	783,696
40.	FINANCIAL ASSETS MEASURED AT AMORTISED COST	16,323,653	18,551,726
40. a)	LOANS TO BANKS	3,959,143	4,544,378
40. b)	LOANS TO CUSTOMERS	12,364,510	14,007,348
50.	HEDGING DERIVATIVES	9,355	9,087
70.	EQUITY INVESTMENTS	94,257	98,153
90.	PROPERTY AND EQUIPMENT	850,624	883,261
100.	INTANGIBLE ASSETS	85,594	78,441
110.	TAX ASSETS	1,413,628	1,664,189
110. a)	CURRENT	586,154	587,960
110. b)	DEFERRED	827,474	1,076,229
130.	OTHER ASSETS	208,271	231,549
	TOTAL ASSETS	**22,030,236**	**22,714,235**

EUR/000

		Situation as at	
		31/12/2020	31/01/2020
10.	FINANCIAL LIABILITIES AT AMORTISED COST	19,771,001	20,072,079
10. a)	DUE TO BANKS	3,843,524	3,999,981
10. b)	DUE TO CUSTOMERS	12,819,390	11,819,364
10. c)	SECURITIES ISSUED	3,108,087	4,252,734
20.	FINANCIAL LIABILITIES HELD FOR TRADING	1,056	1,165
40.	HEDGING DERIVATIVES	247,079	266,295
60.	TAX LIABILITIES	10,229	10,762
60. a)	CURRENT	3,025	5,068
60. b)	DEFERRED	7,204	5,694
80.	OTHER LIABILITIES	326,496	430,598
90.	EMPLOYEE TERMINATION INDEMNITIES	38,245	42,796
100.	ALLOWANCES FOR RISKS AND CHARGES:	276,223	290,599
100. a)	COMMITMENTS AND GUARANTEES GIVEN	18,831	24,636
100. b)	POST-EMPLOYMENT BENEFITS	26,523	29,073
100. c)	OTHER ALLOWANCES FOR RISKS AND CHARGES	230,869	236,890
120.	VALUATION RESERVES	(79,996)	(91,146)
150.	RESERVES	(844,873)	24,257
160.	SHARE PREMIUM RESERVE	623,922	623,958
170.	SHARE CAPITAL	1,915,164	1,915,164
180.	TREASURY SHARES (-)	(15,536)	(15,572)
190.	NON-CONTROLLING INTERESTS (+/-)	12,867	13,057
200.	NET PROFIT (LOSS) FOR THE PERIOD	(251,641)	(869,777)
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**22,030,236**	**22,714,235**

EUR/000

CONSOLIDATED INCOME STATEMENT

		Situation as at 31/12/2020 (11 months)	Situation as at 31/01/2020 (13 months)
10.	Interest and similar income	266,604	370,100
	o.w.: interest income calculated using the effective interest rate method	283,700	377,101
20.	Interest and similar expense	(142,982)	(246,556)
30.	**NET INTEREST INCOME**	**123,622**	**123,544**
40.	Fee and commission income	207,443	262,207
50.	Fee and commission expense	(20,729)	(42,322)
60.	**NET FEE AND COMMISSION INCOME**	**186,714**	**219,885**
70.	Dividends and similar income	10,817	10,733
80.	Net profit (loss) from trading	6,273	14,029
90.	Net profit (loss) from hedging	(1,780)	789
100.	Profits (losses) on disposal or repurchase of:	44,838	(28,716)
	a) financial assets at amortised cost	*39,951*	*(28,204)*
	b) financial assets at fair value through other comprehensive income	*4,775*	*31*
	c) financial liabilities	*112*	*(543)*
110.	Profits (Losses) on other assets and liabilities at fair value through profit or loss	7,511	(3,359)
	b) other financial assets mandatorily at fair value	*7,511*	*(3,359)*
120.	**NET INTEREST AND OTHER BANKING INCOME**	**377,995**	**336,905**
130.	Net losses/recoveries on impairment of:	(92,035)	(462,489)
	a) financial assets at amortised cost	*(91,841)*	*(462,500)*
	b) financial assets at fair value through other comprehensive income	*(194)*	*11*
140.	Gains (Losses) due to contractual modifications not resulting in derecognition	1,315	813
150.	**NET INCOME FROM BANKING ACTIVITIES**	**287,275**	**(124,771)**
180.	**NET INCOME FROM BANKING AND INSURANCE ACTIVITIES**	**287,275**	**(124,771)**
190.	Administrative expenses	(416,684)	(634,897)
	a) personnel expenses	*(217,472)*	*(394,521)*
	b) other administrative expenses	*(199,212)*	*(240,376)*
200.	Net provisions for risks and charges	(31,630)	(30,815)
	a) commitments and guarantees given	*5,804*	*9,694*
	b) other net provisions	*(37,434)*	*(40,509)*
210.	Net adjustments to/recoveries on property and equipment	(39,435)	(58,913)
220.	Net adjustments to/recoveries on intangible assets	(12,997)	(10,294)
230.	Other operating income/expense	47,589	(13,455)
240.	**OPERATING EXPENSES**	**(453,157)**	**(748,374)**
250.	Profits (losses) on equity investments	4,655	8,235
280.	Profits (losses) on disposal of investments	140	517
290.	**PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS**	**(161,087)**	**(864,393)**
300.	Taxes on income from continuing operations	(91,561)	(15,788)
310.	**PROFIT (LOSS) AFTER TAX FROM CONTINUING OPERATIONS**	**(252,648)**	**(880,181)**
320.	Profit (Loss) after tax from discontinued operations	-	3,758
330.	**PROFIT (LOSS) FOR THE PERIOD**	**(252,648)**	**(876,423)**
340.	Non-controlling interests	*(1,007)*	*(6,646)*
350.	**NET PROFIT (LOSS) FOR THE PERIOD ATTRIBUTABLE TO THE PARENT COMPANY**	**(251,641)**	**(869,777)**
	Earnings Per Share (in EUR) (1)		
	- Basic	-0.333	-5.337
	- Diluted	-0.333	-5.337

Basic and diluted Earnings per Shares were restated to take account of the reverse split carried out in 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		31/12/2020 11 months	31/01/2020 13 months
10.	**PROFIT (LOSS) FOR THE PERIOD**	**(252,648)**	**(876,423)**
	Other comprehensive income after tax not reversed in profit or loss		
20.	Equity instruments at fair value through other comprehensive income	-312	1,009
70.	Defined benefit plans	870	(3,754)
90.	Share of valuation reserves of equity investments valued at equity	-	(12)
	Other comprehensive income after tax reversed in profit or loss		
120.	Cash flow hedges	9,203	12,461
140.	Financial assets (other than equity instruments) at fair value through other comprehensive income	1,446	2,880
170.	**Total other comprehensive income after tax**	**11,207**	**12,584**
180.	**COMPREHENSIVE INCOME (Item 10+170)**	**(241,441)**	**(863,839)**
190.	Consolidated comprehensive income attributable to non-controlling interests	(994)	(6,692)
200.	**Consolidated comprehensive income attributable to the Parent Company**	**(240,447)**	**(857,147)**

EUR/000

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AS AT 31 DECEMBER 2020

	Amounts as at 31/01/2020	Change in opening balances	Amounts as at 01/02/2020	Allocation of profit (loss) from prior period		Changes in the period									Group shareholders' equity as at 31/12/2020	Non-controlling interests as at 31/12/2020
							Transactions on shareholders' equity									
				Reserves	Dividends and other payout	Changes in reserves	Issuance of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity interests	Total comprehensive income for the period		
Share capital:	1,943,556	-	1,943,556	(2,635)	-	(9,446)	-	-	-	-	-	-	(3,002)	-	1,915,164	13,309
a) ordinary shares	1,943,556	-	1,943,556	(2,635)	-	(9,446)	-	-	-	-	-	-	(3,002)	-	1,915,164	13,309
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium reserve	625,805		625,805	-	-	(1,847)	(36)	-	-	-	-	-	2,999	-	623,922	2.999
Reserves:	13,894	-	13,894	(873,788)	-	12,712	-	-		-	-	-	(8)	-	(844,873)	(2,317)
a) from profits	(172,725)	-	(172,725)	(873,788)	-	12,712	-	-	-	-	-	-	(8)	-	(1,031,492)	(2,317)
b) other	186,619		186.619	-	-	-	-	-	-	-	-	-	-	-	186,619	-
Valuation reserves	(91,319)	-	(91,319)	-	-	(1)	-	-	-			-	-	11,207	(79,996)	(117)
Equity instruments	-	-	-	-	-	-	-	-	-	-		-	-	-	-	-
Advances on dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	(15,572)	-	(15,572)	-	-	-	36	-	-	-	-	-	-	-	(15,536)	-
Profit (loss) for the period	(876,423)	-	(876,423)	876,423	-	-	-	-	-	-	-	-	-	(252,648)	(251,641)	(1,007)
Group shareholders' equity	1,586,884	-	1,586,884	-	-	1,417	-	-		-	-	-	(814)	(240,447)	1,347,040	X
Non-controlling interests	13,057	-	13,057	-	-	1	-	-	-	-	-	-	803	(994)	X	12,867

EUR/000

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY AS AT 31 JANUARY 2020

				Allocation of profit (loss) from prior period		Changes in the period										
							Transactions on shareholders' equity									
	Amounts as at 31/12/2018	Change in opening balances	Amounts as at 01/01/2019	Reserves	Dividends and other payout	Changes in reserves	Issuance of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity interests	Total comprehensive income for the period	Group shareholders' equity as at 31/01/2020	Non-controlling interests as at 31/01/2020
Share capital:	1,873,556	-	1,873,556	-	-	-	70,000	-	-	-	-	-	-	-	1,915,164	28,392
a) ordinary shares	1,873,555	-	1,873,555	-	-	1	70,000	-	-	-	-	-	-	-	1,915,164	28,392
b) other shares	1	-	1	-	-	(1)	-	-	-	-	-	-	-	-	-	-
Share premium reserve	1,847		1,847	-	-	-	623,958	-	-	-	-	-	-	-	623,958	1,847
Reserves:	288,415		288,415	(274,952)		431									24,257	(10,363)
a) from profits	101,796		101,796	(274,952)	-	431									(162,362)	(10,363)
b) other	186,619		186,619												186,619	-
Valuation reserves	(103,903)	-	(103,903)											12,584	(91,146)	(173)
Equity instruments																
Advances on dividends																
Treasury shares	(15,572)		(15,572)							-	-				(15,572)	
Profit (loss) for the period	(274,952)	-	(274,952)	274,952	-	-	-	-	-	-	-	-	-	(876,423)	(869,777)	(6,646)
Group shareholders' equity	1,749,643	-	1,749,643	-	-	430	693,958	-		-	-	-	-	(857,147)	1,586,884	X
Non-controlling interests	19,748	-	19,748	-	-	1	-	-	-	-	-	-	-	(6,692)	X	13,057

EUR/000

CONSOLIDATED STATEMENT OF CASH FLOWS

A. OPERATIONS	31/12/2020	31/01/2020
1. Cash flow from (used in) operations	**(76,032)**	**(202,944)**
- interest income received (+)	241,063	332,278
- interest expense paid (-)	(154,592)	(247,168)
- dividend and similar income (+)	10,817	10,733
- net fees and commission income (+/-)	190,100	225,045
- personnel expenses (-)	(205,496)	(265,865)
- net insurance premiums collected (+)	-	-
- other insurance revenues and expenses (+/-)	-	-
- other costs (-)	(185,571)	(332,031)
- other income (+)	70,816	87,610
- tax and duties (-)	(43,169)	(22,651)
- costs/revenues after tax from discontinued operations (+/-)	-	9,105
2. Cash flow from (used in) financial assets	**545,416**	**(1,500,417)**
- financial assets held for trading	(1,324)	(438)
- financial assets measured at fair value	-	-
- other financial assets mandatorily at fair value	(10,362)	15,813
- financial assets at fair value through other comprehensive income	(1,812,238)	42,371
- financial assets at amortised cost	2,165,629	(1,837,241)
- other assets	203,711	279,078
3. Cash flow from (used in) financial liabilities	**(445,862)**	**1,447,673**
- financial at amortised cost	(273,604)	1,552,899
- financial liabilities held for trading	1,403	6,969
- financial liabilities measured at fair value	-	-
- other liabilities	(173,661)	(112,195)
Net cash flow from (used in) operations	**23,522**	**(255,688)**
B. INVESTMENT ACTIVITIES		
1. Cash flow from	**15,485**	**48,435**
- sale of equity investments	-	-
- dividends collected on equity investments	9,700	9,399
- sale of property and equipment	5,785	5,550
- sale of intangible assets	-	-
- sale of subsidiaries and business branches	-	33,486
2. Cash flow used in	**(27,961)**	**(182,935)**
- purchase of equity investments	(292)	(11)
- purchase of property and equipment	(7,566)	(147,857)
- purchase on intangible assets	(20,103)	(35,067)
- purchase of subsidiaries and business branches	-	-
Net cash flow from (used in) investment activities	**(12,476)**	**(134,500)**
C. FUNDING ACTIVITIES		
- issue/purchase of treasury shares	(11)	380,758
- issue/purchase of equity instruments	-	-
- dividend distribution and other purposes	-	-
- sale/purchase of non-controlling interests	-	-
Net cash flow from (used in) funding activities	**(11)**	**380,758**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	**11,035**	**(9,430)**

- Figures in EUR/000
- KEY: (+) from; (-) used in

RECONCILIATION

Items	31/12/2020	31/01/2020
Cash and cash equivalents at the beginning of the period	256,660	266,090
Net increase (decrease) in cash and cash equivalents during the period	11,035	(9,430)
Cash and cash equivalents: effect of changes in exchange rates	-	-
Cash and cash equivalents at the end of the period	267,695	256,660

CONSOLIDATED EXPLANATORY NOTES

Part A

ACCOUNTING POLICIES

A.1 – INTRODUCTION

SECTION 1
Statement of compliance with international accounting standards

The consolidated financial statements of the Banca Carige Group as at 31 December 2020, submitted to the Board of Directors for approval at its meeting on 10 March 2021, refer to the period 1 February - 31 December 2020 (eleven months), taking into account the end of the Extraordinary Administration period of Banca Carige S.p.A. (31 January 2020).

The consolidated financial statements of the Banca Carige Group, have been drafted in accordance with the IAS/IFRSs and related interpretations (SIC/IFRIC) as issued by the International Accounting Standards Board (IASB), endorsed by the European Union and effective at the reporting date for 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 December 2020.

As at the date of preparation of these condensed consolidated financial statements, the review and integration of international accounting standards, interpretations or amendments continued, which partially apply for periods beginning on or after 1 February 2020.

In particular, the following international accounting standards (IAS/IFRS) were endorsed as at 31 December 2020:

- "IFRS 3 - Definition of Business": Commission Regulation (EU) 551/2020 of 21 April 2020;
- "Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39 and IFRS 7": Commission Regulation (EU)34/2020 of 15 January 2020[1];
- "IFRS 4 - Insurance Contracts"; Commission Regulation (EU) 2097/2020 of 16 December 2020;
- "Covid-19-Related Rent Concessions (Amendment to IFRS 16)"; Commission Regulation (EU) 1434/2020 of 9 October 2020;

Moreover, during the period 1 February - 31 December 2020, the International Accounting Standards Board (IASB) published the following documents:

- "Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments to IAS 1)" published on 23 January 2020;
- "Annual Improvements to IFRS Standards 2018-2020" published on 14 May 2020;
- "Reference to the Conceptual Framework (Amendments to IFRS 3)" published on 14 May 2020;
- "Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37)" published on 14 May 2020;
- "Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)" published on 14 May 2020;
- "Amendments to IFRS 17 – Insurance Contracts", published on 25 June 2020;

[1] The document in question refers to Phase 1 of the project relating to the reform of the benchmark interest rates relating to the application of hedge accounting criteria in the periods prior to the entry into force of the reform. For more information, please refer to "PART E - Information on risks and related hedging policies".

- "Interest Rate Benchmark Reform - Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16" published on 27 August 2020[2].

The foregoing changes to the international accounting standards have had no major impact on the Carige Group.

In the preparation of these Consolidated Financial Statements, account was also taken, as far as applicable, of the interpretative and supporting documents issued by the main European and international institutions that provide recommendations on the information to be disclosed in the Financial Report, in relation to the application of certain standards (in particular IFRS 9) or certain transactions in the context of the Covid-19 pandemic (please see paragraph "Risks, uncertainties and impacts of the Covid-19 pandemic" in Section 5 – "Other information").

[2] The document in question refers to Phase 2 of the project relating to the reform of the benchmark interest rates (see Note 1). In particular, in 2020 the Group has not made use of the early application option for the provisions contained in the document issued by the IASB.

SECTION 2
Preparation criteria

The Consolidated Financial Statements refer to the Parent Company Banca Carige and other Group companies, as defined in the terms indicated in Section 3 - Scope and methods of consolidation, which have adopted the accounting standards indicated in Part A.2 concerning the main items of the accounts.

The drafting of these Consolidated Financial Statements of the Banca Carige Group took place in compliance with the general principles established by IAS1 and the guidelines set out in Circular no. 262 of 22 December 2005 of the Bank of Italy, "Banks' financial statements: layout and preparation", 6th update of 30 November 2018, also taking into consideration the document published by the Bank of Italy on 15 December 2020 to supplement the provisions of the Circular itself, in the context of the Covid-19 pandemic[3], as well as the Notice on the information to be provided, again in the context of the pandemic, published by Consob on 16 February, 2021[4].

Furthermore, in drafting these Consolidated Financial Statements, the Group has taken into account, where applicable, the interpretative and support documents issued by the main European and international institutions, documents in which guidelines are provided on the methods of application of the provisions of the international accounting standards with the primary goal of avoiding the creation of pro-cyclical effects and of ensuring correct and transparent reporting of the financial statements.

The following are the main documents published:

- International Accounting Standard Board (IASB): "Accounting for expected credit losses applying IFRS 9 - Financial instruments in the light of current uncertainty resulting from the covid-19 pandemic" of 27 March 2020.
- European Commission: "Commission Interpretative Communication on the application of the accounting and prudential frameworks to facilitate EU bank lending - Supporting businesses and households amid COVID-19" of 29 April 2020.
- European Central Bank (ECB):
  - "ECB Banking Supervisor provides further flexibility to banks in reaction to coronavirus" of 20 March 2020;
  - "IFRS 9 in the context of the coronavirus (Covid-19) pandemic of 1 April 2020;
  - "Identification and measurement of credit risk in the context of the coronavirus (Covid-19) pandemic" of 4 December 2020.
- European Banking Authority (EBA):
  - "Statement on the application of the prudential framework regarding Default, Forbearance and IFRS 9 in the light of Covid-19 measures" of 25 March 2020;
  - "Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the Covid-19 crisis" of 2 April and 25 June 2020;
  - "Guidelines on reporting and disclosure of exposures subject to measures applied in response to the Covid-19 crisis" of 2 June 2020;

[3] This communication supplements the provisions governing banks' financial statements contained in Circular 262 of 2005 and subsequent updates, with a view to providing the market with information on the effects that the Covid-19 and the measures to support the economy have had on the strategies, objectives and policies of risk management and on the profit/loss and balance sheet position of intermediaries.

[4] Warning notice No. 1/21 of 16 February 2021, re.: Covid-19 - measures to support the economy - Warning notice on the information to be provided: by supervised issuers, supervisory bodies and auditing firms in relation to the 2020 financial statements prepared in accordance with the international accounting standards; by companies publishing 2020 non-financial reports; by listed issuers and supervisory bodies at meetings where resolutions on capital measures are adopted; by preparers of bidding documents and prospectuses; by issuers subject to the Market Abuse Regulation (MAR).

- "Guidelines amending Guidelines EBA/GL/2020/02 on legislative and non-legislative moratoria on loan repayments applied in the light of the Covid-19 crisis" of 2 April and 2 December 2020.

- European Securities and Market Authority (ESMA):
    - "Accounting implication of the Covid-19 outbreak on the calculation of expected credit losses in accordance with IFRS 9" of 25 March 2020;
    - "Implication of the Covid-19 outbreak on the half-yearly financial report" of 20 May 2020;
    - "European common enforcement priorities for 2020 annual financial reports" of 28 October 2020 by the Italian Securities and Exchange Commission (CONSOB): "Covid-19 - Warning notice on financial statements" of 16 July 2020.

For further information on the overall regulatory framework in relation to Covid 19, reference should be made to the chapter "Covid-19: Regulatory measures and Carige Group initiatives" contained in the Report on Operations.
This Consolidated Financial Report includes the following templates:

<u>- Balance Sheet, Income Statement and Explanatory Notes.</u>

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 December 2020 is eleven months long, corresponding to the period 1 February 2020 - 31 December 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.

<u>- Statement of Comprehensive Income</u>

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 Consolidated Financial Statements or the previous period; negative amounts are indicated in brackets.

<u>- Statement of changes in Shareholders' equity</u>

The Statement of changes in shareholders' equity illustrates the breakdown and changes in shareholders' equity for the current and prior period. The items are broken down into the Group's and non-controlling interests' shares of changes in shareholders' equity.

<u>- Statement of Cash Flows</u>

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.
The accounting principles adopted for drafting these consolidated financial statements, with reference to the stages of classification, recognition, measurement and derecognition of the various asset and liability items and the methods for recognising revenues and costs (as described in the section "A.2 - Main items of the

Accounts"), remained unchanged with respect to the Financial Statements for the period under Temporary Administration as at 31 January, 2020.

- Consistency of presentation of the Consolidated 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

Data provided for comparative purposes is taken from the "Consolidated Financial Statements for the period under Temporary Administration".
In particular, P&L figures as at 31 January 2020 refer to 13 months (1 January 2019 – 31 January 2020), whereas P&L figures as at 31 December 2020 refer to an 11-month period (1 February 2020 – 31 December 2020).
The differences are therefore presented only in absolute terms and express changes referring to non-comparable periods.

- Going concern

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, when preparing the consolidated Financial Statements as at 31 December 2020, the Bank's Directors attentively assessed the going concern assumption, also considering the effects connected with the current macroeconomic environment, which is still strongly affected by the uncertainties connected with the ongoing Covid-19 pandemic.
In this context, the Consolidated Financial Statements as at 31 December 2020 show a loss for the period significantly higher than the forecasts of the 2019-2023 Strategic Plan, nevertheless the capital requirements required by the European Central Bank with the SREP Decision of June 2020 are complied with as explained in the section "Cash flow statement, shareholders' equity and risk management" of the Directors' Report. The Directors updated the 2019-2023 Strategic Plan targets in February 2021. Although confirming the guidelines originally contained in the Plan, the revised forecasts incorporate the changed macroeconomic environment and the estimated trends in revenues, funding and lending volumes as well as the risks and uncertainties related thereto, pointing to net losses for the years 2021 and 2022 which differ significantly from the results previously assumed in the aforementioned Plan and the return to profitability in the year 2023.
The revised economic forecasts, underlying the updates of the Strategic Plan targets, also contribute to the persistence of significant uncertainty regarding the recovery times of the tax assets recognised in the financial statements whose recoverability is linked to the achievement of positive taxable income, as highlighted in the analysis of sensitivity developed in the following section "Income tax treatment", "Part A – Accounting policies", "Section 2 – Preparation criteria" of the Explanatory Notes.
In addition, as described in detail in the following section "Provisions for risks and charges - Other legal disputes" and in the section "Risks related to ongoing proceedings", Part E - Information on risks and hedging policies", "1.5 Operational Risks" of the Notes to the financial statements, the Directors continue to remain committed to monitoring and managing significant legal and tax risks associated with ongoing disputes which represent an additional element of uncertainty, even though they consider the risk of losing as remote.

Partly as a result of the considerations made when drafting the update of the 2019-2023 Strategic Plan's economic and financial targets in the light of more recent and reliable information on the current pandemic, in their assessment of the going concern assumption, the Directors consider that the results of the financial years to come will benefit from the positive effects associated with:

- the significant amount of new loans granted as part of the measures provided for in the "Cura Italia" and "Liquidity" Decrees, which continued in the months following 31 December 2020. In addition to offsetting the ordinary outflows of loans being repaid, these new loans represent the basis for the growth in forecast volumes and consequent support for profitability;
- the expected growth in funding and lending volumes, updated on the basis of the footprint and structure reorganisation, the forecasts factor in the workstreams identified for the Wealth Management business, which are due to be fully implemented in 2021 and expected to contribute to the growth in net fee and commission income;
- the expected reduction in the cost of credit, in light of the completion of the ongoing derisking process initiated by the Temporary Administrators, which saw i) the closing of the disposal of the Messina Group exposure in July 2020 ii) an additional disposal of NPEs for an amount of EUR 54.1 mln in December 2020 and iii) the continuation of activities for the disposal of a non-performing leasing portfolio soon to be finalised. The completion of the derisking process marks the end of the large-amount NPE disposals carried out by the Group in recent years, with an expected Gross NPL Ratio of 5% by the end of 2021, as highlighted in the updated economic and financial targets of the 2019-2023 Strategic Plan approved in February 2021;
- the actions taken in previous years to contain costs, including measures to reduce personnel expenses, which will be fully effective from 2021 as a result of the significant voluntary redundancies planned as part of the Bank's access to the Solidarity Fund for the banking industry.

The assessment process put in place by the Directors additionally took into account the ECB's specific measures of 12 March 2020 (that were confirmed on 28 July 2020) which allow banks, in the current

situation, to operate temporarily (until at least 31 December 2022) below the minimum level of capital defined by the Pillar 2 Guidance and the Capital Conservation Buffer. Moreover, the Directors took into account the Group's liquidity position -steadily in excess of the requirements- and the measures taken to maintain an adequate level of liquidity at all times.
In summary, despite the significant uncertainties described above, the Directors believe that the Bank and the Group have the reasonable expectation of continuing to operate as a going concern in the foreseeable future and of complying with the SREP minimum prudential requirements for own funds and liquidity in the next 12 months, in consideration of the provisions contained in the ECB's communication of 28 July 2020, which allows the Banks to temporarily operate below capital requirements using the Pillar 2 Guidance and the Capital Conservation Buffer.
Therefore, based on the considerations reported above, the Group's Consolidated Financial Statements as at 31 December 2020 were prepared on a going concern basis.

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

Preparation of the consolidated 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 Consolidated 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 Covid-19 pandemic.
The negative effects on the world economy resulting from the pandemic are factors of uncertainty that may affect the future scenarios in which the Group will operate. Any assessment of the economic effects of Covid-19 significantly depends on the duration of contagion and the measures to contain it. Therefore, adjustments to the estimates may be necessary as a result of changes in the circumstances on which they were based.
Reported below are the main cases for which estimates and assumptions are more likely to be used.

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 December 2020, the Group 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.

It should be noted that an extension or worsening of the current economic-financial crisis may cause a further deterioration of the borrowers and issuers' financial conditions, which may translate into higher losses on loans granted or on financial assets purchased than those currently estimated and accordingly considered during preparation of this consolidated report. For more information, please refer to the contents of the following section "Risks, uncertainties and impacts of the Covid-19 pandemic" of Section 5 - "Other aspects".

As far as disposal-related assumptions are concerned, while continuing to pursue the overall derisking effort initiated at the end of 2019, the Group completed the disposal of significant non-performing exposures in

2020. For some of them, the sale agreements provide for potential adjustments of the sales price upon the occurrence of certain events that could occur within a certain time frame; the relevant corporate structures have estimated the probability of occurrence of such events and, consequently, reflected the potential price adjustment in the valuations.
For a residual portion of the loan book of EUR 171 mln in GBV held for sale, relating to the non-performing leasing portfolio, the conditions for derecognition had not yet been met as at 31 January 2020.
The closing for the partial sale of a significant tranche (approximately EUR 70 mln gross) of this portfolio is expected by March 2021; the sale of the remaining tranche remains planned by 2021. Even in the absence of the conditions for the derecognition of these exposures, the purchase price indications contained in the binding offer for the non-performing leasing portfolio being disposed of 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. For more information on the transactions carried out and / or in progress, please refer to the contents of the following section "Disposal of non-performing loans to AMCO S.p.A." of Section 5 - "Other aspects". At present, having achieved the Strategic Plan objective of reducing the non-performing share of the total loan portfolio, no further transactions are planned for the disposal of non-performing loans.

OWN SECURITIES
During preparation of these Consolidated Financial Statements, credit risk adjustments were made on HTC and HTC&S securities for an amount of EUR 303 thousand.

TLTRO III FINANCING
To determine the effective rate of return and consequently the amortised cost of the financial liabilities associated with TLTRO III operations, the expected future disbursements of loans are estimated over time, using an "internal model of trend of loans compared to the benchmark" fed with historical data (already reported to the Bank of Italy) and forward-looking information (the forecasts contained in the "Business Plan") relating to the "eligible assets" in order to determine whether the reduction in the interest rate can be applied.
On the basis of the results of the aforementioned internal model (which provides for distribution objectives deriving from the updates of the recently approved quantitative targets of the Strategic Plan), the Group has planned to reach the benchmark in loans from the beginning and consequently benefit from the reduction in the interest rate. Funding through longer-term refinancing operations, TLTRO III, generates an estimated average interest rate receivable of approximately 1% that the Group will collect upon maturity of the various tranches. Therefore, interest income of EUR 14.7 mln was recognised in the income statement in 2020, calculated by applying to the (already negative) interest rates payable the further maximum reductions envisaged by current legislation on the basis of the future trend of loans compared to the benchmark volumes provided by the ECB.
For more information on the accounting treatment, please refer to the contents of the following Part A.2 relating to the main items of the financial statements.

ALLOWANCES FOR RISKS AND CHARGES
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. The quantification of the allowances for risks and charges implies an estimation of the amount, if due, and the timing of any potential expenditure connected with fulfilment of the obligations resulting from past events deemed likely to occur.
With reference to the provisions for personnel recognised after signing of the union agreements, 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. Finally, for the quantification of pension funds and similar obligations, the present value of the obligations is estimated, taking into account the historical statistical analyses and the demographic curve.

Below are the main estimates and assumptions relating to other contingent liabilities for obligations of a contractual nature and for commitments and guarantees given.

Disposal of insurance companies – guarantees and commitments – settlement agreements

Following completion of the transaction carried out with the Apollo/Amissima Group in 2019 (for further details, please refer to the contents of Section 2 – "Preparation Criteria" of the Consolidated Financial Statements for the period under Temporary Administration) and further to the agreements entered into when the Insurance Companies were sold, a Claims Agreement still remained 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 had 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).

On 18/12/2020, this agreement was terminated by mutual consent of the parties, with the Bank acknowledging payment to the Company of the legal costs accrued at that time. Consequently, all the economic effects of the disputes falling within the scope of this contract returned exclusively to Amissima Assicurazioni.

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 this document 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 assessment of the risk underlying the compensation claims, for which the Group has allocated specific provisions for risks, represents an area of estimation and uncertainty for the Group.

NPE servicing agreement with Credito Fondiario

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 evaluation of the commitments undertaken in this agreement, against which the Group has allocated specific provisions for risks, represents an area of estimation and uncertainty for the Group.

Distribution agreement with Creditis Servizi Finanziari S.p.A

During the first quarter of 2019, the Parent Company completed the sale of its 80.01% shareholding in the consumer credit company Creditis Servizi Finanziari S.p.A. to Chenavari Investment Managers. The transaction, concluded pursuant to the binding agreement signed on 6 December 2017, also provides for a multi-year distribution agreement which contains potential indemnities to be incurred in the event of failure to achieve commercial goals by 31 December 2021. Partly as a result of the difficulties and uncertainties generated by the context of the Covid-19 pandemic, the Group could be called upon to bear charges due to the failure to achieve its commercial targets. The measurement and evaluation of the commitments undertaken in this agreement, against which the Group has allocated specific provisions for risks, represents an area of estimation and uncertainty for the Group.

Preliminary findings of the inspection conducted by the Bank of Italy on the subject of transparency

On 29 January 2021, the on-site part of the inspection conducted, with effect from 19 October 2020, by the Bank of Italy, Banking and Financial Supervision Department - Supervisory Inspectorate Service, was completed, aimed at ascertaining compliance with the supervisory guidelines on Transparency. In view of the preliminary findings of the inspection itself and pending the completion of the necessary deep-dives still in progress, the relevant Structures have estimated and allocated specific risk provisions. On the reporting date of the consolidated financial statements as at 31 December 2020 it is not possible to exclude that the final results of the inspection may reveal further liabilities for the Carige Group

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.

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 judicially notified by the court, sometimes individually, sometimes jointly and severally with other parties, of a series of particularly significant claims for damages, particular reference is made to the following writs of summons:

a) notice served on 2 December 2020 by Mr. Michele Petrera, in his capacity as Common Representative of the savings shareholders of Banca Carige, to hear the appeal of the resolutions of the extraordinary shareholders' meeting of 20 September 2019 declared accepted and, for the effect, to order the Bank to pay compensation for the damages (not quantified) suffered and that may be suffered by the savings shareholders in the event of the implementation of the contested resolutions;
b) notice served on 14 January 2020, by the shareholder Filippo Contro to hear the annulment of the resolutions passed by the extraordinary shareholders' meeting of 20 September 2019 and the order of the Bank to compensate the damages suffered and that may be suffered determined to an extent of no less than EUR 378 thousand, plus revaluation, interest and payment of legal costs, fees and any other costs that may be imposed by the court directly on the unsuccessful party;
c) notice served on 16 January, 2020, by Malacalza Investimenti Srl, with a claim for compensation amounting to approximately EUR 486.6 mln, or in a different greater or lesser amount that should be determined on the basis of criteria deemed applicable (including at the discretion of the Court), in addition to monetary revaluation, interest and payment of legal costs and defense fees, and the flat-rate reimbursement of general expenses; also summoned as defendants are, in addition to the Bank: the Interbank Deposit Protection Fund ("FITD"), the Voluntary Scheme of the Interbank Deposit Protection Fund ("SVI") and Cassa Centrale Banca - Credito Cooperativo Italiano S.p.A. ("CCB");
d) notice served on 16 January 2020, by the shareholder Franco Corti together with 41 other shareholders. Also summoned as defendants are FITD, the SVI and CCB. The claim for damages in favour of the plaintiffs was determined to the extent of EUR 8.8 mln, or to a different extent equal to the various sums, as determined in a different greater or lesser amount -including at the discretion of the Court, in addition to interest and legal expenses and the flat-rate reimbursement of general expenses, VAT and Lawyers' Social Security Fund;
e) notice served on 17 January 2020, by the shareholder Vittorio Malacalza. Also summoned as defendants are FITD, the SVI and CCB. The claim for damages was quantified by the plaintiff to an extent of no less than EUR 2.6mln, to be determined, including at the discretion of the Court, in addition to revaluation, interest and payment of legal costs.

The aforementioned lawsuits were the subject of a meeting order by the President of the Corporate Section of the Genoa Court.
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. The hearing to finalise the conclusions is set for 17 May 2021. 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.

For further details about contingent liabilities for lawsuits and tax disputes, please refer to the paragraphs "10.6 Provisions for risks and charges - other provisions" of "Part B - Information on the consolidated balance sheet" and "Risks related to ongoing proceedings" of "Part E - Information on risks and hedging policies", "1.5 Operational Risks".

INCOME TAX TREATMENT

Recoverability of deferred tax assets

Given that the accounting standard of reference for tax recognition, IAS 12, defines deferred tax assets as the amounts of income taxes recoverable in future periods, it is essential to assess their recoverability before recognising their carrying amount as assets in an entity's statement of financial position.

The accounting standard 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.

In the absence of an explicit definition under IAS 12, the meaning of the term "probable" is borrowed from accounting standard IAS 37, Provisions, Contingent Liabilities and Contingent Assets, i.e. the event is regarded as probable if the event is more likely than not to occur.

Under the going concern assumption, the recognition of deferred tax assets was therefore assessed on the basis of the methodology developed in prior periods (probability test), including with the support of external professionals, in order to quantify, based on a series of assumptions and hypotheses, the likely time to recover of the DTAs recognised in the Financial Statements.

The main assumptions and hypotheses underlying the probability test are:

- the probability test was performed, with reference to the DTAs not susceptible of being converted into tax credits currently recognised in the financial statements. The deferred tax assets recognised in the Group's Consolidated Financial Statements as at 31 December 2020, include EUR 245 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 is therefore a sufficient prerequisite for their recognition, implicitly passing the relevant "probability test";
- the Group's 2019-2023 strategic plan was taken into consideration, as recently updated by the Board of Directors in February 2021 with the approval of the new targets for the 2021-2023 period in order to take into account the new macroeconomic scenario emerging after the Covid-19 pandemic and further extending the projections to the following two-year period (2024-2025) on the basis of the macroeconomic scenarios expected as resulting from external sources of general use (Prometeia forecast report of December 2020);
- for the years following 2025 a compound growth rate of 2% was assumed, equal to the target inflation rate level declared by the ECB, which implies an assumption of zero real growth;
- 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), the assumption -used as the objective function in the probability test- was that of estimating, with a probabilistic approach (Montecarlo method), the foreseeable recovery time of the DTAs with a probability of over 50%.

The Parent Company deemed it prudent, based on the information it currently holds, to continue not to recognise, as already done with effect from the 2018 financial year, additional DTAs, especially those dependent on future profitability. As a result of the above choice, DTAs not recognised in the financial statements for the period ended on 31 December 2020 amount to approximately EUR 65 mln.
In a stand-alone scenario, the results obtained using the aforementioned results until 2025, subsequently projected at a constant growth rate of 2%, involve a period of absorption of the IRES DTAs[5] as at 2053. For the results arising from the application of a probability approach (Montecarlo method) on the expected taxable income on which the foreseeable recovery times of the DTAs are based, please refer to PART B - SECTION 11 of the Notes to the financial statements.

Returning to the assessment of time to recovery, the following elements were taken into consideration:

a) the results of the Montecarlo model for the probability of recovery of DTAs in the assumption of possible volatility of expected results;
b) the forecast of results for the years following 2025, which are in fact constant on a real level, determine rather lengthy absorption periods, even in the presence of projections of growing profits for the 2024-2025 period;
c) the high probability of a business combination repeatedly announced to the market and based on the generally transitory nature of the support interventions by the Voluntary Scheme of the Interbank Deposit Protection Fund. The above business combination would entail, among other things, an equally likely significant conversion of DTAs into tax credits, pursuant to the provisions of Italian Law No. 178 / 2020, with a consequent significant reduction in the time to recovery period to a minimum of 12 years;
d) the lack of a strict time limit in IAS 12 for assessing the probable recoverability of DTAs, which leaves it to the judgement of the preparers of the financial statements to decide whether it is more likely than not;
e) the duration of the Bank, currently set until 2050, according to the Articles of Association.

In this context, it was finally concluded that a significant time-frame may be deemed acceptable for DTA absorption in a stand-alone perspective, corroborated however, by the above considerations. The time-frame for the expected recovery of the DTAs was therefore limited to 30 years and therefore spans until 2050, with consequent devaluation of DTAs by an amount of EUR 66.3 mln. Said devaluation brings the estimated amount of unrecognised DTAs to a total of approximately EUR 491 mln.

The main assumptions and hypotheses described above are characterised, due to their nature, by a high level of uncertainty, based on long-term forecasts and given the prolongation of the macroeconomic situation caused by the effects of the coronavirus pandemic, affecting the amount and on-schedule delivery of the results included in the updated strategic plan. The existence of such uncertainties must be appropriately considered to take into account the possible occurrence of conditions other than those currently estimated and consequently considered for the development of the probability test.

