

Draft consolidated reports

2020



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reports

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Letter from the Chairman to Shareholders



Sebastien Egon Fürstenberg
Chairman of Banca Ifis S.p.A.

Dear Shareholders,

2020 has been an unprecedented year that we have addressed with a great sense of responsibility and sharing. We have done so putting the human capital right at the heart of all our actions: our employees, first and foremost, thanks to whom the Group - despite the exceptionally complex circumstances - has achieved results that exceeded expectations. We have done so guaranteeing our support to the real economy, with targeted actions and tools dedicated to our customers and their businesses, helping the communities and protecting stakeholders.

2020 was also the year in which the Group rebranded in a project that has significantly increased awareness of the Bank, the subsidiaries and their products, but also improved our market position as challenger bank specialised in market niches with high added values. These elements, coupled with an agile, flexible operating structure, have also made it possible to make the most of new market opportunities during the year and to be ready to face knowingly up to the challenges of the future, like the digital transformation and sustainable transition, projects in which we have invested and will continue to invest.

This is also the context in which we have the generational handover that took place in May 2020, following authorisation by the European Central Bank, with the transfer of the bare ownership of approximately 51% of the share capital of La Scogliera SpA and connected voting rights to my son, Ernesto Fürstenberg Fassio. And this choice continues the family tradition seen over the years, with the aim of pursuing the success of the Institute and, through an appetite for innovation, to overcome the new challenges and rise to the increasingly competitive scenarios.

The choice of the new Chief Executive Officer, Frederik Geertman, announced last December, is yet further confirmation of the desire to develop synergies between the different Bank business lines, which have been recently expanded on, and to speed up the development and digitisation process to play a leading role in the changes taking place in the industry worldwide. Since it was first founded, Banca Ifis has successfully stayed ahead of the trends and risen to the market challenges, creating value for all its shareholders and stakeholders.

I am certain that, thanks to our work in 2020, this value creation path will continue in the future with even more incisive determination.

Sebastien Egon Fürstenberg, Chairman of Banca Ifis S.p.A.

Letter from the CEO to Shareholders



Luciano Colombini

Chief Executive Officer of Banca Ifis S.p.A.

Dear Shareholders,

Amidst a 2020 that was characterised by the impact of the Covid-19 pandemic and the consequent major fallout on our country's health, social and economic situation, Banca Ifis proved able to react in all ways.

The year closed with net profit of 68,8 million Euro, after approximately 76 million Euro in additional provisions, with equity indicators strengthened on 31 December 2019, asset quality indicators having improved and liquidity - both structural and short-term - above regulatory levels.

The Bank's positioning on the market, in particular in the two main businesses, has been successfully maintained: NPL portfolio acquisitions have reached 2,7 billion Euro in nominal amount, exceeding the forecasts prepared at the start of the year and in line with the phase seen pre-Covid-19; after the downturn during the months of lock-downs, factoring transactions showed a clear recovery in the fourth quarter.

The major growth in MT loans backed by the MCC should also be noted, disbursed partly to offer support to business customers during this difficult period and this support was further confirmed by the authorisation of almost all requests for moratorium and derogations to covenants on structured finance transactions, submitted by customers.

The organisational structure has shown flexibility and a capacity to adjust to an emergency situation of unprecedented scope and proportions: just a few days after the start of the March 2020 lock-down, more than 90% of the Bank's staff had already been assigned to work from home, without forfeiting efficiency and all the time maintaining an adequate level of customer service.

Finally, despite the difficulties of a year marked, amongst others, by major macroeconomic difficulties, Banca Ifis never lost its capacity to plan investments and keep a firm gaze on the medium-term. In this respect, the year's initiatives include:

- the acquisition of the controlling share of Farbanca, which, once integration is completed with Credifarma, will make it possible to create the country's most important banking pole specialised in pharmacies;
- the reorganisation (after the purchase of the residual 10% of FBS) of the Npl industry, with the creation of three different companies: Ifis Npl Investing, assigned to purchase and invest in portfolios; Ifis Npl Servicing, dedicated to the debt collection (including for third parties) and Ifis Real Estate, operating in the real estate business and servicing the other two companies;

- the issue of a 400 million Euro preferred senior bond at more favourable conditions than those envisaged;
- the Group's rebranding and the launch of a major cross-media nationwide communication campaign;
- significant investment in the digitisation of services and products for the companies involving, amongst others, the launch of the Ifis4Business project: the Banca Ifis on-line hub for businesses.

All this would not have been possible without the major effort made by all staff, worthy of mention for the devotion and attachment shown to the Bank, even at such a difficult time.

The presentation of these financial statements marks the end of my experience in Banca Ifis. I would like to thank the Chairman, the Board of Directors, the Board of Auditors and all my colleagues for the very profitable work carried out over these last two years and the cordiality always shown in all relations entertained. I would also like to wish Frederik Geertman, who has agreed to take over as the Bank's CEO, all the best with his new position.

Luciano Colombini, Chief Executive Officer of Banca Ifis S.p.A.

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1.

Governance and risk management



Board of Directors in office at approval of the reports and consolidated financial statements

Chairman	Sebastien Egon Fürstenberg
Deputy Chairman	Ernesto Fürstenberg Fassio
CEO	Luciano Colombini ⁽¹⁾
Directors	Simona Arduini Monica Billio Beatrice Colleoni Roberto Diacetti Frederik Geertman ⁽²⁾ Luca Lo Giudice Antonella Malinconico Riccardo Preve Daniele Umberto Santosuosso

⁽¹⁾ The CEO has powers for the ordinary management of the Company.

⁽²⁾ Coopted on 11 February 2021 following the resignation of Divo Gronchi, tendered on 14 January 2021.

General Manager

Alberto Staccione

Board of Statutory Auditors

Chairman

Giacomo Bugna

Standing Auditors

Marinella Monterumisi
Franco Olivetti

Alternate Auditors

Alessandro Carducci Artenisio
Giuseppina Manzo

Independent Auditors

EY S.p.A.

Corporate Accounting Reporting Officer

Mariacristina Taormina



Fully paid-up share capital: 53.811.095 Euro

ABI 3205.2

Tax Code and

Venice Companies Register Number: 02505630109

VAT No.: 04570150278

Enrolment in the Register of Banks No.: 5508

Registered and administrative office

Via Terraglio, 63 – 30174 Mestre – Venice

Website: www.bancaifis.it



Member of FCI

2.

Directors' Report on the Group



2.1 Highlights

In the following statements, net impairment losses/reversals on receivables of the Npl Segment were entirely reclassified to Interest receivable and similar income to present more fairly this particular business and because they represent an integral part of the return on the investment.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (in thousands of Euro)	AMOUNTS AT		CHANGE	
	31.12.2020	31.12.2019	ASSOLUTA	%
Financial assets measured at fair value through other comprehensive income	774.555	1.173.808	(399.253)	(34,0)%
Receivables due from banks measured at amortised cost	1.083.281	626.890	456.391	72,8%
Receivables due from customers measured at amortised cost	9.135.402	7.651.226	1.484.176	19,4%
Total assets	12.026.196	10.526.024	1.500.172	14,3%
Payables due to banks measured at amortised cost	2.367.082	959.477	1.407.605	146,7%
Payables due to customers measured at amortised cost	5.471.874	5.286.239	185.635	3,5%
Debt securities issued	2.069.083	2.217.529	(148.446)	(6,7)%
Equity	1.549.962	1.538.953	11.009	0,7%

RECLASSIFIED CONSOLIDATED INCOME STATEMENT HIGHLIGHTS (in thousands of Euro)	YEAR		CHANGE	
	2020	2019	ASSOLUTA	%
Net banking income	467.800	558.333	(90.533)	(16,2)%
Net credit risk losses/reversals	(91.359)	(87.183)	(4.176)	4,8%
Net profit (loss) from financial activities	376.441	471.150	(94.709)	(20,1)%
Operating costs	(308.025)	(294.921)	(13.104)	4,4%
Value adjustments of goodwill	(700)	-	(700)	-
Gains (Losses) on disposal of investments	24.161	(408)	24.569	n.s.
Pre-tax profit from continuing operations	91.877	175.821	(83.944)	(47,7)%
Profit for the year attributable to the Parent company	68.804	123.097	(54.293)	(44,1)%

QUARTERLY RECLASSIFIED CONSOLIDATED INCOME STATEMENT HIGHLIGHTS (in thousands of Euro)	4th QUARTER		CHANGE	
	2020	2019	ASSOLUTA	%
Net banking income	146.097	167.090	(20.993)	(12,6)%
Net credit risk losses/reversals	(43.503)	(38.169)	(5.334)	14,0%
Net profit (loss) from financial activities	102.594	128.921	(26.327)	(20,4)%
Operating costs	(78.622)	(81.681)	3.059	(3,7)%
Value adjustments of goodwill	(700)	-	(700)	-
Pre-tax profit from continuing operations	23.272	47.240	(23.968)	(50,7)%
Profit for the period attributable to the Parent company	16.458	39.101	(22.643)	(57,9)%

2.2 Group KPIs

In the following statements, net impairment losses/reversals on receivables of the Npl Segment were entirely reclassified to Interest receivable and similar income to present more fairly this particular business and because they represent an integral part of the return on the investment.

GROUP KPIs	2020	2019	CHANGE
ROE	4,5%	8,2%	(3,7)%
ROA	0,8%	1,7%	(0,9)%
Cost/Income ratio	65,8%	52,8%	13,0%
Ratio - Total Own Funds	14,85%	14,58%	0,27%
Ratio - Common Equity Tier 1	11,29%	10,96%	0,33%
Number of company shares (in thousands)	53.811	53.811	0,0%
Number of shares outstanding at year end ⁽¹⁾ (in thousands)	53.460	53.452	0,0%
Book value per share	28,99	28,79	0,7%
EPS	1,29	2,30	(43,9)%
Dividend per share ⁽²⁾⁽³⁾	0,47	1,10	(57,3)%
Payout ratio	36,5%	47,8%	(11,3)%

(1) Outstanding shares are net of treasury shares held in the portfolio.

(2) The data for FY 2020 refers to the dividend proposed by the Board of Directors of Banca Ifis, in compliance with and up to the limits set out in the recommendation of the Bank of Italy of 16 December 2020.

(3) The FY 2019 data refers to the unitary dividend resolved and not distributed, at least until 30 September 2021, as envisaged by the Bank of Italy Recommendation of 16 December 2020.

2.3 Context

The last few months of 2020 have been characterised by a world economic recovery, despite the worsening of the Covid-19 pandemic recorded starting October. The difference with respect to what we saw during the first half of the year is well evidenced by the PMI (Purchasing Managers' Index), which late 2020 showed a significantly higher value (52,7 points the composite indicator at December 2020) with respect to the sharp declines seen during the first wave of Covid-19 and coincides with the growth expectations (index level higher than 50). This performance of the PMI is not, however, homogeneous in all segments: it is the result of a declining service segment offset by an increase in the manufacturing industry.

The latest forecasts (source: ISTAT processing of ECFIN Autumn Forecasts) indicate the GDP taking a downturn of 4,3% worldwide and of 7,8% in the Eurozone, as a consequence of the impact of the pandemic on all markets and geographic areas, albeit less intensely in the emerging economies; this reduction in the GDP is expected to lead to a 10% decline in the volume of world trade.

In our country, the fourth quarter of 2020 was characterised by a reduction in the forecast of 2% and tending towards 6,6% in the gross domestic product (ISTAT data already corrected for calendar effects and to reduce seasonality). Instead, as regards the whole of 2020 (although final data is not yet available), the GDP looks to have reduced by 8,9%. This drop is the result of a reduction in the added value of all production segments and, at the same time, a decline in demand, to which both the domestic market (-10% consumption in real terms for families and special private institutions) and the commercial balance (exports are expected to drop by more than 16%) have made a negative contribution.

In seeking to take a look at forecasts for 2021, various variables may potentially determine the evolution of the scenario: timing and effectiveness of the investment and economy stimulus measures, the continued favourable financing conditions offered by central banks, make-up and timing of the implementation of the Next Generation EU plan, intensity of the pandemic and effectiveness of the vaccination plan.

Faced with generalised uncertainty in forecasts, the main operators report risks of a downturn associated with a scenario that has not yet been defined, both due to the evolution of the health emergency and the availability and capacity to disburse vaccines.

The global GDP is presently expected to rise by between 4 and 5% with a volume of world trade growing at around 6%. Both estimates of both amounts are down on that hypothesised just a few months ago.

In the Eurozone, 2021 growth is expected to come in just over 4%, an average that conceals inhomogeneous trends between the various industries and countries, at least in the short-term. Taking a longer-term view, on the other hand, the economic recovery of the Eurozone should be supported by favourable financing conditions, an expansive approach by budgeting policies and a recovery in demand when uncertainty is reduced.

The Italian economy has also recorded less favourable forecasts for 2021: GDP estimates come in between +3,5% and +4% (sources: Bank of Italy in the January 2021 economic bulletin; ISTAT forecasts), faced with a consensus of +4,9% of forecasts published between October and December 2020, despite not yet having

included the estimated investments to be made in the Next Generation EU. According to these latter forecasts, the Italian product is only likely to strengthen late in the spring, following a positive evolution of the health context. In the second half of 2021, and even more so over the following two years, growth will be supported by expansive policies financed with national and European funds. Although due consideration must be given to the employment gap (hours worked) lost in 2020, which is expected to be fully made up only in 2023.

Reference markets

Enterprises

The current state of Italian businesses had no way of avoiding being impacted by the decline in exports and downturn to investments. These latter, in particular, after having recorded a slow-down in 2019 to the process of accrual of fixed capital (which dropped to +1,6% after three years of solid growth), are expected to drop by 10% in 2020, with a greater focus on assets consisting of plant and equipment than constructions.