It must also be noted that, as already stated above, the probability test was developed in a stand-alone scenario, while considering the existing business combination process carried out by the directors in the overall assessment of the time to recovery of the DTAs. The assumption of business combination, with a subsequent merger within the following year, would result in a significant reduction in the currently estimated time to recovery of the DTAs.

[5] As regards the Regional tax on productivity purposes (IRAP), given that no carryforward is allowed for negative taxable income, DTA recoverability, in any case accounting for a limited amount, has not particular relevance. A final remark should be made about DTAs recognised against the IRES surcharge. Since the methods of calculation are essentially the same, even considering the suspension of the domestic tax consolidation regime, the outcome in terms of their probability of recovery basically coincides with that of IRES.

IFRIC 23 – Uncertainty over Income Tax Treatments

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".

In particular, 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 Group has not identified any specific areas of uncertainty for which the application of this Interpretation is expected to have an impact on these Consolidated Financial Statements.

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.

Overall, the write-downs made on real estate assets in 2020 amounted to approximately EUR 19.1 mln, of which EUR 5.6 mln relating to the properties of Carige Reoco S.p.A..

Due to its specific nature, the ongoing monitoring activity will be functional to also capture any impairment losses that may arise from the current pandemic and its future evolution.

DEFINITION OF DEFAULT

With effect from 1 January, 2021, the Carige Group adopted the new definition of default provided for by the European Regulation on prudential requirements for credit institutions and investment firms (Article 178 of Regulation (EU) No. 575/2013); the new definition introduces classification criteria that are, in some cases, more stringent than those adopted for the purposes of drafting the consolidated financial statements as at 31 December 2020. For more information on the main changes introduced and implemented by the Group, please refer to Part E, "Section 2 - Risks of prudential consolidation", paragraph "Non-performing exposures" of the Notes to the financial statements. Consistently with the new classification criteria, the relevant structures of the Parent Company estimated higher non-performing loans as at 1 January 2021, mainly past due positions, for a gross amount between EUR 30 and 35 mln. In view of these higher volumes of non-performing loans and in line with the measurement criteria adopted for the purposes of preparing these Consolidated Financial Statements, the relevant Structures also estimated an increase in loan loss provisions of between EUR 5 and 7 mln as at 1 January 2021.

In addition to the portfolio effect, the new and more stringent rules for the identification of non-performing exposures could lead to further worsening of loan loss provisions as part of the ordinary updating of risk parameters (PD and LGD). Project activities are underway. Therefore, no evidence is currently available on the potential impacts of the new definition of default.

SECTION 3
Scope and methods of consolidation

1. Equity investments in wholly owned subsidiaries

The scope of consolidation has changed with respect to the scope used for preparation of the financial statements as at 31 January 2020 due to the inclusion of the company St. Anna Golf S.r.l. in the scope of consolidation following the acquisition of 100% of the latter by Reoco S.p.A. in the second half of 2020, as a result of a transaction to recover some impaired financial assets.
The company St. Anna Golf S.r.l. owns 100% of St. Anna Gestione Golf Società Sportiva Dilettantistica a r.l.. The latter was not included in the scope of consolidation, on the basis of the general principles dictated by the regulatory framework in general, as it was deemed not significant given the size (as at 31 December 2020, the book value of the investment was EUR 0.1 mln, total assets EUR 0.5 mln, shareholders' equity EUR 0.1 mln and a loss of EUR 0.3 mln) and the activities carried out. It must also be noted that in 2020 the company Abitare R.E. S.r.l. was merged by absorption into Carige Reoco S.p.A.

1. Equity investments in wholly owned subsidiaries

Company name	Operating office	Registered office	Type of relationship (1)	Shareholding relationship		Voting rights (2) (3)	
				held by	% held	Actual %	Potential %
A. Companies							
A.1 Consolidated line-by-line							
Banking Group							
1. Banca CARIGE SpA	Genoa	Genoa					
2. Banca del Monte Lucca SpA	Lucca	Lucca	1	A1.1	69.97		
3. Banca Cesare Ponti SpA	Milan	Milan	1	A1.1	100.00		
4. Centro Fiduciario C.F. SpA in liquidation	Genoa	Genoa	1	A1.1	96.95		
5. Argo Mortgage 2 Srl	Genoa	Genoa	1	A1.1	60.00		
6. Carige Covered Bond Srl	Genoa	Genoa	1	A1.1	60.00		
7. Carige Covered Bond 2 Srl	Genoa	Genoa	1	A1.1	60.00		
8. Lanterna Finance Srl (4)	Genoa	Genoa	4	A1.1	5.00		
9. Lanterna Lease Srl (4)	Genoa	Genoa	4	A1.1	5.00		
10. Lanterna Mortgage Srl (4) (5)	Genoa	Genoa	4	A1.1	5.00		
11. Carige Reoco SpA (6)	Genoa	Genoa	1	A1.1	100.00		
Other companies							
12. St. Anna Golf Srl	Genoa	Genoa	1	A1.11	100.00		
Companies not included in the scope of consolidation							
13. St. Anna Gestione Golf Società Sportiva Dilettantistica a r.l.	Cogoleto	Cogoleto	1	A1.12	100.00		

Key
(1) Type of relationship:
1 = majority of voting rights at ordinary shareholders' meetings
2 = dominant influence at ordinary shareholders' meetings
3 = agreements with other shareholders
4 = other forms of control
5 = unified management pursuant to art. 26, paragraph 1 of Legislative Decree 87/92
6 = unified management pursuant to art. 26, paragraph 2 of Legislative Decree 87/92
(2) Voting rights available at ordinary shareholders' meetings, both actual and potential
(3) Value entered only if other than the percentage of ownership
(4) Self-securitisation SPV, controlled under the requirements of IFRS 10.
(5) Former Lanterna Consumer Srl. The company changed its name on 28/5/2020
6) On 11/11/2020 the deed of merger by absorption of Abitare R.E. into Carige Reoco SpA was signed, with accounting effect as of 1 January 2020

As regards the scope of business, subsidiaries can be divided into banking institutions (Banca Carige S.p.A, Banca del Monte di Lucca S.p.A, Banca Cesare Ponti S.p.A.), trust companies (Centro Fiduciario C.F. S.p.A. in liquidation), securitisation vehicles (Argo Mortgage 2 S.r.l., Lanterna Finance S.r.l., Lanterna Mortgage S.r.l. and Lanterna Lease S.r.l.), vehicle companies for covered bond issuance transactions (Carige Covered Bond S.r.l. and Carige Covered Bond 2 S.r.l.), special-purpose vehicles (Carige Reoco S.p.A), a real estate company (St. Anna Golf Srl) and an amateur sports association company that deals with managing a golf course (St. Anna Gestione Golf Società Sportiva Dilettantistica a r.l.)
The special-purpose vehicles Argo Mortgage 2 S.r.l., Lanterna Finance S.r.l., Carige Covered Bond S.r.l. and Carige Covered Bond 2 S.r.l. were all consolidated line by line. The assets were not derecognised from the financial statements of the respective transferors under either the securitisations

or disposals for the issuance of covered bonds, as all connected risks and rewards were substantially retained by the Group.
These Consolidated Financial Statements were prepared using the reporting packages as at 31 December 2020 made available by the Parent Company and the other consolidated entities, as approved by their respective governing bodies and drafted according to the IASs/IFRSs approved and effective as at the reporting date, according to guidance provided by the Parent Company.

2. Significant judgements and assumptions in determining the scope of consolidation

According to the IASs/IFRSs, the scope of consolidation includes all directly or indirectly controlled entities.
The concept of control applied is that outlined in IFRS 10 - Consolidated financial statements. The companies that were considered to be subsidiaries and therefore included in the scope of line-by-line consolidation are all those companies in which the Parent Company has all of the following elements:
- control over the entity in which the investment is held, or sufficient rights that give it the ability to direct the investee's activities;
- exposure to positive or negative variable returns, deriving from its involvement with the investee, that vary as a result of the investee’s performance;
- the ability to use its power over the investee to affect the amount of its returns.

All subsidiaries have been included in the scope of consolidation with the exception of St. Anna Gestione Golf Società Sportiva Dilettantistica a r.l. as it is not deemed significant. Excluded from the scope of consolidation, however, were non-investees for which shares with voting rights were received on pledge, inasmuch as the guarantee obtained was intended as a credit protection instrument and not as an instrument to exercise influence over the companies in question.
The special-purpose vehicles Lanterna Finance S.r.l., Lanterna Mortgage S.r.l and Lanterna Lease S.r.l., set up to carry out securitisation transactions, were considered to be subsidiaries and were thus included in the scope of consolidation, although they are only 5% owned.
As at the reporting date, no jointly controlled companies were identified, to which IFRS 11 - Joint Arrangements applies.

3. Equity investments in wholly-owned subsidiaries with significant minority interests

3.1 Non-controlling interests, availability of votes of non-controlling interests and dividends distributed to non-controlling interests

Company name	Non-controlling interests %	Voting rights held by non-controlling interests % (1)	Dividends paid to non-controlling interests
1. Banca del Monte Lucca S.p.A.	30.03	30.03	-

(1) Votes available at ordinary shareholders' meeting

3.2 Equity investments with significant minority interests: financial reporting (1)

Company Name	Total assets	Cash and cash equivalents	Financial assets	Property & equipment and intangible assets	Financial liabilities	Shareholders' equity	Net Interest Income	Net interest and other banking income	Operating expenses	Profit (loss) before tax from continuing operations	Profit (loss) after tax from continuing operations	Profit (loss) after tax from groups of assets held for sale	Net Profit (Loss) (1)	Other comprehensive income after tax (2)	Total comprehensive income (3) = (1) + (2)
3. Banca del Monte Lucca S.p.A.	725,699	7,581	655,136	19,866	657,684	42,697	7,098	13,678	(14,075)	(3,205)	(3,378)	-	(3,378)	44	(3,334)

(1) The data used are inferred from the reporting package with reporting date 31/12/2020 used for the consolidation process from 01/02/2020 to 31/12/2020.

4. Significant restrictions

It is noted that, under the requirements of paragraph 13 of IFRS12, no material or legal restrictions or constraints exist that may hinder the prompt transfer of capital resources within the Group. The only constraints are those attributable to regulatory legislation, which may require the preservation of a minimum amount of own funds or a Liquidity Coverage Ratio (LCR), ban on dividend pay-out or the Italian civil code provisions on reserves and profits distribution as well as those required by law when subscribing to shares which prohibit the company from providing resources for the subscription of its own shares (Article 2358 of the Italian Civil Code) and, in any case, prohibition on subsidiaries from subscribing to shares of the parent company (Article . 2359-quinquies of the Italian Civil Code) and the prohibition of mutual subscription of shares pursuant to Art. 2360 of the Italian Civil Code.

5. Other information

Investments in associates, i.e. companies subject to significant influence, were measured at equity.

Equity investments in companies subject to significant influence (consolidated using the equity method)

Company name	Operating office	Registered office	Shareholding relationship		Voting rights	
			held by	% held	Actual %	Potential %
A. Companies consolidated at equity						
1. Autostrada dei Fiori S.p.A.	Turin	Imperia	Banca Carige S.p.A.	20.62		

With reference to Autostrada dei Fiori S.p.A., it is noted that the latest reporting package as at 30 September 2020 was used, as approved by its Board of Directors pursuant to the IAS/IFRS accounting standards.

With reference to companies over which the Group exerts significant influence, measurement at cost was maintained for companies that are not considered value-relevant, in accordance with the general principles set out in the framework. The value of the investment in Nuova Erzelli S.r.l. is EUR 5 thousand.

Equity investments in companies subject to significant influence excluded from the equity method

Company name	Operating office	Registered office	Shareholding relationship		Voting rights	
			held by	% held	Actual %	Potential %
1. Nuova Erzelli S.r.l.	Genoa	Genoa	Banca Carige S.p.A.	40.00		

The information required with reference to St. Anna Golf Srl is provided below as it is a company included in the scope of consolidation resulting from the recovery of impaired assets:
Activities carried out: the Company carries out real estate activities and, through the wholly owned subsidiary St. Anna Gestione Golf Società Sportiva Dilettantistica a r.l., manages a golf course located in Cogoleto, Località Lerca, and related activities.
The main items of the company's assets as at 31 December 2020 are: tangible assets EUR 8.8 mln and equity investments EUR 0.1 mln.
The total assets of the company amount to EUR 9 mln and account for 0.04% of the total assets of the Parent Company.

Illustrated below are the characteristics of the two consolidation methods adopted.

Line-by-line consolidation

Financial statements, prepared using line-by-line consolidation, reflect the capital, economic and financial position of the Group, intended as one business entity. For this purpose, four operational steps are required:
- standardise the accounting policies applied within the scope of consolidation, introducing adjustments as necessary, should a member of the Group have adopted principles other than those used in the consolidated financial statements for similar transactions and events under similar circumstances;
- aggregate the financial statements of the Parent Company and its subsidiaries line by line. The corresponding values of assets, liabilities, shareholders' equity, revenues and expenses are then summed up;
- offset the value of investments in subsidiaries against the corresponding portion of shareholders' equity for those companies as at the date of their first-time recognition in the consolidated financial statements. At the acquisition date, the fair values of all assets and liabilities acquired are measured and goodwill is determined as required by IFRS 3. Being an intangible asset with an indefinite useful life, goodwill is not amortised: however, its carrying amount is tested for impairment annually or whenever there is an indication that it may have incurred a long-lasting loss in value to verify that its recoverable value remains higher. Negative differences are recognised in the Income Statement. The minority interest share of shareholders' equity and profit (loss) is recognised as a separate item;
- cancel significant intra-group balance-sheet and profit and loss entries between companies subject to line-by-line consolidation.

The consolidation of a subsidiary begins when the Group obtains control of it and ceases when the Group loses control. The assets, liabilities, income and expenses of the subsidiary acquired or sold during the year are included in the consolidated financial statements from the date on which the Group obtains control until the date on which the Group no longer exercises control over the company.

The profit (loss) for the year and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, appropriate adjustments are made to the financial statements of the subsidiaries in order to ensure compliance with the group's accounting policies. All assets and liabilities, equity, income, expenses and intra-group cash flows relating to transactions between entities of the group are eliminated in full during the consolidation process.

Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary are recognised at equity.

If the Group loses control of a subsidiary, the Group must derecognise the assets (including goodwill), liabilities, non-controlling interests and other components of equity [of the former subsidiary], while recognising any gain or loss associated with the loss of control attributable to the former controlling interest while any profit or loss is recognised in the income statement. Any stake held must be recognised at fair value.

Consolidation at equity

Through the equity method, an investment is initially recognised at cost and then adjusted according to changes in the investor's share of the investee's equity. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the proportion of changes in equity resulting from gains or losses of the investee, which are recognised as "Profits (losses) on equity investments" in the Income Statement. The allocated proportion of changes in equity indicated in the financial statements of the investee without going through profit or loss are instead recognised directly to Reserves.

The difference between the cost of the investment and the portion of equity 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 recognised to its own separate item among intangible assets, and therefore tested separately for impairment, but remains posted under Equity Investments.

The entire carrying amount of the investment is tested for impairment by comparing its recoverable value and its carrying amount if there is evidence that the value of the investment has decreased. Any intra-group gains or losses are eliminated in proportion to the investment in the associate.

Upon loss of significant influence over an associate, the Group assesses and recognises the residual investment at fair value. Any 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 profit or loss.

SECTION 4
Subsequent events

On 22 February 2021, following the passing away of the Chairman of Banca Carige S.p.A. Mr. Vincenzo Calandra Buonaura on 28 December 2020, the ordinary Shareholders' Meeting appointed Giuseppe Boccuzzi and Paolo Ravà as members of the Board of Directors, to serve until the date of the Shareholders' Meeting called to approve the financial statements for the year ending 31 December 2022; the Shareholders' Meeting further appointed Giuseppe Boccuzzi and Paolo Ravà to serve respectively as Chair and Deputy Chair of the Board of Directors.

On 23 February 2021, the Board of Directors of Banca Carige S.p.A. resolved to approve the Group's 2021 Budget and an updated revision of the 2023 targets of the Strategic Plan approved in 2019, despite the context of utmost uncertainty surrounding the impact that the spread of the Covid-19 virus will have in the medium to long term.

Also in February 2021, the Parent Company, in line with the provisions of the Strategic Plan (sale of the shares of the Bank of Italy in excess of the 3% dividend-bearing stake), sold: 120 shares in the capital of the Bank of Italy with a nominal value of EUR 25,000 each to Fondazione Cassa di Risparmio di Carrara - at a price equal to the shareholding's overall nominal value of 3 mln, which also coincides with its historical cost; 20 shares in the capital of the Bank of Italy with a nominal value of EUR 25,000 each to Fondazione Banca del Monte di Lucca at a price equal to the shareholding's overall nominal value of EUR 500,000, which also coincides with its historical cost; 200 shares in the capital of the Bank of Italy with a nominal value of EUR 25,000 each to Banca del Veneto Centrale (Cassa Centrale Banca group - Credito Cooperativo Italiano) at a price equal to the shareholding's overall nominal value of 5 mln, which also coincides with its historical cost.

After the above disposal, the Carige Group still holds 9,422 shares, corresponding to a 3.141% shareholding.

On 5 March 2021, the engineer Marcello Pasini resigned as Chief Executive Officer of Carige Reoco, Sant'Anna Golf S.r.l. and Sant'Anna Gestione Golf s.s.d. a r.l.

SECTION 5
Other information

CHANGES TO THE BUSINESS MODEL OF OWN SECURITIES

On 17 December 2020, the Board of Directors of Banca Carige S.p.A. approved prospective changes to the IFRS 9 Business Model with respect to that adopted in the FTA for managing financial assets and specifically, government bonds, in order to have greater flexibility in managing own securities, downsizing the "Held to collect" (HTC) portfolio and making the "Held to Collect & Sell" (HTC & S) portfolio prevalent.
The above solution was deemed to be more in keeping with and consistent with the Parent Company's recent strategic lines which envisage a strong growth in loans to customers in order to support the economy during this pandemic crisis and to achieve the necessary recovery of the Bank's profitability

The analyses carried out by the relevant departments of the Parent Company had the main goal of verifying whether methods for managing financial assets, as established by the previous governing bodies in a macroeconomic and regulatory context that was significantly different from that which emerged in 2020, were still consistent with the Bank's strategic goals and sustainable in compliance with the levels of risk appetite envisaged by the Risk Appetite Framework and by the structural liquidity ratios. These assessments also took into account the negative effects deriving from the temporary administration procedure to which the Bank was subjected from the beginning of January 2019 to the end of January 2020, with the consequent dimensional and qualitative evolution of its assets with specific reference to the characteristics of the average duration of direct funding.
The results showed that external factors such as the changed macroeconomic conditions, as well as the different regulatory framework would no longer have made it possible to ensure the consistency of the risk associated with the HTC portfolio with the levels envisaged by the Risk Appetite Framework. Therefore, maintaining the risk profile associated with the Risk Appetite Framework, the Parent Company deemed it appropriate to adopt a logic for managing financial instruments aimed at guaranteeing flexibility in the management of the portfolio of government bonds and favouring the possibility of seizing any market opportunities rather than stability in the medium / long-term cash flows of the securities portfolio with the portfolio consequently being held to maturity. The above decision entailed the need to strategically review the management logic of all investments in securities, making the HTC&S portfolio prevalent[1].

The international accounting standard IFRS 9 states that changes to the Business Model are to be applied prospectively with respect to the date of the change; securitised senior securities originated by the Bank and not subject to accounting derecognition for a notional amount of approximately EUR 412 mln remain in the HTC Business Model, as their management goal has remained unchanged.

At the same time, the Parent Company's Board of Directors approved the sale of the Italian government bonds maturing in 2026 subject to changes to be made to Business Model (for a notional value of EUR 400 mln) which gave rise to positive results in the income statement of EUR 9.4 mln.

RISKS, UNCERTAINTIES AND IMPACTS OF THE COVID-19 PANDEMIC.

Below are the criteria adopted by the Group for the areas deemed relevant for estimate processes that most require the use of subjective assessments and assumptions, in the context of the Covid-19 pandemic.

[1] The goal of the HTC&S portfolio is in fact achieved jointly by collecting contractual cash flows and selling financial instruments.

With reference to the estimates and assumptions, in the context of the Covid-19 pandemic, on the recoverability of deferred tax assets and on the impairment of tangible assets, please refer to Part A.1 - "Section 2 Preparation criteria" of the notes to the financial statements.

Calculation of expected credit losses

With regard to the measurement of expected credit losses, the competent authorities pointed out that, while the deterioration of the economic situation due to the Covid-19 pandemic must be taken into account, no mechanistic approach should be adopted, as IFRS9 includes sufficient margins of flexibility to reflect circumstances of uncertainty.
Given the current context of heightened uncertainty and lack of reasonable and supportable forward-looking information for macroeconomic forecasts, institutions are required to estimate expected losses by avoiding excessively pro-cyclical assumptions and giving greater relevance to historical data than to long-term macroeconomic outlooks. Where there is reliable evidence for specific forecasts, the expected losses must reflect the positive effects of the support measures granted by the public sector and the banks.
The IASB acknowledged that incorporating the effects of the pandemic and government support measures in the models for calculating expected credit losses is likely to be difficult at this time. If this is the case, post-model overlays or adjustments will need to be considered.

Macroeconomic scenarios

The Covid-19 pandemic has led to a worsening of the macro-economic outlook that had to be reflected in the estimation of the IFRS 9 expected credit loss by updating the PD and LGD parameters with the macroeconomic forecasts provided by a primary consulting company. More specifically, the "forward looking" shock applied to the multi-period PD curves set in the assessment models adopted by the Group and structured in such a way as to take account of differentiated impacts, was determined to reflect the variation in the probability of default in 17 economic sectors.

The macroeconomic scenarios already in use as at 31 March 2020 were predictive of a global recession that would lead to a more severe crisis than the financial crisis of 2008-2009: the baseline scenario pointed to a global recession (-1.6%) with a sharp drop in trade (-9.4%) in the first half of 2020. Economic activity was expected to gradually recover with a rebound in growth in 2021, which, however, would not be sufficient to recover incurred losses in many countries. Italy's GDP was expected to fall by 6.5% in 2020 and then bounce back to 3.3% in 2021.
The macroeconomic scenario was updated again on the basis of guidelines provided by the ECB on the current economic situation (June 2020), predicting a further worsening of the scenarios compared to what was estimated in March 2020 due to a slower economic recovery forecast, and in some cases compromised for certain production chains such as tourism and entertainment.
For purposes of drafting these Consolidated Financial Statements, the macroeconomic scenario has been further updated with the forecasts of December 2020 provided by a leading operator in the sector and which, confirming the trend described above, forecast a trend in EMU GDP of -7.18% in 2020 and growing, albeit slowly, in subsequent years (for example, in the baseline scenario a + 2.39% is expected in 2021, + 2.82% in 2022 for the EMU GDP); these macroeconomic scenarios are consistent with those provided by the EBA.

Assessment of the significant increase in credit risk (SICR)

During the fourth quarter of 2020, in line with guidelines provided by the European and international institutions, multiple interventions were carried out as part of the rating assignment process on the entire

loan portfolio with a view to greater responsiveness in acknowledging events and information relevant for quantifying credit risk.
In view of the specific macroeconomic situation resulting from the Covid-19 pandemic and considering the overall characteristics of the credit risk measurement systems, further actions have been identified aimed at prudentially managing the valuation of the borrowers for which a moratorium was granted with effect from March 2020. For the above counterparties, a specific supervision mechanism has been defined in the process of updating and assigning the rating, and an additional criterion has been identified for classification to stage 2 of the accounts of borrowers who operate in sectors most impacted by the Covid-19 pandemic and have highlighted specific profiles of vulnerability.

For purposes of drafting the consolidated financial statements, the overall measures taken to reflect the risks and uncertainties of the Covid-19 emergency, resulted in an increase in loan losses estimated at around EUR 38 mln. The loan loss provisions taken were driven by the significant elements of uncertainty surrounding both the developments of the pandemic and the extent and effects of the government measures introduced to support the economy.

Covid 19-related contractual modifications

1. Contractual modifications and accounting derecognition (IFRS 9)

As part of the measures in support of households and businesses in the aftermath of the Covid-19 pandemic, the Group has granted several legislative (in particular Decree-Law No. 18/2020 "Cura Italia") and non-legislative moratoria on loans.
In summary, the European Authorities provided the following guidance. The foregoing measures:

- do not automatically lead to a reclassification of an exposure as “forborne”, except in limited cases where the debtor's pre-crisis difficulties are actually ascertained; in fact, these measures are not borrower-specific, as the length of the delays in payments is fixed for every borrower irrespective of the borrower’s specific financial circumstances[2];
- do not lead to an automatic reclassification of the exposure to stage 2 in the deterioration of credit quality, as these measures do not necessarily reflect a significant increase in credit risk;
- do not lead to a transfer of the exposure to stage 3 in the deterioration of credit quality, as:
    - making recourse to a moratorium in itself does not trigger a reclassification to Unlikey-To-Pay (UTP) status;
    - performing loans subject to moratoria are not classified as past due, as institutions should count the days past due based on the revised schedule of payments resulting from the application of the moratorium;
- where the moratorium applies to exposures that were already classified as forborne or defaulted, the moratorium shall be subject to an individual assessment and considered as an additional measure of forbearance;
- with reference to the accounting implications of debt modifications resulting from the introduction of moratoria:
    - issuers should assess whether the measures introduced result in modification of the financial assets and whether modifications lead to their de-recognition;

[2] In the document dated 29 April 2020 “*Commission Interpretative Communication on the application of the accounting and prudential frameworks to facilitate EU bank lending - Supporting businesses and households amid COVID-19*”, the European Commission specifies that public and private moratoria should be treated similarly to the extent they have the same purpose and similar characteristics.

2 ESMA, “Public Statement - Accounting implications of the COVID-19 outbreak on the calculation of expected credit losses in accordance with IFRS 9” of 25 March 2020.

    - determining whether derecognition occurs depends on whether the modification of the terms of the instrument is considered substantial or not;
    - if the support measures provide temporary relief to debtors affected by the COVID-19 outbreak and the net economic value of the loan is not significantly affected, the modification would be unlikely to be considered as substantial.

The Group has followed the guidance provided by the European Authorities and does not automatically consider moratoria as measures of forbearance; at the same time, however, it has put an operating process in place to verify whether borrowers had already been experiencing financial difficulties requiring moratoria to be classified as forbearance measures, triggering reclassification to stage 2 of deterioration in credit quality.

Listed below are the general characteristics of the public and private measures introduced under the provisions of national law (more specifically, Decree Law No. 18/2020 "Cura Italia"), which:

- are addressed to borrowers classified as "performing", who therefore have no or limited arrears as at the date of the concession;
- provide for the temporary suspension of capital and/or interest payments, with the loan maturity often extended to accommodate the repayment of the deferred payments.

In relation to the foregoing and with reference to the guidance from ESMA, it was considered that moratoria:

- qualify as modifications, as they take the form of a rescheduling of the cash flows of the asset;
- do not result in the derecognition of the temporarily suspended loan, as the modifications of the terms are not to be considered substantial, because:
    - they only result in a delayed payment schedule;
    - the accrual of interest calculated on the outstanding debt applies for the entire period of payment suspension;
    - the present value of the post-renegotiation exposure is substantially in line with the current value of the pre-negotiation exposure.

The economic effects of the modifications were recognised under Income Statement item "140 Gains (losses) due to modification not resulting in derecognition".

In order to facilitate access to bank credit for companies that, due to the impact of the pandemic, are suffering a shortage of the liquidity they need to continue operating, the Government has adopted comprehensive measures whereby loans granted to businesses by banks are guaranteed by the State. ESMA highlights that the existence of such credit enhancements have an impact on the ECL measurement if they are an integral part of the contractual terms of the loans granted. Prudentially, the Group does not include public guarantees in the measurement of ECLs.

2. Amendment of the accounting standard IFRS 16

On 28 May 2020, the IASB published "Covid-19-Related Rent Concessions - Amendment to IFRS 16", approved with Regulation (EU) 1434/2020 of 9 October 2020, effective for annual reporting periods beginning on or after 1 June 2020, unless applied in advance.
This amendment provides a practical expedient that allows lessees to account for rent concessions (such as rent holidays and temporary rent reductions) granted by the lessor as a direct consequence of the Covid-19 pandemic as if they were not lease modifications.
A lessee that applies this practical expedient shall recognise the rent concessions as variable lease payments in profit or loss as a lower cost, without necessarily having to recalculate the financial liability, giving specific disclosure thereof in the financial statements.
The Group elected not to apply the practical expedient to the lease contracts falling under IFRS 16.
Moreover, pursuant to IFRS 16 "Leases", after first-time application of the standard, the lessee shall apply "IAS 36 - Impairment of Assets" to determine whether a right-of-use asset is impaired.

As at the date of this financial report, no events or situations have been identified in the context of property leases entered into by the Group which could lead to accumulated impairment losses to be recognised in profit or loss.

NON-PERFORMING LOAN PORTFOLIO DISPOSAL TO AMCO S.P.A.
During 2020, as part of the more complex derisking transaction launched in 2019[3], the Parent Company carried out the partial sale of the exposure to the Messina Group (EUR 324.3 mln as at 30 June 2020) to AMCO S.p.A. as well as the takeover by Ro. Ro. Italia S.p.A., with the related return to performing status of the portion of the Messina Group exposure not included in the scope of disposal. The sale agreement provides for potential adjustments to the sale price upon the occurrence of certain events within a contractually established time frame; the relevant corporate structures have estimated the probability of occurrence of such events and, consequently, reflected the potential price adjustment in the valuations.
Again with reference to the same derisking transaction, as at 31 December 2020 the conditions were not met to proceed with the accounting derecognition of the residual portion of the portfolio of loans for sale, totalling EUR 171 mln, consisting in non-performing leases. The closing for the partial sale of a significant portion (approximately EUR 100 mln gross) of this portfolio included in the scope of disposal is expected by March 2021; the sale of the remaining tranche remains planned by 2021, although the macroeconomic context resulting from the Covid-19 pandemic has significantly increased the uncertainty associated with its completion. Even in the absence of the conditions for the derecognition of these exposures, the purchase price indications contained in the binding offer for the non-performing leasing portfolio being disposed of and subsequent developments were gradually reflected in the valuation, in accordance with the criteria required by the impairment models adopted by the Group.

On 16 December 2020, Banca Carige S.p.A. and AMCO S.p.A. signed an additional contract for the sale of non-performing exposures loans classified as bad loans with a total gross value of approximately of EUR 54.1 mln. The sale, with economic effect from 1 July 2020, produced limited economic effects as it took place substantially at book values.
At present, once the Strategic Plan objective of reducing the non-performing share of the total loan portfolio is achieved, no further transactions are planned for the disposal of non-performing loans.

DISPOSAL OF MORTGAGE LOANS TO CASSA DEPOSITI E PRESTITI S.P.A.
In December 2020, Banca Carige S.p.A. completed a sale to Cassa Depositi e Prestiti S.p.A., of 4 unsecured loans in the name of the Municipality of Genoa, equal to a portfolio of performing loans with a gross value of approximately of EUR 77 mln, against payment by the counterparty of approximately EUR 101 mln.
The legal effect of the disposal and the relevant derecognition of the receivables took place on 31 December 2020.
The transaction in question had a positive impact on the income statement for purposes of these financial statements of approximately EUR 24 mln recognised under item "100 a) - Profit / loss from sale / repurchase of financial assets measured at amortised cost”

Auditing
The Banca Carige Group’s Financial Statements are audited by EY S.p.A..

[3] On 15 and 16 November 2019, the banks of the Banca Carige Group and AMCO S.p.A. signed two contracts for the sale of non-performing loans, one relating to the non-performing leasing portfolio and one relating to the remaining part of the non-performing portfolio with a total gross value of EUR 2,609 mln as at 30 June 2019. The disposal of the bulk of the portfolio (amounting to gross EUR 2,299 mln as at 30 June 2019) took legal effect on 20 December 2019.

A.2 - MAIN ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

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 recent pattern of short- term profit- taking;
- 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 banks of the Group have 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, and 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 CA: 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.

[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.

Recognition criteria

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 and receivables 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 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 banks of the Group only classify 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 and receivables 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 (or a portion thereof) that the entity has no reasonable prospects of recovering.
The write-off policies adopted by the banks of the Group are described in Section E of the Explanatory Notes concerning "Credit risk".

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

Revenue recognition and measurement criteria

Financial assets measured at fair value through other comprehensive income are subsequently measured 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 subsequent to write-off are recognised in profit or loss under reversals, while the accounting of reversals on revalued assets 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 MEASURED 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 banks of the Group classify 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 measured at fair value through profit or loss".

Recognition criteria

Loans and receivables 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 measured 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 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 internal routine 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

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

[7] Except for trade receivables that do not contain a significant financing component and that must be initially recognised at their transaction price, in accordance with 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.

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.

<u>Measurement criteria</u>

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 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, at the reporting date, the credit

[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".

[12] As regards "POCI" exposures, the "CEIR" rate is used, as defined in the previous paragraph.

[13] As stated in the previous paragraph, for the latter aspect, "POCI" exposures are considered an exception.

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 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:

- (absolute) qualitative criteria for classification in Stage 2:
  - ✓ 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;
- (relative) quantitative criteria for the classification in Stage 2: comparing the degree of risk of each position at initial recognition and at reporting date;
- classification of all exposures in default in Stage 3: 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[15]:
  - ✓ the exposure exceeds a quantitative materiality threshold set out in the internal regulations;

[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".

- ✓ even if the exposure is for an amount lower than the aforementioned threshold, the position was individually assessed before (if there is objective evidence of impairment, it is not possible to transition from the individual to the collective assessment);
- ✓ regardless of the level of the exposure, the position is subject to bankruptcy procedures (only for positions 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.

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[16]:
- 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;

[16] 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.

- 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 "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".

<u>Criteria for the recognition of income</u>
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 banks of the Group avail themselves 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 designated 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 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 banks of the Group availed themselves 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.
“Non-controlling interests” are classified under “Financial assets measured at fair value through other comprehensive income”[17].

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,

[17] 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”.

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.
In particular:
- 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:
- 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

[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.

in a significant and tangible increase in productivity and/or an increase in the useful life of the asset[19]. 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;
- 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

[19] The costs of day-to-day servicing of the assets owned by the company are recognised in profit or loss as incurred, given the fact they are of a recurring nature and are intended to maintain the asset in good working order.

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[20] , 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.[21]

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.

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

- on disposal; 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, plant 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.

[20] 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.
[21] Remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments.

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 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[22].
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.

[22] 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.

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

As at 31 December 2020, the Group does not hold non-current assets and disposal groups held for sale.

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, is 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

<u>Criteria for recognition and classification</u>

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 calculated according to a forecast of the current, prepaid and deferred tax charges, 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 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 period 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;
  - ✓ is discounted using the effective interest rate, or an approximation thereof, that will be applied when recognising the financial asset resulting from the loan commitment[23].
- 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 banks of the Group.
Provisions for commitments and guarantees given are recognised in profit or loss as "Net provisions for risks and charges".

Allowances for pensions and similar obligations

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:

[23] 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.

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 assets 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.

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.

Other provisions

Allocation to the provision 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[24];
- 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[25].

The provisions 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

[24] 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;

[25] 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".

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 provisions 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 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

<u>Classification criteria</u>
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.

<u>Recognition criteria</u>
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[26] comprise the following:

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[27]. 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.

<u>Measurement criteria</u>
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;

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.
[27] Generally, the interest rate implicit in the lease cannot be readily determined.

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;
- 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[28].

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

[28] 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.

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;
- 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.

Recognition criteria

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.

Measurement criteria

After initial recognition, financial liabilities held for trading are designated 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 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 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 DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

The banks of the Group have 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[29].

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. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.
  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": is 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

[29] 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.

specifically identify;

- 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".

✓ Recognition of income and related costs

The main criteria for income recognition are summarised below[30]:

- 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;

[30] 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.

Costs are recognised on an accrual basis, i.e. in the period in which they accrue economically in relation to the underlying goods and services received, regardless of the date of their monetary settlement. Costs incurred to obtain or fulfil a contract with customers are recognised in profit or loss in the periods in which the relevant revenues are recognised.

✓ 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.

The components consisting in financial instruments will be paid in Phantom/unit shares[31].

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 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.

For further information, please refer to "Part I - Share-based payments" of the Explanatory Notes which highlights that in the year 2020 and in previous years there are no previous payment agreements: this is due to the fact that no incentive systems have been implemented at the level of the Parent Company and of individual legal entities of the Group since 2014.

[31] 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.

✓ 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 designated 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 IAS 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.

✓ Accounting treatment of tax credits connected with the "Cura Italia" and "Rilancio" decrees purchased following the transfer by direct beneficiaries or previous buyers

The Italian Law Decrees no. 18/2020, so-called "Cura Italia", and no. 34/2020, the so-called "Rilancio"[32], introduced tax incentives connected with both investment expenses and current expenses and disbursed to households and businesses in the form of tax credits. Most of the above tax credits can be transferred by the beneficiaries to third parties.
The aforementioned parties can use them to offset taxes and contributions, according to the same rules as the original beneficiary, or they can further transfer them (in whole or in part) to third parties. None of the credits purchased are refundable (in whole or in part) directly by the State. Furthermore, depending on the case in point, credits can be used in compensation (for example, within a year or in 5 or 10 annual instalments), without the possibility of carrying forward or requesting reimbursement of the portion not offset in the year of reference due to reasons of insufficiency.

Guidelines relating to the accounting treatment and recognition in the financial statements of tax credits acquired by the banks are contained in the Bank of Italy / Consob / Ivass Document of the coordination table between the Bank of Italy, Consob and Ivass on the application of the IAS / IFRS no. 9 of 5 January 2021[33].

In line with the guidelines contained in the joint Bank of Italy / Consob / Ivass document, the Banca Carige Group believes that for these transactions:

- it is necessary to apply the provisions of section 10 of IAS 8 "Accounting standards, changes in accounting estimates and errors" relating to the treatment of cases not explicitly dealt with by IAS / IFRS accounting standards[34];
- an asset must be recorded in the transferee's financial statements, as defined by the Conceptual Framework of the IAS / IFRS accounting standards[35];

[32] Converted into law, with amendments, respectively by Law no. 27 of 24 April 2020 and by Law no. 77 of 17 July 2020.
[33] "Accounting treatment of tax credits associated with the "Cura Italia" and "Rilancio" Decree Law Decrees purchased following the sale by direct beneficiaries or previous buyers ". The reporting criteria are contained in the following documents:

- "Note providing clarification" relating to the Circular of the Bank of Italy no. 285 of 19 December 2013 of 5 January 2021;
- Notice from the Bank of Italy relating to the "Reporting treatment in the Central Credit Register and AnaCredit of sales of tax credits recognised by the provisions relating to COVID-19" of 14 January, 2021

[34] Assets constituted by tax credits are in fact excluded from the scope of application of the following international accounting standards:

- IAS 12 "Income taxes", as it does not fall under the taxes that affect the company's ability to produce income;
- IAS 20 "Accounting for government grants and disclosure of government assistance", as they do not fall within the definition of government grants because the ownership of the receivables from the tax authorities arises only following the payment of a consideration to the transferor;
- IFRS 9 "Financial instruments", as the assets constituted by the purchased tax credits do not originate from a contract between the transferee and the Italian State. IFRS 9 applies to financial instruments and therefore, pursuant to IAS 32, section 11, to "a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity ";
- IAS 38 "Intangible assets", as tax credits cannot be considered as monetary assets allowing the payment of tax liabilities usually paid in cash.