Instead, investments in research and development (R&D) and software have proven to be resilient to the crisis (the increase measured by ISTAT in 2020 totals 0,6%), thereby confirming the need to innovate in a context that calls for an addressing of both the technological transformation dictated by digital and the transition towards more socially and environmentally sustainable products and processes. The Banca Ifis Studies Office (December 2020 SME Market Watch) has shown how the pandemic emergency has acted as a powerful accelerator of the digital innovation trend already in progress, causing the penetration of new technologies amongst SMEs to go from 45% in January to 66% in December 2020, an incidence that remains high (62%) even in the SMEs with 2020 turnover on a decline. In terms of R&D, SMEs have maintained a positive approach, as seen in the production system as a whole, which has taken 85% of SMEs carrying out R&D to keep investments unchanged or even increase them. This data on the one hand confirms the awareness of enterprises of the strategic need to evolve the way of doing business and on the other indicates the desire to start up again, once the emergency is over.

In recent months, the Italian financial system has satisfied the demand for credit by enterprises. The conditions at which credit is offered have not shown any tension, thanks to the continued support offered by the monetary policy and public guarantees. After a summer break, loan applications to satisfy liquidity and investment needs slowed during the last five months of 2020: the growth rate of loans to businesses (non-financial companies and producer households) has dropped as compared with the development rates seen from March to July, when the main public support initiatives were implemented.

Banks: loans to residents in Italy - non-financial companies and producer households

Banks: loans to residents in Italy Non-financial companies and producer households			
Observation date	Amounts in Million Euro	Changes in forecasts	Changes in trends
31/12/2020	750.540	(2,0)%	6,0%
30/11/2020	765.574	0,7%	6,3%
31/10/2020	760.192	0,1%	5,4%
30/09/2020	759.488	0,9%	4,7%
31/08/2020	752.630	0,3%	3,4%
31/07/2020	750.557	1,1%	1,5%
30/06/2020	742.228	1,0%	0,7%
31/05/2020	735.231	0,4%	(1,4)%
30/04/2020	732.620	0,8%	(2,0)%
31/03/2020	727.073	2,2%	(2,3)%
29/02/2020	711.560	(0,6)%	(6,0)%
31/01/2020	715.643	1,1%	(5,8)%
31/12/2019	708.195	(1,7)%	(6,7)%
30/11/2019	720.155	(0,1)%	(7,6)%
31/10/2019	721.210	(0,6)%	(7,1)%
30/09/2019	725.483	(0,3)%	(6,7)%
31/08/2019	727.661	(1,6)%	(6,7)%
31/07/2019	739.494	0,3%	(6,3)%
30/06/2019	737.379	(1,1)%	(6,4)%
31/05/2019	745.665	(0,3)%	(9,0)%
30/04/2019	747.608	0,4%	(8,9)%
31/03/2019	744.360	(1,7)%	(9,0)%
28/02/2019	756.906	(0,3)%	(7,6)%
31/01/2019	759.349	0,1%	(8,4)%

Source: Bank of Italy statistical database.

The recession sparked by the Covid-19 epidemic has significantly increased the portion of companies that will record a need for liquidity and an equity deficit, the scope of which is still difficult to quantify precisely. To this end, a recent analysis by the Bank of Italy has assessed the effectiveness of the support measures launched by the Italian government in 2020 differently on the different sizes:

- significant, positive impact in offsetting the liquidity deficit;
- limiting of the worsening, without, however, managing to eliminate it, of the equity conditions;
- increased risk of insolvency, once the benefit of the moratoriums has reached an end, due to the high use of new loans, which have extensively benefited from public guarantees.

On the basis of these assessments and despite the recent trends seen in credit performance, during the two years 2021/2022, we are likely to see a harshening of the credit policy to cope with a risk level of businesses that is expected to worsen.

Non-Performing Exposures

Faced with the expected increased risk levels of families and businesses, the forecasts of the Banca Ifis Studies Office expect to see a significant rise in non-performing positions on bank financial statements with a deterioration rate up to 2,6% in 2021 and 3% in 2022. The business component should have a greater weight on the increased credit default.

The deterioration rate expected from the Covid-19 crisis is in any case estimated as being lower than that of the 2011-2013 financial crisis (4,5% the peak reached at the end of these three years), because the current phase benefits from a series of mitigating factors:

- massive cash injections by the central banks.
- supporting plans of the economy (moratoriums on loans, government backed loans, blockage of dismissals, refreshments) activated by the governments;
- lesser duration of the economic crisis, which envisages a partial recovery already in the second part of 2021;
- greater solidity of the banks in terms of underwriting, stricter credit policies and early warning systems;
- active budgeting policies and Next Generation EU plan.

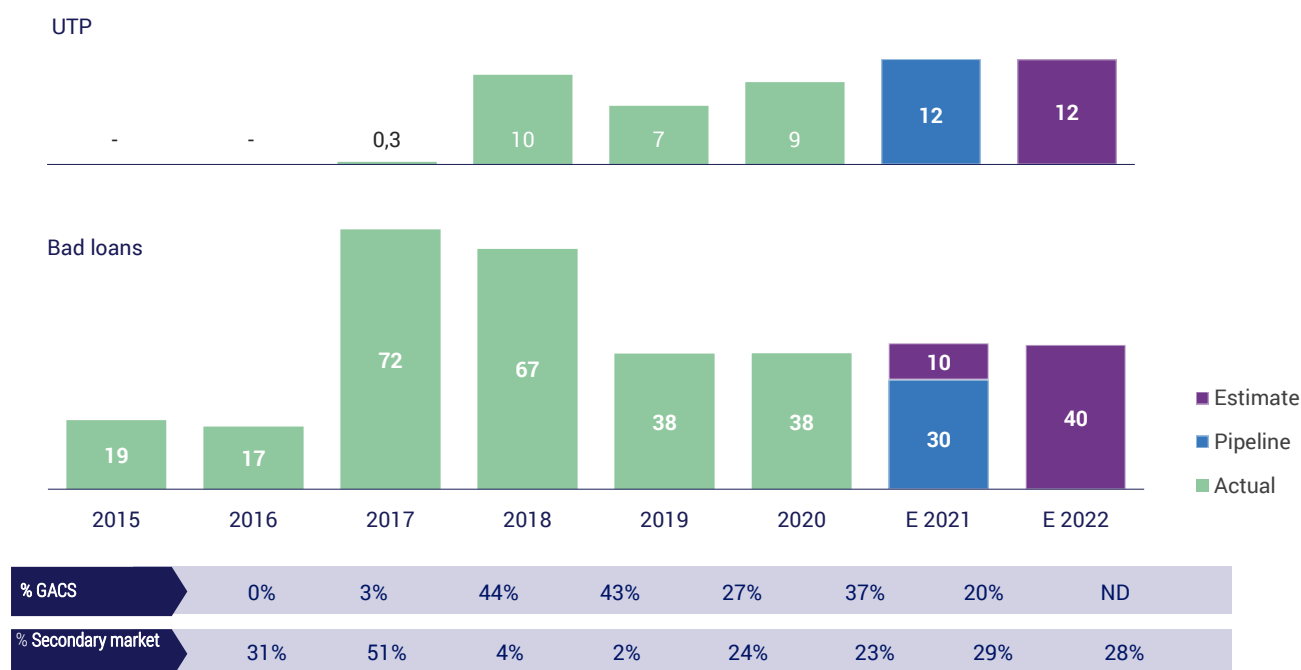
As a consequence of these greater flows expected, the stock of gross deteriorated loans on the bank financial statements is expected to return to rising (+19 billion Euro in 2021 and 20 billion Euro in 2022) with an Npe ratio expected to be 7,8% in 2022.

The Npe portfolio transactions market (non-performing and unlikely to pay) was dynamic in 2020 (38 billion Euro in transfers of non-performing exposures and 9 billion Euro of transactions of unlikely to pay), with a strong speeding up of business in December.

The dynamics seen during the year just ended are expected to continue into 2021/2022 too. In 2021, the volume of transfers may reach 40 billion Euro for non-performing portfolios, of which 30 billion Euro have already been announced or are in process and 12 billion Euro for unlikely to pay transactions. For 2022, a similar amount of transactions is expected.

Business on the secondary market was intense, thereby confirming the level of maturity reached by this market. In transactions on the secondary market, there is a significant component of portfolios on unsecured loans, both in the final figures of 2020 and in the 2021 forecast, which calls for servicers specialised in this asset type.

Npe market trend (figures in billion Euro)



Source: Banca Ifis Market Watch Npl, January 2021 edition

Examining the Italy system as a whole, it is estimated that the stock of Npes to be managed (deteriorated on the bank financial statements or in investor portfolios), already slightly up in 2020, may speed up in the following two years, projecting a total amount of 441 billion Euro in 2022. An important working base for servicers specialised in managing non-performing exposures.

2.4 Results by business Segments

In the following statements, net impairment losses/reversals on receivables of the Npl Segment were entirely reclassified to Interest receivable and similar income to present more fairly this particular business and because they represent an integral part of the return on the investment.

STATEMENT OF FINANCIAL POSITION DATA (in thousands of Euro)	COMMERCIAL & CORPORATE BANKING SEGMENT				NPL SEGMENT	GOVERNANCE & NON-CORE SERVICES SEGMENT	CONS. GROUP TOTAL
	TOTAL COMMERCIAL & CORPORATE BANKING SEGMENT	of which: FACTORING AREA	of which: LEASING AREA	of which: CORPORATE BANKING & LENDING AREA			
Other financial assets mandatorily measured at fair value through profit or loss							
Amounts at 31.12.2020	66.441	-	-	66.441	9.524	61.013	136.978
Amounts at 31.12.2019	39.764	-	-	39.764	10.193	62.828	112.785
% Change	67,1%	-	-	67,1%	(6,6)%	(2,9)%	21,5%
Financial assets measured at fair value through other comprehensive income							
Amounts at 31.12.2020	2.322	-	-	2.322	-	772.233	774.555
Amounts at 31.12.2019	6.733	-	-	6.733	-	1.167.075	1.173.808
% Change	(65,5)%	-	-	(65,5)%	-	(33,8)%	(34,0)%
Receivables due from customers ⁽¹⁾							
Amounts at 31.12.2020	5.992.591	2.854.272	1.414.055	1.724.264	1.405.603	1.737.208	9.135.402
Amounts at 31.12.2019	5.425.270	3.229.347	1.448.463	747.460	1.280.332	945.624	7.651.226
% Change	10,5%	(11,6)%	(2,4)%	130,7%	9,8%	83,7%	19,4%

(1) In the Governance & Non-Core Services Segment, at 31 December 2020, there were government securities amounting to 1.095,3 million Euro (213,0 million Euro at 31 December 2019).

INCOME STATEMENT DATA (in thousands of Euro)	COMMERCIAL & CORPORATE BANKING SEGMENT				NPL SEGMENT	GOVERNANCE & NON-CORE SERVICES SEGMENT	CONS. GROUP TOTAL
	TOTAL COMMERCIAL & CORPORATE BANKING SEGMENT	of which: FACTORING AREA	of which: LEASING AREA	of which: CORPORATE BANKING & LENDING AREA			
Net banking income							
Amounts at 31.12.2020	222.680	149.214	49.155	24.311	162.942	82.178	467.800
Amounts at 31.12.2019	243.560	164.589	53.046	25.925	244.924	69.849	558.333
% Change	(8,6)%	(9,3)%	(7,3)%	(6,2)%	(33,5)%	17,7%	(16,2)%
Net profit (loss) from financial activities							
Amounts at 31.12.2020	150.198	118.991	33.533	(2.326)	162.942	63.301	376.441
Amounts at 31.12.2019	191.939	128.741	42.796	20.402	244.924	34.287	471.150
% Change	(21,7)%	(7,6)%	(21,6)%	(111,4)%	(33,5)%	84,6%	(20,1)%
Profit for the year							
Amounts at 31.12.2020	22.715	25.085	6.713	(9.083)	17.926	28.501	69.142
Amounts at 31.12.2019	56.778	29.860	16.755	10.163	61.500	4.910	123.188
% Change	(60,0)%	(16,0)%	(59,9)%	(189,4)%	(70,9)%	480,5%	(43,9)%

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	COMMERCIAL & CORPORATE BANKING SEGMENT				NPL SEGMENT	GOVERNANCE & NON-CORE SERVICES SEGMENT	CONS. GROUP TOTAL
	TOTAL COMMERCIAL & CORPORATE BANKING SEGMENT	of which: FACTORING AREA	of which: LEASING AREA	of which: CORPORATE BANKING & LENDING AREA			
Net banking income							
Fourth quarter 2020	63.136	41.579	12.695	8.862	46.219	36.742	146.097
Fourth quarter 2019	62.080	41.292	13.123	7.665	80.681	24.329	167.090
% Change	1,7%	0,7%	(3,3)%	15,6%	(42,7)%	51,0%	(12,6)%
Net profit (loss) from financial activities							
Fourth quarter 2020	20.863	18.592	12.746	(10.475)	46.219	35.512	102.594
Fourth quarter 2019	42.674	28.585	11.201	2.888	80.681	5.566	128.921
% Change	(51,1)%	(35,0)%	13,8%	n.s.	(42,7)%	n.s.	(20,4)%
Profit for the period							
Fourth quarter 2020	(11.644)	(6.530)	5.012	(10.126)	5.142	23.182	16.680
Fourth quarter 2019	11.568	6.530	4.457	581	24.763	2.804	39.135
% Change	(200,7)%	(200,0)%	12,5%	n.s.	(79,2)%	n.s.	(57,4)%

SEGMENT KPIs (in thousands of Euro)	COMMERCIAL & CORPORATE BANKING SEGMENT				NPL SEGMENT	GOVERNANCE & NON-CORE SERVICES SEGMENT ⁽¹⁾
	TOTAL COMMERCIAL & CORPORATE BANKING SEGMENT	of which: FACTORING AREA	of which: LEASING AREA	of which: CORPORATE BANKING & LENDING AREA		
Cost of credit quality ⁽²⁾						
Amounts at 31.12.2020	1,38%	1,05%	1,11%	2,69%	n.a.	4,72%
Amounts at 31.12.2019	0,95%	1,11%	0,72%	0,74%	n.a.	8,47%
% Change	0,43%	(0,06)%	0,39%	1,95%	n.a.	(3,75)%
Net bad loans/Receivables due from customers						
Amounts at 31.12.2020	0,7%	1,3%	0,2%	0,3%	74,1%	0,9%
Amounts at 31.12.2019	0,8%	1,2%	0,2%	0,1%	75,3%	4,4%
% Change	(0,1)%	0,1%	(0,0)%	0,2%	(1,2)%	(3,5)%
Coverage ratio on gross bad loans						
Amounts at 31.12.2020	72,7%	73,6%	85,0%	27,4%	-	29,1%
Amounts at 31.12.2019	79,6%	79,8%	81,0%	51,5%	-	15,0%
% Change	(6,9)%	(6,2)%	4,0%	(24,1)%	-	14,1%
Net non-performing exposures/Net receivables due from customers						
Amounts at 31.12.2020	2,7%	4,1%	0,8%	1,9%	98,3%	2,9%
Amounts at 31.12.2019	4,2%	6,1%	1,2%	1,6%	99,3%	11,3%
% Change	(1,5)%	(2,0)%	(0,4)%	0,3%	(1,0)%	(8,4)%
Gross non-performing exposures/Gross receivables due from customers						
Amounts at 31.12.2020	5,9%	9,0%	2,9%	3,1%	98,3%	4,3%
Amounts at 31.12.2019	8,5%	12,1%	3,2%	2,2%	99,3%	15,4%
% Change	(2,6)%	(3,1)%	(0,3)%	0,9%	(1,0)%	(11,1)%
RWAs ⁽³⁾						
Amounts at 31.12.2020	5.144.914	2.427.843	1.309.416	1.407.655	2.211.695	915.705
Amounts at 31.12.2019	5.222.610	2.945.792	1.398.434	878.384	2.039.840	958.110
% Change	(1,5)%	(17,6)%	(6,4)%	60,3%	8,4%	(4,4)%

(1) In the Governance & Non-Core Services Segment, at 31 December 2020, there were government securities amounting to 1.095,3 million Euro (213,0 million Euro at 31 December 2019), which for the purpose of calculating the cost of credit quality, were not considered.