[35] A right to avoid future expenditure meets the Framework's definition of assets (see Conceptual Framework, section 4.16, letter c)).

- a "financial accounting model" based on IFRS 9 represents the most appropriate accounting policy to provide relevant and reliable information, as required by section 10 of IAS 8[36]. In fact, it is more adequate to ensure a faithful representation of the financial position, profit/loss and cash flows of the entity, reflecting the economic substance and not the mere form of the transaction, in a neutral, prudent and exhaustive manner.

As part of the "financial accounting model" based on IFRS 9, the Banca Carige Group follows the following criteria:

- the adoption of the "Held to collect - HTC" business model, characterised by the main purpose of holding to maturity, as the Group's current strategy only provides for the offsetting of the tax credits acquired and not their transfer to third parties;
- the initial recognition at fair value corresponding to the price of the transaction[37];
- the use of the "effective interest method" under IFRS 9 to calculate the value at the amortised cost of the asset. To this end, the initial calculation of the original effective interest rate and subsequent measurements of the assets are carried out by estimating the cash flows associated with the expected future offsets over the expected duration of the tax credit.

As at 31 December 2020, the assets for the tax credits acquired, shown under item "120 - Other assets", did not have a significant impact.

✓ Accounting criteria for the recognition of the third series of TLTRO III operations[38]

TLTRO III loans incorporate incentives from the ECB in order to maintain favourable credit conditions for the real economy. These transactions are defined as "targeted" as the amount of funding that banks can obtain and the rate applied are determined based on the loans granted to non-financial companies and households (excluding loans for the purchase of homes).
The interest rate on this type of loans includes two components:

- the average rate applied to the main refinancing operations of the Euro-System for the duration of the TLTRO III loans (currently negative at -0.5%);
- any reduction based on the trend of loans compared to the benchmark, in accordance with the regulatory indications in force, currently envisaged in a reduction of the rate applied by 0.5% for the period between 24 June 2020 and 23 June 2022.

TLTRO III loans are financial liabilities falling within the scope of application of the international accounting standard IFRS 9 "Financial instruments".

It is believed that these instruments do not qualify as "loans at lower than market rates", as interest has been established by the ECB with criteria applicable to all banks and not specific to the individual entity, and was defined having regard to the specific characteristics and purposes of these loans. The initial recognition of this type of loans is therefore carried out at fair value corresponding to the amount of funding received from the ECB (the "transaction price").

To determine the effective rate of return and consequently the amortised cost of the financial liabilities associated with the TLTRO III loans, the expected future disbursements of loans are estimated from time to time, using an "internal model of trend of loans compared to the benchmark" fed with historical data

[36] tax credits referred to in the Decrees are in fact substantially more similar to a financial asset, as they can be used to offset a debt usually settled in cash (tax payables), as well as be exchanged for other financial assets under conditions which can potentially be beneficial to the entity.

[37] There is a level 3 fair value in the fair value hierarchy provided for by IFRS 13, as there are currently no active markets or comparable transactions.

[38] ECB's Targeted Longer-Term Refinancing Operations (TLTRO III).

(already reported to the Bank of Italy) and forward-looking information (forecasts contained in the "Business Plan") relating to "eligible assets" in order to determine whether the reduction in the interest rate can be applied.

On the basis of the results of the aforementioned internal model (which provides for distribution objectives deriving from the updates of the recently approved quantitative targets of the Strategic Plan), the Group has planned to reach the benchmark of loans from the beginning and consequently benefit from the reduction in the interest rate.

Any changes in the estimates compared to those used for the purpose of calculating the effective rate at the initial recognition date contribute to calculating the new value at the amortised cost of financial liabilities in application of section B5.4.6 of IFRS 9.
Changes in the amortized cost value of TLTRO 3 loans due to changes in the estimated cash flows are shown in net interest income.

As at 31 December 2020 the Parent Company had "TLTRO III" borrowings in place for a total of EUR 3.5 bn, described in more detail:
a) 800 mln referring to the 3rd quarterly tranche of the three-year programme from March 2020 to the end of March 2023;
b) 1,700 mln relating to the 4th tranche from the end of June 2020 to the end of June 2023;
c) 1,000 mln relating to the 5th tranche from the end of September 2020 to the end of September 2023.

Funding through longer-term refinancing operations, TLTRO III, generates an estimated average interest rate of approximately 1% that the Group will collect upon maturity of the various tranches.
Interest income of EUR 14.7 mln was recognised in the income statement in 2020, calculated by applying to the (already negative) interest rates payable the further maximum reductions envisaged by current legislation on the basis of the future trend of loans compared to benchmark volumes as provided by the ECB.

✓ <u>Credit recovery via acquisition and completion of real estate investments</u>

The Group 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., 100% owned by the Parent Company and founded in 2018.
In particular, in 2020 the real estate company Carige Reoco SpA, as part of the broader purchase of the real estate relating to the four cooperatives belonging to the Abitcoop system, which began in 2019, concluded the acquisition of 100% of the company St. Anna Golf Srl.
The real estate projects held via the real estate company 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.

✓ <u>Securitisations completed by the Banca Carige Group during the period from 1 February 2020 to 31 December 2020</u>

<u>Securitisation of loans carried out through the vehicle Lanterna Finance S.r.l. (under Italian securitisation law No. 130 of 30 April 1999)</u>

The transaction, which was carried out in June 2020, involved the disposal without recourse of performing mortgage and signature loans by Banca Carige 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 362,429,916.71.
The vehicle, Lanterna Finance S.r.l. issued EUR 225,000,000 worth of senior notes (EUR 205,000,000 of class A1 and EUR 20,000,000 of class A2) and EUR 137,500,000 worth of junior notes.
The transferring banks Banca Carige and Banca del Monte di Lucca have underwritten the senior and junior notes on a pro rata basis. Senior notes A1 were rated AA- by S&P and AH by DBRS, A2 notes were rated Ada by S&P and BBBH by DBRS, and are used as collateral for monetary policy operations carried out by the European Central Bank.
As a guarantee for senior bondholders, a EUR 4.5 mln cash reserve was set up.
In the transaction, Banca Carige and Banca del Monte di Lucca acted as Servicers, Corporate Servicers, and underwriters of the junior bonds.
The transaction Arranger was Banca IMI S.p.A. (later merged by and into Banca Intesa on 20 July 2020).
Given the characteristics of the securitisation, the assets sold were not derecognised, as substantially all the risks and rewards of the assets sold were retained by Banca Carige and Banca del Monte di Lucca.

Securitisation of loans carried out through the vehicle Lanterna Mortgage S.r.l. (under Italian securitisation law No. 130 of 30 April 1999)

The transaction, was completed in December 2020 and involved the transfer without recourse to the vehicle Lanterna Mortgage S.r.l. (in which Banca Carige currently has a 5% holding) of performing mortgage loans by Banca Carige and Banca del Monte di Lucca for a total price of EUR 249,416,580.
The vehicle, Lanterna Mortgage S.r.l. issued EUR 185,070,000 worth of senior notes (EUR 173,891,000 of class A1 and EUR 11,179,000 of class A2) and EUR 69,034,000 worth of junior notes. The transferring banks Banca Carige and Banca del Monte di Lucca have underwritten the senior and junior notes on a pro rata basis. Senior notes A1 were rated A+ by S&P and AA by DBRS, A2 notes were rated A+ by S&P and AAL by DBRS, and are used as collateral for monetary policy operations carried out by the European Central Bank.
As a guarantee for senior bondholders, a EUR 4.6 mln cash reserve was set up.
In the transaction, Banca Carige and Banca del Monte di Lucca acted as Servicers, Corporate Servicers, and underwriters of the junior bonds.
The arranger of the transaction is Natwest Market PLC.
Given the characteristics of the securitisation, the assets sold were not derecognised, as substantially all the risks and rewards of the assets sold were retained by Banca Carige and Banca del Monte di Lucca.
The closing of the securitisation of “performing” mortgage and unsecured loans "Lanterna Finance 2", carried out by Banca Carige and Banca del Monte di Lucca in 2018 is highlighted. The transaction was managed by the vehicle company Lanterna Finance s.r.l. and had qualified, for the two transferring banks, as a securitisation that did not meet the rules of derecognition provided for by IFRS 9 as there was no substantial transfer of risks and rewards.

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 price quoted on an active market and a price not quoted on 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 both of the following: the principal market for the asset or liability or, in the absence of a principalmarket, the most advantageous market for the asset or liability; and whether the entity preparing the financial statements can enter into a transaction for the asset or liability at the price in that market at the measurement date;
- ✓ Level 2: fair value is calculated on the basis of inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- ✓ Level 3: fair value is calculated on the basis of unobservable inputs for the asset or liability and shall reflect the assumptions that market participants would use when pricing the asset or liability.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorised within different levels of the fair value hierarchy; in those cases, the instrument is categorised in its entirety in the same level of the hierarchy as the lowest level input.

In the event significant adjustments are made to level 2 inputs with respect to the total fair value of the asset or liability, the latter is categorised within 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 determined by adjusting the NAV to consider the events not yet factored in when calculating the value of the units, such as capital calls and dividend payouts, and to reflect, where available, a different valuation of the underlying assets or specific contractual provisions such as, for example, the presence or absence of minimum financial returns below which no performance fees are due ("hurdle rates") or vice versa of minimum performance fees as well as any adjustment for illiquidity of the units themselves.

[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.

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 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. Valuation Techniques – Fair value level 2

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. Valuation Techniques – Fair value level 3

Valuations are performed using different inputs, not all directly taken from
observable market parameters and therefore involve 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 .

Properties obtained by enforcement of collateral received
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 measurement of the fair value of financial assets and liabilities other than securities issued or securities held in theportfolio or derivative contracts, to be shown in the tables of the Explanatory Notes, is carried out
using a "Discounted Cash Flow" analysis method.
A "risk neutral" approach is followed, using the same PD and LGD risk parameters in use to calculate value adjustments on loans (impairment)[3] to calculate the expected value of future cash flows; the discounting of cash flows takes place through the use of a risk free discount factor to which a risk premium defined on the basis of the cost of capital is added.

For the following cases, it is presumed that the fair value corresponds to the carrying amount:
- ✓ non-performing loans: 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 for 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.

[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.

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) other than term deposits from customers[4] and mortgage 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 and receivables and short-term financial 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;
- ✓ medium/long-term performing receivables and payables: level 3 when the criteria described above to establish the fair value mainly use unobservable inputs, do not include some risk components and do not require comparisons with "benchmark" calculations 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

Financial instruments, measured at fair value on a recurring basis, included in level 3 of fair value, amount to EUR 433,056 thousand.

Financial assets mandatorily measured at fair value as they did not pass the SPPI test are included in the amount.

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.

[4] Time deposits on current accounts and time-restricted dematerialised savings deposits.

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 designated at fair value on a recurring basis: breakdown by fair value level

Assets/liabilities measured at fair value	31/12/2020			31/01/2020		
	L1	L2	L3	L1	L2	L3
1. Financial assets at fair value through profit or loss, o.w.	152	1,570	166,879	628	20,191	136,654
A) Financial assets held for trading	152	1,570	6	108	1,601	6
b) Financial assets measured at fair value	-	-	-	-	-	-
C) Other financial assets mandatorily at fair value	-	-	166,873	520	18,590	136,648
2. Financial assets at fair value through other comprehensive income	2,342,381	-	266,177	499,370	-	284,326
3. Hedging derivatives	-	9,355	-	-	9,087	-
4. Property and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	2,342,533	10,925	433,056	499,998	29,278	420,980
1. Financial liabilities held for trading	-	1,056	-	-	1,165	-
2. Financial liabilities at fair value through profit or loss	-	-	-	-	-	-
3. Hedging derivatives	-	247,079	-	-	266,295	-
Total	-	248,135	-	-	267,460	-

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

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

	Financial assets at fair value through profit or loss							
	Total	of which: a) financial assets held for trading	of which: b) financial assets measured at fair value	of which: 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	136,654	6	-	136,648	284,326	-	-	-
2. Increases	51,632	-	-	51,632	1,849	-	-	-
2.1. Purchases	4,687	-	-	4,687	-	-	-	-
2.2. Profits recognised in:	24,518	-	-	24,518	1,849	-	-	-
2.2.1. Profit and Loss	24,518	-	-	24,518	1,849	-	-	-
- of which: capital gains	24,518	-	-	24,518	1,849	-	-	-
2.2.2. Shareholders' equity	-	X	X	-	-	-	-	-
2.3. Transfer from other levels	18,590	-	-	18,590	-	-	-	-
2.4. Other increases	3,837	-	-	3,837	-	-	-	-
3. Decreases	21,407	-	-	21,407	19,998	-	-	-
3.1. Sales	1,459	-	-	1,459	19,925	-	-	-
3.2. Repayment	884	-	-	884	-	-	-	-
3.3. Losses recognised in:	17,254	-	-	17,254	73	-	-	-
3.3.1. Profit and Loss	17,254	-	-	17,254	73	-	-	-
- of which: capital losses	13,792	-	-	13,792	73	-	-	-
3.3.2. Shareholders' equity	-	X	X	-	-	-	-	-
3.4. Transfer from other levels	-	-	-	-	-	-	-	-
3.5. Other decreases	1,810	-	-	1,810	-	-	-	-
4. Closing balance	166,879	6	-	166,873	266,177	-	-	-

A.4.5.4 Assets and liabilities not designated at fair value or designated 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	31/12/2020				31/01/2020			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets measured at amortised cost	16,323,653	37,776	5,234,709	11,850,651	18,551,726	927,197	7,495,073	11,056,037
2. Assets held for investment	179,753	-	-	192,838	177,550	-	-	182,553
3. Non-current assets held for sale and discontinued operations	-	-	-	-	-	-	-	-
Total	16,503,406	37,776	5,234,709	12,043,489	18,729,276	927,197	7,495,073	11,238,590
1. Financial liabilities at amortised cost	19,771,001	-	14,877,122	4,447,894	20,072,079	-	13,839,320	6,022,692
2. Liabilities associated to non-current assets held for sale and	-	-	-	-	-	-	-	-
Total	19,771,001	-	14,877,122	4,447,894	20,072,079	-	13,839,320	6,022,692

Key
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 consolidated financial statements.

Part B

CONSOLIDATED BALANCE SHEET

ASSETS

SECTION 1

CASH AND CASH EQUIVALENTS - ITEM 10

1.1 Cash and cash equivalents: breakdown

		Total 31/12/2020	Total 31/01/2020
a) Cash		267,695	256,660
b) Demand deposits with Central banks		-	-
	Total	**267,695**	256,660

SECTION 2

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

2.1 Financial assets held for trading: breakdown

Items/Amounts	Total 31/12/2020			Total 31/01/2020		
	L1	L2	L3	L1	L2	L3
A. Balance-sheet assets						
1. Debt securities	152	-	6	108	-	6
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	152	-	6	108	-	6
2. Equity instruments	-	-	-	-	-	-
3. Units in UCITS	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total (A)	152	-	6	108	-	6
B. Derivatives	-	-	-	-	-	-
1. Financial derivatives	-	1,570	-	-	1,601	-
1.1 trading	-	1,570	-	-	1,601	-
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)	-	1,570	-	-	1,601	-
Total (A+B)	152	1,570	6	108	1,601	6

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

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

Items/Amounts	31/12/2020	31/01/2020
A. Balance-sheet assets		
1. Debt securities	158	114
a) Central banks	-	-
b) Public Administrations	63	19
c) Banks	90	90
d) Other financial companies	4	4
of which: insurance companies	-	-
e) Non-financial companies	1	1
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)	158	114
B. Derivatives		
a) Central counterparties	-	-
b) Other	1,570	1,601
Total (B)	1,570	1,601
Total (A+B)	1,728	1,715

2.5 Other financial assets mandatorily at fair value: breakdown

Items/Amounts	Total 31/12/2020			Total 31/01/2020		
	L1	L2	L3	L1	L2	L3
1. Debt securities	-	-	42,126	-	-	40,236
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	-	42,126	-	-	40,236
2. Equity instruments	-	-	598	-	-	718
3. Units in UCITS	-	-	10,683	520	-	-
4. Loans	-	-	113,466	-	18,590	84,090
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	113,466	-	18,590	84,090
Total	-	-	166,873	520	18,590	136,648

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

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

	Total 31/12/2020	Total 31/01/2020
1. Equity instruments	598	718
of which: banks	261	272
of which: other financial companies	337	446
of which: non-financial companies	-	-
2. Debt securities	42,126	40,236
a) Central banks	-	-
b) Public Administrations	-	-
c) Banks	-	-
d) Other financial companies	42,126	40,236
of which: insurance companies	-	-
e) Non-financial companies	-	-
3. Units in UCITS	10,683	12,124
4. Loans	113,466	102,680
a) Central banks	-	-
b) Public Administrations	-	-
c) Banks	32,586	25,146
d) Other financial companies	75,810	71,771
of which: insurance companies	-	-
e) Non-financial companies	5,070	5,763
f) Households	-	-
Total	166,873	155,758

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 31/12/2020			Total 31/01/2020		
	L1	L2	L3	L1	L2	L3
1. Debt securities	2,340,682	-	-	495,510	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	2,340,682	-	-	495,510	-	-
2. Equity instruments	1,699	-	266,177	3,860	-	284,326
3. Loans	-	-	-	-	-	-
Total	2,342,381	-	266,177	499,370	-	284,326

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 31/12/2020	Total 31/01/2020
1. Debt securities	2,340,682	495,510
a) Central banks	-	-
b) Public Administrations	2,340,682	495,510
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
2. Equity instruments	267,876	288,186
a) Banks	244,050	262,375
b) Other issuers:	23,826	25,811
- Other financial companies	20,687	21,363
of which: insurance companies	-	-
- non-financial companies	3,134	4,443
- other	5	5
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	2,608,558	783,696

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	2,340,912	2,140,766	-	-	230	-	-	-
Loans	-	-	-	-	-	-	-	-
Total 31/12/2020	2,340,912	2,140,766	-	-	230	-	-	-
Total 31/01/2020	495,546	495,502	-	-	36	-	-	-
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 31/12/2020						Total 31/01/2020					
	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	3,303,858	-	-	-	3,303,858	-	3,745,343	-	-	-	3,745,343	-
1. Time deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Compulsory reserve	3,303,858	-	-	X	X	X	3,745,343	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	-	-	-	X	X	X	-	-	-	X	X	X
B. Loans to banks	647,249	8,036	-	-	355,765	298,637	789,580	9,455	-	-	622,191	300,923
1. Loans	647,249	8,036	-	-	355,765	298,637	789,580	9,455	-	-	622,191	300,923
1.1 Current accounts and demand deposits	20,315	-	-	X	X	X	18,822	-	-	X	X	X
1.2. Time deposits	-	-	-	X	X	X	-	-	-	X	X	X
1.3. Other loans:	626,934	8,036	-	X	X	X	770,758	9,455	-	X	X	X
- Asset repurchase agreements	-	-	-	X	X	X	119,642	-	-	X	X	X
- Leasing	-	-	-	X	X	X	-	-	-	X	X	X
- Other	626,934	8,036	-	X	X	X	651,116	9,455	-	X	X	X
2. Debt securities	-	-	-	-	-	-	-	-	-	-	-	-
2.1 Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt securities	-	-	-	-	-	-	-	-	-	-	-	-
Total	3,951,107	8,036	-	-	3,659,623	298,637	4,534,923	9,455	-	-	4,367,534	300,923

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 31/12/2020						Total 31/01/2020					
	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	11,734,999	301,178	-	-	1,491,614	11,454,366	12,119,673	628,910	-	-	2,951,484	10,628,245
1.1. Current accounts	636,878	28,484	-	X	X	X	975,491	33,494	-	X	X	X
1.2. Repurchase agreements	385,873	-	-	X	X	X	1,351,835	-	-	X	X	X
1.3. Mortgages	7,747,634	197,963	-	X	X	X	7,499,556	524,329	-	X	X	X
1.4. Credit cards, personal loans and fifth of salary-backed loans	82,611	304	-	X	X	X	84,829	446	-	X	X	X
1.5 Leasing	399,892	47,918	-	X	X	X	426,786	50,213	-	X	X	X
1.6. Factoring	56,277	259	-	X	X	X	72,547	40	-	X	X	X
1.7. Other loans	2,425,834	26,250	-	X	X	X	1,708,629	20,388	-	X	X	X
2. Debt securities	328,333	-	-	37,776	83,472	97,648	1,258,765	-	-	927,197	176,055	126,869
2.1. Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2. Other debt securities	328,333	-	-	37,776	83,472	97,648	1,258,765	-	-	927,197	176,055	126,869
Total	12,063,332	301,178	-	37,776	1,575,086	11,552,014	13,378,438	628,910	-	927,197	3,127,539	10,755,114

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

Type of transaction/Amounts	Total 31/12/2020			Total 31/01/2020		
	Stage 1 and 2	Stage 3	o. w: purchased or originated credit-impaired financial assets	Stage 1 and 2	Stage 3	o. w: purchased or originated credit-impaired financial assets
1. Debt securities	328,333	-	-	1,258,765	-	-
a) Public Administrations	46,091	-	-	921,660	-	-
b) Other financial companies	282,242	-	-	337,105	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	-	-	-	-	-	-
2. Loans to:	11,734,999	301,178	-	12,119,673	628,910	-
a) Public Administrations	351,350	871	-	462,648	-	-
b) Other financial companies	1,101,341	45,375	-	2,083,604	57,788	-
of which: insurance companies	14	-	-	-	-	-
c) Non-financial companies	4,847,907	164,553	-	4,105,795	496,602	-
d) Households	5,434,401	90,379	-	5,467,626	74,520	-
Total	12,063,332	301,178	-	13,378,438	628,910	-

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		328,591	46,095	-	-	258	-	-	-
Loans		14,140,678	-	1,670,473	645,041	33,987	91,057	335,828	12,412
Total	31/12/2020	14,469,269	46,095	1,670,473	645,041	34,245	91,057	335,828	12,412
Total	31/01/2020	16,150,538	921,641	1,852,009	1,144,020	21,392	67,795	505,654	21,300
of which: purchased or originated credit-impaired financial assets		X	X	-	-	X	-	-	-

* Amount to be shown for information purposes

4.4a Loans at amortized cost subject to Covid-19 support measures: 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	
1. Forborne loans, in line with GL	875,295	-	510,192	10,134	2,526	32,230	3,143	-
2. Loans subject to other measures	-	-	-	-	-	-	-	-
3. New loans	1,347,800	-	183,214	1,656	7,207	9,290	439	-
Total 31/12/2020	**2,223,095**	**-**	**693,406**	**11,790**	**9,733**	**41,520**	**3,582**	**-**

SECTION 5

HEDGING DERIVATIVES - ITEM 50

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

	FV 31/12/2020 L1	FV 31/12/2020 L2	FV 31/12/2020 L3	NV 31/12/2020	FV 31/01/2020 L1	FV 31/01/2020 L2	FV 31/01/2020 L3	NV 31/01/2020
A. Financial derivatives								
1. Fair Value	-	9,355	-	572,710	-	9,087	-	122,599
2. Cash flows	-	-	-	-	-	-	-	-
3. Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives								
1. Fair Value	-	-	-	-	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
Total	-	9,355	-	572,710	-	9,087	-	122,599

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	8,823	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	8,823	-	-	-	-	-	-	-	-	
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	X	532	X	-	-

SECTION 7

EQUITY INVESTMENTS - ITEM 70

7.1 Equity investments: information on investment relationships

Company Name	Registered office	Operating office	Type of relationship	Shareholding relationship		Voting rights (%)
				held by	% held	
A. Wholly owned subsidiaries, not included in the scope of consolidation						
St. Anna Gestione Golf Società Sportiva Dilettantistica a r.l.	Cogoleto	Cogoleto	Control	St. Anna Golf S.r.l.	100	
B. Subsidiaries subject to joint control						
C. Companies subject to significant influence						
1 Autostrada dei Fiori SpA	Imperia	Turin	Significant influence	Banca Carige SpA	20.62	
2. Nuova Erzelli Srl	Genoa	Genoa	Significant influence	Banca Carige SpA	40.00	

7.2 Significant interests: book value, fair value and dividends earned

Company Name	Book value	Fair value (2)	Dividends earned
A. Subsidiaries	14,350		
1. Banca del Monte di Lucca SpA (1)	14,350	-	-
B. Subsidiaries subject to joint control			
C. Companies subject to significant influence	94,116		
1. Autostrada dei Fiori SpA	94,116		9,700
Total	94,116	-	9,700

(1) The reported book value is the value shown in the Parent Company's separate financial statements, which is netted off in consolidation
(2) The fair value is only shown for listed securities

With regard to controlling interests, information is provided only for subsidiaries with significant non-controlling interests.

7.3 Significant interests: accounting information

Company Name	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues (*)	Net Interest Income	Net adjustments to/recoveries on property and equipment, and on intangible assets	Profit (loss) before tax from continuing operations	Profit (loss) after tax from continuing operations	Profit (Loss) after tax from discontinued operations	Net Profit (Loss) for the period (1)	Other comprehensive income, after tax (2)	Total comprehensive income (3) = (1) + (2)
A. Subsidiaries 1. Banca del Monte di Lucca SpA (**)	7,581	655,136	62,982	657,684	25,318	13,678	7,098	(801)	(3,205)	(3,378)	-	(3,378)	(44)	(3,334)
B. Subsidiaries subject to joint control										-				
C. Companies subject to significant influence 1. Autostrada dei Fiori SpA (***)	83,815	134,179	691,664	213,464	192,721	248,379	(712)	(35,139)	33,637	23,310	-	23,310	-	23,310

(*) Total revenues for Banca del Monte di Lucca means the total of item 120 "Net interest and other banking income" in the separate income statement

(**) The data used are inferred from the reporting package with reporting date 31/12/2020 used for the consolidation process referred to the period from 1/2/2020 to 31/12/2020 drafted by the Directors

(***)The data used are inferred from the reporting package drafted on the basis of the IAS / IFRS principles as at 30/09/2020 by the Directors and used in the consolidation process.

7.4 Non-significant interests: accounting information

Company Name	Book value of equity investments	Total assets	Total liabilities	Total revenues	Profit (loss) after tax from continuing operations	Profit (loss) after tax from discontinued operations	Net Profit (Loss) for the period (1)	Other comprehensive income, after tax (2)	Total comprehensive income (3) = (1) + (2)
Companies not included in the scope of consolidation									
1. St. Anna Gestione Golf Società Sportiva Dilettantistica a r.l. (1)	136	480	344	684	(287)	-	(287)	-	(287)
Companies subject to significant influence									
1. Nuova Erzelli Srl (2)	5	11	178	-	(16)	-	(16)	-	(16)

(1) Figures taken from the financial statements as at 31/12/2020
(2) Figures taken from the financial statements as at 31/12/2019 (latest financial statements approved)

7.5 Equity investments: changes in the period

	31/12/2020	31/01/2020
A. Opening balance	98,153	99,318
B. Increases	293	11
B.1 Purchases	293	11
B.2 Write-backs		
B.3 Revaluations	-	-
B.4 Other increases	-	-
C. Decreases	4,189	1,176
C.1 Disposals	-	-
C.2 Write-downs	152	1,152
C.3 Impairment	-	-
C.4 Other decreases	4,037	24
D. Closing balance	94,257	98,153
E. Total revaluations		
F. Total write-downs	3,007	2,855

Details of the changes are as follows:

B. INCREASES

PURCHASES

NUOVA ERZELLI Srl
Payment made for subscription of the capital increase 5

ST. ANNA GESTIONE GOLF SOCIETÀ SPORTIVA DILETTANTISTICA A R.L.

Equity investment deriving from the acquisition of control in St. Anna Golf Srl 288

Total purchases	**293**

C. DECREASES

VALUE ADJUSTMENTS

ST. ANNA GESTIONE GOLF SOCIETÀ SPORTIVA DILETTANTISTICA A R.L. 152

OTHER DECREASES

AUTOSTRADA DEI FIORI SPA
Decrease resulting from the application of the equity method 4,037

Total decreases	**4,189**

SECTION 9

PROPERTY AND EQUIPMENT – ITEM 90

9.1 Property and equipment: breakdown of assets carried at cost

Asset/Amounts	Total 31/12/2020	Total 31/01/2020
1. Owned assets	485,547	499,847
a) land	187,638	189,399
b) buildings	259,207	272,937
c) furniture and furnishings	809	1,059
d) electronic systems	533	91
e) other	37,360	36,361
2. Leased assets	50,116	62,131
a) land	56	75
b) buildings	48,870	60,572
c) furniture and furnishings	-	-
d) electronic systems	-	-
e) other	1,190	1,484
Total	535,663	561,978
of which: obtained by the enforcement of guarantees received	-	-

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

Asset/Amounts	Total 31/12/2020				Total 31/01/2020			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
1. Owned assets	179,753	-	-	192,838	177,550	-	-	182,553
a) land	78,774	-	-	84,372	77,567	-	-	78,742
b) buildings	100,979	-	-	108,466	99,983	-	-	103,811
2. Leased assets	-	-	-	-	-	-	-	-
a) land	-	-	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-	-	-
Total	179,753	-	-	192,838	177,550	-	-	182,553
of which: obtained by the enforcement of guarantees received	-	-	-	-	-	-	-	-

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

9.5 Inventories of property and equipment regulated by IAS2

Items/Amounts	Total 31/12/2020	Total 31/01/2020
1. Inventories of property and equipment obtained through the enforcement of guarantees received	132,233	142,303
a) land	74,940	79,792
b) buildings	57,293	62,511
c) furniture and furnishings	-	-
d) electronic systems	-	-
e) other	-	-
2. Other inventories of property and equipment	2,975	1,430
Total	135,208	143,733
of which: measured at fair value net of costs to sell	-	-

9.6 Property and equipment used in the business: annual changes

	Land	Buildings	Furniture	Electronic systems	Other	Total
A. Gross opening balance	**189,496**	**438,221**	**31,851**	**7,354**	**101,334**	**768,256**
A.1 Total net write-downs	(22)	(104,712)	(30,792)	(7,263)	(63,489)	(206,278)
A.2 Net opening balance	**189,474**	**333,509**	**1,059**	**91**	**37,845**	**561,978**
B. Increases	**3,564**	**8,386**	**89**	**536**	**2,102**	**14,677**
B.1 Purchases	-	3,939	89	536	2,090	6,654
- of which: business combinations	-	-	7	-	12	19
B.2 Capitalised expenditure for improvements	-	-	-	-	-	-
B.3 Write-backs	-	107	-	-	-	107
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	3,564	2,624	X	X	X	6,188
B.7 Other increases	-	1,716	-	-	12	1,728
C. Decreases	**5,344**	**33,818**	**339**	**94**	**1,397**	**40,992**
C.1 Disposals	-	-	-	-	-	-
- of which: business combinations	-	-	-	-	-	-
C.2 Depreciation	18	16,383	339	94	1,383	18,217
C.3 Impairment losses booked to:	-	36	-	-	-	36
a) shareholders' equity	-	-	-	-	-	-
b) profit and loss	-	36	-	-	-	36
C.4 Decreases in fair value booked to:	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) profit and loss	-	-	-	-	-	-
C.5 Negative exchange difference	-	-	-	-	-	-
C.6 Transfers to:	5,326	11,818	-	-	-	17,144
a) assets held for investment	5,326	11,818	X	X	X	17,144
b) non-current assets held for sale	-	-	-	-	-	-
C.7 Other decreases	-	5,581	-	-	14	5,595
D. Net closing balance	**187,694**	**308,077**	**809**	**533**	**38,550**	**535,663**
D.1 Total net write-downs	(40)	(111,810)	(31,537)	(7,364)	(65,692)	(216,443)
D.2 Gross closing balance	**187,734**	**419,887**	**32,346**	**7,897**	**104,242**	**752,106**
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.

9.6.1 Property and equipment used in the business: annual changes - o.w. "right of use"

	Land	Buildings	Furniture	Electronic systems	Other	Total
A. Gross opening balance	97	76,046	-	-	1,819	77,962
A.1 Total net write-downs	(22)	(15,473)	-	-	(336)	(15,831)
A.2 Net opening balance	75	60,572	-	-	1,483	62,131
B. Increases:	-	5,560	-	-	-	5,560
B.1 Purchases	-	3,737	-	-	-	3,737
- of which: business combinations	-	-	-	-	-	-
B.2 Capitalised expenditure for improvements	-	-	-	-	-	-
B.3 Write-backs	-	107	-	-	-	107
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	-	1,716	-	-	-	1,716
C. Decreases:	19	17,262	-	-	293	17,574
C.1 Disposals	-	-	-	-	-	-
- of which: business combinations	-	-	-	-	-	-
C.2 Depreciation	19	11,645	-	-	279	11,943
C.3 Impairment losses booked to	-	36	-	-	-	36
a) shareholders' equity	-	-	-	-	-	-
b) profit and loss	-	36	-	-	-	36
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) property plant and equipment held for investment purposes	-					
b) Non-current assets and groups of assets held for sale	-	-	-	-	-	-
C.7 Other increases	-	5,581	-	-	14	5,595
D. Net closing balance	56	48,870	-	-	1,190	50,116
D.1 Total net write-downs	(41)	(26,519)	-	-	(615)	(27,175)
D.2 Gross closing balance	97	75,389	-	-	1,805	77,291
E. Carried at cost	-	-	-	-	-	-

9.7 Property and equipment held for investments: annual changes

	Total	
	Land	Buildings
A. Opening balance	77,567	99,983
B. Increases	9,636	15,388
B.1 Purchases	4,310	3,395
- of which: business combinations	4,310	3,395
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	5,326	11,818
B.7 Other increases	-	175
C. Decreases	8,429	14,392
C.1 Disposals	359	635
- of which: business combinations	-	-
C.2 Depreciation	-	2,090
C.3 Decreases in fair value	-	-
C.4 Impairment losses	4,506	9,043
C.5 Negative exchange differences	-	-
C.6 Transfers to:	3,564	2,624
a) properties used in the business	3,564	2,624
b) non-current assets held for sale	-	-
C.7 Other decreases	-	-
D. Closing balance	78,774	100,979
E. Valuation at fair value	84,372	108,466

9.8 Inventories of property and equipment regulated by IAS2: annual changes

	Inventories of property and equipment obtained through the enforcement of guarantees received					Other inventories of property and equipment	Total
	Land	Buildings	Furniture	Electronic systems	Other		
A. Opening balance	79,792	62,511	-	-	-	1,430	143,733
B. Increases	1,866	-	-	-	-	1,545	3,411
B.1 Purchases	-	-	-	-	-	1,150	1,150
B.2 Write-backs	-	-	-	-	-	-	-
B.3 Positive exchange differences	-	-	-	-	-	-	-
B.4 Other increases	1,866	-	-	-	-	395	2,261
C. Decreases	6,718	5,218	-	-	-	-	11,936
C.1 Disposals	1,627	3,022	-	-	-	-	4,649
C.2 Impairment losses	-	-	-	-	-	-	-
C.3 Negative exchange differences	-	-	-	-	-	-	-
C.4 Other decreases	5,091	2,196	-	-	-	-	7,287
D. Closing balance	74,940	57,293	-	-	-	2,975	135,208

9.9 Commitments to purchase property and equipment

As at 31/12/2020, there are no commitments to purchase property and equipment.

SECTION 10

INTANGIBLE ASSETS – ITEM 100

10.1 Intangible assets: breakdown by type of asset

Asset/Amounts	Total 31/12/2020		Total 31/01/2020	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill		-		-
A.1.1 group		-		-
A.1.2 non-controlling interests		-		-
A.2 Other intangible assets	85,594	-	78,441	-
A.2.1 Assets valued at cost	85,594	-	78,441	-
a) internally generated intangible assets	-	-	-	-
b) other assets	85,594	-	78,441	-
A.2.2 Assets valued at fair value	-	-	-	-
a) internally generated intangible assets	-	-	-	-
b) other assets	-	-	-	-
Total	85,594	-	78,441	-

10.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total
		DEF	INDEF	DEF	INDEF	
A. Opening balance	-	-	-	94,255	-	94,255
A.1 Total net write-downs	-	-	-	(15,814)	-	(15,814)
A.2 Net opening balance	-	-	-	78,441	-	78,441
B. Increases	-	-	-	20,150	-	20,150
B.1 Purchases	-	-	-	20,150	-	20,150
B.2 Increases in intangible assets generated internally	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	-	-	-	12,997	-	12,997
C.1 Disposals	-	-	-	-	-	-
C.2 Write-downs	-	-	-	12,997	-	12,997
- Amortisation	X	-	-	12,997	-	12,997
- 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	-	-	-	85,594	-	85,594
D.1 Total net write-downs	-	-	-	28,808	-	28,808
E. Closing balance	-	-	-	114,402	-	114,402
F. Carried at cost	-	-	-	-	-	-

Key:
DEF: definite life
INDEF: indefinite life

SECTION 11

TAX ASSETS AND TAX LIABILITIES – ITEM 110 (ASSETS) AND ITEM 60 (LIABILITIES)

11.1.1 Deferred tax assets: breakdown

	31/12/2020		31/01/2020	
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 loss provisions	33,183	3,436	92,731	11,830
Goodwill	174,756	33,998	231,905	46,608
Total deferred tax assets as per Law 214/2011	207,939	37,434	324,636	58,438
Other deferred tax assets:				
Provisions to the supplementary pension fund	5,257	949	10,865	2,226
Provision for risks and charges related to legal disputes	8,886	905	17,286	1,443
Provision for commitments and guarantees given	5,178	1,049	6,775	1,372
Immovables	15,610	3,175	12,514	2,544
Intangible fixed assets	453	-	706	-
ACE (aid for economic growth) benefit carried forward	52,613	7,830	52,613	7,843
Tax losses	296,956	-	378,770	-
Other	1,094	1,527	1,839	1,533
Total other deferred tax assets	386,047	15,435	481,368	16,994
TOTAL	593,986	52,869	806,004	75,432
Counter-item in Shareholders' equity	IRES (27.5%)	IRAP (5.57%)	IRES (27.5%)	IRAP (5.57%)
Provisions to the supplementary pension fund	5,658	171	6,272	227
Valuation of securities recognised in the FVTOCI portfolio	443	142	84	66
Cash flow hedging derivatives	26,457	5,357	30,238	6,124
Intangible fixed assets	296	-	436	-
Adjustments of loans for FTA IFRS 9 deductible in future years	74,150	-	83,401	-
Tax losses	67,945	-	67,945	-
TOTAL	174,949	5,670	188,376	6,417
Total deferred tax assets	768,935	58,539	994,380	81,849

11.1.2 Current tax assets: breakdown

Current tax assets recognised for an amount of EUR 586,154 thousand, mainly refer to:

a) tax credits on indirect tax prepayments for the current year;
b) tax credits pursuant to Italian Law no. 214/2011, arising from the conversion of deferred tax assets that took place from 2014 onwards following the loss for the year and/or the fiscal loss for 2013 for some Group companies.
   Part of those credits (recognised by the merged company, Banca Carige Italia) was assessed and verified by the Italian Revenue Agency (see paragraph 11.9 'Tax Disputes' below for further details). For this reason and in consideration of the severe fines (theoretically including criminal sanctions) imposed in the event of unduly applied tax credits, the Group -supported by the opinions of highly reputed tax experts- has prudentially decided to limit the offsetting use of tax credits to positions which are not being directly or indirectly examined by the Revenue Agency;
c) tax credits from prior years awaiting refund.

11.2.1 Deferred tax liabilities: breakdown

	31/12/2020		31/01/2020	
Counter-item in the income statement	IRES (27.5%)	IRAP (5.57%)	IRES (27.5%)	IRAP (5.57%)
Immovables	512	104	512	104
Receivables for interest taxable when collected	80	12	92	13
Equity investments	94	339	126	363
Capital gains on loans to customer measured at fair value	615	-		
Other	2,936	595	3,071	622
TOTAL	4,237	1,050	3,801	1,102
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	1,011	442	62	264
Other	387	78	387	78
TOTAL	1,398	520	449	342
Total deferred tax liabilities	5,635	1,570	4,250	1,444

11.2.2 Current tax liabilities: breakdown

Current tax liabilities, recognised for an amount of EUR 3,025 thousand, primarily refer to other indirect tax payables (VAT, stamp duty, substitute tax on medium/long term loans, etc.).

11.3 Deferred tax assets: annual changes (with offsetting entry to profit and loss)

	31/12/2020	31/01/2020
1. Opening balance	881,436	961,367
2. Increases	9,011	23,953
2.1 Deferred tax assets for the period	9,011	23,953
a) relating to previous years	133	1,954
b) due to changes in accounting principles	-	-
c) write-backs	-	-
d) other	8,878	21,999
2.2 New taxes or increase in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	243,592	103,884
3.1 Deferred tax assets derecognised in the period	90,490	39,925
a) reversals	24,076	39,925
b) write-downs of non-recoverable items	66,300	-
c) change in accounting policies	-	-
d) other	114	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	153,102	63,959
a) conversion into tax credit under Law no. 214/2011	137,590	63,959
b) other	15,512	-
4. Closing balance	646,855	881,436

11.4 Deferred tax assets under Law 214/2011: annual changes (with offsetting entry to profit or loss)

	Total 31/12/2020	Total 31/01/2020
Opening balance	383,074	447,037
2. Increases	-	-
3. Decreases	137,701	63,963
3.1 Reversals	109	4
3.2 Conversion into tax credit	137,592	63,959
a) from year losses	137,592	63,959
b) from tax losses	-	-
3.3 Other decreases	-	-
4. Closing balance	245,373	383,074

11.5 Deferred tax liabilities: annual changes (with offsetting entry to profit or loss)

	Total 31/12/2020	Total 31/01/2020
1. Opening balance	4,903	4,760
2. Increases	853	713
2.1 Deferred tax liabilities for the period	853	713
a) relating to previous years	-	-
b) due to changes in accounting principles	-	-
c) other	853	713
2.2 New taxes or increase in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	470	570
3.1 Deferred tax liabilities derecognised during the period	470	570
a) reversals	470	570
b) due to changes in accounting principles	-	-
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	5,286	4,903

11.6 Deferred tax assets: annual changes (with offsetting entry to equity)

	Total 31/12/2020	Total 31/01/2020
1. Opening balance	194,793	203,691
2. Increases	444	2,442
2.1 Deferred tax assets for the period	444	2,442
a) relating to previous years	-	837
b) due to changes in accounting principles	-	-
c) other	444	1,605
2.2 New taxes or increase in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	14,618	11,340
3.1 Deferred tax assets derecognised in the period	14,617	11,340
a) reversals	14,617	11,340
b) write-downs of non-recoverable items	-	-
c) due to change in accounting principles	-	-
d) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	1	-
4. Closing balance	180,619	194,793

11.7 Deferred tax liabilities: annual changes (with offsetting entry to equity)

	31/12/2020	31/01/2020
1. Opening balance	791	1,039
2. Increases	1,146	170
2.1 Deferred tax liabilities for the period	1,146	170
a) relating to previous years	-	62
b) due to changes in accounting principles	-	-
c) other	1,146	108
2.2 New taxes or increase in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	19	418
3.1 Deferred tax liabilities derecognised during the period	19	418
a) reversals	19	418
b) due to changes in accounting principles	-	-
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	1,918	791

11.8 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 for valuation aspects, in order to harmonise 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)
The above-mentioned 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 tangible 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) envisages that deferred tax assets recognised in the financial statements for write-downs on loans (art. 106, paragraph 3, TUIR), goodwill and other intangible assets, which are 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 must be noted that, following approval of Banca Carige's Financial Statements for the period under Temporary Administration 01.01.2019-31.01.2020 and of the financial statements 2019 for the other Group companies, which showed a loss for several companies of the Group, the above mentioned conversion took place for an amount of EUR 138 mln.
The deferred tax assets recognised in the financial statements and referred to in the decree include EUR 208.8 mln goodwill and EUR 36.6 mln losses on impairment of loans for a total of EUR 245.4 mln (see Table 11.4).

Art. 55 of Law Decree no. 18/2020 provided for in Art. 44 *bis* of Decree Law No. 34/2019, only for 2020, the possibility of converting DTAs on tax and / or ACE losses into tax credits in an amount equal to a taxable amount corresponding to 20% of the nominal value of the non-performing loans sold.
In practice, by applying the nominal IRES tax and surcharge at a rate of 20% for a total of 27.5% (24% + 3.5%), the converted amount is 5.5% of their nominal value.
The conversion, which takes effect from the transfer date of the credit, therefore led to the emergence of a tax credit of 15.5 mln as a decrease in DTAs on tax losses.

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 Carige Group's profit and loss account amounted to EUR 12.8 mln for this period.

- IAS 12 and "probability test" for the recognition of deferred tax assets.

IAS 12 - Income Tax, defines "deferred tax assets" as the amounts of income taxes recoverable in future periods in respect of:

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.

In this regard, reference is made to the most recent positions taken on the subject by ESMA which, in a document dated July 15, 2019, summarised in a systematic form the criteria which the preparer of the financial statements must use in order to reach and express his opinion. The general principle to refer to in the application of IAS 12 is that of the accurate representation of economic phenomena. In this regard, it is believed that the Regulator's concern focuses on the fact that the verification of actual usability is carried out with rigor and prudence to avoid the inclusion of non-existent assets within the financial statements. The exercise of prudence, which consists in applying selected methodologies and parameters with a degree of caution appropriate to the conditions of uncertainty, cannot however lead to not recognising in the financial statements DTAs that will probably be used.

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 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) as well as other DTAs 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. The above choice has currently been confirmed at a Group level, taking into account the uncertainty of the current situation linked both to the macroeconomic context (see Covid information in part A - Accounting Policies), and to assessments of a specific nature of the Group (see in Part A Accounting Policies Section - Preparation Criteria- Estimates and Uncertainties).

As part of the assessments on the "probability" of recovery of deferred tax assets recognised in the financial statements, the following preliminary considerations were made:

- the deferred tax assets recognised in the Bank's Consolidated Financial Statements as at 31 December 2020, include EUR 245 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 that cannot be converted into tax credits in the financial statements;
- 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 assessment process carried out by the directors took into account that time is without a doubt a parameter used in practice to define the potentially usable DTAs. In this regard, it was also considered, before carrying out the further considerations set out below, that the use of particularly long time horizons is in any case compliant with the rules of unlimited tax loss carryover present in the current Italian legislation.

Therefore the Parent Company, which approximately has 97% of the DTAs subject to the recoverability test, in order to carry out the latter:

- took into consideration the 2019-2023 Group Strategic Plan, as recently updated by the Board of Directors in February 2021 with the approval of the new targets for the 2021-2023 period in order to take into account the new macroeconomic scenario emerging after the Covid-19 pandemic;
- starting from the latter, further extended, for the sole purpose of carrying out the probability test, the projections to the next two years (2024-2025) on the basis of the macroeconomic scenarios expected as resulting from external sources of general use (Prometeia forecast report of December 2020). The extension reflects the view that the last year of the Plan's time-scale (2023) expresses economic results still influenced by the crisis induced by the pandemic during the previous period and therefore the income contained therein does not represent the most reliable estimate of long-term profitability;
- considered the stand alone scenario, basing the assessments on forecasts representative of the expected evolution in the long term;
- for the years following 2025 a compound growth rate of 2% was assumed, equal to the target inflation rate level declared by the ECB, which implies an assumption of zero real growth.

The results of such an approach determine a period of DTA absorption, in a static scenario, up to 2053.

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 analyses were carried out separately for the IRES (corporate income tax) base rate of 24% and on an individual basis as regards the IRES surcharge of 3.5% with reference to the DTAs recognised in the financial statements to date.
The results of the Montecarlo model applied to the Parent Company and always in a stand-alone perspective, show in the assumption a volatility index of 9%, that by 2053 more than 96% of the DTAs will be recovered with a probability of 50%, over 83% will be recovered with a probability of 70% and over 70% of the DTAs will be recovered with a probability of 90%.
With the same assumptions and therefore assuming a 9% volatility of the results, a 60% probability of full recovery of the IRES DTAs between 2049 and 2061 (90% by 2066) was pointed out, with similar time ranges (2050-2062 and 2066) for the IRES surcharge.

In view of the amount of non-convertible Irap (Regional tax on productivity) DTAs recognised in the financial statements (EUR 21.1 mln), the recovery was verified on the basis of the plan scenario and using a model in the absence of an assumption of volatility, also taking into account the shorter time-frames of recovery compared to IRES and the surcharge.

Returning to the assessment of the time to recovery, the following elements were taken into consideration:

a) the Montecarlo model for the probability of recovery of DTAs in the assumption of possible volatility of expected results;
b) the forecast of results for the years following 2025 -in fact constant on a real level- which determine rather lengthy absorption periods, even in the presence of projections of growing profits in the 2024-2025 period;
c) the high probability of a business combination repeatedly announced to the market and based on the generally transitory nature of the interventions by the Voluntary Scheme of the Interbank Deposit Protection Fund. The business combination would entail, among other things, an equally likely significant conversion of DTAs into tax credits (up to a maximum of 2% of balance sheet assets equal to over EUR 420 mln), pursuant to the provisions of Italian Law No. 178 / 2020, with a consequent significant reduction in the time to recovery to a minimum of 12 years;
d) the lack of a strict time limit in IAS 12 for assessing the probable recoverability of DTAs, which leaves it to the judgement of the preparers of the financial statements to decide whether it is more likely than not;
e) the duration of the Bank , currently set until 2050, according to the Articles of Association.

In this context, a significant time-frame was deemed acceptable for DTA absorption in a stand-alone perspective, corroborated, however, by the above considerations. Specifically, it was decided to limit the above time-frame for the expected recovery of DTAs to 30 years and therefore to 2050. This time limit has resulted in a EUR 66.3 mln write-down by the Parent Company of the DTAs recognised to date.

With reference to the summary analysis of the outcome of the probability test for Banca del Monte di Lucca, which accounts for approximately 2.7% of the Group's DTAs included in the recoverability test, it must be noted, using only updated data of the strategic plan to 2023, that in the absence of volatility assumptions, the DTAs recognised in the Financial Statements for IRES purposes (24% rate) would be fully absorbed by 2041 as would those for surcharges. This recovery period would be further reduced, taking into consideration the projections made at the consolidated level for the 2024-2025 two-year period, nearing the recovery times estimated for the subsidiary in the previous year.

Finally, with regard to the outcome of the probability test for Banca Cesare Ponti, it must be noted that, taking into account the limited amount of the DTAs recognised (0.5% of those subject to probability testing and forecasting of future taxable income), it has been shown that such DTAs are recovered already during the period of the updated 2021-2023 plan.

Taking into account the amount of DTAs written down in the Parent Company alone, the overall total of DTAs not recognised in the financial statements at a Group level as at 31 December 2020 is approximately of EUR 491 mln.

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) the DTAs recognised to date are largely related to charges that the Bank considers to be non-recurring in the near future, once the Group's specific asset optimisation and efficiency improvement actions set out in the Strategic Plan are brought to completion and today's complicated macroeconomic context is overcome. This assumption is based on the principle that probability should consider whether unused tax losses are the result of identifiable causes that are unlikely to recur.

In conclusion, it is believed that, despite the uncertainty that characterises this estimation process and the underlying economic forecasts, the logical path described, the simulations carried out, the conclusions reached and the information provided may be deemed adequate with respect to the need to assess the probability of recovery of DTAs recognised in the financial statements.

- Deferred taxes on untaxed reserves

No allocations were made for deferred tax liabilities on untaxed reserves, given the fact that their distribution, for an amount of roughly EUR 15.6 mln is not expected at the moment.

11.9 Tax Disputes

Reported below is information about the individual Group companies.

Banca Carige

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 already been raised against Banca Carige Italia. On 17 October 2019, the Company was served a notice of assessment (no. TLA0C0200032/2019) 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, filed an appeal with the Provincial Tax Commission of Genoa, which was discussed on 15 October 2020. The Commission with ruling no. 561/02/2020, filed on 27 November 2020, accepted the writ of summons, thus cancelling the tax claim.

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 contractual counterparty.

In this notice, the Revenue Agency re-estimated the value of goodwill resulting in a higher tax amount due 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 Milan on 15 November 2019. It should be noted that Nexi has contractually agreed to cover all charges relating to the 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 03 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 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 the 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 assets - 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 (Economic Growth Stimulus) 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 repeating 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). On 20/12/2019, notice of assessment no. TLA0E0200047/2019 was served and the Company filed an appeal with the Provincial Tax Commission of Genoa on 13/2/2020. On 16 October 2020, the public hearing was held and with a ruling published on 22 January this year, the Provincial Tax Commission of Genoa rejected the appeal with compensation for the relevant court costs. The Company will appeal against the above ruling.

Supported in its assessment by specific opinions, the Company believes that the aforementioned ruling does not add further elements to the assessments made for the 2013 tax period.

In addition to the aforementioned findings, a third was raised, for IRAP purposes (n. TLA0C0200050/2019), concerning the accounting 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. On 20/12/2019, the notice of assessment was served and on 28/1/2020 the Company filed an appeal with the Provincial Tax Commission of Genoa, which annulled the claim formalised by the Regional Tax Authority Department ("DRE" from its Italian initials or "Direzione Regionale") with ruling No. 561/02/2020 filed on 27 November 2020.

Banca del Monte di Lucca

On 07/03/2014 the Genoa Provincial office of the Revenue Agency served settlement and correction notice no. 2012IT003868000 to the Company (and to Banca del Monte dei Paschi di Siena S.p.A.), whereby the Revenue Agency levied a higher amount of registration tax (in addition to fines and interest) with reference to the deed of purchase of a line of business signed by the Company on 28 May 2010 and registered on 9 June 2010, the final price of which was set in a deed dated 6 March 2012 and registered on 30 March 2012. 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 9,210,173 to EUR 12,861,460. As a result of such redetermination, the Revenue Agency requested the payment of additional registration tax for an amount of EUR 53,257, in addition to fines for the same amount and interest.
The appeal was filed on 13/08/2014 with the Provincial Tax Commission of Genoa was brought to a close on 28/01/2016 with the Commission filing its judgement no. 383/1/2016 which accepted the Bank's appeal in its entirety and ordered the Agency to refund legal costs. The judgement was appealed against by the Italian Revenue Agency. With the judgement no. 1021 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 on 19 November 2018. The Bank promptly appeared in court, but to date the hearing for the handling of the appeal has not yet been set.

Banca Cesare Ponti

In December, the Municipality of Milan notified Banca Cesare Ponti two notices of assessment regarding the municipal property tax (IMU) for the years 2014 and 2015 (no. T1/RE 16863 for the year 2015 and no. T1/RE 78181 for the year 2014). In both measures, a claim was raised against omitted IMU tax return with reference to the building of the Headquarters; a higher tax payable of EUR 41,278.73 (for each year) was therefore ascertained and one single administrative sanction was imposed, in application of the cumulative judgment principle (pursuant to Article 12 of Italian Legislative Decree No. 472/1997), for an amount of EUR 61,918.10. All for an overall debt exposure of EUR 144,475.56.
The rationale underlying the aforementioned ascertainment can be traced to the fact that the property used as the Banca Ponti headquarters was not held by virtue of a rental title, but as a "concession of state property" (by reason of the Agreement entered into with the Municipality of Milan on 16 January 2012), a situation that would imply the payment of the tax by the concession holder.
The above situation, which also relates to years prior to 2014, has never been challenged in the past by the Municipality of Milan which finds itself performing the dual role of concession giver and tax authority.
Nonetheless, having specific regard to the claims expressed with the aforementioned tax measures relating to the years 2014 and 2015, certain profiles were considered to be recognisable that legitimised the proposition of appeals which could lead to a significant reduction of the aforementioned pecuniary claims both in terms of the expiry of the deadline for the challenge (year 2014) and due to the incorrect measurement of the applicable fine (year 2015).

SECTION 13

OTHER ASSETS - ITEM 130

13.1 Other assets: breakdown

	31/12/2020	31/01/2020
Revenue items in transit	3,160	4,001
Bills and other items for collection	11,299	20,852
Items undergoing processing	59,897	68,673
Current account cheques drawn on third parties	18,529	26,787
Current account cheques drawn on the bank	1,503	1,588
Advances paid to tax authorities on behalf of third parties	9,928	6,668
Purchased tax credits	33	-
Assets from contracts with customers	38,100	62,792
Expenses for improvement of third parties' assets	823	977
Other	64,999	39,211
Total	208,271	231,549

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 31/12/2020				Total 31/01/2020			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Due to central banks	3,485,273	X	X	X	3,500,000	X	X	X
2. Due to banks	358,251	X	X	X	499,981	X	X	X
2.1 Current accounts and demand deposits	9,745	X	X	X	8,402	X	X	X
2.2 Term deposits	-	X	X	X	-	X	X	X
2.3 Loans	346,822	X	X	X	482,708	X	X	X
2.3.1 Repos	228,464	X	X	X	252,813	X	X	X
2.3.2 Other	118,358	X	X	X	229,895	X	X	X
2.4 Liabilities for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
2.5 Lease liabilities	1,674	X	X	X	2,598	X	X	X
2.6 Other	10	X	X	X	6,271	X	X	X
Total	3,843,524	-	238,316	3,241,826	3,999,981	-	267,672	3,606,099

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 31/12/2020				Total 31/01/2020			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	11,326,698	X	X	X	9,944,656	X	X	X
2. Time deposits	1,289,919	X	X	X	1,669,592	X	X	X
3. Loans	2,091	X	X	X	2,311	X	X	X
3.1 Repos	-	X	X	X	-	X	X	X
3.2 Other	2,091	X	X	X	2,311	X	X	X
4. Liabilities for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Lease liabilities	49,265	X	X	X	58,426	X	X	X
6. Other	151,417	X	X	X	144,379	X	X	X
Total	12,819,390	-	11,815,287	939,622	11,819,364	-	10,675,119	1,060,620

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 31/12/2020				Total 31/01/2020			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. Bonds	3,107,622	-	2,823,439	266,061	4,252,128	-	2,896,310	1,355,586
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	3,107,622	-	2,823,439	266,061	4,252,128	-	2,896,310	1,355,586
2. Other securities	465	-	80	385	606	-	219	387
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	465	-	80	385	606	-	219	387
Total	3,108,087	-	2,823,519	266,446	4,252,734	-	2,896,529	1,355,973

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

1.4 Breakdown of subordinated debts/bonds

Issuing company	ISIN code	Nominal value	Book value	Currency	Interest rate	Maturity date
Banca Carige	IT0005389934	200,000	200,258	Euro	8.25%	20/12/2029
Banca Carige	IT0005353526	6,800	6,801	Euro	8.25%	30/11/2028, with early repayment option from the fifth year after the date of issuance, subject to prior authorisation by the relevant Supervisory Authority
Banca del Monte di Lucca	IT0005414278	1,208	1,247	Euro	8.25%	30/06/2030, with early repayment option from the fifth year after the date of issuance, subject to prior authorisation by the relevant Supervisory Authority
Argo Mortgage 2	IT003694137	7,414	7,414	Euro	6-month Euribor + annual 0.32 bps spread	27/10/2043
Argo Mortgage 2	IT003694145	21,650	21,663	Euro	6-month Euribor + annual 0.83 bps spread	27/10/2043
	Total	**237,072**	**237,383**			

Qualitative information on subordinated securities issued and eligible as regulatory capital is reported in the own funds and capital adequacy disclosure template contained in the Pillar 3 disclosure to the public.

1.6 Lease liabilities

Type of transaction/Amounts	31/12/2020
	Payments due
Lease liabilities - Analysis of due dates of undiscounted payments due	
- On demand	714
- 1 to 7 days	2,924
- 7 to 15 days	1
- 15 days to 1 month	1
- 1 to 3 months	597
- 3 to 6 months	2,984
- 6 months to 1 year	6,051
- 1 to 5 years	32,808
- over 5 years	5,592
Total	51,672

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 10,296 thousand.

SECTION 2

FINANCIAL LIABILITIES HELD FOR TRADING – ITEM 20

2.1 Financial liabilities held for trading: breakdown

Type of transaction/Amounts	Total 31/12/2020					Total 31/01/2020				
	NV	Fair Value			Fair Value*	NV	Fair Value			Fair Value*
		L1	L2	L3			L1	L2	L3	
A. Cash liabilities										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	X	-	-	-	-	X
3.1 Bonds	-	-	-	-	X	-	-	-	-	X
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	X	-	-	-	-	X
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Derivatives										
1. Financial derivatives	X	-	1,056	-	X	X	-	1,165	-	X
1.1 Trading	X	-	1,056	-	X	X	-	1,165	-	X
1.2 Connected with the fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	X	-	-	-	X	X	-	-	-	X
2.1 Trading	X	-	-	-	X	X	-	-	-	X
2.2 Connected with the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**-**	**1,056**	**-**	**X**	**X**	**-**	**1,165**	**-**	**X**
Total (A+B)	**X**	**-**	**1,056**	**-**	**X**	**X**	**-**	**1,165**	**-**	**X**

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 the date of issue.

The Group did not carry out any "long-term structured repo" transactions as defined by the joint Consob / Bank of Italy / Ivass communication dated 8 March 2013.

SECTION 4

HEDGING DERIVATIVES - ITEM 40

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

	NV	Fair value	31/12/2020		NV	Fair value	31/01/2020	
	31/12/2020	L1	L2	L3	31/01/2020	L1	L2	L3
A) Financial derivatives	**1,648,357**	**-**	**247,079**	**-**	**1,975,321**	**-**	**266,295**	**-**
1) Fair value	278,357	-	246,171	-	1,605,321	-	266,072	-
2) Cash flows	1,370,000	-	908	-	370,000	-	223	-
3) Investments in foreign operations	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**1,648,357**	**-**	**247,079**	**-**	**1,975,321**	**-**	**266,295**	**-**

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	21,386	-	-	-	X	X	X	-	X	X
2. Financial assets at amortised cost	224,750	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	-	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	246,136	-	-	-	-	-	-	-	-	-
1. Financial liabilities	-	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	-	-	-	-	-	-	-	-	-	-
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	X	35	X	908	-

SECTION 6

TAX LIABILITIES – ITEM 60

For information on this section, please refer to Section 11 - Assets.

SECTION 8

OTHER LIABILITIES – ITEM 80

8. 1 Other liabilities: breakdown

	Total 31/12/2020	Total 31/01/2020
Security deposits received from third parties	-	37
Amounts payable to tax authorities on behalf of third parties	25,605	17,647
Expense items in transit	1,235	5,152
Adjustments diff. relating to bills held in portfolio	102,000	170,622
Items undergoing processing	84,963	119,367
Accounts payable	41,621	44,952
Payables for personnel expenses	12,533	10,272
Costs accrued to be recognised	9,031	10,710
Liabilities from contracts with customers	9,921	3,173
Other liabilities	39,587	48,666
Total	326,496	430,598

SECTION 9

EMPLOYEE TERMINATION INDEMNITIES – ITEM 90

9.1 Employee termination indemnities: annual changes

	31/12/2020	31/01/2020
A. Opening balance	42,796	52,611
B. Increases	65	2,627
B.1 Provision for the period	64	578
B.2 Other increases	1	2,049
C. Decreases	4,616	12,442
C.1 Severance payments	4,011	11,895
C.2 Other decreases	605	547
D. Closing balance	38,245	42,796
Total	38,245	42,796

9.2 Other information

The employee termination indemnity (it. TFR) covers rights accrued by employees as at 31/12/2020 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 amounts to EUR 34,731 thousand (EUR 37,948 thousand as at 31/01/2020).

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, mandatorily applicable to annual periods beginning on or after 1 January 2013.
The Banca Carige Group 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 to 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).
Remeasurements comprise 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 31/12/2020, 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 31/12/2020 was determined by applying the discount rate at the beginning of the period (0.17%) to the DBO as at 1 February 2020, 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;
- retirement pension: 100% when the general compulsory insurance scheme (*Assicurazione Generale Obbligatoria,* AGO)requirements are met

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 1.2% for 2019 and 0.80% for 2020, and an annual remuneration growth rate for all categories equal to the annual rate of inflation for the entire valuation period, 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.

SECTION 10

ALLOWANCES FOR RISKS AND CHARGES – ITEM 100

10.1 Allowances for risks and charges: breakdown

Item/Amount	Total 31/12/2020	Total 31/01/2020
1. Allowances for credit risk on commitments and financial guarantees given	18,831	24,636
2. Allowances for other commitments and other guarantees given	-	-
3. Company pension fund	26,523	29,073
4. Other allowances for risks and charges	230,869	236,890
4.1 legal and tax disputes	27,511	39,855
4.2 personnel expenses	139,288	157,128
4.3 other	64,070	39,907
Total	276,223	290,599

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	-	29,073	236,890	**265,963**
B. Increases	-	109	**71,564**	**71,673**
B.1 Provision for the period	-	77	67,989	68,066
B.2 Changes due to the time value of money	-	-	2,396	2,396
B.3 Changes due to discount-rate changes	-	-	-	-
B.4 Other increases	-	32	1,179	1,211
- of which: business combinations	-	-	150	150
C. Decreases	-	2,659	**77,585**	**80,244**
C.1 Use during the period	-	2,267	76,749	79,016
C.2 Changes due to discount-rate changes	-	-	-	-
C.3 Other decreases	-	392	836	1,228
- of which: business combinations	-	-	-	-
D. Closing balance	-	26,523	**230,869**	**257,392**

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
Commitments to disburse funds	730	681	548	1,959
Financial guarantees given	1,018	414	15,440	16,872
Total	**1,748**	1,095	15,988	**18,831**

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 when Law no. 421 of 23 October 1992 entered into force, 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 contribution; 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 143 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 36 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 inflation rate equal to 0.80% for 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% for 2019 and -0.02% for 2020 (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 to 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).
Remeasurements comprise actuarial gains/losses.

Details of the 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 63.4 thousand;
- Actuarial gains, allocated to Other Comprehensive Income (OCI), amounting to EUR 387 thousand.

The Current Service Cost (CSC) is zero, given that, referring solely to deferred pension recepients and retirees, the benefits have already fully accrued.
Pensions paid out amounted to EUR 1,845 thousand.

Sensitivity analysis of the main actuarial assumptions

The effects of the changes, adopting a 0.5 percentage point lower and higher discount rate than the discount rate in use (0.37%), would have been as follows:

EUR/000

Discount rate	DBO retirees and deferred recipients
-0.13%	20,936
0.87%	22,897

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 the 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 1 thousand;
- Actuarial gains, allocated to Other Comprehensive Income (OCI), amounting to EUR 5 thousand.

The Current Service Cost (CSC) is zero, given that, referring solely to deferred pension recepients and retirees, the benefits have already fully accrued.

Pensions paid out amounted to EUR 28 thousand.

Sensitivity analysis of the main actuarial assumptions

The effects of the change, adopting a 0.5 percentage point lower and higher discount rate than the discount rate in use (0.37%), would have been as follows:

EUR/000

Discount rate	DBO retirees and deferred recipients
-0.13%	320
0.87%	351

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 the 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 12.2 thousand;
- Actuarial gains, allocated to Other Comprehensive Income (OCI), amounting to EUR 32 thousand.

By effect of the fund composition CSC is nil.

Pensions paid out amounted to EUR 394 thousand.

Sensitivity analysis of the main actuarial assumptions

The effects of the change, adopting a 0.5 percentage point lower and higher discount rate than the discount rate in use (0.37%), would have been as follows:

EUR/000

Discount rate	DBO retirees
-0.13%	4,144
0.87%	4,496

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 December 2020, the provision totalled EUR 27.5 mln, of which EUR 23.8 mln for lawsuits filed against the Bank and clawback actions, for which the future expenditure and length of the dispute settlement process have been estimated, EUR 1.1 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 reporting period. Considering the limited time-frame for these benefits to be awarded (2021), 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 31/12/2020.
The fund amounted to EUR 41 thousand as at 31 December 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 782 thousand as at 31/12/2020.

Fund for restructuring charges related to the solidarity fund pursuant to the agreement of 16 December 2017

With the Union Agreement of 16 December 2017, it was decided to reserve the possibility of allowing access to the Credit Industry Redundancy Fund for 490 Group employees who will vest their rights to a pension by 31 December 2023 out of 635 eligible employees.
In 2018, the Fund accepted 490 applications, at an estimated cost of EUR 54,384 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 31/12/2020. The residual amount set aside is EUR 16,295 thousand.

Fund for restructuring charges related to the solidarity fund "Quota 100" (the measure allowing workers who are at least 62 years of age and have 38 years of contribution to the national pension fund to apply for retirement) and the ordinary solidarity fund pursuant to the agreement of 20 November 2019

With the Union Agreement of 20/11/2019, it was decided to reserve the possibility of allowing access to the Credit Industry Redundancy Fund for 70 Group employees who will accrue their rights to a pension by 31/03/2022 with the so-called “Quota 100” out of 116 eligible employees and a further 618 employees who accrue the right to early retirement or old-age pensions by 31/12/2027 out of 638 eligible employees.
With regard to the Redundancy Fund aimed at the so-called “Quota 100” as at 31/12/2019, out of 116 eligible employees, 44 have accessed the fund, with an estimated charge of EUR 2,549 thousand.
With regard to the Redundancy Fund aimed at early retirement or old age pensions, as at 31/12/2020, out of 638 eligible employees, 523 have accessed the fund with an estimated charge of EUR 106,111 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 to log in to Fondo Quota 100) and the estimated date of pension access of the Fund's last member (31/12/2027). Considering the limited time-frame for these payments to be awarded (2020 - 2027), 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 31/12/2020. The amount of the fund was EUR 108,796 thousand as at 31/12/2020.

Fund for restructuring charges related to the solidarity fund for 2023 pursuant to the agreement of 16/07/2020

With the Union Agreement of 16/07/2020, it was decided to reserve the possibility of allowing access to the Credit Industry Redundancy Fund for Group employees who will vest their rights to a pension by 31/07/2028, for an estimated cost of EUR 12,228 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 01/07/2023 (date of the first access window) and the estimated date of pension access of the Fund's last member (31/07/2028). Considering the limited time-frame for these payments to be awarded (2023 - 2028), 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 31/12/2020. The amount of the fund is equal to EUR 12,549 thousand.

Allowances for risks and charges - FIP Carige (Carige Supplementary Pension Fund)

In the prior periods, the Bank set aside provisions for risks and charges to face potential demands from the FIP Carige retirees for different claims.

The amount set aside is EUR 835 thousand.

3. Other provisions

The item mainly consists in:

- provisions relating to charges and claims for indemnity with reference to securitisation and loan disposal transactions;
- provisions against the first findings of the on-site inspection carried out by the Bank of Italy on the subject of transparency;
- provisions for indemnities that the Group could be required to pay due to the failure to achieve the contractual commercial targets.

Contingent liabilities

With reference to the Group as at 31 December 2020, material contingent liabilities exist and are reported below.

- 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 to request 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. In June 2020, the US Supreme Court dismissed the appeal of foreign banks to challenge the jurisdiction of the US Bankruptcy Court of New York. We are awaiting the resumption of the trial in New York where the trustee will be able to take initiatives to continue the procedure and obtain what is requested; the procedure, among other things, provides for a pre-trial stage during which the trustee could obtain prima facie evidence through a request made to the counterparties for a deposition and the production of documentation.

- 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 its 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 in respect of 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. The trustee filed modified summons and the defendants filed a new rejection request which was accepted on 14 December 2020, and which will most likely be appealed.

- Criminal proceedings No. 61126/2015 of the computerised records of reported offences at the public prosecutor's office (Registro Generale Notizie di Reato, RGNR) pursuant to Italian 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 Italian 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 Italian 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). The trial in first instance is currently pending and the Bank is held liable under civil proceedings; on this matter, it must 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, to the end of the first instance hearing. At the hearing of 18 January, 2021, the Court pronounced a ruling of acquittal because prosecution of the individuals for the offence referred to in Article 2637 of the Italian Civil Code only is time-barred, so all the numerous shareholders who had joined the proceedings as civil parties in relation to this charge were excluded from the trial. On 3 February 2021, an appeal against said acquittal was notified. The trial was postponed to the hearing on 13 May for the resumption of witness hearings as part of the Prosecution's case, the Public Prosecutor reserving the right to disclose to the parties the names that will be summoned for that date; a further hearing was also set for 20 May. With reference to possible liability on the part of the Bank, the risk of the Bank losing the case was only judged 'possible' by the defence counsels.

SECTION 13

GROUP SHAREHOLDERS' EQUITY – ITEMS 120, 130, 140, 150, 160, 170 AND 180

13.1 Share capital and treasury shares – breakdown

Number of shares issued	Ordinary	Savings	Total
Number of shares at the end of the period	755,371,204	20	755,371,224
– fully paid-up	755,371,204	20	755,371,224
– not fully paid-up			

Share capital structure	Ordinary	Savings	Total
Number of shares at the end of the period	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 period	219	-	219
– fully paid-up	219	-	219
– not fully paid-up			

Book value of treasury shares	Ordinary	Savings	Total
Shares outstanding at the end of the period	15,536	-	15,536
– fully paid-up	15,536	-	15,536
– not fully paid-up			

EUR/000

13.2 Share capital – Number of shares: changes in the period

Item/Type	Ordinary	Savings
A. Shares outstanding at the beginning of the period	755,265,855,473	25,542
– fully paid-up	755,265,855,473	25,542
– not fully paid-up		
A.1 Treasury shares (-)	(219,513)	-
A.2 Shares outstanding: opening balance	755,265,635,960	25,542
B. Increases	105,568,794	-
B.1 New issues	105,349,500	-
– with consideration:		
– business combinations		
– conversion of bonds		
– exercise of warrants		
– other	105,349,500	
– without consideration		
– in favour of employees		
– in favour of directors		
– other		
B.2 Sale of treasury shares		
B.3 Other increases	219,294	
C. Decreases	754,615,833,769	25,522
C.1 Cancellation		
C.2 Purchase of treasury shares		
C.3 Sale of companies		
C.4 Other decreases	754,615,833,769	25,522
D. Shares in issue: closing balance	755,370,985	20
D.1 Treasury shares (+)	219	
D.2 Shares outstanding at the end of the period	755,371,204	20
– fully paid-up	755,371,204	20
– not fully paid-up	-	-

The description of the changes (increase/decreases) listed in the previous tables is given below:

- On 4 December 2020, the period for the optional conversion of savings shares into newly-issued ordinary shares ended. During the Optional Conversion Period, conversion requests were submitted for 5,139 Savings Shares corresponding to 105,349,500 newly issued ordinary shares. The number of converted savings shares is included in the sub-item Decreases - Other Changes.
- Other increases: this item shows the reduction in the number of treasury shares following the reverse stock split completed on 14 December 2020, in compliance with the resolution of the Extraordinary Shareholders' Meeting of 29 May 2020 (ratio of 1 new share issued for every 1,000 shares outstanding).
- Other decreases: this item shows the reduction in the number of ordinary and savings shares following the reverse stock split completed on 14 December 2020, in compliance with the resolution of the Extraordinary Shareholders' Meeting of 29 May 2020 (ratio of 1 new share issued for every 1,000 shares outstanding). As stated in detail in the sub-item New Issues, this item also reflects the number of Savings Shares converted into ordinary Shares following the conclusion of the Optional Conversion Period.

13.3 Share capital - Other information

Share capital comprises shares with no par value.

13.4 Reserves from allocation of profit: other information

Items/Amounts	31/12/2020	31/01/2020
Profit reserves:	(1,031,492)	(162,362)
- Reserve for treasury shares	15,536	15,572
- Other reserves	(1,047,028)	(177,934)

13.6 Other information

Items/Amounts	31/12/2020	31/01/2020
Other reserves:	186,619	186,619
- Reserve set up with share capital reduction to cover losses incurred in the first nine months of the year 2018	186,619	186,619

SECTION 14

NON-CONTROLLING INTERESTS - ITEM 190

14.1 Breakdown of Item 210 "Shareholders' equity: Non-controlling interests"

Company name	31/12/2020	31/01/2020
Equity investments in consolidated companies with significant non-controlling interests		
Banca del Monte di Lucca SpA	12,820	13,017
Other investments	47	40
Total	12,867	13,057

OTHER INFORMATION

1. Commitments and financial guarantees given

	Notional amounts of commitments and financial guarantees given			Total 31/12/2020	Total 31/01/2020
	Stage 1	Stage 2	Stage 3		
Commitments to disburse funds	**3,564,991**	**88,755**	**131,558**	**3,785,304**	**3,558,356**
a) Central banks	-	-	-	-	-
b) Public Administrations	890,265	108	-	890,373	816,140
c) Banks	1,962	-	-	1,962	2,170
d) Other financial companies	55,735	226	26	55,987	74,448
e) Non-financial companies	2,361,851	75,224	128,237	2,565,312	2,432,787
f) Households	255,178	13,197	3,295	271,670	232,811
Financial guarantees given	**314,134**	**59,597**	**52,515**	**426,246**	**472,395**
a) Central banks	-	-	-	-	-
b) Public Administrations	10,713	499	-	11,212	11,340
c) Banks	177	-	-	177	100
d) Other financial companies	15,678	3	4,250	19,931	20,712
e) Non-financial companies	267,909	58,626	47,461	373,996	417,471
f) Households	19,657	469	804	20,930	22,772

3. Assets pledged as collateral for own liabilities and commitments

Portfolios	Amount 31/12/2020	Amount 31/01/2020
1. Financial assets at fair value through profit or loss	13	13
2. Financial assets at fair value through other comprehensive income	2,172,565	389,574
3. Financial assets at amortised cost	6,587,919	8,004,755
4. Property and equipment	498	505
of which: inventories of property and equipment	-	-

Assets pledged as collateral for the company's own liabilities and commitments amount to EUR 8.8 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. that are not derecognised, 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).