(2) This indicator is calculated comparing the value of net write-downs/write-backs for credit risk at the end of the year over the annual average loans to customers (calculated quarterly).

(3) Risk Weighted Assets; the amount only relates to the credit risk.

2.5 Reclassified quarterly evolution

In the following statements, net impairment losses/reversals on receivables of the Npl Segment were entirely reclassified to Interest receivable and similar income to present more fairly this particular business and because they represent an integral part of the return on the investment.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION: QUARTERLY EVOLUTION (in thousands of Euro)	YEAR 2020				YEAR 2019			
	31.12	30.09	30.06	31.03	31.12	30.09	30.06	31.03
ASSETS								
Other financial assets mandatorily measured at fair value through profit or loss	136.978	103.487	102.347	103.743	112.785	147.935	182.094	174.508
Financial assets measured at fair value through other comprehensive income	774.555	1.162.008	1.146.701	1.215.355	1.173.808	996.048	693.533	432.901
Receivables due from banks measured at amortised cost	1.083.281	1.016.707	1.007.613	628.756	626.890	1.041.312	726.052	996.333
Receivables due from customers measured at amortised cost	9.135.402	7.957.357	8.034.032	7.600.742	7.651.226	7.118.150	7.343.892	7.322.130
Property, plant and equipment	115.149	110.366	108.976	109.632	106.301	128.827	128.809	145.869
Intangible assets	60.970	60.800	60.632	61.893	60.919	64.026	65.282	65.855
Tax assets	381.431	377.122	385.780	389.964	391.185	388.624	390.503	396.280
Other assets	338.430	410.789	406.240	382.531	402.910	364.209	357.877	329.756
Total assets	12.026.196	11.198.636	11.252.321	10.492.616	10.526.024	10.249.131	9.888.042	9.863.632

CONSOLIDATED STATEMENT OF FINANCIAL POSITION: QUARTERLY EVOLUTION (in thousands of Euro)	YEAR 2020				YEAR 2019			
	31.12	30.09	30.06	31.03	31.12	30.09	30.06	31.03
LIABILITIES AND EQUITY								
Payables due to banks measured at amortised cost	2.367.082	2.245.825	2.270.742	1.014.365	959.477	913.855	781.199	844.790
Payables due to customers measured at amortised cost	5.471.874	4.915.588	4.863.949	4.894.280	5.286.239	5.257.047	5.069.334	5.021.481
Debt securities issued	2.069.083	1.991.481	2.036.348	2.559.834	2.217.529	2.061.600	2.102.076	1.955.400
Tax liabilities	48.154	42.054	47.367	68.066	69.018	70.806	65.913	63.066
Other liabilities	520.041	491.412	536.967	413.641	454.808	444.379	397.263	489.594
Group equity:	1.549.962	1.512.276	1.496.948	1.542.430	1.538.953	1.501.444	1.472.257	1.489.301
- Share capital, share premiums and reserves	1.481.158	1.459.930	1.460.192	1.516.004	1.415.856	1.417.448	1.403.991	1.459.381
- Net profit attributable to the Parent company	68.804	52.346	36.756	26.426	123.097	83.996	68.266	29.920
Total liabilities and equity	12.026.196	11.198.636	11.252.321	10.492.616	10.526.024	10.249.131	9.888.042	9.863.632

CONSOLIDATED INCOME STATEMENT: QUARTERLY EVOLUTION (in thousands of Euro)	YEAR 2020				YEAR 2019			
	4th Q	3rd Q	2nd Q	1st Q	4th Q	3rd Q	2nd Q	1st Q
Net interest income	120.891	91.122	78.263	91.416	134.230	91.081	118.293	115.264
Net commission income	19.392	15.688	18.710	21.097	25.349	22.190	22.711	23.828
Other components of net banking income	5.814	2.102	9.866	(6.561)	7.511	(1.225)	8.084	(8.983)
Net banking income	146.097	108.912	106.839	105.952	167.090	112.046	149.088	130.109
Net credit risk losses/reversals	(43.503)	(14.516)	(14.828)	(18.512)	(38.169)	(13.968)	(21.958)	(13.088)
Net profit (loss) from financial activities	102.594	94.396	92.011	87.440	128.921	98.078	127.130	117.021
Personnel expenses	(34.059)	(28.630)	(28.651)	(32.029)	(34.262)	(31.534)	(32.716)	(31.447)
Other administrative expenses	(67.830)	(40.923)	(41.545)	(40.520)	(56.183)	(43.740)	(71.034)	(43.321)
Net allocations to provisions for risks and charges	(7.034)	(4.619)	(11.412)	(4.889)	(351)	(5.653)	(3.860)	(2.512)
Net impairment losses/reversals on property, plant and equipment and intangible assets	(4.730)	(4.490)	(4.558)	(4.039)	(3.046)	(4.517)	(4.214)	(4.062)
Other operating income/expenses	35.031	4.717	4.207	7.978	12.161	11.454	46.938	6.978
Operating costs	(78.622)	(73.945)	(81.959)	(73.499)	(81.681)	(73.990)	(64.886)	(74.364)
Value adjustments of goodwill	(700)	-	-	-	-	-	-	-
Gains (Losses) on disposal of investments	-	-	-	24.161	-	-	(408)	-
Pre-tax profit from continuing operations	23.272	20.451	10.052	38.102	47.240	24.088	61.836	42.657
Income taxes for the period relating to continuing operations	(6.592)	(4.811)	328	(11.660)	(8.105)	(8.343)	(23.469)	(12.716)
Profit for the period	16.680	15.640	10.380	26.442	39.135	15.745	38.367	29.941
Profit for the period attributable to non-controlling interests	222	50	50	16	34	15	21	21
Profit for the period attributable to the Parent company	16.458	15.590	10.330	26.426	39.101	15.730	38.346	29.920

2.6 Group historical data

In the following statements, net impairment losses/reversals on receivables of the Npl Segment were entirely reclassified to Interest receivable and similar income to present more fairly this particular business and because they represent an integral part of the return on the investment.

The following table shows the main indicators and performances recorded by the Group in the comparable periods of the last 5 years.

HISTORICAL DATA ⁽¹⁾ (in thousands of Euro)	31.12.2020	31.12.2019	31.12.2018	31.12.2017	31.12.2016
Financial assets measured at fair value through other comprehensive income (IFRS 9)	774.555	1.173.808	432.094	-	-
Available for sale financial assets (IAS 39)	-	-	-	456.549	374.229
Receivables due from customers measured at amortised cost	9.135.402	7.651.226	7.313.972	6.435.806	5.928.212
Payables due to banks measured at amortised cost	2.367.082	959.477	785.393	791.977	503.964
Payables due to customers measured at amortised cost	5.471.874	5.286.239	4.673.299	5.293.188	5.045.136
Debt securities issued	2.069.083	2.217.529	1.979.002	1.639.994	1.488.556
Equity	1.549.962	1.538.953	1.459.000	1.368.719	1.218.783
Net banking income	467.800	558.333	576.503	519.643	325.971
Net profit (loss) from financial activities	376.441	471.150	476.409	504.827	299.366
Profit (loss) for the year attributable to the Parent company	68.804	123.097	146.763	180.767	697.754
KPI:					
ROE	4,5%	8,2%	10,5%	13,9%	99,6%
ROA	0,8%	1,7%	2,2%	2,6%	8,4%
Ratio - Total Own Funds ⁽²⁾	14,85%	14,58%	14,01%	16,15%	15,39%
Common Equity Tier 1 Ratio ⁽²⁾	11,29%	10,96%	10,30%	11,66%	14,80%
Number of shares outstanding ⁽³⁾ (in thousands)	53.460	53.452	53.441	53.433	53.431
Book per share	28,99	28,79	27,30	25,62	22,99
EPS	1,29	2,30	2,75	3,38	13,13
Dividend per share ⁽⁴⁾⁽⁵⁾	0,47	1,10	1,05	1,00	0,82
Payout ratio	36,5%	47,8%	38,2%	29,6%	6,3%

(1) The data for years prior to 01.01.2018 are those originally published.

(2) Common Equity Tier 1, Tier 1 Capital, and total Own Funds included the profits generated by the Banking Group at 31 December 2020 net of the estimated dividend.

(3) Outstanding shares are net of treasury shares held in the portfolio.

(4) The data for FY 2020 refers to the dividend proposed by the Board of Directors of Banca Ifis S.p.A., in compliance with and up to the limits set out in the recommendation of the Bank of Italy of 16 December 2020.

(5) The FY 2019 data refers to the unitary dividend resolved and not distributed, at least until 30 September 2021, as envisaged by the Bank of Italy Recommendation of 16 December 2020.

2.7 APM - Alternative Performance Measures

The Banca Ifis Group has defined a number of indicators, listed in the tables of the Group's KPIs, that provide Alternative Performance Measures (APM) to help investors identify significant operational trends and financial ratios. In identifying these APMs, the specific indications were taken into account on how to represent the APMs in light of the impacts of the Covid-19 pandemic, published by ESMA on 17 April 2020 (document called "ESMA32-51-370 Questions and answers – ESMA Guidelines on Alternative Performance Measures").

For a proper understanding of these APMs, please consider the following:

- these measures are based exclusively on the Group's historical data and are not indicative of the Group's future performance;
- APMs are non-IFRS measures and, although they are derived from the Group's consolidated financial statements, they are not audited;
- APMs are not intended as a substitute for IFRS measures;
- said APMs shall be considered in conjunction with the Group's financial information derived from its consolidated financial statements;
- since these are non-IFRS measures, the definitions of the measures used by the Group may differ from, and therefore not be comparable to, those used by other companies/groups;
- the APMs used by the Group are consistent across all reporting periods for which the Group has disclosed financial information in these financial statements.

In accordance with the guidelines issued by ESMA (ESMA/2015/1415), below is a detailed explanation of how these measures were calculated in order to facilitate their understanding.

ROE - Return on equity (in thousands of Euro)	YEAR	
	2020	2019
A. Group net profit	68.804	123.097
B. Average consolidated equity	1.528.860	1.492.191
ROE (A/B)	4,5%	8,2%

Average consolidated equity is calculated as the average for the periods presented below:

Consolidated Equity (in thousands of Euro)	31.12.2019	31.03.2020	30.06.2020	30.09.2020	31.12.2020	AVERAGE 2020
Consolidated Equity	1.538.953	1.542.430	1.500.679	1.512.276	1.549.962	1.528.860

Consolidated Equity (in thousands of Euro)	31.12.2018	31.03.2019	30.06.2019	30.09.2019	31.12.2019	AVERAGE 2019
Consolidated Equity	1.459.000	1.489.301	1.472.257	1.501.444	1.538.953	1.492.191

ROA - Return on Assets (in thousands of Euro)	YEAR	
	2020	2019
A. Pre-tax profit from continuing operations	91.877	175.821
B. Total assets	12.026.196	10.526.024
ROA (A/B)	0,8%	1,7%

Reclassified cost/income ratio ⁽¹⁾ (in thousands of Euro)	YEAR	
	2020	2019
A. Operating costs	308.025	294.921
B. Net banking income ⁽¹⁾	467.800	558.333
Reclassified cost/income ratio (A/B)	65,8%	52,8%

(1) Net impairment losses/reversals on receivables of the Npl Segment were entirely reclassified to Interest receivable and similar income to present more fairly this particular business for which net impairment losses represent an integral part of the return on the investment.

Book value per share (in thousands of Euro)	YEAR	
	2020	2019
A. Number of shares outstanding	53.460	53.452
B. Consolidated Equity	1.549.962	1.538.953
Book value per share (B/A) Euro	28,99	28,79

Payout ratio (in thousands of Euro)	YEAR	
	2020	2019
A. Consolidated net profit	68.804	123.097
B. Parent company dividends ⁽¹⁾⁽²⁾	25.126	58.797
Payout Ratio (B/A)	36,5%	47,8%

(1) The data for FY 2020 refers to the dividend proposed by the Board of Directors of Banca Ifis, in compliance with and up to the limits set out in the recommendation of the Bank of Italy of 16 December 2020.

(2) The figures for FY 2019 refer to the dividends resolved and not distributed, which the Bank will continue to maintain as a reduction of the Group's equity and book amongst other liabilities, at least until 30 September 2021, as envisaged by the Bank of Italy Recommendation of 16 December 2020.

The Parent company's dividends are calculated as follows:

Parent company dividends	YEAR	
	2020	2019
A. Unitary dividend Euro ⁽¹⁾⁽²⁾	0,47	1,10
B. Number of shares outstanding	53.459.668	53.451.951
Parent company dividends (AxB)	25.126.044	58.797.146

(1) The data for FY 2020 refers to the dividend proposed by the Board of Directors of Banca Ifis, in compliance with and up to the limits set out in the recommendation of the Bank of Italy of 16 December 2020.

(2) The FY 2019 data refers to the unitary dividend resolved and not distributed, at least until 30 September 2021, as envisaged by the Bank of Italy Recommendation of 16 December 2020.

2.8 Impact of regulatory changes

In 2020, the following changes have been made both in regard to banking and accounting regulations and to tax matters and, more specifically:

- Italian Decree Law no. 18 of 17/03/2020 (the "Cura Italia" Decree), passed by the Council of Ministers as an emergency measure following the spread of the Covid-19 pandemic and then converted into Italian Law no. 27/2020, introduced the following:
 - Article 49 provided, with reference to the "SME guarantee fund" which grants free state guarantees to professionals or micro, small and medium-sized enterprises in cases of difficulty in accessing credit, the extension of this fund to loans granted by banks to pay off previous debt positions of the company;
 - Art. 54 has established the right for customers to request the suspension of the payment of the mortgage for the purchase of the first house without any negative consequences for the customer, through the support of the "Gasparrini" fund that will "compensate" the banks for the greater deferment granted to the customer;
 - On a tax level, Art. 55 envisaged the possibility, for companies selling receivables that are past due by more than 90 days by 31 December 2020, to transform a portion of the prepaid tax into tax receivables ("DTA"), even if not posted, relative to previous tax losses and surplus unused ACE. The portion of DTA that can be transformed into tax credits is 20% of the nominal amount of the receivables sold. The tax credits deriving from the transformation of the DTAs can be used "starting from the date of legal effect of the transfer", with no limit in amount, for the payment of tax, withholdings and welfare contributions either transferred (infra-group or third parties) or requested for refund from the tax authority and must be specified on the income tax return. The transformation of the DTAs into tax credits is conditional on the exercise by the transferor company (or by the consolidating company in the event of adhesion to the group taxation system) by the end of the year in which the credit transfer takes effect, of the option pursuant to Article 11 of Italian Decree Law no. 59 of 03 May 2016, if not already exercised and the consequent payment of the charges of 1,5%, if due on the basis of the rules of calculation envisaged by this Article. As regards the impact of this provision, please note that the Banca Ifis Group has, in 2020, proceeded to sell the portfolios of loans past due by more than 90 days, to transform 28,4 million Euro of previous tax losses and surplus individual ACS into tax credits, of which 21,5 million still posted amongst current tax assets at 31 December 2020. In addition to the purely financial benefit, the impact of this provision was positive in terms of the CET1 ratio.
 - Article 56 has introduced for micro, small and medium-sized enterprises that self-declare that they have suffered a partial or total reduction in business due to Covid-19 a series of facilities provided that the debt exposure is not already considered impaired, including the impossibility for banks to revoke overdraft facilities or advances on invoices on the amounts granted until 30 September 2020, the extension of the maturity of non-instalment loans and the suspension of instalments and fees of loans until 30 September 2020;
 - Art. 58 has provided, in favour of companies that have obtained financing for "globalisation" projects, the possibility to request the suspension for up to twelve months of the payment of the principal and the interest of the instalments due during the year 2020, with consequent translation of the amortisation plan for a corresponding period.

- The Liquidity Decree (Italian Decree Law no. 23 of 08 April 2020), converted into Italian Law no. 40 of 05 June 2020), strengthened the Guarantee Fund to meet the immediate liquidity needs of businesses and professionals facing the consequences of the Covid-19 epidemic, as summarised below:
 - The coverage of the guarantee has been increased: on small loans of up to 30 thousand Euro, the Fund's intervention covers 100% of loans with a maximum duration of 10 years without a creditworthiness assessment being carried out for the purpose of granting the guarantee. The guarantee covers all funding at 90% up to a maximum amount of 5 million Euro per individual beneficiary. For amounts up to 800.000 Euro, the guarantee of a loan consortium may be added, up to cover 100% of the loan.
 - The number of beneficiaries has been increased: SMEs and natural persons engaged in business, arts or professions have been joined by brokers, insurance agents and sub-agents, as well as Third Sector entities;
 - The access procedures have been simplified: the guarantee is granted automatically and the loan can be disbursed by the banks without waiting for a response from the Fund. The guarantee may also be issued on operations already disbursed (only if the disbursement has been made no more than three months before the call to the Fund and, in any case, not before 31 January 2020). If banks suspend the instalments (or the principal portion only) of loans already guaranteed, the duration of the guarantees will be automatically extended.
- The Relaunch Decree (Italian Decree Law no. 34/2020), converted into Italian Law no. 77/2020 has, amongst the various provisions, established a guarantee fund with a view to offering relief to SMEs using globalisation credits from the costs and administrative expenses deriving from the need to provide bank and insurance bonds for part of the credits obtained;
- The August Decree (Italian Decree Law no. 104/2020), through Art. 65, extended, amongst others, the deadline of 30 September envisaged by Art. 56 of the Cura Italia Decree, at 31 January 2021.
- The “Ristori” Decree (Italian Decree Law no. 137/2020), the “Ristori-bis” Decree (Italian Decree Law no. 149/2020, the “Ristori-ter” Decree (Italian Decree Law no. 154/2020) and the “Ristori-quater” Decree (Italian Decree Law no. 157/2020) provided benefits and indemnities for the social categories most impacted by the Covid-19 pandemic.
- The 2021 Budget Law (Italian Law no. 178 of 30 December 2020) further extended to 30 June 2021, the deadline of 31 January 2021 set by the August Decree. Therefore:
 - in order to open the revocation credit and for the loans granted in exchange for advances on credits, the amounts agreed cannot be revoked until 30 June 2021;
 - for non-instalment loans, contracts are extended until 30 June 2021 at the same conditions;
 - for mortgages and other loans paid by instalments, the payment of the instalments or lease charges is put on hold until 30 June 2021.
- In addition, in terms of tax matters, we note, in addition to the above-specified possibility of transforming the DTAs into tax credit in accordance with certain conditions pursuant to Art. 55 of Italian Law no. 27/2020, the following:
 - Increase of the annual limit of credits that can be offset through the F24 form: for 2020 only, the ceiling limit is increased by 0,7 to 1 million Euro for the “horizontal” offsetting of tax credits and contributions by means of the F24 form, or reimbursements to subjects holding a tax account, through the simplified procedure in accordance with Art. 34, paragraph 1, first sentence of Italian Law no. 388/2000. As is known, the “horizontal” offsetting envisaged by Article 17 of Italian

Legislative Decree no. 241/1997 consists of using tax credits to pay even sundry contributions and tax. The Group used up to the ceiling limit for horizontal offsetting for 2020 only.

- Other tax benefits: the numerous tax benefits introduced under the scope of the provisions aimed at limiting the economic effect deriving from the Covid-19 epidemiological emergency include the Group having achieved a tax credit deriving from the sanitisation of the environments and instruments used, as well as to purchase personal protection equipment (“PPE”) and other devices to guarantee the health of workers and users, for 36 thousand Euro. In addition, in 2020, the Group booked tax credits for the purchase of new materials as instrumental assets, envisaged by Italian Law no. 160/2019, for an amount of 120 thousand Euro.

2.9 Contribution of operating Segments to Group results

Reclassified data: net impairment losses/reversals on receivables of the Npl Segment were entirely reclassified to Interest receivable and similar income to present more fairly this particular business and because they represent an integral part of the return on the investment.

2.9.1 The organisational structure

In accordance with standard IFRS 8, a company must provide information that allows users of the financial statements to assess the nature and effects on such of the business it pursues and the economic contexts in which it operates. The contribution therefore needs to be highlighted as made by the various operating segments to forming the Group's economic result.

Identification of the Operating Segments is consistent with the methods adopted by the Management to take operative decisions and is based on internal reporting, used in order to allocate the resources to the various segments and analyse the relevant performance.

In order to implement the Group's business model, as envisaged by the plan, changes have been made to the Operating Segments as they were previously structured: the Enterprises Segment, now renamed Commercial & Corporate Banking groups together the commercial activities intended for enterprises and excludes the portfolios of loans disbursed by Interbanca before the acquisition and set to run-off (previously aggregated into the Enterprises Segment); the Npl Segment has been kept in line with the past, while the last Segment, now called Governance & Non-Core Services, has been integrated into the non-core section, which includes the portfolios excluded from Commercial & Corporate Banking.

In line with the new structure used by Management to analyse the Group's results, the information by segment is therefore broken down as follows:

- Commercial & Corporate Banking Segment, represents the commercial offer of the Group dedicated to companies and consists of the Business Factoring, Leasing and Corporate Banking & Lending Areas. The Operating Segment's results include the investee company Farbanca S.p.A. as from the date of acquisition of 27 November 2020.
- Npl Segment, dedicated to non-recourse acquisition and managing distressed retail loans. The Segment's results from 7 January 2019 also include the contribution of the former Fbs Group's business, which is mainly specialised in servicing and the management of non-performing secured loans.
- Governance & Non-Core Services Segment, which provides the segments operating in the Group's core businesses with the financial resources and services necessary to perform their respective activities. The Segment includes treasury and proprietary securities desk activities, the disbursement of salary- or pension-backed loans and some portfolios of personal loans, as well as some corporate loans portfolio assigned for run-off insofar as held to be non-strategic to the Group's growth.

The Segments of the economic-equity numericals are attributed on the basis of homogeneous allocation criteria in order to take into account both the specificity of the various segments and the need to guarantee effective monitoring of business performance over time.

Moreover, considering the foregoing, the Segment information has been extended in relation to the items of the income statement, revealing the results at the level of the net profit.

To this end, the operating costs needed to be attributed to the reference Segments and this was done as follows:

- for direct costs, allocation was as per the use of the cost centre by reference segment;
- for indirect costs, which by nature are attributable to a specific Segment insofar as incurred to guarantee normal operation and the correct function of the entire structure ("central services"), direction to the individual Segments was assured using different allocation instruments for the different cost categories, also based on internal surveys.

The comparative information in this document has been restated in line with the new Segment reporting.

COMMERCIAL & CORPORATE BANKING SEGMENT

The Commercial & Corporate Banking Segment includes the following business areas:

- Factoring: Area dedicated to supporting the trade credit of SMEs operating on the domestic market, which develop towards export, or which from export, turn to Italian customers; it also includes an organisational unit dedicated to supporting trade credit of suppliers of the local health authorities and an organisational unit specialised in credit to pharmacies; these activities are also carried out through the subsidiary Credifarma, as well as a business unit specialised in the acquisition of tax receivables: transferred from bankruptcy proceedings, which operates under the Fast Finance brand. This unit acquires tax receivables, accrued and accruing, already requested for reimbursement, or future, arising from proceedings or in previous years.
- Leasing: Area that provides finance and operating leases - but not real estate leases, as the Group does not offer them - to small economic operators and SMEs.
- Corporate Banking & Lending: A business area that aggregates multiple units: the Structured Finance area, which supports companies and private equity funds in arranging bilateral or syndicated loans; the Special Situations area, which supports the financial recovery of businesses that managed to overcome financial distress; the Equity Investment area, dedicated to investing in non-financial companies and intermediaries; and the Lending area, dedicated to the Group's medium/long-term operations, oriented to supporting the company's operating cycle through services ranging from funding optimisation to working capital financing and the support for productive investments.

As mentioned previously, on 27 November 2020, the Banca Ifis Group finalised the acquisition of control over Farbanca S.p.A., an operator specialising in pharmacy lending. The transaction concerned 70,77% of Farbanca's capital, for an equivalent value of 32,52 million Euro. A price adjustment mechanism was applied (i.e. price adjusted on the basis of the greater stock of Npe of Farbanca at 31 July 2020 versus the stock at 31 December 2019), which, however, led to no change in the price of the transaction in question. The contribution made by Farbanca to the Corporate Banking & Lending Business Area is limited to one month of operations. For more details, refer to Part G of these Consolidated Notes.

INCOME STATEMENT DATA (in thousands of Euro)	YEAR		CHANGE	
	2020	2019	ABSOLUTE	%
Net interest income	153.897	158.156	(4.259)	(2,7)%
Net commission income	70.804	87.044	(16.240)	(18,7)%
Other components of net banking income	(2.021)	(1.640)	(381)	23,2%
Net banking income	222.680	243.560	(20.880)	(8,6)%
Net credit risk losses/reversals	(72.482)	(51.621)	(20.861)	40,4%
Net profit (loss) from financial activities	150.198	191.939	(41.741)	(21,7)%
Operating costs	(120.014)	(115.763)	(4.251)	3,7%
Pre-tax profit from continuing operations	30.184	76.176	(45.992)	(60,4)%
Income taxes for the year relating to current operations	(7.469)	(19.398)	11.929	(61,5)%
Profit (loss) for the year	22.715	56.778	(34.063)	(60,0)%

INCOME STATEMENT DATA (in thousands of Euro)	4th QUARTER		CHANGE	
	2020	2019	ABSOLUTE	%
Net interest income	44.430	38.910	5.520	14,2%
Net commission income	18.910	23.078	(4.168)	(18,1)%
Other components of net banking income	(204)	92	(296)	n.s.
Net banking income	63.136	62.080	1.056	1,7%
Net credit risk losses/reversals	(42.273)	(19.406)	(22.867)	117,8%
Net profit (loss) from financial activities	20.863	42.674	(21.811)	(51,1)%
Operating costs	(35.610)	(26.040)	(9.570)	36,8%
Pre-tax profit from continuing operations	(14.747)	16.634	(31.381)	(188,7)%
Income taxes for the period relating to continuing operations	3.103	(5.066)	8.169	(161,3)%
Profit (loss) for the period	(11.644)	11.568	(23.212)	(200,7)%

Net profit of the Commercial & Corporate Banking Segment comes to 22,7 million Euro, down 60,0% as compared with last year. This change is due to the reduction of net banking income for 20,9 million Euro, and by lesser credit risk losses for 20,9 million Euro as compared with 31 December 2019. Overall, operating costs reduced by 4,3 million Euro on 2019, as more extensively commented on further on in the document.