5. Asset management and trading on behalf of third parties

Type of service	Amount 31/12/2020
1. Orders execution on behalf of customers	5,712,945
a) purchases	3,368,919
1. settled	3,368,919
2. unsettled	-
b) sales	2,344,026
1. settled	2,344,026
2. unsettled	-
2. Portfolio management	423,567
a) individual	423,567
b) collective	-
3. Custody and administration of securities	22,090,881
a) third-party securities on deposit: associated with the custodian bank transactions (excluding portfolios management)	-
1. securities issued by companies included in consolidation	-
2. other securities	-
b) third-party securities on deposit (excluding asset management): other	9,872,118
1. securities issued by companies included in consolidation	71,010
2. other securities	9,801,108
c) third party securities deposited with third parties	9,676,140
d) own securities deposited with third parties	2,542,623
4. Other transactions	6,377,653

6. 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)	31/12/2020	31/01/2020
1. Derivatives		8,834	-	8,834	-	10	8,824	6,605
2. Repurchase agreements		-	-	-	-	-	-	-
3. Securities lending		-	-	-	-	-	-	-
4. Other		-	-	-	-	-	-	-
Total	31/12/2020	8,834	-	8,834	-	10	8,824	X
Total	31/01/2020	8,934	-	8,934	-	2,329	-	6,605

The amount shown in column (a) relates to derivatives recognised under item 20a (Balance sheet - Assets) "Financial assets held for trading", totalling EUR 11 thousand, and item 50 (Balance sheet - Assets) "Hedging derivatives", totalling EUR 8,823 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 10 thousand.

7. 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)	31/12/2020	31/01/2020
1. Derivatives		248,024	-	248,024	50,361	193,365	4,298	(12,006)
2. Repurchase agreements		-	-	-	-	-	-	-
3. Securities lending		-	-	-	-	-	-	-
4. Other transactions		-	-	-	-	-	-	-
Total	31/12/2020	248,024	-	248,024	50,361	193,365	4,298	X
Total	31/01/2020	263,436	-	263,436	52,836	222,606	-	(12,006)

The amount shown in column (a) relates to derivatives recognised under item 20 (Balance sheet - liabilities) "Financial liabilities held for trading", totalling EUR 980 thousand, and item 40 (Balance sheet - liabilities) "Hedging derivatives", in the amount of Euro 247,044 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 193,365 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

CONSOLIDATED INCOME STATEMENT

SECTION 1

INTEREST – ITEMS 10 AND 20

1.1 Interest and similar income: breakdown

Item/Type	Debt securities	Loans	Other transactions	Total 31/12/2020	Total 31/01/2020
1. Financial assets at fair value through profit or loss	123	1,151	-	1,274	2,565
1.1 Financial assets held for trading	31	-	-	31	329
1.2 Financial assets at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily at fair value	92	1,151	-	1,243	2,236
2. Financial assets at fair value through other comprehensive income	556	-	X	556	2
3. Financial assets measured at amortised cost	6,544	264,888	X	271,432	391,029
3.1 Loans to banks	-	284	X	284	346
3.2 Loans to customers	6,544	264,604	X	271,148	390,683
4. Hedging derivatives	X	X	(24,885)	(24,885)	(27,665)
5. Other assets	X	X	3,454	3,454	3,586
6. Financial liabilities	X	X	X	14,773	583
Total	7,223	266,039	(21,431)	266,604	370,100
of which: interest income from credit-impaired financial assets	-	9,890	-	9,890	27,447
of which: interest income from leasing	-	7,942	-	7,942	9,026

With reference to item 10 “Interest and similar income”, no revenues were recorded falling within the scope of application of the international accounting standard IFRS 15 "Revenue from Contracts with Customers".

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 7,326 thousand.

1.3 Interest and similar expense: breakdown

Item/Type	Debts	Securities	Other transactions	Total 31/12/2020	Total 31/01/2020
1. Financial liabilities at amortised cost	(38,298)	(67,131)	X	(105,429)	(188,006)
1.1 Due to central banks	-	X	X	-	(1,288)
1.2 Due to banks	(4,739)	X	X	(4,739)	(9,651)
1.3 Due to customers	(33,559)	X	X	(33,559)	(47,295)
1.4 Securities issued	X	(67,131)	X	(67,131)	(129,772)
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities at fair value through profit or loss	-	-	-	-	-
4. Other liabilities and funds	X	X	(211)	(211)	(198)
5. Hedging derivatives	X	X	(17,959)	(17,959)	(39,921)
6. Financial assets	X	X	X	(19,383)	(18,431)
Total	**(38,298)**	**(67,131)**	**(18,170)**	**(142,982)**	**(246,556)**
o.w.: interest expense for lease liabilities	(687)	-	-	(687)	(993)

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" amounts to EUR 110 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 1,686 thousand.

1.5 Spreads on hedging transactions

Items	Total 31/12/2020	Total 31/01/2020
A. Positive spreads on hedging transactions	-	4,352
B. Negative spreads on hedging transactions	(42,844)	(71,938)
C. Total (A-B)	(42,844)	(67,586)

SECTION 2

FEES AND COMMISSIONS – ITEMS 40 AND 50

2.1 Fee and commission income: breakdown

Service type/Amounts	Total 31/12/2020	Total 31/01/2020
a) guarantees issued	4,460	6,332
b) credit derivatives	-	-
c) management, brokerage and advisory services:	81,725	99,569
1. trading in financial instruments	144	55
2. currency trading	857	1,576
3. portfolio management	2,435	2,709
3.1 individual	1,097	1,143
3.2 collective	1,338	1,566
4. custody and administration of securities	1,479	1,673
5. custodian bank	-	-
6. placement of securities	37,915	41,823
7. receipt and transmission of orders	3,532	4,597
8. advisory services	33	41
8.1 related to investments	33	41
8.2 related to financial structure	-	-
9. distribution of third-party services	35,330	47,095
9.1 portfolio management	1,961	2,266
9.1.1. individual	30	24
9.1.2. collective	1,931	2,242
9.2 insurance products	20,445	24,760
9.3 other products	12,924	20,069
d) collection and payment services	32,237	42,332
e) securitisation servicing	-	-
f) factoring services	488	724
g) tax collection services	-	-
h) management of multilateral trading facilities	-	-
i) maintenance and management of current accounts	48,178	98,481
j) other services	40,355	14,769
Total	207,443	262,207

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 210,324 thousand, of which EUR 130,704 thousand refers to "point in time" revenues and EUR 79,620 thousand refers to over time revenues. Costs for IFRS15-related revenues amount to EUR 85 thousand.

2.2 Fee and commission expense: breakdown

Service type/Amounts		Total 31/12/2020	Total 31/01/2020
a) guarantees received		(4,241)	(17,867)
b) credit derivatives		-	-
c) management and brokerage services		(1,440)	(1,754)
1. trading in financial instruments		(190)	(213)
2. currency trading		-	-
3. portfolio management		(160)	(145)
3.1 own portfolio		(160)	(145)
3.2 third-party portfolio		-	-
4. custody and administration of securities		(1,078)	(1,388)
5. placement of financial instruments		(12)	(8)
6. off-site marketing of financial instruments, products and services		-	-
d) collection and payment services		(7,799)	(9,159)
e) other services		(7,249)	(13,542)
	Total	(20,729)	(42,322)

With reference to item 50 “Fee and commission expense”, 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 14,429 thousand. IFRS15-related revenues amount to EUR 5 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 31/12/2020		Total 31/01/2020	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	-	-	10	-
B. Other financial assets mandatorily at fair value	-	348	-	291
C. Financial assets at fair value through other comprehensive income	10,467	2	10,430	2
D. Investments	-	-	-	-
Total	10,467	350	10,440	293

SECTION 4

NET PROFIT (LOSS) FROM TRADING – ITEM 80

4.1 Net profit (loss) from trading: breakdown

Transactions/P&L items	Capital gains (A)	Trading profit (B)	Capital losses (C)	Trading losses (D)	Net Profit (Loss)
1. Financial assets held for trading	258	3,900	(3)	(13)	4,142
1.1 Debt securities	-	1,741	(3)	(12)	1,726
1.2 Equity instruments	-	-	-	-	-
1.3. Units in UCITS	-	-	-	-	-
1.4 Loans	-	-	-	-	-
1.5 Other	258	2,159	-	(1)	2,416
2. Financial liabilities held for trading	-	-	-	-	-
2.1 Debt securities	-	-	-	-	-
2.2 Deposits	-	-	-	-	-
2.3 Other	-	-	-	-	-
Financial assets and liabilities: exchange differences	X	X	X	X	3,462
3. Derivatives	20,590	470	(21,942)	(301)	(1,331)
3.1 Financial derivatives:	20,590	470	(21,942)	(301)	(1,331)
- on debt securities and interest rates	20,590	470	(21,942)	(301)	(1,183)
- on equities and stock indices	-	-	-	-	-
- on currencies and gold	X	X	X	X	(148)
- others	-	-	-	-	-
3.2 Credit derivatives	-	-	-	-	-
of which: natural hedges linked to the fair value option	X	X	X	X	-
Total	20,848	4,370	(21,945)	(314)	6,273

SECTION 5

NET PROFIT (LOSS) FROM HEDGING – ITEM 90

5.1 Net profit (loss) from hedging: breakdown

P&L items/Amounts	Total 31/12/2020	Total 31/01/2020
A. Gains on:		
A.1 Fair value hedging derivatives	19,233	17,147
A.2 Hedged financial assets (fair value)	8,659	29,252
A.3 Hedged financial liabilities (fair value)	1,900	4,651
A.4 Cash-flow hedging derivatives	-	-
A.5 Assets and liabilities denominated in foreign currency	-	-
Total gains on hedging activities (A)	29,792	51,050
B. Losses on:		
B.1 Fair value hedging derivatives	(3,748)	(23,029)
B.2 Hedged financial assets (fair value)	(27,179)	(24,938)
B.3 Hedged financial liabilities (fair value)	(645)	(2,292)
B.4 Cash-flow hedging derivatives	-	(2)
B.5 Assets and liabilities denominated in foreign currency	-	-
Total losses on hedging activities (B)	(31,572)	(50,261)
C. Net profit (loss) from hedging (A-B)	(1,780)	789
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 31/12/2020			Total 31/01/2020		
	Profits	Losses	Net Profit (Loss)	Profits	Losses	Net Profit (Loss)
A. Financial assets						
1. Financial assets at amortised cost	45,311	(5,360)	39,951	96,394	(124,598)	(28,204)
1.1 Loans to banks	-	(1)	(1)	176	-	176
1.2 Loans to customers	45,311	(5,359)	39,952	96,218	(124,598)	(28,380)
2. Financial assets at fair value through other comprehensive income	4,775	-	4,775	31	-	31
2.1 Debt securities	4,775	-	4,775	31	-	31
2.2 Loans	-	-	-	-	-	-
Total assets (A)	50,086	(5,360)	44,726	96,425	(124,598)	(28,173)
B. Financial liabilities at amortised cost	-	-	-	-	-	-
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	112	-	112	292	(835)	(543)
Total liabilities (B)	112	-	112	292	(835)	(543)

SECTION 7

PROFITS (LOSSES) ON FINANCIAL ASSETS/LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT AND 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	24,017	278	(13,291)	(31)	10,973
1.1 Debt securities	18,344	-	(13,073)	-	5,271
1.2 Equity instruments	-	-	(121)	-	(121)
1.3. Units in UCITS	613	5	(89)	(31)	498
1.4 Loans	5,060	273	(8)	-	5,325
2. Financial assets: exchange differences	X	X	X	X	(3,462)
Total	24,017	278	(13,291)	(31)	7,511

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
	Stage 1 and 2	Stage 3		Stage 1 and 2	Stage 3	
		Write-off	Other			31/12/2020
A. Loans to banks	-	-	(1,653)	197	-	(1,456)
- Loans	-	-	(1,653)	197	-	(1,456)
- Debt securities	-	-	-	-	-	-
o.w.: purchased or originated credit-impaired	-	-	-	-	-	-
B. Loans to customers	(36,866)	(2,716)	(81,971)	442	30,726	(90,385)
- Loans	(36,649)	(2,716)	(81,971)	334	30,726	(90,276)
- Debt securities	(217)	-	-	108	-	(109)
o.w.: purchased or originated credit-impaired	-	-	-	-	-	-
Total	**(36,866)**	**(2,716)**	**(83,624)**	**639**	**30,726**	**(91,841)**

Key
A = from interest
B = other reversals

8.1a Net losses/recoveries on impairment of loans at amortized cost subject to Covid-19 support measures: breakdown

Transactions/P&L items	Net value adjustments			Total
	Stage 1 and 2	Stage 3		
		Write-off	Other	31/12/2020
1. Forborne loans, in line with GL	(12,734)	-	(2,452)	(15,186)
2. Loans subject to other measures	-	-	-	-
3. New loans	(16,285)	-	(439)	(16,724)
Total	(29,019)	-	(2,891)	(31,910)

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	31/12/2020	31/01/2020
		Write-off	Other				
A. Debt securities	(228)	-	-	34	-	(194)	11
b) Loans	-	-	-	-	-	-	-
- to customers	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	-
Total	(228)	-	-	34	-	(194)	11

Key
A = from interest
B = other reversals

SECTION 9

GAINS (LOSSES) DUE TO MODIFICATIONS NOT RESULTING IN DERECOGNITION - ITEM 140

9. Gains (Losses) due to contractual modifications: breakdown

Items/P&L items	Total 31/12/2020			Total 31/01/2020		
	Gains	Losses	Net Profit (Loss)	Gains	Losses	Net Profit (Loss)
Financial assets at amortised cost						
Contractual modifications on financial assets at amortised cost	5,703	4,388	1,315	2,723	1,910	813
of which non-performing	*248*	*120*	*128*	*784*	*612*	*172*

SECTION 12

ADMINISTRATIVE EXPENSES – ITEM 190

12.1 Personnel expenses: breakdown

Type of expense/Amounts	Total 31/12/2020	Total 31/01/2020
1) Employees	(212,904)	(389,600)
a) wages and salaries	(149,388)	(192,902)
b) social-welfare charges	(5,056)	(49,163)
c) severance pay	(1,904)	(2,768)
d) social security expenses	(35,141)	(3,180)
e) provision for staff severance pay	(131)	(721)
f) pension fund and similar obligations:	(70)	(335)
- defined contribution	-	-
- defined benefit	(70)	(335)
g) contributions to external pension funds:	(11,871)	(14,759)
- defined contribution	(11,871)	(14,759)
- defined benefit	-	-
h) costs related to share-based payments	-	-
i) other employee benefits	(9,343)	(125,772)
2) Other staff	(307)	(205)
3) Directors and Statutory Auditors	(4,261)	(4,716)
4) Retired personnel	-	-
Total	(217,472)	(394,521)

12.2 Average number of employees by category

	Total 31/12/2020
1) Employees	3,422
a) senior managers	44
b) middle managers	932
c) remaining staff	2,446
2) Other personnel	12
Total	3,434

12.3 Defined benefit company pension funds: costs and revenues

During the year, total costs of EUR 70 thousand were recorded for defined benefit company pension funds.

For more details, please refer to Section 10.5, Liabilities.

12.4 Other employee benefits

This item includes the provisions for the Fund for restructuring charges related to the solidarity fund (EUR 2.8 mln), expenses connected to health insurance policies (EUR 2.8 mln), other expenses related to training (EUR 0.6 mln), meal vouchers for employees (EUR 3.2 mln) and other residual charges.

12.5 Other administrative expenses: breakdown

Service type/Amounts	Total 31/12/2020	Total 31/01/2020
Indirect taxes and duties	(59,820)	(70,853)
- stamp duties and taxes on stock exchange	(34,268)	(42,868)
- substitute tax (Pres. Decree no. 601/73) 601/73	(3,977)	(2,247)
- local property taxes	(5,346)	(6,546)
- other indirect taxes and duties	(16,229)	(19,192)
Contributions to the guarantee and resolution funds	(26,081)	(21,002)
Leases and rents payable (*)	(590)	(726)
- real estate	(436)	(365)
- electronic equipment and software	(20)	(5)
- other	(134)	(356)
Expenses for software acquisition	(3,298)	(5,138)
Maintenance and operating expenses	(8,290)	(9,531)
- property owned and used by the bank	(4,371)	(2,802)
- rented property	(1,029)	(3,146)
- movable property	(2,770)	(3,367)
- software	(120)	(216)
Cleaning services	(3,131)	(2,194)
Utilities (electricity, heating and water)	(5,484)	(8,412)
Printing and stationery	(1,115)	(1,640)
Post and telephone	(2,750)	(3,402)
Surveillance and security services	(1,438)	(1,856)
Transport	(3,154)	(3,897)
Insurance premiums	(1,430)	(1,853)
Advertising, publicity and media initiatives	(1,302)	(1,062)
Entertainment expenses	(250)	(362)
Membership fees	(786)	(894)
Contributions to bodies and associations	(408)	(418)
Subscriptions to newspapers, magazines and publications	(435)	(436)
Professional services fees	(24,744)	(42,012)
- consultancy	(10,809)	(21,798)
- legal expenses	(4,932)	(11,313)
- commercial information and land registry searches	(1,437)	(1,701)
- other	(7,566)	(7,200)
Expenses for IT services and outsourcing	(52,216)	(58,537)
Indirect personnel expenses	-	-
Other expenses	(2,490)	(6,151)
Total	**(199,212)**	**(240,376)**

(*) The item "leases and rents payable" includes charges relating to the following costs under lease agreements:

- *costs relating to short-term leases, for EUR 84 thousand;*
- *costs relating to low-value leases, for EUR 90 thousand;*
- *costs for variable lease payments due not included in the valuation of lease liabilities, for EUR 567 thousand.*

With reference to item 190 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 616 thousand.

SECTION 13

NET PROVISIONS FOR RISKS AND CHARGES - ITEM 200

13.1 Net provisions for credit risk from loans commitments and financial guarantees given: breakdown

	Net provisions for credit risk from loans commitments and financial guarantees given			
	Stage 1	Stage 2	Stage 3	Total
1. Commitments to disburse funds	223	(226)	75	71
2. Financial guarantees given	(267)	1,377	4,623	5,732
Total	(44)	1,151	4,697	5,804

13.3 Net provisions for risks and charges: breakdown

	Total 31/12/2020	Total 31/01/2020
Provision for risks and charges related to legal disputes and clawback actions	(8,605)	(16,300)
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	6,093	3,776
Re-allocation to Income Statement from other provisions	8,301	624
Other provisions	(43,223)	(28,609)
Total	(37,434)	(40,509)

SECTION 14

NET ADJUSTMENTS TO/RECOVERIES ON PROPERTY AND EQUIPMENT - ITEM 210

14.1. 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	(18,217)	(36)	107	(18,146)
- owned	(6,274)	-	-	(6,274)
- acquired through finance lease	(11,943)	(36)	107	(11,872)
2 Held for investment	(2,091)	(13,549)	-	(15,640)
- owned	(2,091)	(13,549)	-	(15,640)
- acquired through finance lease	-	-	-	-
3 Inventories	X	(5,649)	-	(5,649)
Total	(20,308)	(19,234)	107	(39,435)

SECTION 15

NET ADJUSTMENTS TO/RECOVERIES ON INTANGIBLE ASSETS – ITEM 220

15.1 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	(12,997)	-	-	(12,997)
- generated internally by the company	-	-	-	-
- other	(12,997)	-	-	(12,997)
A.2 Acquired through finance lease	-	-	-	-
Total	(12,997)	-	-	(12,997)

SECTION 16

OTHER OPERATING EXPENSE AND INCOME - ITEM 230

16.1 Other operating expense: breakdown

	31/12/2020	31/01/2020
Litigation losses	(3,606)	(78,739)
Expenses for tax disputes	(1,265)	-
Routine maintenance costs on investment property	(36)	(168)
Expenses for improvement of third parties' assets	(181)	(323)
Expenses for covered bond transactions and securitisations	(790)	(2,228)
Other expenses	(4,645)	(6,375)
Total other expenses	**(10,523)**	**(87,833)**

16.2. Other operating income: breakdown

	31/01/2020	31/01/2020
Lease payments receivable	2,811	3,130
Third-party charges:	41,690	55,934
recovery of credit facility fees	*4,510*	*11,578*
tax recovery (1)	*36,928*	*44,032*
customer insurance premiums	*252*	*324*
Disposal of property and equipment classified as inventories (IAS 2)	*1,876*	*1,344*
Other income	11,735	13,970
Total	**58,112**	**74,378**

(1) The item consists of taxes recovered from customers, whose cost is posted to sub-item 180 b) "Other administrative expenses" in the income statement.

With reference to item 230 "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 3,433 thousand. IFRS15 revenues amounted to EUR 10,660 thousand and include EUR 4,962 thousand worth of point-in-time revenues and EUR 5,968 thousand worth of over time revenues.

SECTION 17

PROFITS (LOSSES) ON EQUITY INVESTMENTS – ITEM 250

17.1 Profits (Losses) on equity investments: breakdown

P&L items/Sectors	Total 31/12/2020	Total 31/01/2020
1) Jointly owned companies		
A. Income	-	-
1. Revaluations	-	-
2. Gains on disposal	-	-
3. Write-backs	-	-
4. Other income	-	-
B. Expenses	(152)	-
1. Write-downs	-	-
2. Impairment losses (*)	(152)	-
3. Losses on disposal	-	-
4. Other expenses	-	-
Net Profit (Loss)	(152)	-
2) Companies subject to significant influence		
A. Income	4,807	9,387
1. Revaluations	4,807	9,387
2. Gains on disposal	-	-
3. Write-backs	-	-
4. Other income	-	-
B. Expenses	-	(1,152)
1. Write-downs	-	-
2. Impairment losses	-	(1,152)
3. Losses on disposal	-	-
4. Other expenses	-	-
Net Profit (Loss)	4,807	8,235
Total	4,655	8,235

(*) Value adjustments of the controlling interest excluded from the scope of consolidation in St. Anna Gestione Golf Società sportiva dilettantistica a r.l..

SECTION 20

PROFITS (LOSSES) ON DISPOSAL OF INVESTMENTS – ITEM 280

20.1 Profits (losses) on disposal of investments: breakdown

P&L items/Sectors	Total 31/12/2020	Total 31/01/2020
A. Real estate	140	517
- Gains on disposal	177	565
- Losses on disposal	(37)	(48)
B. Other assets	-	-
- Gains on disposal	-	-
- Losses on disposal	-	-
Net Profit (Loss)	140	517

SECTION 21

TAXES ON INCOME FROM CONTINUING OPERATIONS – ITEM 300

21.1 Taxes on income from continuing operations: breakdown

P&L items/Sectors	Total 31/12/2020	Total 31/01/2020
1. Current tax expense (-)	(9,662)	(2,716)
2. Adjustments to current tax expense of prior years (+/-)	(34)	89
3. Reductions in current tax expense for the period (+)	15,512	-
3. *bis* Reductions in current tax expense for the period due to tax credit under Law 214/2011 (+)	137,591	63,960
4. Changes in deferred tax assets (+/-)	(234,583)	(76,978)
5. Changes in deferred tax liabilities (+/-)	(385)	(143)
6. Tax expense for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(91,561)	(15,788)

21.2 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 for this year (Item 300 / Item 290) is close to 57%.

Despite the loss for the period, the accrued IRES tax is negative, as it was weighed down by the prudential decision not to recognise an overall amount of EUR 65 mln in IRES Deferred Tax Assets and the derecognition of approximately EUR 66 mln due to being unrecoverable (see paragraph "IAS 12" and "probability test" for the recognition of deferred tax assets in section 11.8 of the "Assets").
Taking into account these tax assets not recognised and derecognised, the tax rate would be 25%. 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 increased by non-deductible expenses, which are only partly offset 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 290 (see Section 11 of "Assets"), IRAP for the period was affected by a negative tax base which, as occurs with the IRES tax, cannot be carried forward as a tax credit in the following years. Therefore, its impact on gross profit is negligible, as compared to a reference tax rate of 5.57%. Due to the provisions of Law no. 83/2015, value adjustments on receivables from customers are now fully deductible from IRAP tax in the year of recognition.

SECTION 22

PROFIT (LOSS) AFTER TAX FROM DISCONTINUED OPERATIONS - ITEM 320

22.1 Profit (Loss) after tax from discontinued operations: breakdown

P&L items/Amounts	Total 31/12/2020	Total 31/01/2020
1. Income	-	13,235
2. Expenses	-	(4,584)
3. Profit (loss) from valuation of groups of assets and associated liabilities	-	-
4. Profit (loss) from disposal	-	-
5. Taxes and duties	-	(4,893)
Profit (Loss)	-	3,758

22.2 Breakdown of tax on discontinued operations

	Amount 31/12/2020	Amount 31/01/2020
1. Current tax expense (-)	-	(1,939)
2. Changes in deferred tax assets (+/-)	-	(2,954)
3. Changes in deferred tax liabilities (+/-)	-	-
4. Income taxes for the year (-1 +/-2 +/-3)	-	(4,893)

SECTION 23

NON-CONTROLLING INTERESTS - ITEM 340

23.1 Breakdown of Item 340 "Shareholders' equity: Non-controlling interests"

Company name	31/12/2020	31/01/2020
Banca del Monte di Lucca SpA	(1,014)	(6,646)
Centro Fiduciario SpA	7	-
Total	(1,007)	(6,646)

SECTION 24

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, the Carige Group collected the following public contributions granted by Italian entities:

	Amount 31/12/2020
1. Contribution incentives	101
1.1 Banca Carige	101
2. Contribution for training	915
2.1 Banca Carige	859
2.2 Banca del Monte di Lucca	50
2.3 Banca Cesare Ponti	6
Total	1,016

SECTION 25

EARNINGS PER SHARE

25.1 Average number of diluted ordinary shares

	31/12/2020	31/01/2020
Weighted average of ordinary shares in issue	755,275,213	162,957,944
Dilutive effect from sale of put options		
Dilutive effect from convertible liabilities	-	-
Weighted average of diluted ordinary shares in issue	755,275,213	162,957,944

25.2 Other information

	31/01/2020	31/01/2020
Basic earnings (EUR/000)		
Net profit (loss)	(251,641)	(869,777)
- Earnings attributable to other share categories	-	-
Net earnings attributable to ordinary shares	**(251,641)**	**(869,777)**
Diluted earnings (EUR/000)		
Net profit (loss)	(251,641)	(869,777)
- Earnings attributable to other share categories	-	-
Net interest expense on convertible instruments	-	-
Net diluted earnings attributable to ordinary shares	**(251,641)**	**(869,777)**
Earnings per share (EUR)		
Basic	**-0.333**	**-5.337**
Diluted	**-0.333**	**-5.337**

Earnings per share - continuing operations

	31/01/2020	31/01/2020
Basic earnings (EUR/000)		
Net profit (loss)	(251,641)	(869,777)
Less: Net income from discontinued operations	-	(3,758)
Less: Earnings attributable to other share categories	-	-
Net earnings attributable to ordinary shares	**(251,641)**	**(873,535)**
Diluted earnings (EUR/000)		
Net profit (loss)	(251,641)	(869,777)
Less: Net income from discontinued operations	-	(3,758)
Less: Earnings attributable to other share categories	-	-
Plus: Net interest expense on convertible instruments	-	-
Net diluted earnings attributable to ordinary shares	**(251,641)**	**(873,535)**
Weighted average of ordinary shares in issue	755,275,213	162,957,944
Dilutive effect from sale of put options	-	-
Dilutive effect from convertible liabilities	-	-
Weighted average of diluted ordinary shares in issue	755,275,213	162,957,944
Earnings per share from continuing operations (EUR)		
Basic	**-0.333**	**-5.360**
Diluted	**-0.333**	**-5.360**

Basic and diluted earnings per share were restated to take account of the reverse stock split effected in 2020.

Part D

CONSOLIDATED COMPREHENSIVE INCOME

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

		31/12/2020	31/01/2020
10.	Net Profit (Loss)	(252,648)	(876,423)
	Other comprehensive income not reversed to profit or loss	558	(2,755)
20.	Equity instruments at fair value through other comprehensive income	(335)	1,091
	a) changes in fair value	(335)	1,091
	b) transfers to other comprehensive income		
30.	Financial liabilities at fair value through profit or loss (changes in the credit rating):		
40.	Hedging of equity instruments at fair value through other comprehensive income		
50.	Property and equipment		
60.	Intangible assets		
70.	Defined benefit plans	1,278	(5,332)
80	Non-current assets and disposal groups of assets held for sale		
90	Share of valuation reserves of equity investments valued at equity	-	(18)
100.	Income taxes relating to other comprehensive income not reversed to profit or loss	(385)	1,504
	Other comprehensive income reversed to profit or loss	11,285	15,339
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	13,750	18,616
	a) changes in fair value	(636)	
	b) reversal to profit and loss	14,386	18,616
	c) other changes		
	of which: net positions		
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	2,161	4,303
	a) changes in fair value	1,626	3,885
	b) reversal to profit and loss	535	418
	- impairment losses	194	(11)
	- gains (losses) from disposal	341	429
	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	(5,262)	(7,580)
190.	Total other comprehensive income	11,207	12,584
200.	Total comprehensive income (items 10+130)	(241,441)	(863,839)
210.	Total consolidated comprehensive income: non-controlling interests	(994)	(6,692)
220.	Consolidated comprehensive income attributable to Parent Company	(240,447)	(857,147)

Part E

INFORMATION ON RISKS AND RISK HEDGING POLICIES

Foreword

THE INTERNAL CONTROL SYSTEM

In order to guarantee sound and prudent management, which reconciles the pursuit of profitability with consistent risk-taking and a conduct of business driven by the criteria of transparency and fairness, the Parent Company, Banca Carige, in compliance with the law and regulations and the provisions of the Corporate Governance Code for listed companies, has adopted an Internal Control System (ICS) designed to detect, measure and continually verify the risks typical of the Bank's activities.

The prerequisite for a well-working internal control system is the proper subdivision of the Corporate Organisational System.

The Corporate Organisational System comprises 5 subsystems:

- the organisational and corporate governance system
- the operational management system
- the risk measurement and assessment system
- the capital adequacy self-assessment system
- the internal control system.

It is designed and continually monitored to ensure coherence at all times with the supervisory organisational model, i.e. the set of provisions of law and regulations that together govern the processes, procedures and organisational structure.

The active involvement of the Bank's governing bodies in adapting the corporate organisational system to the supervisory regulations is vitally important. The regulations set out precisely the duties and responsibilities of the governing bodies in defining the banks' internal control systems.

In particular, the governing body vested with strategic supervision functions is in charge of defining the business model, strategic guidelines, acceptable levels of risk and approval of the most important company processes (e.g., risk management, assessment of company activities and approval of new products and services).

The individual processes making up the corporate organisational system are described in specific regulations which constitute the first-level regulatory sources, and given further detail in the second-level internal regulatory sources.

The main purpose of the regulations governing the processes of the corporate organisational system is to regulate the risks to which the Group is exposed, especially the risk of regulatory non-compliance, i.e. the risk that the processes do not comply with the legislation and supervisory regulations (external rules).

The regulatory framework is therefore designed to:

- constantly set out, in compliance with the external rules, the Bank’s rules (internal rules) on corporate processes as a whole, including corporate governance and control;
- assess compliance of new products/projects/processes with standards or compliance of business organisation with new regulations coming into force (*ex ante* activity);
- assess compliance of business processes with regulations, through the assessment of existing controls and the stage of implementation of planned actions(*ex post* activity);
- periodically inform the governing bodies of the results of the inspections performed i.e. regarding the organisational risk of non-compliance of the processes;
- take steps necessary to eliminate any deficiencies found by the foregoing inspections.

The Banca Carige Internal Control System, periodically reviewed and adjusted to reflect changes in the Bank's operations and the business environment, is based on a set of rules, procedures and organisational structures designed to ensure conformity with company strategies and balanced operational management.

Partly in the light of the observations made at Group level by the ECB within the Supervisory Review and Evaluation Process and further to subsequent inspections, the Parent Bank's Internal Auditing, Risk Management and Compliance functions are subject to close monitoring by both the functions and the Bank's competent operating units to ensure they are adequate in terms of qualitative and quantitative sizing, as a pre-requisite to obtain the adequacy of the Group-wide risk monitoring and control system.

The adequacy and effectiveness of the ICS as a whole are assessed by internal audits.

Banca Carige has defined a system of internal controls for the Group to carry out the following types of controls foreseen by the supervisory regulations and/or by the internal rules:

1) **Line Controls** (level 1)

These consist of:

- ongoing line controls (self-assessments) by the organisational units on individual activities performed. These can either be: i) incorporated within the IT procedures supporting the activities; (ii) performed as back office controls on samples also by the heads of the organisational units (hierarchical line control);
- regular controls by individual units on their own processes (a set of homogeneous activities) over a specific period.

The personnel has a duty to notify management of any procedural irregularities identified in the provision of services or the conduct of transactions, and take initiatives to improve the safeguards against risk.

An operational and organisational monitoring model supported by a special IT application is in place for lending, with a view to ensuring the structured and effective management of any positions that show signs of deterioration and, after an initial 'commercial' management stage, entrust dedicated credit specialists with the task of monitoring and steering the actions of relationship managers and the progress of the positions. This model is based on the verification of parameters that are deemed significant for the assessment of customer performance (early warnings) in order to identify and promptly manage any signs of impairment in the customer’s creditworthiness and safeguard the Group’s receivables. Ratings are one of the tools used to define the level of priority for intervention on positions within the scope of control.

2) **Compliance Controls and Risk Controls** (level 2)

These controls are designed to verify the company processes' compliance with the law and regulations, define risk measurement methods, verify compliance with the limits assigned to the various operating units and monitor the achievement of their risk-return targets. They are performed by a number of distinct structures other than production units:

- **Compliance**

  The compliance control function lies with the Compliance Department which, in accordance with supervisory instructions, has complete independence of judgement and action, is part of the Chief Executive Officer's staff and may report directly, via the Head of Compliance, to the governing and control bodies of the Parent Company and Group companies that outsource the compliance function activities to the Parent Company. The unit:

  - performs the regulatory compliance control process, comprising the foregoing *ex-ante* and *ex-post* compliance assessments, and passes a judgement on the entire compliance process, by verifying whether the internal regulations accurately reflect and comply with the external regulatory framework and the activities underlying the business processes are likewise compliant;

- periodically informs the Board of Directors, the Board of Statutory Auditors, the Chief Executive Officer, Internal Audit and Risk Management of the results of the compliance controls and the non-compliance risk assessment, and recommends measures to contain or eliminate this risk;
- contributes, through collaboration with the training programmes on the applicable regulations, to the dissemination of a corporate culture founded on the principles of honesty, fairness and respect for rules, aimed at preventing illicit and/or non-compliant practices.

- **Anti-money laundering**

The Anti-Money Laundering function was set up as part of the Compliance Unit, with the Head of Compliance being also the Head of the Anti-Money Laundering function and the Head of the Anti-Money Laundering office being the Manager responsible for reporting suspicious transactions, pursuant to article 36, paragraph 6, of Legislative Decree no. 231/2007, under powers conferred by the Legal Representative of all the Group Banks, Centro Fiduciario and Creditis Servizi Finanziari S.p.A..

The Anti-Money Laundering function is centralised for the Group's banks. The Anti-Money Laundering office is responsible for operational tasks. The Head of the Anti-Money Laundering function of the Parent Company provides methodological and operational support to adequately steer and coordinate control activities within the Group, including with reference to the adoption of the controls defined by law for shared customers.

The Head of the Anti-Money Laundering function of the Parent Company:

- submits the annual action plan to the Anti-Money Laundering coordinators and the relevant Boards of Directors;
- periodically provides the Anti-Money Laundering coordinators with information on the activities carried out, any emerging findings and remedial actions to be taken;
- reports quarterly to the Anti-Money Laundering coordinators and the Board of Directors on the activities carried out, the results and the outcome of the improvement actions undertaken.

The Function's main task is to continually verify that company procedures serve the goal of preventing and combating the violation of external and self-imposed rules against money laundering and the funding of terrorism.

- **Risk Management**

The risk management function lies with the Chief Risk Officer's Area which, in accordance with supervisory instructions, has complete independence of judgement and action, is part of the Chief Executive Officer's staff and can report directly, via its Manager who holds the position of Chief Risk Officer – CRO, to the governing and control bodies of the Parent Company and the Group banks/companies, which outsource this function to the Parent Company.

In order to both ensure segregation of risk modelling from risk control functions and adaptation of the structure to the ever-growing need for developing an integrated vision of bank-wide risks, partly via the identification of middle management roles, until 20/12/2020 the Chief Risk Officer's area was made up of the Risk Management and Risk Control units and the Internal Validation and Risk Engineering offices. As of 21/12/2020, the following changes were made to its organisational structure:

- focus of the two functions on the overall management of key credit, financial and operational risks; the two functions were thus renamed Credit Risk Management and Financial & Operational Risk Management, as the separation between risk management and risk monitoring/control under the previous layout was deemed impractical;

- redefinition of the tasks assigned to the Risk Engineering office, which was thus renamed Risk data & tools management office;
- direct reporting to the CRO of the Risk strategy office -formerly belonging to the Risk Management function- which was thus renamed Risk strategy & capital management office;
- confirmation of the Internal Validation office as reporting directly to the CRO.

The Risk Control function's tasks include the following assessments:

- accurate recognition and measurement of all risks facing the Group;
- capital adequacy (also known as total capital) in relation to the summation of risks (overall internal capital);
- operational compliance of the process followed by the organisational units responsible for loan classification, expected loss determination and debt collection;
- compliance with the RAF limits laid down by the Board of Directors;
- operational compliance of the ICAAP and ILAAP processes.

The Chief Risk Officer Area performs its functions for the Parent Company and the Group companies which outsource this function to the Parent, working in conjunction with various corporate structures and with the support of special representatives in each of the companies concerned.

- **Internal Validation**

The activity is carried out by the Internal Validation office, which is part of the Chief Risk Officer staff. For all risks considered relevant under the ICAAP process, the Internal Validation office examines both risk measurement methods and risk monitoring and management models, together with the relevant IT processes and systems in all cases where such methods were internally developed by the Group.

Ratings validation consists in:

- an assessment of compliance with regulations (where applicable) and the soundness of internal risk measurement and control systems, which is summarised in a comprehensive validation score;
- risk control as a model and drive for the Group to achieve the best practices in risk measurement and control.

Furthermore, the Internal Validation office:

- reports to the Control Bodies and the strategic supervision body on the outcome of validation activities by preparing the annual Validation Report;
- monitors the ICAAP process by stressing both the weaknesses and areas for improvement and reports to the Management and Control Bodies through the ICAAP self-assessment report, relying on the contribution from other relevant operating units where applicable.

- **Manager responsible for preparing the Company's financial reports (with the support of Accounting Control)**

The "Governance and Control Model for Administrative/Accounting Procedures in the Banca Carige Group" -designed on the basis of the model defined in 1992 by the Committee of Sponsoring Organizations of the Treadway Commission ("CoSO") in its publication "CoSO's Internal Control Integrated framework", as well as, in relation to IT aspects, on the basis of the IT Control Objectives for Sarbanes-Oxley (consistent with the CobIT methodology)- covers the whole of the Group's operations and sets out the responsibilities of the various organisational units involved in the financial reporting process to provide reasonable certainty of achieving the Bank's objectives, namely:

- effectiveness and efficiency of operations (operations);
- reliability of reporting (reporting);
- compliance with applicable laws and regulations (compliance).

The Operations and Compliance dimensions are seen as important because the underlying activities, if not adequately controlled, can have a material impact on the separate and consolidated financial statements.

The Reporting aspect is seen as the central focus of the Model, covering all communications and disclosures to the market on the annual and interim accounts.