Similarly, the operating performance of the business areas making up the Segment is described and analysed further on.

The following table provides a detail of the gross and net amounts as well as the relevant coverage ratios for each supervisory risk category of receivables due from customers.

COMMERCIAL & CORPORATE BANKING (in thousands of Euro)	BAD LOANS	UNLIKELY TO PAY	PAST DUE EXPOSURES	TOTAL NON-PERFORMING (STAGE 3)	PERFORMING (STAGES 1 AND 2)	TOTAL LOANS
POSITION AT 31.12.2020						
Nominal amount	157.660	176.949	35.583	370.192	5.892.756	6.262.948
Impairment losses	(114.554)	(89.677)	(5.135)	(209.366)	(60.991)	(270.357)
Carrying amount	43.106	87.272	30.448	160.826	5.831.765	5.992.591
Coverage ratio	72,7%	50,7%	14,4%	56,6%	1,0%	4,3%
Gross ratio	2,5%	2,8%	0,6%	5,9%	94,1%	100,0%
Net ratio	0,7%	1,5%	0,5%	2,7%	97,3%	100,0%
POSITION AT 31.12.2019						
Nominal amount	205.115	173.116	104.862	483.093	5.228.197	5.711.290
Impairment losses	(163.304)	(84.536)	(8.852)	(256.692)	(29.328)	(286.020)
Carrying amount	41.811	88.580	96.010	226.401	5.198.869	5.425.270
Coverage ratio	79,6%	48,8%	8,4%	53,1%	0,6%	5,0%
Gross ratio	3,6%	3,0%	1,8%	8,5%	91,5%	100,0%
Net ratio	0,8%	1,6%	1,8%	4,2%	95,8%	100,0%

Net non-performing exposures in the Commercial & Corporate Banking Segment stood at 160,8 million Euro at 31 December 2020, down 65,6 million Euro on the figure at 31 December 2019 (226,4 million Euro): the ratio of net bad loans to total receivables (0,7%) drops by 0,1% in connection with the increase of total loans for 567,3 million Euro and substantially stable non-performing loans (+1,3 million). Unlikely to pay instead drop by 1,3 million Euro (-1,5% on the previous year), just like past due exposures that come to 30,5 million Euro, down 65,6 million Euro on last year (96,0 million Euro).

The coverage ratio of non-performing exposures went from 53,1% on 31 December 2019 to 56,6% for the same period in 2020, mainly due to the reduction in past-due exposures and related increase in coverage.

Finally, the Commercial & Corporate Banking Segment includes loans belonging to the "POCI" category, mainly referring to impaired assets stemming from the business combination: the net value of these assets, which are all classified as impaired (stage 3), is 7,2 million Euro at 31 December 2020, as compared with the 1,2 million Euro recorded at 31 December 2019.

These amounts already incorporate the effects connected with the temporal dismantling of the PPA and the effects of expected losses over the useful life of the asset, as required by IFRS 9.

KPI	AMOUNTS AT		CHANGE	
	31.12.2020	31.12.2019	ABSOLUTE	%
Cost of credit quality ⁽¹⁾	1,38%	0,95%	n.a.	0,43%
Net Npe ratio	2,7%	4,2%	n.a.	(1,5)%
Gross Npe ratio	5,9%	8,5%	n.a.	(2,6)%
Total RWAs	5.144.914	5.222.609	(77.695)	(1,5)%

(1) This indicator is calculated comparing the value of net write-downs/write-backs for credit risk at the end of the year over the annual average loans to customers (calculated quarterly).

To ensure a better understanding of the results for the year, below we comment on the contribution of the individual business areas to the Commercial & Corporate Banking Segment.

Factoring Area

INCOME STATEMENT DATA (in thousands of Euro)	YEAR		CHANGE	
	2020	2019	ABSOLUTE	%
Net interest income	94.557	97.619	(3.062)	(3,1)%
Net commission income	54.741	66.970	(12.229)	(18,3)%
Other components of net banking income	(84)	-	(84)	n.s.
Net banking income	149.214	164.589	(15.375)	(9,3)%
Net credit risk losses/reversals	(30.223)	(35.848)	5.625	(15,7)%
Net profit (loss) from financial activities	118.991	128.741	(9.750)	(7,6)%
Operating costs	(85.657)	(86.123)	466	(0,5)%
Pre-tax profit from continuing operations	33.334	42.618	(9.284)	(21,8)%
Income taxes for the year relating to current operations	(8.249)	(12.758)	4.509	(35,3)%
Profit (loss) for the year	25.085	29.860	(4.775)	(16,0)%

INCOME STATEMENT DATA (in thousands of Euro)	4th QUARTER		CHANGE	
	2020	2019	ABSOLUTE	%
Net interest income	27.824	25.076	2.748	11,0%
Net commission income	13.920	16.216	(2.296)	(14,2)%
Other components of net banking income	(165)	-	(165)	n.s.
Net banking income	41.579	41.292	287	0,7%
Net credit risk losses/reversals	(22.987)	(12.707)	(10.280)	80,9%
Net profit (loss) from financial activities	18.592	28.585	(9.993)	(35,0)%
Operating costs	(26.602)	(18.984)	(7.618)	40,1%
Pre-tax profit from continuing operations	(8.010)	9.601	(17.611)	(183,4)%
Income taxes for the period relating to continuing operations	1.480	(3.071)	4.551	(148,2)%
Profit (loss) for the period	(6.530)	6.530	(13.060)	(200,0)%

The contribution made by the Factoring Area towards net banking income booked by the Commercial & Corporate Banking Segment came to 149,2 million Euro in 2020, down 9,3% on last year. This result was due to the lower contribution both of net interest income (down by 3,1 million Euro, -3,1%) and net commission income (down by 12,2 million Euro, -18,3%). During the last quarter of 2020, the net banking income is greater by 0,3 million Euro on the same quarter of 2019.

The annual negative change in net interest income and net commission income was due to a decrease in assets under management: turnover in the fourth quarter of 2020 amounted to 3,4 billion Euro, down by 217 million Euro compared to the same period of the previous year, while outstanding loans amounted to 3,3 billion Euro, down by 0,5 billion Euro. These reductions are mainly, in managerial terms, related to the economic context generated by the pandemic.

Net credit risk losses amounted to 30,2 million Euro compared to 35,8 million Euro in 2019; the reduction in the cost of credit is attributable both to the absence of individually significant adjustments made during FY 2019 in the constructor segment. Additionally, the interventions envisaged with the Fondo Salva Opere (Save the Works Fund), which can cover, insofar as funds allow, 70% of receivables outstanding and due to subcontractors by clients involved in bankruptcy procedures, have helped limit the cost of credit. In this respect, the reduction in exposures contributed too, due to both collections and the positive completion of restructuring activities. A possible potential slowing to the deterioration of credit should also be noted, including in connection with the effect of the package of protection measures assumed by the government in the context of the pandemic. Therefore, in order to take into account the macroeconomic context due to the pandemic and the potential effects that the loss of these supporting measures may have in the near future, additional impairment losses have been made on the industry exposures most impacted by these phenomena for a total of 15,7 million Euro. This consequently led to an increase in coverage of the related receivables, going from 0,4% to 4,0% and the comprehensive amount of performing exposures from 0,4% to 0,9%.

Therefore, net profit from financial activities amounted to 119,0 million Euro, down 9,7 million (-7,6%) on last year.

Operating costs decreased by 0,5 million Euro compared to the previous year. This effect is the combined result of lesser payroll costs for 4,7 million Euro, mainly connected with a more prudent incentive policy and greater control of current spending in light of the current context, substantively offset by higher administrative costs, linked to legal costs connected with the operation of problem loans, and the distribution of costs connected with the central services including ICT and Communication costs connected with the digitisation and support of the Brand relaunched during the year.

At 31 December 2020, the Area's total net loans amounted to 2,9 billion Euro, down 11,6% compared to 31 December 2019.

The following table shows the gross and net amounts as well as the relevant coverage ratios for each supervisory risk category of receivables due from customers.

FACTORING AREA (in thousands of Euro)	BAD LOANS	UNLIKELY TO PAY	PAST DUE EXPOSURES	TOTAL NON- PERFORMING (STAGE 3)	PERFORMING (STAGES 1 AND 2)	TOTAL LOANS
POSITION AT 31.12.2020						
Nominal amount	136.336	109.718	27.976	274.030	2.762.709	3.036.739
Impairment losses	(100.306)	(55.762)	(1.103)	(157.171)	(25.296)	(182.467)
Carrying amount	36.030	53.956	26.873	116.859	2.737.413	2.854.272
Coverage ratio	73,6%	50,8%	3,9%	57,4%	0,9%	6,0%
POSITION AT 31.12.2019						
Nominal amount	189.854	138.209	90.490	418.553	3.045.611	3.464.164
Impairment losses	(151.481)	(67.861)	(3.065)	(222.407)	(12.410)	(234.817)
Carrying amount	38.373	70.348	87.425	196.146	3.033.201	3.229.347
Coverage ratio	79,8%	49,1%	3,4%	53,1%	0,4%	6,8%

The reduction in net non-performing loans on 31 December 2019 is linked to the combined effect of a reduction in net past-due exposures due to both collections and the positive completion of restructuring and sales processes of impaired positions, finalised in the last quarter of 2020.

KPI	AMOUNTS AT		CHANGE	
	31.12.2020	31.12.2019	ABSOLUTE	%
Cost of credit quality ⁽¹⁾	1,05%	1,11%	n.a.	0,06%
Net Npe ratio	4,1%	6,1%	n.a.	(2,0)%
Gross Npe ratio	9,0%	12,1%	n.a.	(3,1)%
Total RWAs	2.427.843	2.945.792	(517.949)	(17,6)%

(1) This indicator is calculated comparing the value of net write-downs/write-backs for credit risk at the end of the year over the annual average loans to customers (calculated quarterly).

Leasing Area

INCOME STATEMENT DATA (in thousands of Euro)	YEAR		CHANGE	
	2020	2019	ABSOLUTE	%
Net interest income	37.937	40.757	(2.820)	(6,9)%
Net commission income	11.218	12.289	(1.071)	(8,7)%
Net banking income	49.155	53.046	(3.891)	(7,3)%
Net credit risk losses/reversals	(15.622)	(10.250)	(5.372)	52,4%
Net profit (loss) from financial activities	33.533	42.796	(9.263)	(21,6)%
Operating costs	(24.612)	(23.743)	(869)	3,7%
Pre-tax profit from continuing operations	8.921	19.053	(10.132)	(53,2)%
Income taxes for the year relating to current operations	(2.208)	(2.298)	90	(3,9)%
Profit (loss) for the year	6.713	16.755	(10.042)	(59,9)%

INCOME STATEMENT DATA (in thousands of Euro)	4th QUARTER		CHANGE	
	2020	2019	ABSOLUTE	%
Net interest income	9.617	9.690	(73)	(0,8)%
Net commission income	3.078	3.433	(355)	(10,3)%
Net banking income	12.695	13.123	(428)	(3,3)%
Net credit risk losses/reversals	51	(1.922)	1.973	(102,7)%
Net profit (loss) from financial activities	12.746	11.201	1.545	13,8%
Operating costs	(6.050)	(5.113)	(937)	18,3%
Pre-tax profit from continuing operations	6.696	6.088	608	10,0%
Income taxes for the period relating to continuing operations	(1.684)	(1.631)	(53)	3,2%
Profit (loss) for the period	5.012	4.457	555	12,5%

Net banking income for the Leasing Area is 49,2 million Euro, -7,3% on the figure at 31 December 2019; this lesser margin was driven for 1,5 million Euro by lesser interest income, following an increase in the mix of volumes of the financial leasing component with smaller margins, and for 1,1 million Euro due to lesser commissions, of which 0,4 million Euro for lesser collection commissions due to the moratorium and 0,4 million Euro for lesser repayments as a result of the lesser volumes disbursed during the period.

Net impairment losses on receivables amounted to 15,6 million Euro, up 5,4 million Euro compared to 2019. The item is impacted by both the migration of performing counterparties to more penalising risk statuses (unlikely to pay and bad loans first and foremost) and the introduction of additional provisions on the adjustments relative to moratoriums of the transportation segment, in order to reflect the misalignment generated between the loan amortisation plan (frozen for the moratorium period granted) and the relative value of the assets given as

guarantee (used and, therefore, subject to wear and tear for the same duration). More specifically, this has led to an increase in coverage of the related receivables, going from 0,7% to 3,4% and the comprehensive amount of performing exposures from 0,5% to 1,1%.

The increase in operating costs of the Leasing Area for 869 thousand Euro is mainly due to lesser income from customers for accessory services to the financial lease, which suffered the current outlook. Net of these effects, operating costs are substantially stable with respect to the previous year, due to the combined effect of lesser payroll costs for approximately 2,3 million Euro (connected with lesser variables allocated during FY 2020) and greater administrative costs linked to the distribution of costs of central services (including ICT and Communication costs), connected with the digitisation and support of the Brand, relaunched during the year.

At 31 December 2020, total net loans in the Area amounted to 1.414,0 million Euro compared to 1.448,5 million Euro at 31 December 2019, with a negative change of 2,4%. The reduction is mainly due to the lesser volumes supplied during 2020, down 33% on the same period of last year.

The following table shows the gross and net amounts as well as the relevant coverage ratios of receivables due from customers for each supervisory risk category.