The Manager responsible for preparing the Company's financial reports, with the support of the Accounting Control, follows a cycle and sequence of activities to obtain a complete overview of the administrative/accounting procedures and assess the adequacy and functionality of the relative controls. The various activities are grouped by sequence, nature and purpose into the following stages:

- assessment of the controls (entity level controls) in place across the Group and monitoring of the adequacy of the administrative/accounting model;
- definition of the perimeter of activity and planning;
- formalisation of procedures and updating of existing procedures;
- identification and assessment of the risks and design of controls, as well as monitoring of corrective actions;
- testing of controls in place;
- overall assessment of process controls in place;
- the overall control assessment is therefore a combination of the results of the design assessment and the assessment of the effective operation of the controls, and expresses the level of residual risk to which the Bank is exposed.

Moreover, the process of the Manager responsible for preparing Banca Carige S.p.A.'s financial reports is supported by a "cascading" internal sub-certification mechanism through which the Manager regularly obtains validation from the internal organisational units on compliance with the procedures and execution of the controls required, relating to the administrative and accounting areas and aimed at the correct preparation of financial statements.

The Manager responsible for preparing the Group's financial reports, informs the Board of Directors, the Board of Statutory Auditors, the Risk Committee and the Supervisory Body of Banca Carige S.p.A. every six months -pursuant to Legislative Decree No. 231/2001- on the activities performed and the main outcomes, with particular reference to changes in administrative/accounting procedures, assessments of how controls are designed (with evidence of main deficiencies identified and corrective actions required) and assessments on the actual application of the existing controls and any emerging irregularities.

3) **Internal audit** (level 3)

The Internal Auditing function is performed by the Internal Audit Unit which reports directly to the Board of Directors. Its task is to assess the adequacy and effectiveness of first and second level controls, identify irregular trends, breaches of procedures and regulations, and evaluate the functional efficiency of the Internal Control System as a whole.
The Head of Internal Audit chairs the Committee for the Coordination of the Company's Control functions, whose members are the Heads of the Control Functions. The Committee was established in order to monitor the risks to which the Bank is exposed and to ensure proper and effective coordination among the Internal Control functions via an in-depth exchange of information on relevant issues in the planning and implementation of controls and in the assessment of the results achieved, without prejudice to the responsibilities of each control unit.

Internal Audit performs its functions for the Parent Company and for the Group companies which outsource this function to the Parent, working in conjunction with the corporate structures and with the support of specific representatives in each of the companies concerned.

In particular, Internal Audit:

- assesses the effectiveness and adequacy of the Internal Control System as a whole in accordance with the Regulation of the Internal Audit Process (audit planning, execution of the audit plan, recommendations to improve the corporate system, verification of recommended measures);
- carries out annual and multi-year planning of internal audit activities including controls at the operating units (on-site audits) and remote line controls on the processes followed by the individual units;
- assesses the correct execution by the organisational units of line controls on their procedures;
- assesses the correct execution by the second level control units of the controls within their remit (risk controls, compliance controls);
- carries out investigations related to complex situations that may result from fraud, errors, etc., providing opinions as required.

Internal Audit carries out its work on the basis of the Group Audit Model which rests on a methodology designed to identify and report the risk levels associated with company processes, resulting in a qualitative survey of the residual risk facing the company and a subsequent measurement of the adequacy of the Internal Control System.

The Audit Model covers all company processes and all Group entities. It applies to both process audits and branch network audits, throughout the audit life cycle, with the support of dedicated IT tools for the various steps:

1. planning activities;
2. carrying out audits;
3. assessing risks and controls;
4. detailed or summary reporting;
5. follow-ups;
6. managing resources.

* * *

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 27 December 2013 and subsequent updates).

The strategy pursued for the Group's banks has over time led to the centralisation of numerous functions within the Parent, in particular internal audit, compliance, anti-money laundering, risk management, accounting, finance, planning and control.

The different categories of risk -as has been mentioned- are first of all supervised by line controls and then monitored by the 2nd level control structures and the independent 3rd level control function. The findings of the various control activities are reported periodically to the Board of Directors, the Risk Committee and the Board of Statutory Auditors, as well as to the various management committees (Management Committee, Risk Control Committee, Credit Committee, Lending Committee, Commercial Committee, the Finance and ALM Committee, and the NPE Committee; in December 2020, the Product Committee was also set up and has been operational since 1 January 2021).

The organisation of the internal control system is also discussed in the "Corporate Governance and Ownership Structure Report for 2020", available on the company’s website www.gruppocarige.it.

SECTION 1 - RISKS OF THE CONSOLIDATED ACCOUNTING PERIMETER

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		83,359	205,964	19,891	169,894	15,844,545	16,323,653
2. Financial assets at fair value through other comprehensive income		-	-	-	-	2,340,682	2,340,682
3. Financial assets measured at fair value through profit and loss		-	-	-	-	-	-
4. Other financial assets mandatorily at fair value		-	41,737	-	-	113,855	155,592
5. Financial assets held for sale and discontinued operations		-	-	-	-	-	-
Total	31/12/2020	83,359	247,701	19,891	169,894	18,299,082	18,819,927
Total	31/01/2020	68,336	589,708	20,121	280,496	18,231,491	19,190,152

As at 31 December 2020, forborne (performing and non-performing) exposures totalled EUR 319,968 thousand (net of value adjustments) and were traceable to financial assets measured at amortised cost. For their classification into the various classes of credit quality, see details in tables A.1.4 Prudential consolidation - “On- and off-balance sheet credit exposures to banks: gross and net values” and A.1.5 Prudential consolidation - “On- and off-balance sheet credit exposures to customers: gross and net values”.

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	645,041	(335,827)	309,214	12,412	16,139,744	(125,305)	16,014,439	16,323,653
2. Financial assets at fair value through other comprehensive income	-	-	-	-	2,340,912	(230)	2,340,682	2,340,682
3. Financial assets measured at fair value through profit and loss	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily at fair value	57,623	(15,886)	41,737	-	X	X	113,855	155,592
5. Financial assets held for sale and discontinued operations	-	-	-	-	-	-	-	-
Total 31/12/2020	702,664	(351,713)	350,951	12,412	18,480,656	(125,535)	18,468,976	18,819,927
Total 31/01/2020	1,249,896	(571,732)	678,164	21,299	18,498,092	(89,222)	18,511,988	19,190,152

Portfolio / Quality	Markedly poor credit quality assets		Other assets
	Accumulated capital losses	Net exposure	Net exposure
1. Financial assets held for trading	2	8	1,722
2. Hedging derivatives	-	-	9,355
Total 31/12/2020	2	8	11,077
Total 31/01/2020	1	7	10,795

SECTION 2 - RISKS OF THE PRUDENTIAL CONSOLIDATED PERIMETER

1.1 CREDIT RISK

Qualitative Information

1. General aspects

The Parent Company's credit offer mainly targets households, small businesses, small and medium-sized companies.

The Parent Company pursues the policy of consolidating its current market leadership position through actions to increase the level of penetration on current customers, mainly via cross-selling, in any event without neglecting new business initiatives. Growth-boosting activities are mainly focused on consumer and corporate customers in the higher-potential geographical areas and business segments.

The main objective outside the Liguria region is to make the most of the network's potential to expand the customer base, especially in northern Italy and Tuscany, with particular reference to consumer and retail and mid-corporate customers.

The main guidelines for the Group's credit policies focus on the:

- containment of credit risk 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.

With regard to the quantitative information required in the disclosure templates provided for by the "*Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID 19 crisis*" published by the EBA (EBA / GL / 2020/07), the disclosure obligation is fulfilled on a consolidated level in the public disclosure document ("Pillar 3"), chapter "5.1-Value adjustments on loans", available on the Group's website under the Investor Relations - Basel Report section.

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 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 at branch network and head office level- 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 envisaged in supervisory regulations on 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 Corporate segment (SMEs and LARGE corporate).

Banca Carige also implemented models for determining, at the consolidated level, probability of default (PD), loss in the event of insolvency (Loss given default – LGD), exposure in the event of insolvency (Exposure at default –EAD).

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 (Consumers, Small market players and Small Businesses) and the Corporate segment (SMEs and Large Corporate).

Risk parameters (PD and LGD) are recalibrated in order to reflect the most recent risk developments in the Group's loan book.

As part of the stress testing and the ICAAP process, the Banca Carige Group has adopted a portfolio model that complements the internal rating model used 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 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 days past due associated with individual accounts which is used for FINREP reporting purposes, adopting absolute materiality thresholds for the past due on individual positions in line with the existing definition of default.
The definition of default used for the purpose of calculating expected losses is consistent with the definition of default used internally for the purposes of "credit risk management".
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.

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.

The latter estimate is determined by considering the occurrence of various macro-economic scenarios provided by centre leading research institute, supplier of the bank, which are appropriately weighted according to their probability of occurrence as defined by the Group.

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.

CHANGES DUE TO 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, as described in Part A – “Accounting Policies”, “Section 5 – Other information”.

2.4 Credit risk mitigation techniques

The Group’s credit policy attaches utmost care to the selection of credit, financed initiatives and borrowers, in addition 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/or guarantees by loan-guarantee consortia, with an adequate risk profile.

In order to contain the economic repercussions caused by the health emergency from Covid-19, the Italian government launched a series of legislative measures during the course of 2020, which in the credit field mainly resulted in moratorium measures and state-guaranteed financing.

The Banca Carige Group immediately took action to support its customers financially by granting moratoria and loans assisted by the Central Guarantee Fund for SMEs.

As a result of the above initiatives, which concerned a significant portion of the loan portfolio, the share of guarantees has significantly increased, with the effects of mitigating credit risk and improving capital requirements.

Given that, in this context, personal guarantees and collaterals are acquired – as deemed appropriate for credit risk mitigation, 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: 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.

The "Guidelines on the application of the definition of default" (EBA/GL/2017/07) together with Commission Delegated Regulation (EU) 2018/171 on the materiality threshold for past due credit exposures (RTS (EU) 2018/171), constitute the regulatory package known as the "New Definition of Default".

The new regulation, which entered into force on 1 January 2021, introduces some regulatory innovations, including:

- a new objective materiality threshold for assessing the relevance of the customer's credit obligation past due, consisting of an absolute component (EUR 100 for Retail customers; EUR 500 for non-Retail customers) and a relative component (1% of the total amount of all on-balance sheet exposures to that obligor of the bank);
- a mandatory period of at least 90 consecutive days of regularity and absence of default events for the customer's return to "non-defaulted status" (so-called "Probation Period");
- the presence of certain objective and / or subjective conditions for default contagion between joint credit obligations and related customer groups;
- a new objective criterion for the classification of exposures as Unlikely to Pay under the forbearance measures, where these involve a "distressed restructuring" (i.e. when the customer's diminished financial obligation exceeds the 1% threshold in the ratio between the Net Present Value (NPV) of the loan before the application of the forbearance measure and the NPV of the loan after the changes in its terms and conditions).

To implement the above regulatory updates, the Banca Carige Group has undertaken special planning that led to adjustments in its internal procedures and IT systems.

Classification of non-performing assets is based on an ongoing process which involves monitoring activities focused on the prompt identification of any irregularities in relationship management, changes in rating scores over time and any emerging events pointing to a potential impairment 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, whose latest update - despite a context of utmost uncertainty regarding the repercussions that the Covid-19 pandemic will have in the medium-long term- was approved by the Board of Directors of Banca Carige on 23 February 2021, structurally reduces the Group's risk profile. In particular, continuing to pursue the overall derisking effort already initiated at the end of 2019, the Group completed the sale of a significant portfolio of non-performing exposures during the second half of 2020. As at 31 December 2020, for a residual portion of the held-for-sale loan book amounting to EUR 171 mln in GBV consisting in non-performing leases, the conditions for derecognition were not yet in place. The closing of the disposal of the residual portion held for sale remains planned by 2021. During the month of December, Banca Carige completed further loan disposal transactions. For more information on the transactions carried out and / or in progress, please refer to the contents of the paragraphs of Section 5 - "Other aspects" of the Notes to the Consolidated Financial Statements as at 31 December 2020.
At the moment, having achieved the Strategic Plan objective of reducing the non-performing share of the total loan portfolio and pending the aforementioned completion of the sale of the residual portion of the portfolio held for sale, no further NPL disposal transactions are envisaged.

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- 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 "geographic" 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, the cumulative changes in lifetime expected credit losses for these assets shall be recognised 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.

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 a 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.

With the entry into force of the legislation on the "New Definition of Default", the calculation of the cost of the forbearance measure becomes the objective criterion according to which the beneficiary of a forbearance measure on its exposure, albeit performing, must be classified directly as unlikely to pay. In particular, with effect from 1 January 2021, where a forbearance measure results in a diminished financial obligation for the customer, i.e. a cost of the measure for the Bank higher than 1% of the Net Present Value (NPV) of the forborne loan, the transaction must be classified as a "distressed restructuring" and, as such, result in the customer being classified as unlikely to pay (“forborne non-performing” category).

Taking into account the guidelines provided by the Regulatory and Supervisory Authorities, with reference to the effects of the measures to support the economy implemented, in the context of the Covid-19 pandemic, by the government and by the trade associations on the assessment of SICR and measurement of expected losses, please refer to Part A - Accounting policies, "Section 5, Other aspects".

Quantitative Information

A. CREDIT QUALITY

A.1 NON-PERFORMING AND PERFORMING LOANS: AMOUNTS, VALUE ADJUSTMENTS, CHANGES AND BREAKDOWN BY BUSINESS

A.1.1 Prudential consolidation - Breakdown of financial assets by past-due buckets (carrying value)

Portfolio/Risk stage		Stage 1			Stage 2			Stage 3		
		1 to 30 days	30 to 90 days	Over 90 days	1 to 30 days	30 to 90 days	Over 90 days	1 to 30 days	30 to 90 days	Over 90 days
1. Financial assets measured at amortised cost		17,922	16,762	7,078	6,198	45,763	76,171	671	5,708	255,733
2. Financial assets at fair value through other comprehensive income		-	-	-	-	-	-	-	-	-
3. Financial assets held for sale and discontinued operations		-	-	-	-	-	-	-	-	-
Total	31/12/2020	17,922	16,762	7,078	6,198	45,763	76,171	671	5,708	255,733
Total	31/01/2020	23,590	6,761	939	12,889	196,611	39,707	782	85,553	350,598

A.1.2 Prudential consolidation - Financial assets, loan commitments and financial guarantees given: changes in overall impairments and provisions

Sources/Risk stage	Overall value adjustments									
	Financial assets classified in stage 1					Financial assets classified in stage 2				
	Financial assets measured 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 measured 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	**21,392**	**36**	**-**	**-**	**21,428**	**67,795**	**-**	**-**	**-**	**67,795**
Increases in purchased or originated financial assets	-	-	-	-	-	-	-	-	-	-
Reversals different from write-offs	7,684	40	-	-	7,724	6,968	-	-	-	6,968
Net losses/recoveries on impairment	30,010	234	-	-	30,244	29,915	-	-	-	29,915
Contractual modifications not resulting in derecognition	-	-	-	-	-	317	-	-	-	317
Changes in the estimation methodology	-	-	-	-	-	-	-	-	-	-
Write-offs not recognised directly in profit or loss	9,472	-	-	-	9,472	-	-	-	-	-
Other changes	-	-	-	-	-	-	-	-	-	-
Closing balance: total write-downs	**34,246**	**230**	**-**	**-**	**34,476**	**91,059**	**-**	**-**	**-**	**91,059**
Recoveries from financial assets subject to write-off	-	-	-	-	-	-	-	-	-	-
Write-offs directly recognised in profit or loss	196	-	-	-	196	-	-	-	-	-

A.1.2 Prudential consolidation - Financial assets, loan commitments and financial guarantees given: changes in overall impairments and provisions

Sources/Risk stage	Overall value adjustments						Total provisions on loans commitments and financial guarantees given			Total
	Financial assets classified in stage 3					of which: purchased or originated credit-impaired financial assets				
	Financial assets measured at amortised cost	Financial assets at fair value through other comprehensive	Financial assets held for sale and discontinued	of which: individual impairment	of which: collective impairment		Stage 1	Stage 2	Stage 3	
Opening balance: total write-downs	505,654	-	-	435,656	69,997	-	1,702	2,246	20,687	619,512
Increases in purchased or originated financial assets	-	-	-	-	-	-	-	-	-	-
Reversals different from write-offs	108,144	-	-	104,875	3,269	-	-	-	-	122,836
Net losses/recoveries on impairment	67,277	-	-	43,386	23,891	-	45	(1,151)	(4,697)	121,633
Contractual modifications not resulting in derecognition	79	-	-	57	22	-	-	-	-	396
Changes in the estimation methodology	-	-	-	-	-	-	-	-	-	-
Write-offs not recognised directly in profit or loss	129,039	-	-	128,250	789	-	-	-	-	138,511
Other changes	-	-	-	-	-	-	-	-	-	-
Closing balance: total write-downs	335,827	-	-	245,974	89,853	-	1,747	1,095	15,990	480,194
Recoveries from financial assets subject to write-off	1,644	-	-	1,644	-	-	-	-	-	-
Write-offs directly recognised in profit or loss	2,768	-	-	1,342	1,426	-	-	-	-	-

A.1.3 Financial assets, loan commitments and financial guarantees given: transfers between risk stages (gross values and nominal values)

Portfolio/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	894,013	692,619	67,475	16,241	39,650	8,156
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	87,220	88,832	828	40	2,923	83
31.12.2020	981,233	781,451	68,303	16,281	42,573	8,239
31.01.2020	1,192,862	713,793	204,448	39,715	65,233	22,235

A.1.3a Loans subject to Covid-19 support measures: transfers between the various stages of credit risk (gross values)

Portfolio / Quality	Gross values/Nominal values					
	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 1 to stage 2	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
A. Loans at amortised cost	435,284	90,320	4,348	1,630	4,787	7,087
A.1 forborne, in line with GL	333,183	86,424	4,348	1,543	3,682	7,013
A.2 subject to other measures	-	-	-	-	-	-
A.3 New loans	102,101	3,896	-	87	1,105	74
B. Loans at fair value through other comprehensive income	-	-	-	-	-	-
B.1 forborne, in line with GL	-	-	-	-	-	-
B.2 subject to other measures	-	-	-	-	-	-
B.3 New loans	-	-	-	-	-	-
Total 31/12/2020	435,284	90,320	4,348	1,630	4,787	7,087

A.1.4 Prudential consolidation - 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	13,036	X	5,000	8,036	-
- of which: forborne	13,036	X	5,000	8,036	-
c) Non-performing past due exposures	-	X	-	-	-
- of which: forborne	-	X	-	-	-
d) Performing past due exposures	X	-	-	-	-
- of which: forborne	X	-	-	-	-
e) Other performing exposures	X	3,983,972	193	3,983,779	-
- of which: forborne	X	-	-	-	-
Total (A)	**13,036**	**3,983,972**	**5,193**	**3,991,815**	**-**
B. Off-balance-sheet credit exposures					
a) Non-performing	-	X	-	-	-
b) Performing	X	11,505	-	11,505	-
Total (B)	**-**	**11,505**	**-**	**11,505**	**-**
Total (A+B)	**13,036**	**3,995,477**	**5,193**	**4,003,320**	**-**

A.1.5 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	277,849	X	194,490	83,359	12,163
- of which: forborne	42,291	X	29,208	13,083	416
b) Unlikely-to-pay exposures	387,519	X	147,854	239,665	244
- of which: forborne	193,602	X	68,269	125,333	86
c) Non-performing past due exposures	24,260	X	4,369	19,891	3
- of which: forborne	1,882	X	198	1,684	-
d) Performing past due exposures	X	177,126	7,232	169,894	2
- of which: forborne	X	14,598	1,293	13,305	-
e) Other performing exposures	X	14,442,490	118,110	14,324,380	-
- of which: forborne	X	170,761	12,234	158,527	-
Total (A)	689,628	14,619,616	472,055	14,837,189	12,412
B. Off-balance-sheet exposures					
a) Non-performing	184,072	X	15,990	168,082	-
b) Performing	X	4,027,489	2,842	4,024,647	-
Total (B)	184,072	4,027,489	18,832	4,192,729	-
Total (A+B)	873,700	18,647,105	490,887	19,029,918	12,412

A.1.5a On- and off-balance sheet credit exposures to customers subject to Covid-19 support measures: gross and net values

Type of exposure/Amount	Gross exposure	Overall value adjustments and provisions	Net exposure
A. BAD LOANS	357	236	121
A) forborne, in line with GL	357	236	121
B) subject to other measures	-	-	-
c) New loans	-	-	-
B. UNLIKELY-TO-PAY EXPOSURES	10,722	3,219	7,503
A) forborne, in line with GL	9,360	2,837	6,523
B) subject to other measures	-	-	-
c) New loans	1,362	382	980
C. PAST DUE EXPOSURES	712	127	585
a) forborne, in line with GL	418	70	348
b) subject to other measures	-	-	-
c) New loans	294	57	237
D. PERFORMING PAST DUE EXPOSURES	14,533	288	14,245
a) forborne, in line with GL	13,195	238	12,957
b) subject to other measures	-	-	-
c) New loans	1,338	50	1,288
E) OTHER PERFORMING EXPOSURES	2,901,965	50,966	2,850,999
a) forborne, in line with GL	1,372,290	34,518	1,337,772
b) subject to other measures	-	-	-
c) New loans	1,529,675	16,448	1,513,227
Total (A+B+C+D+E)	2,928,289	54,836	2,873,453

A.1.6 Prudential consolidation - 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)	**-**	**12,803**	**-**
- of which: sold but not derecognised	-	-	-
B. Increases	**-**	**233**	**-**
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	-	233	-
C. Decreases	**-**	**-**	**-**
C.1 outflows to performing exposures	-	-	-
C.2 write-offs	-	-	-
C.3 collections	-	-	-
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)	**-**	**13,036**	**-**
- of which: sold but not derecognised	-	-	-

A.1.6 bis Prudential consolidation - On-balance sheet credit exposures to banks: changes in gross forborne exposures by credit quality

Description/category	Forborne: non-performing exposures	Forborne: performing exposures
A. Opening balance (gross amount)	**12,803**	**-**
- of which: sold but not derecognised	-	-
B. Increases	**233**	**-**
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	233	-
C. Decreases	**-**	**-**
C.1 outflows to non-forborne performing exposures	-	-
C.2 outflows to forborne performing exposures	-	-
C.3 outflows to forborne non-performing exposures	-	-
C.4 write-offs	-	-
C.5 collections	-	-
C.6 gains on disposal	-	-
C.7 losses on disposal	-	-
C.8 other decreases	-	-
D. Closing balance (gross amounts)	**13,036**	**-**
- of which: sold but not derecognised	-	-

A.1.7 Prudential consolidation - 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)	277,436	935,091	24,567
- of which: sold but not derecognised	13,931	19,298	596
B. Increases	69,604	100,241	20,776
B.1 inflows from performing exposures	11,952	75,150	17,929
B.2 inflows from purchased or originated credit-impaired financial	-	-	-
B.3 inflows from other categories of non-performing exposures	47,552	5,902	79
B.4 contractual modifications not resulting in derecognition	2	231	14
B.5 other increases	10,098	18,958	2,754
C. Decreases	69,191	647,813	21,083
C.1 outflows to performing exposures	86	25,788	5,700
C.2 write-offs	2,970	128,740	2
C.3 collections	8,601	222,814	7,734
C.4 gains on disposal	523	140,303	-
C.5 losses on disposal	-	3,233	-
C.6 outflows to other non-performing exposures	450	45,437	7,644
C.7 contractual modifications not resulting in derecognition	2	116	3
C.8 other decreases	56,559	81,382	-
D. Closing balance (gross amounts)	277,849	387,519	24,260
- of which: sold but not derecognised	14,603	7,967	867

A.1.7 *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)	**230,786**	**307,953**
- of which: sold but not derecognised	8,090	23,950
B. Increases	**46,258**	**56,260**
B.1 inflows from non-forborne performing exposures	8,890	38,670
B.2 inflows from forborne performing exposures	23,982	X
B.3 inflows from forborne non-performing exposures	X	6,528
B.4 inflows from non-forborne performing exposures	5,382	833
B.5 other increases	8,004	10,229
C. Decreases	**39,269**	**178,854**
C.1 outflows to non-forborne performing exposures	-	132,704
C.2 outflows to forborne performing exposures	6,528	-
C.3 outflows to forborne non-performing exposures	-	23,983
C.4 write-offs	103	4
C.5 collections	8,203	18,956
C.6 gains on disposal	-	-
C.7 losses on disposal	-	-
C.8 other decreases	24,435	3,207
D. Closing balance (gross amounts)	**237,775**	**185,359**
- of which: sold but not derecognised	6,190	18,770

A.1.8 Prudential consolidation - 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-downs	-	-	3,348	3,348	-	-
- of which: sold but not derecognised	-	-	-	-	-	-
B. Increases	-	-	1,652	1,652	-	-
B.1 write-downs of purchased or originated impaired financial assets	-	X	-	X	-	X
B.2 other write-downs	-	-	1,652	1,652	-	-
B.3 losses on disposal	-	-	-	-	-	-
B.4 inflows from other categories of non-performing exposures	-	-	-	-	-	-
B.5 contractual modifications not resulting in derecognition	-	-	-	-	-	-
B.6 other increases	-	-	-	-	-	-
C. Decreases	-	-	-	-	-	-
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	-	-	-	-	-	-
C.7 other decreases	-	-	-	-	-	-
D. Closing balance: total write-downs	-	-	5,000	5,000	-	-
- of which: sold but not derecognised	-	-	-	-	-	-

A.1.9 Prudential consolidation - 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	**209,100**	**24,788**	**354,838**	**60,949**	**4,446**	**1**
- of which: sold but not derecognised	6,381	183	5,552	1,126	87	-
B. Increases	**50,692**	**5,223**	**65,966**	**25,967**	**3,433**	**205**
B.1 write-downs of purchased or originated impaired financial assets	-	X	-	X	-	X
B.2 other write-downs	30,398	3,476	58,283	23,433	3,082	74
B.3 losses on disposal	-	-	3,233	-	-	-
B.4 inflows from other categories of non-performing exposures	18,409	1,704	891	372	12	7
B.5 contractual modifications not resulting in derecognition	-	-	100	82	2	1
B.6 other increases	1,885	43	3,459	2,080	337	123
C. Decreases	**65,302**	**803**	**272,950**	**18,647**	**3,510**	**8**
C.1 write-backs from valuation	2,123	220	11,866	58	29	-
C.2 write-backs from collection	2,777	87	14,645	635	343	-
C.3 gains on disposal	550	-	3,717	-	-	-
C.4 write-offs	2,970	103	128,738	-	2	-
C.5 outflows to other non-performing exposures	234	201	18,053	1,419	1,024	6
C.6 contractual modifications not resulting in derecognition	-	-	22	21	-	-
C.7 other decreases	56,648	192	95,909	16,514	2,112	2
D. Closing balance: total write-	**194,490**	**29,208**	**147,854**	**68,269**	**4,369**	**198**
- of which: sold but not derecognised	8,503	256	2,104	1,295	134	-

A.2 LOAN CLASSIFICATION BASED ON EXTERNAL AND INTERNAL 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	421,023	335,029	642,122	131,930	90	8,922	15,254,589	16,793,705
- Stage 1	421,023	335,029	642,122	130,889	90	8,922	12,940,116	14,478,191
- Stage 2	-	-	-	1,041	-	-	1,669,432	1,670,473
- Stage 3	-	-	-	-	-	-	645,041	645,041
B. Financial assets at fair value through other comprehensive income	330,236	-	2,010,676	-	-	-	-	2,340,912
- Stage 1	330,236	-	2,010,676	-	-	-	-	2,340,912
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
C. Financial assets held for sale and discontinued operations	-	-	-	-	-	-	-	-
- Stage 1	-	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
Total (A+B+C)	751,259	335,029	2,652,798	131,930	90	8,922	15,254,589	19,134,617
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	-	-
D. Commitments to disburse funds and financial guarantees given								
- Stage 1	49	146	35,870	93,699	-	623	3,749,330	3,879,717
- Stage 2	4	-	-	6,337	-	-	142,011	148,352
- Stage 3	-	-	-	-	7,000	-	177,072	184,072
Total (D)	53	146	35,870	100,036	7,000	623	4,068,413	4,212,141
Total (A+B+C+D)	751,312	335,175	2,688,668	231,966	7,090	9,545	19,323,002	23,346,758

Reconciliation of internal 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.

.

A.2.2 Prudential consolidation - Breakdown of financial assets, commitments to disburse funds and financial guarantees given by internal rating classes (gross amounts

Exposures	Internal rating classes							
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	No rating	Total (A+B+C)
A. Financial assets at amortised cost	1,213,880	4,142,538	4,212,218	953,683	806,483	207,887	5,257,016	16,793,705
- Stage 1	1,210,553	4,084,116	3,614,704	578,831	366,598	59,082	4,564,307	14,478,191
- Stage 2	3,327	58,422	597,514	374,852	439,885	148,805	47,668	1,670,473
- Stage 3	-	-	-	-	-	-	645,041	645,041
B. Financial assets at fair value through other comprehensive income	330,236	-	2,010,676	-	-	-		2,340,912
- Stage 1	330,236	-	2,010,676	-	-	-		2,340,912
- Stage 2	-	-	-	-	-	-		-
- Stage 3	-	-	-	-	-	-		-
C. Financial assets held for sale and discontinued operations	-	-	-	-	-	-		-
- Stage 1	-	-	-	-	-	-		-
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
Total (A+B+C)	1,544,116	4,142,538	6,222,894	953,683	806,483	207,887	5,257,016	19,134,617
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	-	-
D. Commitments to disburse funds and financial guarantees given								
- Stage 1	369,754	1,211,782	654,097	177,204	16,626	2,939	1,447,315	3,879,717
- Stage 2	851	14,577	73,747	36,509	11,856	5,401	5,411	148,352
- Stage 3	-	-	-	-	-	-	184,072	184,072
Total (D)	370,605	1,226,359	727,844	213,713	28,482	8,340	1,636,798	4,212,141
Total (A+B+C)	1,914,721	5,368,897	6,950,738	1,167,396	834,965	216,227	6,893,814	23,346,758

Internal rating classes are shown in decreasing order of creditworthiness.
Internal ratings are not used for calculation of prudential capital requirements.

A.3 BREAKDOWN OF SECURED EXPOSURES BY TYPE OF GUARANTEE

A.3.1 Prudential consolidation - 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:	**13,036**	**8,036**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 totally secured	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-
1.2 partially secured	13,036	8,036	-	-	-	-	-	-
- of which non-performing	13,036	8,036	-	-	-	-	-	-
2. Secured off-balance sheet credit exposures	**1**	**1**	**-**	**-**	**-**	**1**	**-**	**-**
2.1 totally secured	1	1	-	-	-	1	-	-
- of which non-performing	-	-	-	-	-	-	-	-
2.2 partially secured	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-

A.3.1 Prudential consolidation - 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 administration	Banks	Other financial companies	Other entities	
1. Secured on-balance sheet credit exposures:	**-**	**-**	**-**	**-**	**-**	**-**	**8,036**	**8,036**
1.1 totally secured	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-
1.2 partially secured	-	-	-	-	-	-	8,036	8,036
- of which non-performing	-	-	-	-	-	-	8,036	8,036
2. Secured off-balance sheet credit exposures	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1**
2.1 totally secured	-	-	-	-	-	-	-	1
- of which non-performing	-	-	-	-	-	-	-	-
2.2 partially secured	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-

A.3.2 Prudential consolidation - 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:	**11,375,747**	**10,981,564**	**6,037,346**	**379,808**	**459,655**	**296,786**	**-**	**-**
1.1 totally secured	10,287,827	9,912,511	6,023,908	377,338	450,855	295,956	-	-
- of which non-performing	524,346	258,202	168,572	44,586	2,697	4,852	-	-
1.2 partially	1,087,920	1,069,053	13,438	2,470	8,800	830	-	-
- of which non-performing	16,439	6,425	787	-	257	830	-	-
2. Secured off-balance sheet credit exposures:	**1,092,482**	**1,084,234**	**30,889**	**518**	**48,156**	**1,986**	**-**	**-**
2.1 totally secured	914,909	907,500	30,889	518	42,246	1,986	-	-
- of which non-performing	36,285	30,535	923	-	6,134	-	-	-
2.2 partially secured	177,573	176,734	-	-	5,910	-	-	-
- of which non-performing	12,519	11,988	-	-	64	-	-	-

A.3.2 Prudential consolidation - 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 administration	Banks	Other financial companies	Other entities	
1. Secured on-balance sheet credit exposures:	**-**	**-**	**-**	**858,982**	**104**	**134,707**	**2,478,157**	**10,645,545**
1.1 totally secured	-	-	-	856,724	104	117,905	1,596,966	9,719,756
- of which non-performing	-	-	-	-	20	8,561	17,146	246,434
1.2 partially secured	-	-	-	2,258	-	16,802	881,191	925,789
- of which non-performing	-	-	-	22	-	706	3,069	5,671
2. Secured off-balance sheet credit exposures:	**-**	**-**	**-**	**193**	**-**	**24,240**	**915,247**	**1,021,229**
2.1 totally secured	-	-	-	193	-	19,801	808,948	904,581
- of which non-performing	-	-	-	-	-	362	23,085	30,504
2.2 partially secured	-	-	-	-	-	4,439	106,299	116,648
- of which non-performing	-	-	-	-	-	100	11,163	11,327

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.

A.4 Prudential consolidation - Financial and non-financial assets resulting from the enforcement of collateral

	Derecognised credit exposure	Gross amount	Overall value adjustments	Book value	
					of which obtained during the period
A. Property and equipment	126,450	137,883	5,650	132,233	-
A.1. Used in the business	-	-	-	-	-
A.2. Held for investment	-	-	-	-	-
A.3. Inventories	126,450	137,883	5,650	132,233	-
B. Equity instruments and debt securities	-	-	-	-	-
C. Other assets	-	-	-	-	-
D. Non-current assets held for sale and discontinued operations	-	-	-	-	-
D.1. Property and equipment	-	-	-	-	-
D.2. Other assets	-	-	-	-	-
Total 31/12/2020	126,450	137,883	5,650	132,233	-
Total 31/01/2020	131,889	142,303	-	142,303	-

B. BREAKDOWN AND CONCENTRATION OF CREDIT EXPOSURE

B.1 Prudential consolidation - Distribution by segment of on- and off-balance sheet credit exposures to customers

p.1

Exposures/Counterparties	Public administration		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	-	-	179	701	-	-
- of which: forborne	-	-	-	137	-	-
A.2 Unlikely–to-pay exposures	119	212	86,926	39,225	-	-
- of which: forborne	-	1	44,539	22,645	-	-
A.3 Non-performing past due exposures	752	173	6	1	-	-
- of which: forborne	-	-	-	-	-	-
A.4 Performing exposures	2,738,189	480	1,459,786	1,321	14	-
- of which: forborne	2,814	1	2,733	113	-	-
Total (A)	2,739,060	865	1,546,897	41,248	14	-
B. Off-balance-sheet exposures						
B.1 Non-performing exposures	-	-	4,142	134	-	-
B.2 Performing exposures	901,324	261	71,858	60	10,056	2
Total (B)	901,324	261	76,000	194	10,056	2
Total (A+B) 31/12/2020	3,640,384	1,126	1,622,897	41,442	10,070	2
Total (A+B) 31/01/2020	2,707,118	1,203	2,684,701	95,879	25,047	3

B.1 Prudential consolidation - 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		49,801	147,443	33,379	46,346
- of which: forborne		8,662	25,248	4,422	3,823
A.2 Unlikely-To-Pay exposures		109,284	84,786	43,336	23,631
- of which: forborne		62,938	38,998	17,855	6,625
A.3 Non-performing past due		5,469	841	13,664	3,354
- of which: forborne		1,681	196	3	1
A.4 Performing exposures		4,861,899	81,708	5,434,400	41,833
- of which: forborne		108,439	9,606	57,847	3,807
Total (A)		5,026,453	314,778	5,524,779	115,164
B. Off-balance-sheet exposures					
B.1 Non-performing exposures		160,445	15,251	3,495	605
B.2 Performing exposures		2,763,143	2,330	288,322	191
Total (B)		2,923,588	17,581	291,817	796
Total (A+B)	31/12/2020	7,950,041	332,359	5,816,596	115,960
Total (A+B)	31/01/2020	7,437,812	496,057	5,796,452	88,719

B.2 Prudential consolidation - Distribution by geographical area of on- and off-balance sheet credit exposures to customers

p.1

Exposures/Geographical area		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		77,854	182,002	4,528	10,230	927
A.2 Unlikely-To-Pay exposures		239,243	147,751	422	103	-
A.3 Non-performing past due exposures		19,791	4,346	89	19	3
A.4 Performing exposures		14,091,899	124,978	399,094	343	1,688
Total (A)		14,428,787	459,077	404,133	10,695	2,618
B. Off-balance-sheet exposures						
B.1 Non-performing exposures		168,082	15,988	-	2	-
B.2 Performing exposures		4,021,345	2,834	3,224	10	32
Total (B)		4,189,427	18,822	3,224	12	32
Total (A+B)	31/12/2020	18,618,214	477,899	407,357	10,707	2,650
Total (A+B)	31/01/2020	18,541,992	668,173	79,119	11,391	2,760

B.2 Prudential consolidation - Distribution by geographical area of on- and off-balance sheet credit exposures to customers

p.2

Exposures/Geographical area	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	2,137	-	-	50	121
A.2 Unlikely-To-Pay exposures	-	-	-	-	-
A.3 Non-performing past due exposures	1	5	2	3	1
A.4 Performing exposures	6	1,330	15	263	1
Total (A)	**2,144**	**1,335**	**17**	**316**	**123**
B. Off-balance-sheet exposures					
B.1 Non-performing exposures	-	-	-	-	-
B.2 Performing exposures	-	37	-	9	-
Total (B)	**-**	**37**	**-**	**9**	**-**
Total (A+B) 31/12/2020	**2,144**	**1,372**	**17**	**325**	**123**
Total (A+B) 31/01/2020	2,139	1,586	35	626	122

B.2.1 Prudential consolidation - Breakdown by geographic area of on- and off-balance sheet credit exposures to customers

Exposures/Geographical area		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		50,402	106,978	9,237	28,062	12,122	32,413	6,093	14,549
A.2 Unlikely-To-Pay		178,334	108,496	14,984	14,615	38,658	19,846	7,267	4,794
A.3 Non-performing past due exposures		11,583	2,428	1,056	258	4,201	963	2,951	697
A.4 Performing exposures		6,370,670	79,517	1,832,436	10,742	5,190,958	25,083	697,835	9,636
Total A		6,610,989	297,419	1,857,713	53,677	5,245,939	78,305	714,146	29,676
B. Off-balance-sheet exposures									
B.1 Non-performing exposures		118,183	10,772	36,693	2,600	12,130	2,374	1,076	242
B.2 Performing exposures		2,523,155	1,964	519,185	125	767,351	690	211,654	55
Total B		2,641,338	12,736	555,878	2,725	779,481	3,064	212,730	297
Total (A+B)	31/12/2020	9,252,327	310,155	2,413,591	56,402	6,025,420	81,369	926,876	29,973
Total (A+B)	31/01/2020	9,132,897	534,713	2,313,907	50,074	6,220,762	61,800	874,426	21,586

B.3 Prudential consolidation - Distribution by geographic area of on- and off-balance sheet credit exposures to banks
p.1

Exposures/Geographical area		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		-	-	-	-	8,036
A.3 Non-performing past due exposures		-	-	-	-	-
A.4 Performing exposures		3,629,858	15	317,494	151	35,764
Total (A)		3,629,858	15	317,494	151	43,800
B. Off-balance-sheet exposures						
B.1 Non-performing exposures		-	-	-	-	-
B.2 Performing exposures		5,307	-	4,589	-	19
Total (B)		5,307	-	4,589	-	19
Total (A+B)	31/12/2020	3,635,165	15	322,083	151	43,819
Total (A+B)	31/01/2020	4,072,612	36	464,285	327	34,255

B.3 Prudential consolidation - Distribution by geographic area of on- and off-balance sheet credit exposures to banks
p.2

Exposures/Geographical area		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		5,000	-	-	-	-
A.3 Non-performing past due exposures		-	-	-	-	-
A.4 Performing exposures		23	351	-	312	4
Total (A)		5,023	351	-	312	4
B. Off-balance-sheet exposures						
B.1 Non-performing exposures		-	-	-	-	-
B.2 Performing exposures		-	-	-	1,590	-
Total (B)		-	-	-	1,590	-
Total (A+B)	31/12/2020	5,023	351	-	1,902	4
Total (A+B)	31/01/2020	3,369	357	-	2,034	5

B.3.1 Prudential consolidation - Distribution by geographic area of on- and off-balance sheet credit exposures to banks

Exposures/Geographical area		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		-	-	-	-	-	-	-	-
A.3 Non-performing past due exposures		-	-	-	-	-	-	-	-
A.4 Performing exposures		325,901	15	-	-	3,303,957	-	-	-
Total (A)		325,901	15	-	-	3,303,957	-	-	-
B. Off-balance-sheet									
B.1 Non-performing		-	-	-	-	-	-	-	-
B.2 Performing exposures		5,157	-	-	-	150	-	-	-
Total (B)		5,157	-	-	-	150	-	-	-
Total (A+B)	31/12/2020	331,058	15	-	-	3,304,107	-	-	-
Total (A+B)	31/01/2020	321,293	32	88	-	3,751,231	4	-	-

B.4 Large exposures

A) Amount (book value):	10,224,168
b) Amount (weighted value)	1,678,888
C) Number of positions:	12

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 2020, 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 issuances, which are further described in section E.4.

In 2020, the company also carried out a retained securitisation transaction with underlying performing loans, the information of which is contained in the section of the Explanatory Notes relating to Liquidity risk.

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 transfer without recourse to the special purpose entity (SPE) 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.

As at 31 December 2020, securities issued were rated as follows:

SECURITY	CODE	FITCH	MOODYS
Class B	IT0003694137	BBB+	Aa3
Class C	IT0003694145	BBB+	Aa3

As at 31 December 2020, class A notes were fully repaid and B mezzanine notes were repaid for an amount of EUR 19.4 mln as against an initial amount issued of EUR 26.8 mln.

The deferred credit to be paid to Carige as at 31 December 2020 amounted to EUR 39.9 mln.

b) Securitisation of performing loans carried out through the vehicle Lanterna Finance S.r.l. in 2020.

The transaction, which was completed in June 2020, involved the transfer without recourse of 6,849 mortgage 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 362.4 mln (o.w. EUR 337.9 mln by Carige and EUR 24.5 mln by Banca del Monte di Lucca).

The vehicle Lanterna Finance S.r.l. issued on 29 June 2020 A1 senior notes for an amount of EUR 205 mln, A2 senior notes for EUR 20 mln, and a line of junior notes for an amount of EUR 137.5 mln. These securities were initially subscribed for by the Transferring Banks. In December 2020, the A1 senior notes were sold to third parties, thus the transaction became a traditional securitisation. As a guarantee for the senior bondholders, a EUR 4.5 mln cash reserve was set up. The securities issued were rated by DBRS and S&P Global.

The participants in the transaction were the following:

Originators/transferors: Banca Carige S.p.a. and Banca del Monte di Lucca S.p.A.

Corporate Servicer and Master Servicer: Banca Carige S.p.A.

Additional servicer: Banca del Monte di Lucca

Account Bank and Paying Agent: Bank of New York Mellon, Milan Branch

Calculation Agent: Bank of New York Mellon, London Branch

Back up Servicer and Bondholder Representative: Zenith Service S.p.A.

Arranger: Banca IMI S.p.A.

As at 31 December 2020, the senior notes were rated as follows:

SECURITY	CODE	S&P Global	DBRS
Class A1	IT0005415218	AA-	A (high)
Class A2	IT0005415226	A	BBB (high)

As at 31 December 2020, class A1 notes were repaid for an amount of EUR 55.6 mln against an initial amount issued of EUR 205 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 for the loans transferred 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 in 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:

SECURITY	CODE	DBRS	MOODYS
Class A	IT0005154064	AAA	Aa3
Class B	IT0005154072	N.A	N.A

As at 31 December 2020, EUR 28.4 mln worth 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.

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-51	Bps 165	Floor 0%
Z	120.8	Unrated	30-Jan-51	N/A	N/A

The senior tranche was underwritten by an institutional investor.

As at 31 December 2020, senior securities were repaid for an amount of EUR 62.9 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 SPV, Pillarstone Italy S.P.V. S.r.l. (not belonging to the Carige Group) was transferred three shipping 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 other two 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 December 2020, EUR 41.7 mln worth of class B securitisation notes were recognised in the Assets section of the financial statements under Financial Assets mandatorily measured at fair value, whereas the junior notes were fully written-down.

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 for 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	Carige	B.M.L	B.C.P	Total nominal amount (EUR/000)
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 (a.k.a. GACS) on the Senior tranche.

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 paragraph 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 December 2020, the securitised Senior notes were recognised as financial assets measured at amortised cost for a total of EUR 151.7 mln (of which EUR 137.8 mln by Carige, EUR 13.4 mln by Banca del Monte di Lucca and EUR 0.5 mln by Banca Ponti).

The securities issued as at 31 December 2020 are rated as follows:

SECURITY	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 for 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 (EUR/000)	Rating Moody's/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 Euribor 6M+10%
Total	207,617	7,383	215,000		

At the same time, the three banks applied for government guarantee (a.k.a. GACS) on the Senior tranche.

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 paragraph 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 at fair value".

As at 31 December 2020, the securitised Senior notes were recognised as financial assets measured at amortised cost for a total of EUR 130.6 mln (of which EUR 126.1 mln for Carige and EUR 4.5 mln for 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.

As at 31 January 2020, the securities issued were rated as follows:

Securities	Rating Moody's/Scope
Senior	Ba1/BB+
Mezzanine	Ca/CCC
Junior	unrated

Synthetic securitisations

The Liguria Region (Regione Liguria) entrusted the Regional holding company for economic development, 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 December 2020, said loans amounted to gross EUR 1,415 thousand (of which EUR 82 thousand in NPLs); loan loss provisions amounted to EUR 52 thousand (of which EUR 47 thousand in NPLs). Deposits pledged as collateral in the name of FILSE S.p.A. are accounted for in Liabilities Item 10 - "Financial liabilities measured at amortised cost" (EUR 1,565 thousand as at 31 December 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						Guarantees issued						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	287,769	(211)	42,126	1,809	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.1 Pillarstone Italy SPV S.r.l.																		
- non-performing loans	-	-	41,737	1,938	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.2 Brisca Securitisation SPV s.r.l																		
- non-performing loans	151,685	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.3 Riviera Npl S.p.v. s.r.l.																		
- non-performing loans	136,084	(211)	389	(129)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Partially derecognised	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
C. Not derecognised	-	-	3,783	-	618,099	-	-	-	-	-	-	-	-	-	-	-	-	-
C.1 Argo Mortgage 2 s.r.l.																		
- performing loans	-	-	3,783	-	34,552	-	-	-	-	-	-	-	-	-	-	-	-	-
C.2 Lanterna Finance s.r.l. (1st transaction carried out in 2015)																		
Performing loans for loan agreements			-	-	193,270	-	-	-	-	-	-	-	-	-	-	-	-	-
C.3 Lanterna Finance s.r.l. (3rd transaction carried out in 2020)																		
Performing loans for loan agreements			-	-	156,997	-	-	-	-	-	-	-	-	-	-	-	-	-
C.4 Lanterna Lease s.r.l.																		
Performing loans for lease receivables			-	-	233,280	-	-	-	-	-	-	-	-	-	-	-	-	-

C.3 Prudential consolidation - Interests in 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	49,950	-	27,206	98	36,782	40,276
Lanterna Finance s.r.l. Transaction carried out in 2020 (2)	Genoa	YES	249,301	-	66,134	170,737	-	144,698
Lanterna Finance s.r.l. Transaction carried out in 2015 (2)	Genoa	YES	210,700	-	13,132	29,019	-	194,813
Lanterna Lease S.r.l. (2)	Genoa	YES	273,112		9,188	156,216		126,084
Pillarstone Italy SPV S.p.a. S.p.A.	Milan	NO	131,375		88,606	33,684	187,948	- 1,651
Brisca Securitisation s.r.l.	Conegliano (TV)	NO	126,105		12,520	149,938	30,505	- 41,818
Riviera Npl. s.r.l. (2)	Conegliano (TV)	NO	144,268		15,104	142,562	30,843	- 14,033

1) Banca Carige holds 60% of the investment in the vehicle
2) Banca Carige holds 5% of the investment in the vehicle

D. DISPOSALS

A. Financial assets sold and not fully derecognised:

Qualitative Information

Assets sold and not fully derecognised from the Bank's financial statements include:

1) 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 rewards 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 Special Purpose Vehicle and outstanding as at the reporting date net of those repurchased by the transferors.

2) 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 disclosed in the pertaining accounting portfolios. The amount of the transfer is recognised among liabilities by type of counterparty.

Quantitative Information

D.1 Prudential consolidation - Financial assets sold and fully recognised and associated financial liabilities: book value

		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		1,039,711	757,468	282,243	12,693	486,445	257,981	228,464
1. Debt securities		282,243	-	282,243	-	228,466	2	228,464
2. Loans		757,468	757,468	-	12,693	257,979	257,979	-
Total	31/12/2020	1,039,711	757,468	282,243	12,693	486,445	257,981	228,464
Total	31/01/2020	1,058,463	742,586	315,877	21,806	427,501	174,283	253,218

D.3 Prudential consolidation - Sales transactions relating to financial liabilities with recourse only to assets sold and not fully derecognised: fair value

	Fully recognised	Partially recognised	Total	
			31/12/2020	31/01/2020
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 income	-	-	-	-
1. Debt securities	-	-	-	-
2. Equity instruments	-	-	-	-
3. Loans	-	-	-	-
E. Financial assets at amortised cost (fair value)	812,438	-	812,438	788,084
1. Debt securities	-	-	-	-
2. Loans	812,438	-	812,438	788,084
Total financial assets	812,438	-	812,438	788,084
Total associated financial liabilities	257,096	-	X	X
Net value as at 31/12/2020	555,342	-	812,438	X
Net value as at 31/01/2020	613,801	-	X	788,084

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D. 4 Regulatory consolidated accounts - 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 organisational model was subsequently updated according to regulatory changes and amendments made to the Group's organisational structure.
As part of these programmes, Banca Carige acts as 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" in the three covered bond issuance programmes is BDO Italia S.p.A., which monitors the correctness of the transactions and the integrity of the guarantees for the 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 the implementation of the Programme.

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 SPE 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 December 2020, residential and commercial mortgages amounting to EUR 2,685 mln were segregated in the special purpose entity, of which EUR 2,584 mln were transferred by Banca Carige and EUR 101 mln by Banca del Monte di Lucca.

The issuances by the Parent Company until 31 December 2020 and not yet coming to maturity are listed below and amount to EUR 2,042 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	25.11.2010	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
600,000,000	25.10.2018	25.10.2021
2,042,000,000		

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 December 2020, residential and commercial mortgages amounting to EUR 391 mln were segregated in the special purpose entity, of which EUR 362 mln were transferred by Carige and EUR 29 mln by Banca del Monte di Lucca.

As at 31 December 2020, there was an amount of EUR 195 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 December 2020, residential and commercial mortgages amounting to EUR 645 mln were segregated in the special purpose entity, of which EUR 622 mln were transferred by Banca Carige and EUR 23 mln by Banca del Monte di Lucca.

The issuances by the Parent Company until 31 December 2020 and not yet coming to maturity are listed below and amount to EUR 485 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
485,000,000		

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.

E. 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.

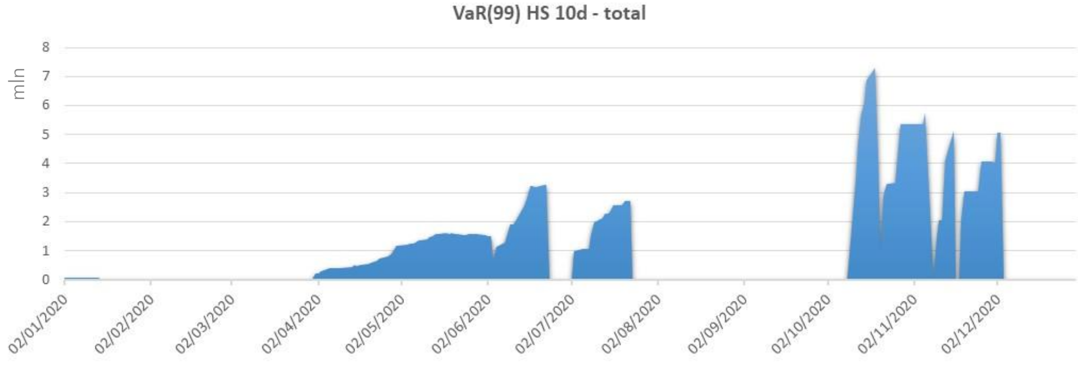
1.2 MARKET RISK

1.2.1 INTEREST RATE RISK AND PRICE RISK – REGULATORY TRADING PORTFOLIO

Qualitative Information
Organisational structure
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 interest rate 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 31/12/2020, whereas the average value throughout 2020 was around 0.32.

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 graph below shows the trend in the overall VaR of the trading portfolio (OBMFT) for financial year 2020.



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	24.67	-0.11
- of which Trading book	0.02	0.00
Net interest and other banking income	24.81	-0.08
- of which Trading book	0.16	0.03
Profit [1]	16.61	-0.05
- of which Trading book	0.11	0.02
Shareholders' equity	6.01	-10.65
- of which Trading book	0.11	0.02

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	**-**	**-**	**1**	**5**	**136**	**16**	**-**	**-**
1.1 Debt securities	-	-	1	5	136	16	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	1	5	136	16	-	-
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								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other								
+ Long positions	-	-	1,933	-	-	-	-	-
+ Short positions	-	1,933	-	-	-	-	-	-
3.2 Without underlying								
- Options								
+ Long positions	-	3,422	88,360	2	38,403	45,274	4,371	-
+ Short positions	-	1,901	86,150	2	38,850	45,802	7,127	-
- Other derivatives								
+ Long positions	-	95,756	63,114	3,636	62,927	2,318	25,216	-
+ Short positions	-	97,236	64,670	3,536	60,388	3,163	25,216	-

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								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	4,756	358	36	-	-	-	-
+ Short positions	-	3,261	516	107	-	-	-	-

1.2.2 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 December 2020, this indicator was lower 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 December 2020, the indicator was lower than the 20% of own funds requirement but higher than the 15% of Tier 1 capital set as warning threshold. With respect to this signal, appropriate analyses were carried out to identify a set of hedging instruments designed to reduce overall exposure.

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	24.67	-0.11
- of which Banking book	24.65	-0.11
Net interest and other banking income	24.81	-0.08
- of which Banking book	24.65	-0.11
Profit [1]	16.61	-0.05
- of which Banking book	16.50	-0.07
Shareholders' equity	6.01	-10.65
- of which Banking book	5.90	-10.67

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	**1,734,565**	**8,287,005**	**2,092,686**	**742,771**	**3,096,019**	**1,238,686**	**1,465,961**	**-**
1.1 Debt securities	16,946	460,994	1,524,547	363,887	257,241	43	24,948	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	16,946	460,994	1,524,547	363,887	257,241	43	24,928	-
1.2 Loans to banks	321,736	3,631,321	-	261	2,090	2,613	16,870	-
1.3 Loans to customers	1,395,883	4,194,690	568,139	378,623	2,836,688	1,236,030	1,424,143	-
- current accounts	659,122	-	-	-	7,352	698	-	-
- other loans	736,761	4,194,690	568,139	378,623	2,829,336	1,235,332	1,424,143	-
- with early repayment option	80,676	3,709,349	465,929	352,159	2,436,603	1,049,222	1,360,114	-
- other	656,085	485,341	102,210	26,464	392,733	186,110	64,029	-
2. Balance-sheet liabilities	**11,378,342**	**5,968,878**	**316,436**	**209,748**	**1,218,556**	**379,648**	**188,002**	**-**
2.1 Due to customers	11,353,074	243,156	274,028	207,960	612,250	10,049	10,633	-
- current accounts	10,492,746	235,294	269,918	200,597	572,912	-	8,928	-
- other liabilities	860,328	7,862	4,110	7,363	39,338	10,049	1,705	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	860,328	7,862	4,110	7,363	39,338	10,049	1,705	-
2.2 Due to banks	9,955	3,548,500	42,408	1,788	239,658	854	-	-
- current accounts	2,674	-	-	-	-	-	-	-
- other liabilities	7,281	3,548,500	42,408	1,788	239,658	854	-	-
2.3 Debt securities	14,139	2,177,222	-	-	366,648	368,745	177,369	-
- with early repayment option	439	500,110	-	-	-	6,801	-	-
- other	13,700	1,677,112	-	-	366,648	361,944	177,369	-
2.4 Other liabilities	1.174	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	1,174	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**1,644,961**	**44,617**	**10,728**	**2,616,697**	**-**	**35,000**	**-**
3.1 With underlying securities	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying securities	-	1,669,961	44,617	10,728	2,616,697	-	35,000	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	1,669,961	44,617	10,728	2,616,697	-	35,000	-
+ Long positions	-	1,167,470	43,906	-	1,000,000	-	10,000	-
+ Short positions	-	502,491	711	10,728	1,616,697	-	25,000	-
4. Other off-balance sheet transactions	**1,872,317**	**8,609**	**535**	**3,907**	**15,921**	**11,741**	**14,724**	**-**
+ Long positions	908,442	8,608	535	3,907	15,921	11,741	14,724	-
+ Short positions	963,875	1	-	-	-	-	-	-

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	**18,599**	**4,163**	**46,162**	**508**	**16,091**	**3,366**	**2,186**	**-**
1.1 Debt securities	-	-	41,604	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	41,604	-	-	-	-	-
1.2 Loans to banks	16,837	-	-	-	-	-	-	-
1.3 Loans to customers	1,762	4,163	4,558	508	16,091	3,366	2,186	-
- current accounts	202	-	-	-	-	-	-	-
- other loans	1,560	4,163	4,558	508	16,091	3,366	2,186	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	1,560	4,163	4,558	508	16,091	3,366	2,186	-
2. Balance-sheet liabilities	**38,058**	**1,915**	**233**	**600**	**-**	**-**	**-**	**-**
2.1 Due to customers	37,697	1,915	233	600	-	-	-	-
- current accounts	37,697	1,915	233	600	-	-	-	-
- other liabilities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	361	-	-	-	-	-	-	-
- current accounts	13	-	-	-	-	-	-	-
- other liabilities	348	-	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**24,694**	**40,746**	**-**	**-**	**-**	**-**	**-**
3.1 With underlying securities	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying securities	-	24,694	40,746	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	24,694	40,746	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	24,694	40,746	-	-	-	-	-
4. Other off-balance sheet transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-

1.2.3 FOREIGN EXCHANGE RATE RISK

Qualitative Information

A. Foreign exchange rate risk: general aspects, management procedures and measurement methods

The various Group companies mainly operate in euros: therefore, foreign exchange risk within the Carige Group is entirely residual and the Treasury department takes steps to systematically match foreign currency positions.

B. Hedging of foreign exchange rate risk

The exchange position of individual Group banks is constantly monitored by the Finance department for compliance with the operational threshold values.

Quantitative Information

1. Breakdown of assets and liabilities and derivatives by currency

	Currency					
	USD	CHF	GBP	CAD	Yen	Other currency
A. Financial assets	**86,562**	**2,268**	**1,228**	**828**	**442**	**1,282**
A.1 Debt securities	41,604	-	-	-	-	-
A.2 Equity instruments	1,535	-	-	-	-	-
A.3 Loans to banks	12,896	470	1,149	828	232	1,262
A.4 Loans to customers	30,527	1,798	79	-	210	20
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**6,819**	**3,678**	**1,764**	**418**	**298**	**1,493**
C. Financial liabilities	**36,723**	**1,099**	**1,977**	**336**	**50**	**621**
C.1 Due to banks	361	-	-	-	-	-
C.2 Due to customers	36,362	1,099	1,977	336	50	621
C.3 Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**324**	**32**	**43**	**-**	**-**	**4**
E. Financial derivatives	**-**	**-**	**-**	**-**	**-**	**-**
- Options	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-
+ Long positions	4,839	32	2	-	277	-
+ Short positions	60,587	4,696	901	768	931	1,441
Total assets	**98,220**	**5,978**	**2,994**	**1,246**	**1,017**	**2,775**
Total liabilities	**97,634**	**5,827**	**2,921**	**1,104**	**981**	**2,066**
Difference (+/-)	**586**	**151**	**73**	**142**	**36**	**709**

1.3 DERIVATIVE INSTRUMENTS AND HEDGING POLICIES

1.3.1 TRADING FINANCIAL DERIVATIVES

A. FINANCIAL DERIVATIVES

A.1 Trading financial derivatives: end-of-period notional amounts

Underlying assets/Type of derivatives	Total 31/12/2020				Total 31/01/2020			
	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	-	94,016	96,217	-	-	84,876	87,661	-
a) Options	-	19,049	19,160	-	-	23,408	23,468	-
b) Swaps	-	74,967	77,057	-	-	61,468	64,193	-
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	-	-	5,339	-	-	-	3,001	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forward	-	-	5,339	-	-	-	3,001	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Other	-	-	-	-	-	-	-	-
Total	-	94,016	101,556	-	-	84,876	90,662	-

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

Type of derivative	Total 31/12/2020				Total 31/01/2020			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central couterparties	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	-	11	-	-	-	22	-	-
b) Interest rate swaps	-	-	1,470	-	-	-	1,556	-
c) Cross currency swap	-	-	-	-	-	-	-	-
d) Equity Swaps	-	-	-	-	-	-	-	-
e) Forward	-	-	89	-	-	-	22	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total		11	1,559			22	1,578	
2. Negative Fair Value								
a) Options	-	-	8	-	-	-	20	-
b) Interest rate swaps	-	980	-	-	-	1,140	-	-
c) Cross currency swap	-	-	-	-	-	-	-	-
d) Equity Swaps	-	-	-	-	-	-	-	-
e) Forward	-	-	68	-	-	-	4	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	-	980	76	-	-	1,140	24	-

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

Underlying assets	Central counterparties	Banks	Other financial companies	Other entities
Contracts not subject to netting agreements				
1) Debt securities and interest rates				
- notional value	X	827	21,792	73,598
- positive fair value	X	-	277	1,193
- negative fair value	X	-	-	8
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	2,418	-	2,921
- positive fair value	X	-	-	89
- negative fair value	X	67	-	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 agreement				
1) Debt securities and interest rates				
- notional value	-	94,016	-	-
- positive fair value	-	11	-	-
- negative fair value	-	980	-	-
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 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		70,784	97,248	22,201	190,233
A.2 Financial derivatives on equities and stock indices		-	-	-	-
A.3 Financial derivative contracts on exchange rates and gold		5,339	-	-	5,339
A.4 Financial derivative on other values		-	-	-	-
A.5 Other financial derivatives		-	-	-	-
Total	31/12/2020	76,123	97,248	22,201	195,572
Total	31/01/2020	84,995	68,397	22,147	175,539

B. CREDIT DERIVATIVES

No credit derivative contracts were in place as at 31/12/2020.

1.3.2 HEDGING POLICIES

Qualitative Information

A. Fair value hedging

Interest risk hedging is mainly used for funding and lending components 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 December 2020, hedges were in place in respect of EUR 370 mln worth of bonds and EUR 1,000 mln worth of loans with Central Banks.

C. Hedging of investments in foreign operations

As at 31 December 2020, no hedges of investments in foreign operations was 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 interest-bearing postal bonds, securities (assets), loans and bonds issued. Overall, assets for a nominal amount of EUR 273.1 mln and liabilities for a nominal amount of EUR 512.2 mln were hedged as at 31 December 2020.

Quantitative Information

A. HEDGING FINANCIAL DERIVATIVES

A.1 Hedging financial derivatives: end-of-period notional amounts

Underlying assets/Type of derivatives	Total 31/12/2020				Total 31/01/2020			
	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	-	2,155,626	-	-	-	1,615,499	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	2,155,626	-	-	-	1,615,499	-	-
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	-	-	65,441	-	-	-	482,420	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forward	-	-	65,441	-	-	-	482,420	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Other	-	-	-	-	-	-	-	-
Total	-	2,155,626	65,441	-	-	1,615,499	482,420	-

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

Type of derivative	Positive and negative fair value								Changes in value used to calculate hedge effectiveness	
	Total 31/12/2020				Total 31/01/2020					
	Over the counter			Organised markets	Over the counter			Organised markets	Total 31/12/2020	Total 31/01/2020
	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	-	8,823	-	-	-	8,913	-	-		
c) Cross currency	-	-	-	-	-	-	-	-		
d) Equity Swap	-	-	-	-	-	-	-	-		
e) Forward	-	-	532	-	-	-	174	-		
f) Futures	-	-	-	-	-	-	-	-		
g) Other	-	-	-	-	-	-	-	-		
Total	-	8,823	532	-	-	8,913	174	-		
Negative Fair Value										
a) Options	-	-	-	-	-	-	-	-		
b) Interest rate	-	247,044	-	-	-	262,297	-	-		
c) Cross currency	-	-	-	-	-	-	-	-		
d) Equity Swap	-	-	-	-	-	-	-	-		
e) Forward	-	-	35	-	-	-	3,998	-		
f) Futures	-	-	-	-	-	-	-	-		
g) Other	-	-	-	-	-	-	-	-		
Total	-	247,044	35	-	-	262,297	3,998	-		

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

Underlying assets	Central counterparties	Banks	Other financial companies	Other entities
Contracts not subject to netting agreements				
1) Debt securities and interest rates				
- notional 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	65,441	-	-
- positive fair value	X	532	-	-
- negative fair value	X	35	-	-
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 agreement				
1) Debt securities and interest rates				
- notional value	-	2,155,626	-	-
- positive fair value	-	8,823	-	-
- negative fair value	-	247,044	-	-
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) Other				
- 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 securities and interest rates		503,930	1,616,696	35,000	2,155,626
A.2 Financial derivatives on equities and stock indices		-	-	-	-
A.3 Financial derivatives on exchange rates and gold		65,441	-	-	65,441
A.4 Financial derivative on other values		-	-	-	-
A.5 Other financial derivatives		-	-	-	-
Total	31/12/2020	569,371	1,616,696	35,000	2,221,067
Total	31/01/2020	983,793	620,626	493,500	2,097,919

B HEDGING CREDIT DERIVATIVES

No hedging credit derivative contracts were in place as at 31 December 2020.

1.3.3 Other information on trading and hedging derivatives

No other information on derivative contracts is available as at 31 December 2020.

1.4 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 liquidity assets with the net cash outflows in a 30-day stress scenario. At consolidated level, the value was 172% as at the end of 2020.
The Group’s treasury position as at 31 December 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 the 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
Balance-sheet assets	1,717,555	2,642	7,615	402,151	935,513	1,253,595	974,561	5,211,570	5,190,364	3,303,990
A.1 Government securities	16	-	-	-	330,484	787,613	364,650	842,559	25,089	-
A.2 Other debt securities	13,390	-	-	-	-	-	-	93	270,028	132
A.3 Units in UCITS	10,683	-	-	-	-	-	-	-	-	-
A.4 Financing	1,693,466	2,642	7,615	402,151	605,029	465,982	609,911	4,368,918	4,895,247	3,303,858
- Banks	301,873	-	-	328,988	-	-	261	2,090	37,995	3,303,858
- Customers	1,391,593	2,642	7,615	73,163	605,029	465,982	609,650	4,366,828	4,857,252	-
Balance-sheet liabilities	11,431,810	16,244	14,294	536,864	686,591	291,770	859,334	5,121,647	788,520	-
B.1 Deposits and current accounts	11,305,620	13,333	13,293	28,141	180,528	269,918	202,162	571,910	-	-
- Banks	9,732	-	-	-	-	-	-	-	-	-
- Customers	11,295,888	13,333	13,293	28,141	180,528	269,918	202,162	571,910	-	-
B.2 Debt securities	2,593	-	-	506,643	504,476	6,428	636,226	735,967	732,987	-
B.3 Other liabilities	123,597	2,911	1,001	2,080	1,587	15,424	20,946	3,813,770	55,533	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of principal										
- Long positions	-	1,172	996	1,933	24,027	43,415	109	-	-	-
- Short positions	-	4,794	960	419	578	362	37	-	-	-
C.2 Financial derivatives without exchange of principal										
- Long positions	1,481	-	-	4,570	333	897	1,735	-	-	-
- Short positions	43,769	-	-	-	98	76	54	-	-	-
C.3 Deposits and borrowings to be received										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- Long positions	863,749	230	48	266	5,566	50,433	46,650	79,869	28,438	-
- Short positions	1,075,248	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	9,094	-	-	-	-	9	50	2,160	32	-
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
Balance-sheet assets	18,585	137	60	183	3,791	4,655	550	21,682	5,547	41,604
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	41,604
A.3 Units in UCITS	-	-	-	-	-	-	-	-	-	-
A.4 Financing	18,585	137	60	183	3,791	4,655	550	21,682	5,547	-
- Banks	16,850	-	-	-	-	-	-	-	-	-
- Customers	1,735	137	60	183	3,791	4,655	550	21,682	5,547	-
Balance-sheet liabilities	38,057	260	61	122	1,471	233	600	-	-	-
B.1 Deposits and current accounts	37,709	260	61	122	1,471	233	600	-	-	-
- Banks	13	-	-	-	-	-	-	-	-	-
- Customers	37,696	260	61	122	1,471	233	600	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	348	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of principal										
- Long positions	-	2,861	937	407	551	358	36	-	-	-
- Short positions	-	1,167	970	1,920	23,897	41,263	107	-	-	-
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 Irrevocable commitments to disburse funds										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	116	35	-	-
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	-	-	-	-	-	-	-	-	-	-

RETAINED SECURITISATIONS

The Carige Group has a retained (or self-) securitisation transaction in place that was carried out by Banca Carige S.p.a. and by Banca del Monte di Lucca S.p.a. in July 2020 through the special-purpose vehicle Lanterna Mortgage s.r.l. (in which Banca Carige currently has a 5% holding).

The transaction consisted in the non-recourse sale of 2,322 residential mortgage loans to the vehicle company Lanterna Mortgage s.r.l. for a total price of EUR 249.4 mln, of which EUR 245.5 mln transferred by Banca Carige S.p.a. and EUR 3.9 mln transferred by Banca del Monte di Lucca S.p.A..

Against the foregoing sale, the following securities were issued and subscribed for by the transferring banks:

Securities	Category	Banca Carige	Banca del Monte di Lucca	Total
CLASS A1	SENIOR	171.2	2.7	173.9
CLASS A2	SENIOR	11.0	0.2	11.2
CLASS B	JUNIOR	67.9	1.1	69.0
Total		**250.1**	**4.0**	**254.1**

Figures in mln

At the reporting date, Class A1 and A2 securities issued were rated as follows:

Class	EUR/mln	DBRS	S&P Global
A1	173.9	AA	A+
A2	11.2	AA (low)	A+

As a guarantee for the senior bondholders, a EUR 4.6 mln Cash Reserve was set up.

As at 31 December 2020, Class A senior notes were repaid for an amount of EUR 5.3 mln. With reference to the performance of the transaction during the fourth quarter of 2020, an additional EUR 7.8 mln worth of Class A notes was repaid in the following month of January.

The senior notes were pledged as collateral for refinancing operations with the Bank of Italy.

In January 2021, Class A notes were transferred to third parties, so the transaction became a traditional securitisation.

Disclosure on financial instruments which the marketplace considers to be high-risk

The Group has no exposure to financial instruments that the market considers as 'high-risk' according to the definition in the Recommendation issued by the Financial Stability Forum on 7 April 2008, as later confirmed by joint document no. 2 issued by the Bank of Italy / CONSOB / ISVAP on 6 February 2009.

1.5. 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 activities.

In line 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 data. These models lie at the basis of the two processes used for 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 time possible. Specifically, the operating event collection system involves the Bank's departments in identifying and reporting operational events. The objective of the process of gathering information about operational and reputational events is that of building a solid and structured system with all the historical loss data required, ensuring timely reporting and management of events and completeness and coherence of the information collected, including with a view to appropriately identifying any mitigation actions to be taken and therefore preventing 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 expert professionals 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 Management office on an annual basis. The aggregated result of the assessments 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.

As concerns measurement, for the purpose of quantifying its Pillar 1 capital, the Group has been using a "standardised" approach, 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 Regulation (EU) 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 gradual improvement, the management process involves the definition of operational risk assumption, reduction and transfer policies to be implemented in relation to the Group's exposure to 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) risk reduction, i.e. reducing risk exposure through the implementation of risk mitigation and prevention actions. Generally this choice is connected with events with a high frequency of occurrence and a low economic impact; (2) the transfer of risk which provides for the use of traditional insurance–based risk mitigation or other techniques based on financial schemes (a.k.a. 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 to set aside capital. This choice is generally connected to events with a low frequency of occurrence and lower impact.

The Banca Carige Group has also implemented a monitoring and reporting process for 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 exposure over time and guarantee that adequate information is provided to the Top Management in a strategic operating perspective.

As part of the 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 supported since its establishment, are being suitably integrated.

Quantitative Information

The impact, in terms of operating losses[1], for the 11 month period (01/02/2020 - 31/12/2020) for the Carige Group was EUR 12.77 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 the 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.

The first preliminary hearing was held on 4 May 2018, 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

Data refers to gross losses, including provisions to the fund for risks and charges, recognised for the first time during the 11 months under review. EUR 2.99 mln worth of recoveries were recognised in the same period (from provisioning, insurance and other sources).

noted that, at the subsequent hearing held on 13 July, 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.

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 2019 before the Court of Rome.

At the same hearing, the deadline of 25 February 2019 was set for submitting the list of witnesses.

On 5 March 2019, 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 2019 for the objections raised by the defence in connection with the claimants' applications.

An additional hearing was scheduled for 7 October 2019 for the party liable at civil law to join the proceedings and refer preliminary questions to the Court.

On 7 October 2019, the deed seeking to pursue civil claims was lodged by Banca Carige; the Court, having ascertained that the parties were duly served and appeared for the hearing, upheld the objection concerning the positions assisted by solicitor Di Ciollo (who notified the decree despite not having requested the summons of the Bank as liable at civil law - but only that of Consob, the Bank of Italy and the auditing company) and by solicitor Corfiati (who, untimely, requested the extension of the compensation claim against the party liable at civil law for the numerous civil claimants he represented).

The defendants' legal counsels then raised the question of local jurisdiction (identifying the Court of Genoa as the jurisdiction for the crime of obstruction of supervisory control) and nullity of the judgment order due to failure to notify the supplementary notice of conclusion of the preliminary investigations; the Court, with an argument similar to that of the Preliminary Hearing Judge Ms. Marzano, rejected both objections.

The trial was postponed to 28 October 2019 for the request for evidence and schedule of the hearings.

At the hearing on 28 October 2019, the parties made their preliminary requests for trial inquiry; the bank, as decided by its counsel of choice, Mr. Mucciarelli, reserved the right for the production of documents, in addition to the cross-examination of the witnesses of the other lists required by law.

The trial was postponed to the hearing, on 10 March 2020, of the officials of the Bank of Italy and Consob who carried out the on-site inspections at Banca Carige; additional hearings were scheduled for 12 March, 2020 (due to the possible scheduled hearing of witnesses on 10 March 2020) and 9 April 2020 (activities for this hearing will be established at a later moment).

The above hearings were then postponed ex officio following the COVID19 emergency.

At the hearing on 9 December 2020, only Mr. Vincenzo Cantarella, the supervisory inspector of the Bank of Italy, was heard; the latter explained the inspections that took place between 2012 and 2013.

The first inspection, ordered in respect of a sample of twenty Italian banks, concerned the coverage of so-called non-performing loans (bad loans, substandard loans and restructured exposures) and was aimed at verifying the non-performing loans: following the emergence of anomalies regarding the internal classification of some receivables as well as an estimated loss of about 228 mln higher than that estimated by the company, the inspectors sent the documents to be reviewed by the Genoa Public Prosecutor's Office.

There was also a critical aspect concerning the determination of the probability of default, which entailed further issues in terms of provisions: while in fact in 2007 the coverage of Banca Carige was 55% (i.e. Carige would set provisions aside for 55% of its bad loans), in September 2012 the percentage had decreased to 43.8%. In the opinion of the inspector, Banca Carige had acted in this way to maintain a consistent profit with respect to that estimated ex ante, but - continued Mr. Cantarella - the credit institution has reduced the provisions to present a better income statement than it would have had if the correct provisions had been recognised. In any case, the inspector was keen to underline the positive conduct of Banca Carige, which reflected the credit differences suggested by the Bank of Italy in its 2014 accounts.

On the other hand, the second inspection revealed an imbalance with respect to the role of the Chairman, factotum of the company despite not having specific powers; there are also elements of money laundering, differences in the classification of performing loans and lack of reserves for the insurance subsidiaries.

Following the outcome of the inspection, the measures to be taken were recommended to include a capital increase (there was talk of a figure of around EUR 800 mln), the reorganisation of governance and recapitalisation; moreover, during the second inspection, the higher losses compared to those estimated by Banca Carige amounted to EUR 197 mln. Mr. Cantarella reiterated a climate of fruitful dialogue between the bank's bodies and the inspectors of the Bank of Italy, with voluntary remediation attitude shown by Carige.

The trial was postponed to the hearing, on 18 January 2021, of the Bank of Italy official, Mr. Massimiliano Cacace.

At that hearing, the Court first declared that the prosecution of the offence of stock manipulation referred to in the third indictment charge was time-barred, resulting in the exclusion from the trial of all private civil claimants that had lodged an application under Art. 2637 of the Italian Civil Code: the Bank of Italy and Consob continue the proceedings as civil claimants for the offence of obstruction of supervisory control referred to in the first indictment charge, which will certainly not become time-barred in first instance.

The witness Cacace, who was part of the team that carried out the inspections at Banca Carige, was then heard before the Court. The first inspection focused on provisioning. Anomalies emerged for certain positions (for example the Cavallini Group), which should have been classified as bad loans and not substandard exposures; some companies such as the Preziosi Group were granted new liquidity by the Bank even in the presence of loss-making financial statements, so much so that from performing positions they were restated to substandard following the inspection.

The inspection of December 2012 was part of a broader campaign by the Bank of Italy on numerous credit institutions, whose attention was focused on credit quality through increasingly stringent parameters (during previous inspections, on the contrary, no irregularities were found); the witness made it clear that the main contact was Mr. Cavanna and that for some positions (primarily Cavallini's) there was also no supporting documentation.