LEASING AREA (in thousands of Euro)	BAD LOANS	UNLIKELY TO PAY	PAST DUE EXPOSURES	TOTAL NON- PERFORMING (STAGE 3)	PERFORMING (STAGES 1 AND 2)	TOTAL LOANS
POSITION AT 31.12.2020						
Nominal amount	14.590	19.675	7.443	41.708	1.418.450	1.460.158
Impairment losses	(12.407)	(13.909)	(4.014)	(30.330)	(15.773)	(46.103)
Carrying amount	2.183	5.766	3.429	11.378	1.402.677	1.414.055
Coverage ratio	85,0%	70,7%	53,9%	72,7%	1,1%	3,2%
POSITION AT 31.12.2019						
Nominal amount	13.429	21.949	12.383	47.761	1.438.367	1.486.128
Impairment losses	(10.880)	(13.858)	(5.088)	(29.826)	(7.839)	(37.665)
Carrying amount	2.549	8.091	7.295	17.935	1.430.528	1.448.463
Coverage ratio	81,0%	63,1%	41,1%	62,4%	0,5%	2,5%

KPI	AMOUNTS AT		CHANGE	
	31.12.2020	31.12.2019	ABSOLUTE	%
Cost of credit quality ⁽¹⁾	1,11%	0,72%	n.a.	0,39%
Net Npe ratio	0,8%	1,2%	n.a.	(0,4)%
Gross Npe ratio	2,9%	3,2%	n.a.	(0,3)%
Total RWAs	1.309.416	1.398.434	(89.018)	(6,4)%

(1) This indicator is calculated comparing the value of net write-downs/write-backs for credit risk at the end of the year over the annual average loans to customers (calculated quarterly).

Corporate Banking & Lending Area

INCOME STATEMENT DATA (in thousands of Euro)	YEAR		CHANGE	
	2020	2019	ABSOLUTE	%
Net interest income	21.403	19.780	1.623	8,2%
Net commission income	4.845	7.785	(2.940)	(37,8)%
Other components of net banking income	(1.937)	(1.640)	(297)	18,1%
Net banking income	24.311	25.925	(1.614)	(6,2)%
Net credit risk losses/reversals	(26.637)	(5.523)	(21.114)	382,4%
Net profit (loss) from financial activities	(2.326)	20.402	(22.728)	(111,4)%
Operating costs	(9.745)	(5.897)	(3.848)	65,3%
Pre-tax profit from continuing operations	(12.071)	14.505	(26.576)	(183,2)%
Income taxes for the year relating to current operations	2.988	(4.342)	7.330	(168,8)%
Profit (loss) for the year	(9.083)	10.163	(19.246)	(189,4)%

INCOME STATEMENT DATA (in thousands of Euro)	4th QUARTER		CHANGE	
	2020	2019	ABSOLUTE	%
Net interest income	6.989	4.144	2.845	68,7%
Net commission income	1.912	3.429	(1.517)	(44,2)%
Other components of net banking income	(39)	92	(131)	(142,4)%
Net banking income	8.862	7.665	1.197	15,6%
Net credit risk losses/reversals	(19.337)	(4.777)	(14.560)	n.s.
Net profit (loss) from financial activities	(10.475)	2.888	(13.363)	n.s.
Operating costs	(2.958)	(1.943)	(1.015)	52,2%
Pre-tax profit from continuing operations	(13.433)	945	(14.378)	n.s.
Income taxes for the period relating to continuing operations	3.307	(364)	3.671	n.s.
Profit (loss) for the period	(10.126)	581	(10.707)	n.s.

Net banking income of the Corporate Banking & Lending Area, of 24,3 million Euro at 31 December 2020, shows a decline of 1,6 million Euro on last year, confirming the holding firm of volumes and profitability in the segment in the medium/long-term.

The positive change to the net interest income is a result of the combined effect of the following factors:

- growth of 4,0 million Euro in the net interest income for loans to SMEs in the medium/long-term, to which Farbanca contributes for 1,2 million in connection with December alone. Net of Farbanca loans, customer receivables grew by 26,3%.

- the physiological reduction in the contribution made by PPA for 1,2 million Euro (for which the total residual amount of the “PPA reversal” of the Business Area is 3,8 million Euro at 31 December 2020);
- greater funding costs due to an increase in the figurative interest recognised to the Structured Finance in 2020 (1,4 million Euro);
- greater interest income by 0,2 million Euro due to the Special Situation area, in turn as a result of greater average loans.

Net commission income is down 2,9 million Euro in connection with the use of drawdowns by customers of revolving lines, without up-front commission, during the second and third quarter of 2020, for Structured Finance operations (-3,5 million) and the increase in commission on the disbursement of loans to SMEs (+0,6 million Euro, of which 0,2 million refer to Farbanca).

Net credit risk losses amounted to 26,7 million Euro, up 21,1 million Euro compared to the same period of the previous year. The increase is mainly due to the Structured Finance Segment, which on the one hand, saw a deterioration of two specific transactions, offset by a positive effect of 3,4 million Euro in loan assets to SMEs, and on the other, additional provisions made for a total of 6,5 million Euro to take into account both the macroeconomic context as a result of the pandemic and the potential effects of the cessation of the credit support measures in the near future. These additional provisions made on performing positions therefore resulted in an increase in the cover of the related receivables, which goes from 1,2% to 2,4%, whilst on a comprehensive Business Area level, no differences are noted with respect to the 31 December 2019 figure of 1,2%, due to the positive effects of government guarantees on disbursements to SMEs.

The increase in the operating costs of the Corporate Banking & Lending Area for 3,8 million Euro in respect of the previous year is mainly due to the greater personnel costs in support of the growth expected for Area commitments. The contribution made by Farbanca is one month of income statement and equal to approximately 0,5 million Euro.

At 31 December 2020, total net receivables due from customers in the Area amounted to 1.724,3 million Euro compared to 747,5 million Euro at 31 December 2019, with a positive change of 131%. Growth is driven by the increase in loans to SMEs for 938 million Euro (of which 614 million Euro refer to Farbanca) and Corporate Banking for 39 million Euro.

The following table shows the gross and net amounts as well as the relevant coverage ratios of receivables due from customers for each supervisory risk category.

CORPORATE BANKING & LENDING AREA (in thousands of Euro)	BAD LOANS	UNLIKELY TO PAY	PAST DUE EXPOSURES	TOTAL NON-PERFORMING (STAGE 3)	PERFORMING (STAGES 1 AND 2)	TOTAL LOANS
POSITION AT 31.12.2020						
Nominal amount	6.734	47.557	164	54.455	1.711.597	1.766.052
Impairment losses	(1.842)	(20.006)	(18)	(21.866)	(19.922)	(41.788)
Carrying amount	4.892	27.551	146	32.589	1.691.675	1.724.264
Coverage ratio	27,4%	42,1%	10,7%	40,2%	1,2%	2,4%
POSITION AT 31.12.2019						
Nominal amount	1.832	12.958	1.989	16.779	744.219	760.998
Impairment losses	(943)	(2.817)	(699)	(4.459)	(9.079)	(13.538)
Carrying amount	889	10.141	1.290	12.320	735.140	747.460
Coverage ratio	51,5%	21,7%	35,1%	26,6%	1,2%	1,8%

KPI	AMOUNTS AT		CHANGE	
	31.12.2020	31.12.2019	ABSOLUTE	%
Cost of credit quality ⁽¹⁾	2,69%	0,74%	n.a.	1,95%
Net Npe ratio	1,9%	1,6%	n.a.	0,3%
Gross Npe ratio	3,1%	2,2%	n.a.	0,9%
Total RWAs	1.407.655	878.384	529.271	60,3%

(1) This indicator is calculated comparing the value of net write-downs/write-backs for credit risk at the end of the year over the annual average loans to customers (calculated quarterly).

NPL SEGMENT

This is the Banca Ifis Group's Segment dedicated to non-recourse acquisition and managing secured and unsecured distressed retail loans, as well as third party portfolio management. The business is closely associated with converting non-performing exposures into performing assets and collecting them.

The table below shows the loans portfolio of the Npl Segment, by method of transformation and accounting criterion; the "impact through profit or loss" refers to the components of the net banking income deriving from the booking at amortised cost of the related loans portfolio; in particular, interest income from amortised cost is included for 139,1 million Euro and other components of the net interest income from cash flow changes for 42,5 million Euro, as reported in the summary table of "Economic data" below in this paragraph.

NPL SEGMENT PORTFOLIO (in thousands of Euro)	OUTSTANDING NOMINAL AMOUNT	CARRYING AMOUNT	CARRYING AMNT / NOM. AMOUNT AMNT	INTEREST ON INCOME STATEMENT	ERC	MAIN METHOD OF ACCOUNTING
Cost	2.140.454	170.442	8,0%	-	347.500	Acquisition cost
Non-judicial	10.273.190	338.777	3,3%	44.284	596.114	
<i>of which: Collective (curves)</i>	<i>9.895.594</i>	<i>173.788</i>	<i>1,8%</i>	<i>(17.208)</i>	<i>285.832</i>	<i>Cost = NPV of flows from model</i>
<i>of which: Plans</i>	<i>377.596</i>	<i>164.989</i>	<i>43,7%</i>	<i>61.492</i>	<i>310.282</i>	<i>Cost = NPV of flows from model</i>
Judicial	7.373.735	894.492	12,1%	137.368	1.863.621	
<i>of which: Other positions undergoing judicial processing</i>	<i>3.298.850</i>	<i>296.301</i>	<i>9,0%</i>	<i>-</i>	<i>555.482</i>	<i>Acquisition cost</i>
<i>of which: Writs, Property Attachments, Garnishment Orders</i>	<i>1.388.489</i>	<i>440.174</i>	<i>31,7%</i>	<i>124.803</i>	<i>1.089.998</i>	<i>Cost = NPV of flows from model</i>
<i>of which: Secured and Corporate</i>	<i>2.686.396</i>	<i>158.017</i>	<i>5,9%</i>	<i>12.565</i>	<i>218.141</i>	<i>Cost = NPV of flows from model</i>
Total	19.787.379	1.403.711	7,1%	181.652	2.807.235	

The business can be divided up into three macro categories:

- post-acquisition management, when all information retrieval operations take place to help decide the most appropriate conversion method, the receivable is classified in a so-called "staging" area and recognised at cost (170 million Euro at 31 December 2020, compared to 109 million Euro at 31 December 2019) with no contribution to profit or loss. As a rule, 6-12 months later, the positions are directed towards the most appropriate form of management, depending on their characteristics;
- non-judicial operations, which deal with practices that can be handled through collection by settlement. Practices awaiting information about the most appropriate collection instrument are classified into a basin called "mass management" and at 31 December 2020 come to 173,8 million Euro as compared with 189,9 million Euro at 31 December 2019 (down 8,5%). Practices on which a realignment plan has been agreed and formalised, record a slight decrease (1%), coming in at 164,9 million Euro at 31 December 2020 (166,2 million Euro at 31 December 2019);
- legal management, which covers all practices in the various stages of legal processing, ranging from obtaining a court order to a garnishment order. Practices awaiting the most appropriate legal action are included in the category of "Other positions undergoing judicial processing" and come to 296,3 million Euro at 31 December 2020 (274,1 million Euro at 31 December 2019); practices in phases of writ, attachment order and garnishment order are allocated to a specific basin, which records an increase of 14%, coming in at 440,2 million Euro as compared with the 387,1 million Euro recorded in December 2019. The judicial management basin include all "Secured and Corporate" positions of corporate banking origin or real estate, equal to 158 million Euro at 31 December 2020, as compared with 151,8 million Euro at 31 December 2019.

Finally, the Group occasionally seizes market opportunities in accordance with its business model by selling portfolios of positions yet to be processed to third parties.

INCOME STATEMENT DATA (in thousands of Euro)	YEAR		CHANGE	
	2020	2019	ABSOLUTE	%
Interest income from amortised cost	139.115	128.442	10.673	8,3%
Interest income notes and other minority components	925	1.015	(90)	(8,9)%
Other components of net interest income from change in cash flow	42.487	119.862	(77.375)	(64,6)%
Funding costs	(29.208)	(25.512)	(3.696)	14,5%
Net interest income	153.319	223.807	(70.488)	(31,5)%
Net commission income	4.320	5.794	(1.474)	(25,4)%
Other components of net banking income	303	(415)	718	(173,0)%
Gain on sale of receivables	5.000	15.738	(10.738)	(68,2)%
Net banking income	162.942	244.924	(81.982)	(33,5)%
Net profit (loss) from financial activities	162.942	244.924	(81.982)	(33,5)%
Operating costs	(139.122)	(157.147)	18.025	(11,5)%
Pre-tax profit from continuing operations	23.820	87.777	(63.957)	(72,9)%
Income taxes for the year relating to current operations	(5.894)	(26.277)	20.383	(77,6)%
Profit (loss) for the year	17.926	61.500	(43.574)	(70,9)%

INCOME STATEMENT DATA (in thousands of Euro)	4th QUARTER		CHANGE	
	2020	2019	ABSOLUTE	%
Interest income from amortised cost	35.348	32.716	2.632	8,0%
Interest income notes and other minority components	2	75	(73)	(97,3)%
Other components of net interest income from change in cash flow	14.677	45.650	(30.973)	(67,8)%
Funding costs	(7.974)	(7.506)	(468)	6,2%
Net interest income	42.053	70.935	(28.882)	(40,7)%
Net commission income	1.294	1.801	(507)	(28,2)%
Other components of net banking income	566	112	454	n.s.
Gain on sale of receivables	2.306	7.833	(5.527)	(70,6)%
Net banking income	46.219	80.681	(34.462)	(42,7)%
Net profit (loss) from financial activities	46.219	80.681	(34.462)	(42,7)%
Operating costs	(39.117)	(44.896)	5.779	(12,9)%
Pre-tax profit from continuing operations	7.102	35.785	(28.683)	(80,2)%
Income taxes for the period relating to continuing operations	(1.960)	(11.022)	9.062	(82,2)%
Profit (loss) for the period	5.142	24.763	(19.621)	(79,2)%

“Interest income from amortised cost”, referring to the interest accruing at the original effective interest rate, was up 8,3% from 128,4 million Euro to 139,1 million Euro at 31 December 2020, largely thanks to the increase in receivables measured at amortised cost, in which the contribution made by non-judicial operations is 51 million Euro and that of legal operations was 88 million Euro.