Mr. Smussi was then admitted to the hearing, who reported on the granting of credit lines to certain positions and the impact of certain credit lines (primarily the Preziosi Group and Cavallini) on the financial statements of Banca Carige; in particular, with regard to goodwill, the Bank had an unbalanced ten-year forecast, which had significant effects on its net asset value. The witness pointed out that Carige, despite the initial different measurement of some assets, has gradually implemented the guidelines of the verifier, recognising, however, that measuring goodwill is one of the most widely debated issues at an international level.

The proceedings have been adjourned until the hearing of 13 May 2021 to continue to hear the prosecution's witness testimony, with the Public Prosecutor reserving to notify the parties of the names that will be summoned for that date; a further hearing was also set for 20 May 2021.

On 3 February 2021, the Bank was notified of the appeal by the defence counsels of some civil claimants against the order of acquittal due to limitation period for prosecution pronounced by the Court of Rome on 18 January 2021 with reference to the offence under Art. 2637 of the Italian Civil Code.

With reference to possible liability on the part of the Bank, the risk of the Bank losing the case was only judged 'possible' by the defence counsels.

Criminal proceedings were 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 was 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 ruling of third party liability against the defendants that were held responsible for the crime of depleting the 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 judgment order, 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 since the preliminary hearing; the arguments put forward on this point 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, given that the most serious and the most dated money laundering act was committed there (i.e. precisely the act attributed to Mr Enderlin, for which the Court of Genoa invoked 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.

It must be remembered that after the first instance ruling of the so-called "Genoese trial" which condemned the defendants and in which the Bank was a civil claimant, the Bank also filed a civil liability action against Berneschi, Menconi and Cavallini; this action was suspended while the trial was pending before the Supreme Court.

After the ruling of the Supreme Court, the civil trial was resumed, with an appeal by Carige pursuant to Art. 297 of the Italian Code of Civil Procedure on 16/01/2020.

In light, therefore, of the new proceedings initiated before the Court of Milan and the civil liability action resumed by the Bank, the lawyers assisting Carige (Solicitor Mr. Mucciarelli for the criminal part and Mr. Paolo Giudici for the civil liability action) have consulted on whether or not to appear as a civil claimant in the new Milanese trial and, in the light of the considerations made, they deemed it more appropriate for the Bank to only appear as an injured party in the Milanese proceedings.

The parties formally joined the proceedings at the hearing on 9 October: as agreed, Banca Carige appeared as an injured party, while Carige Assicurazioni and Carige Vita Nuova joined the criminal proceedings as civil claimants seeking damages.

Due to the failure to renew a notification in respect of a defendant's counsel, the trial was postponed due to potential objections by the defense counsels on the entries of appearance as civil claimants filed with the Court and to possibly resort to alternative solutions.

In fact, at the hearing of 1 March 2021, the counsels of the defendants Berneschi, Calloni, Cavallini, Menconi and Vallebuona formalised, before the Judge, the agreements with the Public Prosecutors to establish their respective positions by plea bargaining on the following terms:

- Berneschi: two years ten months of imprisonment, with seizure of EUR 6 mln on his current account, in addition to the willingness to pay EUR 300,000 to the civil claimant Amissima Assicurazioni S.p.a. (in respect of which, the latter, reserves to decide on whether to accept the settlement proposal);

- Calloni: two years of imprisonment, with seizure of EUR 1.73 mln (for this purpose a property of equal value was made available in Milan, foro Bonaparte 68);

- Cavallini: two years of imprisonment and seizure of EUR 9.616 mln;

- Menconi: two years 6 months of imprisonment and seizure of EUR 5.7-6 mln (to be defined);

- Vallebuona: one year eleven months of imprisonment and a fine of EUR 3,000, in addition to the seizure of EUR 27,000.

As for some positions the exact identification of the assets to be seized is still pending (the defendant Menconi would additionally be required to transfer two mortgages on the buildings identified for purposes of seizure), the Preliminary Hearing Judge ordered the postponement of the trial to the hearing on 24 May for the definition and decision on the plea agreements.

With regard to the remaining positions Averna, Priori and Di Vistarino, the legal counsels concluded by requesting a 'no case to answer' judgement: also for these positions, the Preliminary Hearing Judge postponed the trial to the hearing on 24 May for the decision on the request for indictment.

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 judgement (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.

The defendant, Mr. Enderlin, filed an appeal against this judgment; 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, the General Prosecutor at the Milan Court of Appeal appealed against the acquittal of 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

CONSOLIDATED SHAREHOLDERS' EQUITY

SECTION 1 – CONSOLIDATED 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 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.

Capital ratios as at 31/12/2020 exceed the levels required by the ECB in its SREP Decision of 8 June 2020, including as a result of regulatory updates on the prudential amortisation of intangible assets, government-backed loans granted as a consequence of the pandemic and the progress made in the derisking transactions in 2020.

With regard to the Pillar 2 capital guidelines, all the Group's levels of capital are in line with the ECB's recommendation set out in the 2020 SREP letter.

However, in acknowledging the COVID-19 pandemic and the consequent, exceptional stress scenario of the economic and financial situation, in its Communication of 12 March 2020 ("ECB Banking Supervision provides temporary capital and operational relief in reaction to coronavirus"), the ECB resolved that banks may temporarily operate below the level of capital defined by the Pillar 2 Guidance and the Capital Conservation Buffer.

B. Quantitative information

B.1 Consolidated shareholders' equity: breakdown by type of company

Net shareholders' equity items	Prudential consolidation	Insurance companies	Other companies	Netting-off and adjustments from consolidation	Total
1. Share capital	1,928,473	-	50	(50)	1,928,473
2. Share premium reserve	626,921	-	-	-	626,921
3. Reserves	(847,190)	-	426	(426)	(847,190)
4. Equity instruments	-	-	-	-	-
5. Treasury shares (-)	(15,536)	-	-	-	(15,536)
6. Valuation reserves	(80,113)	-	-	-	(80,113)
- Equity instruments at fair value through other comprehensive income	3,103	-	-	-	3,103
- Hedging of equity instruments at fair value through other comprehensive income	-	-	-	-	-
- Financial assets (other than equity instruments) at fair value through other comprehensive income	1,247	-	-	-	1,247
- Property and equipment	-	-	-	-	-
- Intangible assets	-	-	-	-	-
- Hedges of foreign investments	-	-	-	-	-
- Cash flow hedges	(64,391)	-	-	-	(64,391)
- 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	(21,438)	-	-	-	(21,438)
- Share of valuation reserves of equity investments valued at equity	1,366	-	-	-	1,366
- Special revaluation laws	-	-	-	-	-
Profit (loss) for the period: Group and non-controlling interests	(252,648)	-	(139)	139	(252,648)
Total	1,359,907	-	337	(337)	1,359,907

B.2 Valuation reserves of financial assets at fair value through other comprehensive income: breakdown

Net shareholders' equity items	Prudential consolidation		Insurance companies		Other companies		Netting-off and adjustments from consolidation		Total	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	2,324	(1,077)	-		-		-		2,324	(1,077)
2. Equity instruments	3,987	(884)	-		-		-		3,987	(884)
3. Loans	-	-	-	-	-	-	-	-	-	-
Total	6,311	(1,961)	-	-	-	-	-	-	6,311	(1,961)

B.3 Valuation reserves of financial assets at fair value through other comprehensive income: annual changes

	Debt securities	Equity instruments	Loans
1. Opening balance	(199)	3,415	-
2. Increases	2,606	1,722	-
2.1 Increases in fair value	2,224	1,722	-
2.2 Losses on impairment	154	X	-
2.3 Reversal to profit and loss of positive reserves: following disposal	228	X	-
2.4 Transfers to other comprehensive shareholders' equity (equity instruments)	-	-	-
2.5 Other increases	-	-	-
3. Decreases	(1,160)	(2,034)	-
3.1 Decreases in fair value	(1,136)	(2,034)	-
3.2 Recoveries on impairment	(24)	-	-
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 increases	-	-	-
4. Closing balance	1,247	3,103	-

B.4 Valuation reserves relating to defined benefit plans: annual changes

	Banking group	Insurance companies	Other companies	Total
Opening balance	(22,308)	-	-	(22,308)
Increase due to reversal to retained earnings	-	-	-	-
Other changes	870	-	-	870
Closing balance	(21,438)	-	-	(21,438)

SECTION 2 – OWN FUNDS AND REGULATORY RATIOS

Please refer to the own funds and capital adequacy information contained in the Pillar III public disclosure, which is available in the "Investor Relations - Basel Report" section of the Group website www.gruppocarige.it

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, control of the company S. Anna Golf Srl was acquired as part of a deal to recover some impaired financial assets. The transaction was calculated on the basis of the acquisition method as required by the international accounting standard IFRS3 "Business combinations". Upon first-time consolidation, no goodwill or profit was recognised through profit or loss. As control was obtained at the end of July 2020, the 12-month measurement period provided for by paragraph 45 of IFRS 3 is still in progress, due to which it is not possible to exclude that the initial accounting must be reviewed in the next financial period.

If the transaction had taken place at the beginning of the reporting period instead of at the end of July, there would have been no significant effects on the group's total revenues and profit.

Conventionally, this section includes business combinations between entities under common control. During the year, the company Abitare R.E. Srl was merged by absorption into Reoco SpA which already owned 100% of the company. The transaction had no effect on consolidated profit or shareholders' equity.

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 financial period.

Part H

RELATED-PARTY TRANSACTIONS

This section contains information regarding related parties as required by IAS 24 "Related Party Disclosures" and Consob regulations.

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

	31/12/2020
Remuneration for Directors (*)	2,186
Remuneration for Auditors (**)	350
Remuneration for executives with strategic responsibility	1,876
Total	4,412

(*) Remuneration gross of amounts paid to Directors ceasing to hold office.
(**) 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 of both the Parent Company and other Group companies during the period from 1 February 2020 to 31 December 2020.

2. Information on related-party transactions

2.1 Relations with shareholders exercising significant influence and investees

RELATIONS WITH SHAREHOLDERS EXERCISING SIGNIFICANT INFLUENCE AND INVESTEES (1)
(EUR/000)

	Assets	**Liabilities**	**Guarantees and commitments**	**Income**	**Expenses**	**Dividends(2)**
Carige shareholders exercising significant influence	337	-	-	-	14,921	-
Companies subject to significant influence	-	640	51	-	-	-
TOTAL	**337**	**640**	**51**	**-**	**14,921**	**-**

(1) Relations with subsidiaries included in the scope of consolidation were not taken into account.
(2) Dividends collected by companies subject to significant influence netted off in the consolidation process are not shown and Banca Carige did not distribute dividends in the period.

2.2 Relations with other related parties

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

Assets	Liabilities	Guarantees and commitments	Income	Expenses	Purchase of assets and services
1,666	1,570	-	12	3	-
1,666	**1,570**	**-**	**12**	**3**	**-**

Other related parties include:

a) "executives with strategic responsibility for the entity".
This 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"
This 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 the points a) and b) above or in which such parties hold significant direct or indirect voting rights".

% SHARE OF TRANSACTIONS WITH RELATED PARTIES AS AT 31/12/2020 *(EUR/000)*

	Amount of transactions with related parties	Amount of financial statement item	% share
Assets			
Item 40 a) - Loans to customers	1,666	12,364,510	0.0%
Other assets	337	9,665,726	0.0%
Liabilities			
Item 10 b) - Due to customers	2,210	12,819,390	0.0%
Other liabilities (1)	-	7,850,939	0.0%
Income Statement			
Item 10 - Interest income	8	266,604	0.0%
Item 20 - Interest expense	(3)	(142,982)	0.0%
Other positive items in the income statement	4	336,385	0.0%
Other negative items in the income statement (2)	(14,921)	(621,094)	2.4%

(1) The % share is calculated on 'other liabilities', except for those referring to the shareholders' equity.
(2) The % share is calculated on 'other negative items', except for value adjustments on goodwill, taxes and profit (loss) attributable to non-controlling interests.

2.3 Most significant transactions

Described below are the most significant transactions with related parties and connected persons resolved upon in the period, all falling under the assumption of exemption from the decision-making process laid down in the Regulation for related parties and connected persons:

- the Board of Directors, at its meeting of 26 February 2020, resolved to approve transactions having as counterparties Carige Covered Bond S.r.l., Carige Covered Bond 2 S.r.l., Lanterna Finance S.r.l., Lanterna Mortgage S.r.l. (former Lanterna Consumer S.r.l.), Banca Cesare Ponti S.p.A.and Banca Monte Lucca S.p.A, i.e. related parties to Carige S.p.A. and connected parties to the Banca CARIGE Group. Although of greater relevance, these transactions were exempt from the decision-making process laid down in the above Regulation, inasmuch as they were carried out with wholly owned companies or with companies in which no significant interests from other related parties are involved;
- the Board of Directors, at its meeting of 20 May 2020, resolved to approve transactions having as counterparties Lanterna Finance S.r.l., Lanterna Mortgage S.r.l. (former Lanterna Consumer S.r.l.) and Banca Monte Lucca, i.e. relate parties to Banca Carige S.p.A. and connected parties to the Banca Carige Group. Although of greater relevance, these transactions were exempt from the afore-mentioned decision-making process provided for in the above Regulation inasmuch as they were carried out with wholly owned companies or with companies in which no significant interests from other related parties are involved;
- the Board of Directors at its meeting of 6 August 2020 resolved to express its opinion in favour of the plan for the merger by absorption of Abitare R.E. S.r.l. into Carige REOCO S.p.A., both related parties of Banca Carige S.p.A. And associate entities of the Banca Carige Group; the transaction in question, although of greater relevance, was not subject to the decision-making process provided for by the aforementioned Regulation as, pursuant to Art. 2.8 of the aforementioned Regulation, it carried out with companies between which there is a relationship of total control;
- the Board of Directors, in its meeting of 17 December 2020, resolved on transactions with Carige Covered Bond S.r.l., Carige Covered Bond 2 S.r.l., Banca Cesare Ponti S.p.A.and Banca Monte Lucca S.p.A, i.e. related parties to Carige S.p.A. and connected parties to the Banca CARIGE Group. Although of greater relevance, these transactions were exempt from the decision-making process laid down in the above Regulation, inasmuch as they were carried out with wholly owned companies or with companies in which no significant interests from other related parties are involved.

Part I

SHARE-BASED PAYMENTS

A. Qualitative Information

1. Description of share-based payment agreements

The Remuneration Policies of the CARIGE Group for 2020, defined the structure of the variable component for the different personnel categories of the Group Banks, providing for the use of incentives for the Group's Identified Staff, paid in part up-front and in part deferred in cash and financial instruments linked to the value of shares.
During 2020, no incentive scheme was established at Group or bank level and therefore no financial instruments linked to the value of the Parent Company shares were assigned during the year to any potential recipient of the aforementioned scheme.

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

In accordance with the "management approach" defined by IFRS 8, the Carige Group has identified as its main operating segments the customer segments selected according to the customer segmentation approach used by the Group.
In line with the introduction above and in connection with the Group's distribution and management model, the business units identified are:

- the Retail segment, reflecting information on customers who have been segmented as retail consumers and who are classified as Mass Market, Affluent or Private banking customers; this segment includes data and figures from Centro Fiduciario;
- the Corporate segment, including customers segmented as legal persons belonging to the Large Corporate, Corporate, Public Institutions and Small Business clusters;
- the Corporate Centre, including both the ancillary activities of the Group's vehicle companies and banking activities items not related to corporate customers;
- cancellations, i.e. the intragroup relations treated as intragroup ancillary cancellations or as revenues/costs from external customers.

In the 11-month period between the beginning of February and the end of December 2020, the customer segments reported the following operating results:

- the retail segment's Net interest and other banking income totalled EUR 188.1 mln (49.7% of the Group's total), net income from banking and insurance amounted to EUR 174.6 mln and operating expenses came to EUR 232.7 mln (51.3% of the Group's total). These values are reflected in a loss from continuing operations of EUR 58.1 mln.
  With regard to volumes, loans to customers stood at EUR 4,774 mln (38.6% of the Group's total), amounts due to customers totalled EUR 9,868 mln (77% of the Group's total); debt securities in issue and financial liabilities measured at fair value through profit or loss amounted to EUR 3.1 mln; indirect funding amounted to EUR 15,082 mln. Overall funding totalled EUR 24,954 mln and account for 64.4% of the Group's total.
- the Corporate segment's Net interest and other banking income totalled EUR 156 mln (41.3% of the Group's total), loss from banking and insurance activities amounted to EUR 78.9 mln and operating expenses came to EUR 177.5 mln (39.2% of the Group's total): these figures are expressive of a loss from continuing operations of EUR 98.6 mln.
  From a funding/lending volumes standpoint, loans to customers amounted to EUR 6,239 mln (50.4% of the Group's total), amounts due to customers totalled EUR 2,723 mln (21.2% of the Group's total), debt securities issued amounted to EUR 0.1 mln and indirect funding amounted to EUR 7,768 mln, mostly on the back of relationships with the insurance companies Amissima Vita and Amissima Assicurazioni. Overall funding totalled EUR 10,491 mln and accounts for 27.1% of the Group's total.

  The Corporate Centre reported a EUR 19.9 mln operating loss in the 11-month period from the beginning of February to the end of December 2020, whereas funding/lending volumes were affected by the reduction in institutional bonds (debt securities in issue).

Customer segments (EUR/000)

	Consumer	Corporate	Corporate Centre	Cancellations	Total consolidated
Net interest and other banking income					
01/02/2020-31/12/2020	188,164	156,040	47,110	-13,319	377,995
01/01/2019-31/01/2020	241,042	224,748	-111,990	-16,895	336,905
Net income from banking activities [(1)]					
01/02/2020-31/12/2020	174,621	78,862	26,361	12,226	292,070
01/01/2019-31/01/2020	159,632	-155,628	-107,528	-12,495	-116,019
Operating expenses					
01/02/2020-31/12/2020	-232,734	-177,481	-46,293	3,351	-453,157
01/01/2019-31/01/2020	-444,627	-180,042	-127,073	3,368	-748,374
Profit (loss) from continuing operations					
01/02/2020-31/12/2020	-58,113	-98,619	-19,932	15,577	-161,087
01/01/2019-31/01/2020	-284,995	-335,670	-234,601	-9,127	-864,393
Loans to customers					
31/12/2020	4,774,080	6,238,767	1,985,821	-634,158	12,364,510
31/01/2020	4,751,176	6,366,940	3,399,812	-510,580	14,007,348
Due to customers					
31/12/2020	9,868,292	2,722,804	431,016	-202,722	12,819,390
31/01/2020	9,397,024	2,249,154	364,458	-191,272	11,819,364
Securities issued and financial liabilities designated at fair value through profit or loss					
31/12/2020	3,124	7	2,916,647	188,309	3,108,087
31/01/2020	152,167	3,087	4,005,055	92,425	4,252,734
Other financial assets					
31/12/2020	15,082,174	7,768,255	0	0	22,850,429
31/01/2020	14,957,368	7,267,468	0	0	22,224,836
Overall funding					
31/12/2020	24,953,590	10,491,066	3,347,663	-14,413	38,777,906
31/01/2020	24,506,559	9,519,709	4,369,513	-98,847	38,296,934

(1) Including gains (losses) on equity investments, disposal of investments and impairment of goodwill.

Customer segments (% of total)

	Consumer	Corporate	Corporate Centre	Cancellations	Total consolidated
Net interest and other banking income					
01/02/2020-31/12/2020	49.7	41.3	12.5	-3.5	100.0
01/01/2019-31/01/2020	71.5	66.7	-33.2	-5.0	100.0
Net income from banking activities (1)					
01/02/2020-31/12/2020	59.8	27.0	9.0	4.2	100.0
01/01/2019-31/01/2020	-137.6	134.1	92.7	10.8	100.0
Operating expenses					
01/02/2020-31/12/2020	51.3	39.2	10.2	-0.7	100.0
01/01/2019-31/01/2020	59.4	24.1	17.0	-0.5	100.0
Profit (loss) from continuing operations					
01/02/2020-31/12/2020	36.1	61.2	12.4	-9.7	100.0
01/01/2019-31/01/2020	33.0	38.8	27.1	1.1	100.0
Loans to customers					
31/12/2020	38.6	50.4	16.1	-5.1	100.0
31/01/2020	33.9	45.4	24.3	-3.6	100.0
Due to customers					
31/12/2020	77.0	21.2	3.4	-1.6	100.0
31/01/2020	79.5	19.0	3.1	-1.6	100.0
Securities issued and financial liabilities designated at fair value through profit or loss					
31/12/2020	0.1	0.0	93.8	6.1	100.0
31/01/2020	3.6	0.1	94.1	2.2	100.0
Other financial assets					
31/12/2020	66.0	34.0	0.0	0.0	100.0
31/01/2020	67.3	32.7	0.0	0.0	100.0
Overall funding					
31/12/2020	64.3	27.1	8.6	0.0	100.0
31/01/2020	64.0	24.9	11.4	-0.3	100.0

(1) Including gains (losses) on equity investments, disposal of investments and impairment of goodwill.

Part M

LEASES

SECTION 1 - LESSEE

Qualitative information

a) Scope of application

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

The Group elected not to apply the practical expedient to the lease contracts falling within the scope of IFRS 16, based on the "Covid 19 - Related rent concessions - Amendment to IFRS 16" issued by the IASB on 28/05/2020 and adopted by Reg. (EU) No. 1434/2020 of 9 October 2020.

✓ Interest rate

Since the interest rate implicit in the lease was generally not available, lease payments due 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].

[1] 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.

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.
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.

✓ Separation of lease components

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:

- lease of cars: car rental also includes a "service charge" which is kept separate from the lease component and is normally recognised under administrative expenses;
- lease of ATMs: 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.

✓ Estimated costs of restoring or dismantling the right-of-use assets

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.

✓ <u>Initial direct costs incurred by the lessee</u>

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.

✓ <u>Impairment</u>

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

The Banca Carige Group operates in the finance lease sector via the Parent Company Banca Carige. The subsidiary banks act as intermediaries for the placement of loans granted by the Parent Company.

Operations are mainly focused on real estate assets for civil and industrial use. Purchases of equipment, vehicles and boats are also financed.

The Group 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 447,810 thousand. EUR 7,185 thousand worth of receivables under work-in-progress lease contracts are posted under item 1.7 (Other loans).
Net non-performing finance leases amount to a total of EUR 49,240 thousand, of which EUR 47,918 thousand posted to item 1.5 and EUR 1,322 thousand to item 1.7 of table 4.2 of loans to customers.
As at 31/12/2020, 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 7,942 thousand.

2. Financial leasing

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.

2.1 Breakdown by time bands of payments to be received and reconciliation with lease financing recognised in the assets

Time bands	Total 31/12/2020 Payments to be received for leasing	Total 31/01/2020 Payments to be received for leasing
Up to 1 year	98,459	105,879
1 to 2 years	48,765	52,269
2 to 3 years	41,962	44,229
3 to 4 years	36,527	38,010
4 to 5 years	34,374	34,896
Over 5 years	148,510	154,966
Total payments to be received for leasing	408,597	430,249
Reconciliation with lease financing	39,213	46,750
Non-accrued financial gains (-)	88,111	89,308
Non-guaranteed outstanding amount (+)	127,324	136,058
Leasing	447,810	476,999

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

	31/12/2020	31/01/2020
Industrial properties	265,093	280,227
Residential properties	198,665	206,775
Equipment, plant and machinery	58,795	62,747
Motor vehicles	6,981	8,300
Boats	812	1,252
Total	**530,346**	**559,301**

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENT PURSUANT TO ART. 81-TER OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999, AS SUBSEQUENTLY AMENDED AND SUPPLEMENTED

Certification of the consolidated financial statements pursuant to art. 81-ter of the Consob Regulation 11971 of 14 May 1999 as amended

1. The undersigned Francesco Guido, in his capacity as Chief Executive Officer, and Mauro Mangani, in his capacity as Manager charged with preparing the company's financial reports, of Banca CARIGE S.p.A., having also taken into account the provisions of Article 154-bis, paragraphs 3 and 4, of the Italian Legislative Decree 58 of 24 February 1998, hereby certify:

   - the adequacy in relation to the characteristics of the company and
   - the effective implementation

   of the administrative and accounting procedures for the preparation of the consolidated financial statements, during the period 1 February – 31 December 2020.

2. The assessment of the adequacy of the administrative and accounting procedures for the preparation of the consolidated financial statements during the period 1 February - 31 December 2020 is based on a Model defined by Banca CARIGE S.p.A. consistently with the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organisations of the Treadway Commission, which represents the international commonly accepted standard for internal control system.

3. The undersigned also certify that:

   3.1 the consolidated financial statements during the period 1 February - 31 December 2020:

   a) have been drawn up in accordance with the applicable international accounting standards recognised in the European Union under the EC regulation 1606/2002 of the European Parliament and of the Council of 19 July 2002;

   b) are consistent with the entries in the accounting books and records;

   c) are capable of providing a true and fair representation of the assets and liabilities, profits and losses and financial situation of the issuer and the group of companies included in the consolidation.

   3.2 The report on operations includes a reliable analysis of the performance and the results of operations, and the overall situation of the issuer and the group of companies included in the consolidation, together with a description of the main risks and uncertainties they are exposed to.

Genoa, 10 March 2021

Chief Executive Officer Francesco Guido	Manager charged with preparing the company's financial reports Mauro Mangani

This document has been translated into the English language solely for the convenience of international readers.
It has been signed on the Italian original version.

INDEPENDENT AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

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

Consolidated financial statements as at December 31, 2020

Independent auditor’s report pursuant to article 14 of Legislative Decree n. 39, dated January 27, 2010, and article 10 of EU Regulation n. 537/2014

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Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated January 27, 2010, and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

To the Shareholders of Banca Carige S.p.A.– Cassa di Risparmio di Genova e Imperia

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements, which comprise the balance sheet as at December 31, 2020, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows of Banca Carige S.p.A.– Cassa di Risparmio di Genova e Imperia ("Banca Carige" or "Company") and its subsidiaries ("Group") for the period from February 1, 2020 to December 31, 2020 and the notes to the financial statements.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2020, and of its financial performance and its cash flows for the period from February 1, 2020 to December 31, 2020 in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38, dated February 28, 2005 and art. 43 of Legislative Decree n. 136, dated August 18, 2015.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Banca Carige 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 to the matters described by the Directors in the paragraph "Going concern" of the notes to the consolidated financial statements.

In particular, the Directors inform that in February 2021, they updated the targets of the 2019–2023 Strategic Plan ("Strategic Plan"), which now incorporate the changed macroeconomic environment negatively affected by the spread of the coronavirus pandemic, as well as the estimates of the evolution of revenues, brokered volumes and the related risks and uncertainties. These targets also incorporate the incurred loss as of December 31, 2020 and the estimated losses for the years 2021 and 2022, which are significantly higher than the results initially planned in the aforementioned Strategic Plan. The Directors also report that the guidelines of the Strategic Plan are confirmed, even though a redefinition of the timeline for the return to profitability is necessary in an environment made more complex by the health emergency and by the inevitable slowdown in the execution of the overall actions of the Plan. These aspects contribute to the ongoing material uncertainty in relation to the recovery time of the tax assets recorded in the financial statements, the recoverability of which is based on the expected future taxable income. Finally, the Directors report they are involved in monitoring and managing the significant legal and tax risks related to disputes in progress that constitute a further factor of uncertainty.

Even duly considering the new economic conditions determined by the health emergency, the Directors highlight how the aforementioned uncertainties are in any case addressed by the articulated actions, which are being implemented, and related to the commercial growth and to the containment of credit costs also thanks to the articulated de-risking plan, essentially concluded, and to the containment of the operating costs. The Directors also considered the specific and recent measures of the ECB of March 12, 2020 which allow, given the current situation, to operate temporarily even below the minimum capital thresholds at least until December 31, 2022 (referred to the Pillar 2 Guidance and to the Capital Conservation Buffer, respectively).

On the basis of the aforementioned considerations, despite the material uncertainties described above, the Directors believe that the Group has the reasonable expectation of continuing to be operational in the foreseeable future, when it will also be able to meet the minimum prudential requirements regarding own funds and liquidity and consequently, they have prepared the consolidated financial statements on a going concern basis.

Key Audit Matters

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

In addition to the matter described in the *Material uncertainty related to going concern* section, we identified the following key audit matters:

Key Audit Matter	Audit Response
Classification and valuation of loans to customers	
Loans to customers measured at amortised cost, the amount of which is shown in item 40 b) of the balance sheet, amount at Euro 12,365 million and represent approximately 56% of the total assets as at December 31, 2020. The process of classifying and valuing loans to customers in the various risk categories and their measurement are relevant for the audit both because the amount of loans is material for the financial statements as a whole and because the related impairment losses are determined by the Directors through the use of estimates that have a high degree of complexity and subjectivity.	Our audit procedures in response to the key audit matter, also considering the modifications introduced to the estimation collective impairment processes to reflect the heightened uncertainty deriving from the spread of Covid-19 pandemic, included, among others: • understanding of the policies, processes and controls implemented by the Group in relation to the classification and measurement of loans to customers and performing tests on the key controls, including those relating to IT; • performing comparative analysis of the loans to customers portfolio and the related

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Further, such estimation processes have been revised in order to reflect the context of the current uncertainty regarding macroeconomic development framework resulting from the spread of the Covid-19 pandemic, as well as government initiatives to support the economy amongst which, in particular, payment moratoria and new or renegotiated loans with public state guarantees.
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In this context, the following are particularly relevant:

- the identification and calibration of the parameters related to the significant increase in credit risk for the purposes of stage allocation of performing exposures (Stage 1 and Stage 2);
- the estimation of the values to be attributed to the PD (Probability of Default), LGD (Loss Given Default) and EAD (Exposure at Default) as inputs of the Expected Credit Loss model on the basis of historical data observation for each risk class and on the basis of forward looking factors, including the macroeconomic ones;
- the identification of objective evidences of credit risk increase for the classification of non-performing exposures (Stage 3), as well as the determination of the related recoverable cash flows.

Disclosure on the classification and measurement of loans to customers is provided by the Directors in Part A – Accounting policies, the Part B – Information on the Balance Sheet – section 4 - Financial assets measured at amortised cost, the Part C – Information on the consolidated income statement – section 8.1 - Net impairment (losses)/reversal for credit risk on financial assets measured at amortised cost and the Part E – Information on risks and hedging policies – paragraph 1.1 “Credit Risk”, of the notes to the financial statements.

coverage levels by risk category aimed at understanding, also throughout discussion with management, the main variations;

- performing substantive procedures aimed at verifying the proper classification of the loan exposures;
- verifying, on a sample basis, the proper application of the company policies related to the estimation of the expected losses on loan exposures analytically assessed;
- understanding, also with the support of our risk management experts, of the methodology used for the stage allocation and for the estimation, at reporting date, of the expected losses on the exposure statistically measured as well as performing control and substantive testing aimed at the verification of the completeness of the database used and of the related calculations;
- analysis of the adequacy of the disclosures provided in the notes to the financial statements.

Key Audit Matter	Audit Response
Recoverability of deferred tax assets	

Deferred tax assets (DTAs) recorded under the item 110 b) of the consolidated balance sheet, amount at about Euro 827 million as of December 31, 2020. Such amount is composed:

- for approximately Euro 245 million, by DTAs deriving from impairment of loans and goodwill, for which the recoverability is regulated by the regime of transformability into tax credits according to Law n° 214/2011. On this component, considering the content of the aforementioned law, there are no risks of non-recoverability.
- for approximately Euro 582 million by DTAs attributable to tax losses and other deductible temporary differences, outside the aforementioned Law n° 214/2011 (“non-convertible DTAs”).

In relation to the latter, the valuation of the recoverability (probability test) required by the International Financial Reporting Standards IAS 12, is relevant for the audit both because their amount is material to the financial statements as a whole and because their recoverability is assessed based on a model that requires the use of assumptions and estimates that have a high degree of subjectivity, in particular in the current context of uncertainty deriving from the spread of the Covid-19 pandemic. Among these, particularly relevant are those related to:

- the estimation of taxable income, expected to occur over the period considered for the recoverability of the DTAs, on the basis of the business plans and the additional assumptions made by the Directors in relation to their projection in the future, the growth rates used and the probability of their occurrence;
- the length of the foreseeable time frame for the recovery of the DTAs;
- the correct interpretation of the applicable tax legislation.

The Directors disclose in Part A – Accounting Policies and in the section “Tax assets and tax liabilities – item 110 of the Assets and item 60 of the Liabilities” of Part B of the notes to the financial statements the description of the process aimed at verifying the existence of the

In relation to these matters, our audit procedures included, among others:

- understanding of the processes and controls implemented by the Group, also with the support of their external experts, in relation the assessment of the recoverability of the “non-convertible DTAs”;
- analysis, also with the support of our experts in business valuations, of the updates made to the targets of the 2019–2023 Strategic Plan;
- analysis, also with the support of our tax experts, of the reasonableness of the assumptions and the parameters used for the development of the probability test based on the tax legislation applicable to the different types of deductible temporary differences;
- performing substantive procedures on the completeness and accuracy of the data used to determine the future taxable income included in the probability test;
- analysis of the adequacy of the disclosures provided in the notes to the financial statements.

conditions to recognize the DTAs in the balance sheet required by the international accounting principle IAS 12, with particular regards to the assumptions and the probability scenarios as well as the time frame for the future taxable income to occur, which are the basis of the aforementioned recoverability of the "non-convertible DTAs".

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38, dated February 28, 2005 and art. 43 of Legislative Decree n. 136, dated August 18, 2015, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the Group's ability to continue as a going concern and, when preparing the consolidated financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the consolidated financial statements on a going concern basis unless they either intend to liquidate the Parent Company Banca Carige or to cease operations or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design

audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of Banca Carige, in the general meeting held on April 29, 2011, engaged us to perform the audits of the consolidated financial statements for each of the years ending December 31, 2012 to December 31, 2020.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Group in conducting the audit.

We confirm that the opinion on the consolidated financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared pursuant to article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated January 27, 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated February 24, 1998

The Directors of Banca Carige are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and Ownership Structure of Group Banca Carige as at December 31, 2020, including their consistency with the related consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated February 24, 1998, with the consolidated financial statements of the Group for the period from February 1, 2020 to December 31, 2020 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operations and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the consolidated financial statements of the Group for the period from February 1, 2020 to December 31, 2020 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated January 27, 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated 30 December 2016

The Directors of Banca Carige are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated December 30, 2016. We have verified that non-financial information has been approved by Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated December 30, 2016, such non-financial information is subject to a separate compliance report signed by us.

Genoa, March 26, 2021

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.

ANNEXES

GRUPPO BANCA CARIGE S.P.A.

Information pursuant to sub-sections a), b) and c) of Annex A to Part 1, Title III, Chapter 2 of Bank of Italy's Circular no. 285 of 17 December 2013.

Status as at 31 December 2020

Sub-section a) - legal form and structure of established companies and nature of business activity

	Country of establishment Italy	Summary description of key business activities
Bank		
BANCA CARIGE S.P.A. - CASSA DI RISPARMIO DI GENOVA E IMPERIA - Parent Company (1)	X	Funding and lending via a network of branches, trading for third parties, receipt and transmission of orders, placement of financial instruments, payments and settlements, asset custody/management
BANCA DEL MONTE DI LUCCA S.P.A.	X	Funding and lending via a network of branches, trading for third parties, receipt and transmission of orders, placement of financial instruments, payments and settlements, asset custody/management
BANCA CESARE PONTI S.P.A.	X	Funding and lending via a network of branches, trading for third parties, receipt and transmission of orders, placement of financial instruments, payments and settlements, asset custody/management
Financial companies		
ARGO MORTGAGE 2 S.R.L.	X	Securitisation of receivables under Law no. 130/1999
CARIGE COVERED BOND S.R.L.	X	Bank-bond guarantees under Law no. 130/1999
CARIGE COVERED BOND 2 S.R.L.	X	Bank-bond guarantees under Law no. 130/1999
LANTERNA FINANCE S.R.L.	X	Special-purpose vehicle for self-securitisations
LANTERNA LEASE S.R.L.	X	Securitisation of receivables under Law no. 130/1999
LANTERNA MORTGAGE S.R.L	X	Securitisation of receivables under Law no. 130/1999

Trust companies

CENTRO FIDUCIARIO CF spa	X	Fiduciary custody activities	

Other companies

CARIGE REOCO S.P.A.	X		Real estate activities ancillary to the Group's business
ST.ANNA GOLF SRL	X	Real estate activities	
ST. ANNA GESTIONE GOLF SOCIETÀ SPORTIVA DILETTANTISTICA A R.L.(*)	X	Amateur sports club	

(*) Company excluded from the scope of consolidation

Sub-section b) - BANCA CARIGE GROUP turnover broken down by Country of establishment and business activity (Net interest and other banking income as per Item 120 of the Income Statement, in EUR/000)

	Country of establishment		
	Italy	Value adjustments a cancellation	TOTAL
Bank	392,212		392,212
Financial companies	33		33
Trust companies	-		-
Other companies	-930		-930
Value adjustments and cancellations		-13,318	-13,318
TOTAL	391,315		377,997

Sub-section c) - Number of FTEs

	Country of establishment	
	Italy	TOTAL
No. of employees	3,517	3,517

Sub-section d) - BANCA CARIGE Group profit (loss) before tax broken down by Country of establishment and business activity (sum of items 290 and 320, the latter before tax, of the Income Statement, in EUR/000)

	Country of establishment		
	Italy	Value adjustments and cancellations	TOTAL
Bank	-166,586		-166,586
Financial companies	-46		-46
Trust companies	229		229
Other companies	-10,260		-10,260
Value adjustments and cancellations		15,576	15,576
TOTAL	-176,663	15,576	-161,087

Sub-section e) - Tax on profit or loss of the BANCA CARIGE Group, broken down by Country of establishment and business activity (sum of taxes referred to under item 300 of the Consolidated Income Statement and income taxes on groups of assets held for sale, in EUR/000)

	Country of establishment		
	Italy	Value adjustments and cancellations	TOTAL
Bank	-91,716		-91,716
Financial companies	-2		-2
Trust companies	-		0
Other companies	0		0
Value adjustments and cancellations		157	157
TOTAL	-91,718	157	-91,561

Disclosure pursuant to art. 149-duodecies of Consob Issuers' Regulation

This table reports the fees for the period 01.02.2020 - 31.12.2020 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.	601
Auditing	EY S.p.A.	Other Group companies	185
Certification	EY S.p.A.	Banca Carige S.p.A.	327
Certification	EY S.p.A.	Other Group companies	24
Other services	EY S.p.A.	Banca Carige S.p.A.	80
Total			1,217

(*) Fees net of VAT and out-of-pocket expenses

List of IAS/IFRS standards endorsed by the European Commission as at 31.12.2020

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); 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); Reg. 551/2020 (22/04/2020)
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); Reg. 2097/2020 (16/12/2020)
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 (8/02/2018); 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. 24/06/2015 (19/12/2015)
IFRS 9	Financial instruments	Reg. 2016/1905 (22/09/2016); 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); Reg 2020/1434 (12/10/2020)
SIC / IFRIC	**DESCRIPTION**	**ENDORSING EC REGULATION**
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. 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)

(1) 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.