The item “Other components of net interest income from change in cash flow”, which goes from 119,9 million Euro to 42,5 million Euro at 31 December 2020, down 64,6%, including the economic effect deriving from the change in cash flows forecast according to the greater or lesser collections made in respect of the previous forecasts. This item is made up of: non-judicial operations for -6,8 million Euro, in turn comprising 35,1 million Euro referring to repayment plans and -41,9 million Euro referring to curves; legal operations for 49,3 million Euro, where the contribution made by writs, attachments and garnishment orders is approximately 54,6 million Euro, while that of the secured and corporate basin is approximately -5,3 million Euro. The item was heavily impacted by the court closures in March, April and May; thereby resulting in a reduction, as compared with the same period of last year, in obtaining writs, attachment orders and garnishment orders.

The increase in the funding costs is due to higher interest expense attributed by the Governance & Non-Core Services Segment, both as a result of higher volumes traded and the increase in the internal transfer rate according to the total cost of funding.

The reduction in net commission income is equally split between the increase in commission payable on collections and payments and the reduction in commission income deriving from servicing activities on third party portfolios.

The net profit from financial activities of the Npl Segment therefore amounted to 162,9 million Euro (244,9 million Euro at 31 December 2019, down 33,5%). The significant reduction of this result as compared with last year is almost entirely due to the economic-medical emergency that struck the country this year and which resulted in a series of social-economic restrictions imposed with a series of Prime Ministerial Decrees, particularly from March to June, when a national lock-down was imposed. During the periods with the most restrictions, the closure of all production activities and, specifically, the courts, effectively prevented any legal action from being taken to obtain writs, attachments of property and garnishment orders, typically more profitable for the industry as a whole.

This result includes corrections to the forecasting models that entailed, with reference to amicable management, a limited decline in collections expected for FYs 2021 and 2022, in line with the general macroeconomic forecasts. Certain corrections have also been made to the models that cover both the secured Npl positions, to take into account the effect of the extension of collection times due to the suspension in proceeding with the attachment of properties received as collateral and for positions for which bankruptcy proceedings are in progress. In all, these interventions entailed lower contributions to net banking income deriving from changes in cash flow for an amount that can be quantified as approximately 22,8 million Euro.

Operating costs decline by 11,5%, going from 157,1 million Euro in 2019 to 139,1 million Euro in 2020. The reduction is mainly due to the variable costs connected with debt collection and, in particular, those relating to legal collection impacted by the court closures due to the Covid-19 emergency.

As a consequence of the foregoing, the profit for the year in the Npl Segment came to approximately 17,9 million Euro, down 70,9% on the previous year's figure.

Below is the breakdown of net loans by supervisory risk category.

STATEMENT OF FINANCIAL POSITION DATA (in thousands of Euro)	AMOUNTS AT		CHANGE	
	31.12.2020	31.12.2019	ABSOLUTE	%
Net bad loans	1.041.196	964.611	76.585	7,9%
Net unlikely to pay	339.799	306.688	33.111	10,8%
Net non-performing past due exposures	90	29	61	210,3%
Total net non-performing exposures to customers (stage 3)	1.381.085	1.271.328	109.757	8,6%
Net performing exposures (stages 1 and 2)	24.518	9.004	15.514	172,3%
Total on-balance-sheet receivables due from customers ⁽¹⁾	1.405.603	1.280.332	125.271	9,8%

(1) Total on-balance-sheet receivables due from customers include loans connected with the servicing activity for 1,9 million Euro and 2,1 million Euro respectively at 31 December 2020 and 31 December 2019.

The Npl Segment's receivables qualify as POCI - Purchased or originated credit-impaired -, the category introduced by the accounting standard IFRS 9. These are loans that were non-performing at the date they were acquired or originated.

KPI	AMOUNTS AT		CHANGE	
	31.12.2020	31.12.2019	ABSOLUTE	%
Nominal amount of receivables managed	19.787.379	17.840.822	1.946.557	10,9%
Total RWAs	2.211.695	2.039.840	171.855	8,4%

Total Estimated Remaining Collections (ERC) amounted to approximately 2,8 billion Euro.

NPL SEGMENT NON-PERFORMING LOAN PORTFOLIO PERFORMANCE	31.12.2020	31.12.2019
Opening loan portfolio	1.278.220	1.092.799
Business combinations	-	23.952
Purchases	224.291	182.297
Sales	(26.095)	(26.677)
Gains on sales	5.000	15.738
Interest income from amortised cost	139.114	128.442
Other components of interest from change in cash flow	42.538	119.862
Collections	(259.357)	(258.193)
Closing loan portfolio	1.403.711	1.278.220

Total purchases in 2020 came to 224,3 million Euro, up on the 182,3 million Euro of the previous year. In 2020, sales transactions were completed for a total of about 26,1 million Euro, which generated profits of about 5 million Euro.

The item "Collections" equal to 259,4 million includes the instalments collected during the year from re-entry plans, from garnishment orders and transactions carried out is in line with the collections of 258,2 million Euro of the previous year.

Funding from settlement plans (equal to the nominal amount of all the instalments under the plans entered into with the debtors in the year) was down from 2019, reaching 316,9 million Euro at 31 December 2020 compared to 325,1 million Euro at 31 December 2019.

At the end of the year, the portfolio managed by the Npl Segment included 1.969.318 positions, for a nominal amount of approximately 19,8 billion Euro.

GOVERNANCE & NON-CORE SERVICES SEGMENT

The Segment comprises, among other things, the resources required for the performance of the services of the Audit, Administration-Accounting, Financial, Planning, Organisation, ICT, Marketing and Communication, and HR functions, as well as the structures responsible for raising, managing and allocating financial resources to the operating segments. It also includes the Proprietary Finance business (proprietary desk securities) and the economic results of the subsidiary Cap.Ital.Fin. S.p.A., a company operative in salary- or pension-backed loans. The Segment also includes run-off portfolios originated from the former Interbanca as well as other personal loan portfolios.

INCOME STATEMENT DATA (in thousands of Euro)	YEAR		CHANGE	
	2020	2019	ABSOLUTE	%
Net interest income	74.476	76.905	(2.429)	(3,2)%
Net commission income	(237)	1.240	(1.477)	(119,0)%
Other components of net banking income	7.939	(8.296)	16.235	(195,7)%
Net banking income	82.178	69.849	12.329	17,7%
Net credit risk losses/reversals	(18.877)	(35.562)	16.685	(46,9)%
Net profit (loss) from financial activities	63.301	34.287	29.014	84,6%
Operating costs	(48.889)	(22.011)	(26.878)	122,1%
Value adjustments of goodwill	(700)	-	(700)	n.a.
Gain on disposal of investments	24.161	(408)	24.569	n.s.
Pre-tax profit from continuing operations	37.873	11.868	26.005	219,1%
Income taxes for the year relating to continuing operations	(9.372)	(6.958)	(2.414)	34,7%
Profit (loss) for the year	28.501	4.910	23.591	n.s.

INCOME STATEMENT DATA (in thousands of Euro)	4th QUARTER		CHANGE	
	2020	2019	ABSOLUTE	%
Net interest income	34.408	24.385	10.023	41,1%
Net commission income	(812)	470	(1.282)	n.s.
Other components of net banking income	3.146	(526)	3.672	n.s.
Net banking income	36.742	24.329	12.413	51,0%
Net credit risk losses/reversals	(1.230)	(18.763)	17.533	(93,4)%
Net profit (loss) from financial activities	35.512	5.566	29.946	n.s.
Operating costs	(3.895)	(10.745)	6.850	(63,8)%
Value adjustments of goodwill	(700)	-	(700)	n.a.
Pre-tax profit from continuing operations	30.917	(5.179)	36.096	n.s.
Income taxes for the period relating to continuing operations	(7.735)	7.983	(15.718)	(196,9)%
Profit (loss) for the period	23.182	2.804	20.378	n.s.

The segment's net banking income comes to 82,2 million Euro, up 12,3 million Euro on last year and is mainly connected with profits linked to the buy-back of financial liabilities for 5,7 million Euro, to dividends and revenues from proprietary portfolio management for 4,4 million Euro and lesser exchange losses for 4,5 million Euro, only partially reabsorbed by a lesser contribution to the margin deriving from the non-core portfolio. In particular:

- Net interest income and net commission income down by a total of 3,9 million Euro on the previous year. More specifically, interest income suffered the progressive reduction of the contribution made by "PPA reversal" (down approximately -11,1 million Euro), partially offset by the contribution from the portfolio of government securities by approximately 6,4 million Euro. More specifically, as regards the contribution made by the "PPA reversal", the physiological reduction was hastened by the sale of non-performing portfolios and early extinguishing operations. The total residual amount of the PPA reversal for the Governance & Non-Core Services Segment was therefore 52,2 million Euro at 31 December 2020;
- the net banking income grew by 16,2 million Euro. This overall effect is mainly due to 5,7 million Euro in profits on repurchase of financial liabilities, 4,5 million Euro in lower exchange losses, +1,7 million Euro in revenues from trading portfolio management and 2,7 million Euro from dividend receipts deriving from the Proprietary Finance Area.

In terms of funding, Rendimax and Contomax continue to constitute the Group's main source of finance, with a comprehensive cost of approximately 60 million Euro, lower than last year (70 million Euro) due to the decrease in average assets under management (4.400 million Euro, -6,8%) and expected following a reduction in the average rates offered, manoeuvred in particular on maturities of less than a year. At 31 December 2020, the comprehensive value of the amortised cost of bond issues came to 1.100 million Euro. It should be noted that during the first quarter, shortly before the outbreak of the health emergency, a further senior preferred bond was placed for a notional amount of 400 million Euro in addition to the four instruments already present in the Bank's liabilities at the end of 2019. The second quarter also saw the maturity of the senior bond issued in 2017 and redeemed in May. In economic terms, interest expense accrued on all issues grew by 4,5 million Euro, coming in at a total of 35,2 million Euro.

Please also note the June 2020 subscription of a TLTRO III tranche worth a nominal 1,9 billion Euro, maturing in June 2023.

As regards the cost of credit, a major decrease is seen to net adjustments, which come to 18,9 million Euro, as compared with 35,6 million Euro at 31 December 2019. This reduction is due to the emptying of the Non-Core Portfolio due to its natural run-off and following sales of impaired operations (GACS).

Operating costs come to 48,9 million Euro, up 26,9 million Euro on 2019. The item includes some non-recurring items both during this year and last. In particular, in 2020, the “gain on bargain purchase” is included in relation to the purchase of 70,77% of Farbanca for 16,8 million Euro; by contrast, in 2019, the net effect was seen of 15,3 million connected with the definition of the tax disputes relating to ex Interbanca. Net of these effects, operating costs of the Segment were up 28,5 million Euro, due for 6,9 million Euro to the procedure relative to the use of extraordinary provisions of the Solidarity Fund, for 16 million Euro to greater provisions made for credit risks on commitments and guarantees given and probable contractual indemnities, as well as greater costs for professional services and marketing and advertising expenses.

Gains on disposal of investments include the effects of the sale of the Milan property in Corso Venezia, net of the related costs of sale for 24,2 million Euro. The sale of this property, already classified as non-current assets under disposal for 25,6 million Euro at 31 December 2019 following the stipulation of a binding offer for its sale, was completed late March 2020, with the collection of the full price.

Please note that late 2020, the value of goodwill of the investee Cap.Ital.Fin. was written-off entirely, for an amount of 0,7 million Euro.

At 31 December 2020, total net receivables for the Segment amounted to 1.737,2 million Euro, up 83,7% on the figure at 31 December 2019 (945,6 million Euro). The increase of approximately 791,6 million Euro is substantially related to the Proprietary Finance business, which operates mainly through the purchase of government securities. At the same time, run-off portfolios in the sector decreased by about 169,7 million Euro.

It should be noted that within the Governance & Non-Core Services Segment, there are receivables belonging to the POCl category, mainly referring to non-performing exposures resulting from the business combination with the former GE Capital Interbanca Group:

- net non-performing loans: 25,1 million Euro at 31 December 2020 as compared with 71,8 million Euro at 31 December 2019;
- net performing exposures: 17,2 million Euro at 31 December 2020 as compared with 12,7 million Euro at 31 December 2019.

The following table shows the gross and net amounts as well as the relevant coverage ratios of receivables due from customers for each supervisory risk category.

GOVERNANCE & NON-CORE SERVICES SEGMENT (in thousands of Euro)	BAD LOANS	UNLIKELY TO PAY	PAST DUE EXPOSURES	TOTAL NON-PERFORMING (STAGE 3)	PERFORMING (STAGES 1 AND 2)	TOTAL LOANS ⁽¹⁾
POSITION AT 31.12.2020						
Nominal amount	22.090	51.180	3.479	76.749	1.695.232	1.771.981
Impairment losses	(6.424)	(19.612)	(769)	(26.805)	(7.968)	(34.773)
Carrying amount	15.666	31.568	2.710	49.944	1.687.264	1.737.208
Coverage ratio	29,1%	38,3%	22,1%	34,9%	0,5%	2,0%
POSITION AT 31.12.2019						
Nominal amount	48.514	102.875	2.977	154.366	846.711	1.001.077
Impairment losses	(7.274)	(39.724)	(751)	(47.749)	(7.704)	(55.453)
Carrying amount	41.240	63.151	2.226	106.617	839.007	945.624
Coverage ratio	15,0%	38,6%	25,2%	30,9%	0,9%	5,5%

(1) In the Governance & Non-Core Services Segment, at 31 December 2020, there were government securities amounting to 1.095,3 million Euro (213,0 million Euro at 31 December 2019).

The coverage of non-performing exposures in the Segment is affected by receivables belonging to the so-called "POCI" category, whose gross values already take into account the estimate of expected losses. Please also note that the performing exposures portfolio has almost halved its coverage as a result of the increase recorded in government securities during the period, going from 213,0 million Euro in December 2019 to 1.095,3 million Euro at 31 December 2020. Without considering government securities, coverage of performing loans would be 1,2% at 31 December 2020.

2.10 Group financial and income results

In the following statements, net impairment losses/reversals on receivables of the Npl Segment were entirely reclassified to Interest receivable and similar income to present more fairly this particular business and because they represent an integral part of the return on the investment.

2.10.1 Statement of financial position items

STATEMENT OF FINANCIAL POSITION HIGHLIGHTS (in thousands of Euro)	AMOUNTS AT		CHANGE	
	31.12.2020	31.12.2019	ABSOLUTE	%
Financial assets mandatorily measured at fair value through profit or loss	136.978	112.785	24.193	21,5%
Financial assets measured at fair value through other comprehensive income	774.555	1.173.808	(399.253)	(34,0)%
Receivables due from banks measured at amortised cost	1.083.281	626.890	456.391	72,8%
Receivables due from customers measured at amortised cost	9.135.402	7.651.226	1.484.176	19,4%
Property, plant and equipment and intangible assets	176.119	167.220	8.899	5,3%
Tax assets	381.431	391.185	(9.754)	(2,5)%
Other assets	338.430	402.910	(64.480)	(16,0)%
Total assets	12.026.196	10.526.024	1.500.172	14,3%
Payables due to banks measured at amortised cost	2.367.082	959.477	1.407.605	146,7%
Payables due to customers measured at amortised cost	5.471.874	5.286.239	185.635	3,5%
Debt securities issued	2.069.083	2.217.529	(148.446)	(6,7)%
Tax liabilities	48.154	69.018	(20.864)	(30,2)%
Provisions for risks and charges	53.944	32.965	20.979	63,6%
Other liabilities	466.097	421.843	44.254	10,5%
Group equity	1.549.962	1.538.953	11.009	0,7%
Total liabilities and equity	12.026.196	10.526.024	1.500.172	14,3%

Financial assets mandatorily measured at fair value through profit or loss

Other financial assets mandatorily measured at fair value through profit or loss total 137,0 million Euro at 31 December 2020. This item consists of loans and debt securities that did not pass the SPPI test, equity securities from minority shares and UCITS units. The growth of 21,5% on 31 December 2019 is mainly due to new subscriptions of equity securities at fair value for 20,7 million Euro and new loans at fair value for 20,9 million Euro, juxtaposed with a reduction in the units of UCITSs (for approximately 4,4 million Euro) and redemptions and transfers of loans at fair value for approximately 13,1 million Euro.

Below is the breakdown of this line item.

FINANCIAL ASSETS MANDATORILY MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (in thousands of Euro)	AMOUNTS AT		CHANGE	
	31.12.2020	31.12.2019	ABSOLUTE	%
Debt securities	3.532	2.715	817	30,1%
Equity securities	20.683	-	20.683	n.a.
UCITS units	81.479	87.763	(6.284)	(7,2)%
Loans	31.284	22.307	8.977	40,2%
Total	136.978	112.785	24.193	21,5%

Financial assets measured at fair value through other comprehensive income

Financial assets measured at fair value through other comprehensive income totalled 774,6 million Euro at 31 December 2020, down 34,0% from December 2019, and included the debt securities that passed the SPPI test as well as equity securities for which the Bank elected the so-called OCI option pursuant to IFRS 9.

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (in thousands of Euro)	AMOUNTS AT		CHANGE	
	31.12.2020	31.12.2019	ABSOLUTE	%
Debt securities	721.216	1.124.635	(403.419)	(35,9)%
Equity securities	53.339	49.173	4.166	8,5%
Total	774.555	1.173.808	(399.253)	(34,0)%

The debt securities held in the portfolio at 31 December 2020 total 721,2 million Euro, down 35,9% with respect to the balance at 31 December 2019. The related net positive fair value reserve comes to 1,8 million Euro as compared with a net negative reserve of 0,4 million Euro at 31 December 2019.

Here below is the breakdown by maturity of the debt securities held.

Issuer/Maturity	1 year	2 years	3 years	5 years	Over 5 years	Total
Government bonds	212.399	414.816	-	50.979	30.447	708.641
<i>% of total</i>	<i>29,5%</i>	<i>57,5%</i>	<i>-</i>	<i>7,1%</i>	<i>4,2%</i>	<i>98,3%</i>
Banks	-	-	-	-	-	-
<i>% of total</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
Other issuers	-	-	-	8.451	4.124	12.575
<i>% of total</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>1,2%</i>	<i>0,6%</i>	<i>1,7%</i>
Total	212.399	414.816	-	59.430	34.571	721.216
<i>% of total</i>	<i>29,5%</i>	<i>57,5%</i>	<i>-</i>	<i>8,2%</i>	<i>4,8%</i>	<i>100,0%</i>

This item includes also equity securities relating to minority interests, amounting to 53,3 million Euro, up 8,5% compared to 31 December 2019.

Receivables due from banks measured at amortised cost

Total receivables due from banks measured at amortised cost at 31 December 2020 amounted to 1.083,3 million Euro, compared to 626,9 million Euro at 31 December 2019. This item mainly refers to Receivables due from central banks (693,8 million Euro at 31 December 2020 compared to 373,7 million Euro at 31 December 2019), which constitute the supplies maintained in order to ensure the orderly performance of management activities.

Receivables due from customers measured at amortised cost

Total receivables due from customers measured at amortised cost amounted to 9.135,4 million Euro, up 19,4% on 31 December 2019 (7.651,2 million Euro). The item includes debt securities for 1,3 billion Euro (0,3 billion at 31 December 2019) plus 614,1 million Euro deriving from the acquisition of Farbanca. The Commercial & Corporate Banking Segment, without considering the effect of the acquisition of Farbanca, is down on the previous year's balance (-0,9%). This reduction is concentrated above all on the Factoring business area (-11,6%) and was almost entirely offset by the growth of the Corporate Banking & Lending Area (+48,5%, equal to growth of approximately 239 million Euro); leasing is also slightly down, -2,4%. Receivables of the Npl Segment are up 9,8% and those of the Governance & Services and Non-Core Segment by 83,7%, due to the purchase of government securities.

RECEIVABLES DUE FROM CUSTOMERS BREAKDOWN BY SEGMENT (in thousands of Euro)	AMOUNTS AT		CHANGE	
	31.12.2020	31.12.2019	ABSOLUTE	%
Commercial & Corporate Banking Segment	5.992.591	5.425.270	567.321	10,5%
- of which non-performing	160.826	226.401	(65.575)	(29,0)%
Factoring Area	2.854.272	3.229.347	(375.075)	(11,6)%
- of which non-performing	116.860	196.146	(79.286)	(40,4)%
Leasing Area	1.414.055	1.448.463	(34.408)	(2,4)%
- of which non-performing	11.377	17.935	(6.558)	(36,6)%
Corporate Banking & Lending Area	1.724.264	747.460	976.804	130,7%
- of which non-performing	32.589	12.320	20.269	164,5%
Npl Segment	1.405.603	1.280.332	125.271	9,8%
- of which non-performing	1.381.085	1.271.328	109.757	8,6%
Governance & Non-Core Services Segment ⁽¹⁾	1.737.208	945.624	791.584	83,7%
- of which non-performing	49.944	106.617	(56.673)	(53,2)%
Total receivables due from customers	9.135.402	7.651.226	1.484.176	19,4%
- of which non-performing	1.591.855	1.604.346	(12.491)	(0,8)%

Total net non-performing exposures, which are significantly affected by the receivables of the Npl Segment, amounted to 1.591,9 million Euro at 31 December 2020, compared to 1.604,3 million Euro at 31 December 2019 (-0,8%).

Net of these receivables, net non-performing loans come to 210,8 million Euro, down on 31 December 2019 is linked to the combined effect of a reduction in net past-due exposures (for collections and for the positive completion of restructuring) and sales, finalised in the last quarter of 2020.

For a detailed analysis of receivables due from customers, please see the section "Contribution of operating segments to Group results - reclassified data".

Intangible assets and property, plant and equipment

Intangible assets came to 61,0 million Euro, basically in line with those at 31 December 2019 of 60,9 million Euro (+0,2%).

The line item included 22,2 million Euro worth of software, 0,8 million Euro in goodwill arising from the consolidation of the investment in Ifis Finance Sp. z o.o., and 38,0 million Euro for goodwill, consequent to the acquisition of the subsidiary Cap.Ital.Fin. S.p.A. (formerly Fbs S.p.A.).

Although considering the worsening of the Covid-19 epidemic in October, which increased the uncertainty connected with the extraordinary nature of the event, to date, the validity is confirmed of the action taken by the Group; it is believed that, also in view of the countercyclical nature of some of the Group's businesses and in particular of the Npl Segment to which the Group's most significant goodwill is allocated, the current health emergency will not have a significant impact on the consolidated results expected in the long term. As regards the Group's assessments on the impairment testing of such goodwill, please note that the results of this test have supported the likelihood of recovery of both portions of goodwill booked. For more details, we would refer you to the more detailed information given in Part B - Consolidated Statement of Financial Position, Section 10 - Intangible assets - Item 100, Paragraph 10.3 Other information of these Consolidated Financial Statements.

Property, plant and equipment comes to 115,1 million Euro, as compared with the 106,3 million Euro booked at 31 December 2019, up 8,3%.

At the end of December 2020, the properties recognised under property, plant and equipment included the important historical building "Villa Marocco", located in Mestre – Venice and housing Banca Ifis's registered office. Since Villa Marocco is a luxury property, it is not depreciated, but it is tested for impairment at least annually. To this end, they are appraised by experts specialising in luxury properties. During the year, there were no indications requiring to test the assets for impairment.

Tax assets and liabilities

These items include current and deferred tax assets and liabilities.

Tax assets amounted to 381,4 million Euro, slightly down on the figure at 31 December 2019 (-2,5%).

Current tax assets amounted to 74,3 million Euro compared with 56,9 million Euro at 31 December 2019 (+30,6%). Deferred tax assets amounted to 307,2 million Euro, compared with 334,3 million Euro at 31 December 2019, of which 51,1 million Euro for previous tax losses and ACE benefits (81,2 million Euro at 31 December 2019). The

Group has benefited from Art. 55, Italian Decree Law no. 18/2020 (the "Cura Italia" Decree), proceeding to transfer the deferred tax assets on previous tax losses and ACE benefit into tax credits for 28,4 million Euro.

Tax liabilities totalled 48,2 million Euro, down 30,2% from 31 December 2019, equal to 69,1 million Euro.

Current tax liabilities, amounting to 12,0 million Euro, represent the tax burden for the year (-57,5% on the 28,2 million Euro at 31 December 2019).

Deferred tax liabilities, totalling 36,1 million Euro, largely included 31,4 million Euro in receivables for interest on arrears that will be taxed upon receipt, 0,5 million Euro in the revaluation of property, and 2,9 million Euro in other mismatches of trade receivables and 1 million Euro relative to financial assets measured at fair value through other comprehensive income (FVOCI).

The reduction in deferred tax liabilities for 4,6 million Euro on the figure of 40,8 million Euro at end FY 2019 is mainly due to the reversal deriving from the sale of the Milan property in Corso Venezia, on which deferred tax liabilities deriving from the impact of the first time adoption (FTA) of the international accounting standards IAS/IFRS.

Tax assets are included in the calculation of "capital requirements for credit risk" in accordance with (EU) Regulation no. 575/2013 (CRR) as subsequently amended, which was transposed in the Bank of Italy's Circulars no. 285 and no. 286.

Here below is the breakdown of the different treatments by type and the relevant impact on CET1 and risk-weighted assets at 31 December 2020:

- the "deferred tax assets that rely on future profitability and do not arise from temporary differences" are deducted from CET1; at 31 December 2020, the 100% deduction amounted to 56,2 million Euro, including the Holding of the Banking Group: in this regard, please note that this deduction will be gradually absorbed by the future use of such deferred tax assets;
- the "deferred tax assets that rely on future profitability and arise from temporary differences" are not deducted from CET1 and receive instead a 250% risk weight: at 31 December 2020, these assets, including those pertaining to the Holding Company of the Banking Group, amounted to 36,8 million Euro and are offset by 29,5 million Euro from the corresponding deferred tax liabilities;
- the "deferred tax assets pursuant to Italian Law no. 214/2011", concerning impairment losses on receivables that can be converted into tax credits, receive a 100% risk weight; at 31 December 2020, the corresponding weight totalled 219,4 million Euro;
- "current tax assets" receive a 0% weight as they are exposures to the Central Government.

Overall, the Tax Assets recognised at 31 December 2020 and 100% deducted from Own Funds resulted in an expense amounting to 0,52% as a proportion of CET1, which will decline in the future as said assets are utilised against taxable income.

Other assets and liabilities

Other assets, of 338,4 million Euro as compared to a balance of 402,9 million Euro at 31 December 2019, include:

- financial assets held for trading for 20,9 million Euro (down 14,2% on the figure of 31 December 2019), referring 19,3 million Euro to transactions in derivatives, mainly hedged by opposite positions entered amongst financial liabilities held for trading, and 1,6 million Euro securities held in the Group's trading portfolio;
- other assets for 317,5 million Euro (353,0 million Euro at 31 December 2019), of which 83,3 million Euro refer to the receivable due from the parent company La Scogliera S.p.A. by virtue of the tax consolidation agreements (106,6 million Euro at 31 December 2019) and 7,9 million Euro to VAT credits (29,8 million Euro at 31 December 2019);
- non-current assets and disposal groups have been zeroed as compared with 31 December 2019 following the sale of the Milan property in Corso Venezia, completed late March 2020.

Other liabilities come to 466,1 million Euro as compared with 421,8 million Euro at 31 December 2019, and consist of:

- trading derivatives for 18,6 million Euro (21,8 million Euro at 31 December 2019), mainly referring to transactions hedged by opposite positions entered amongst financial assets held for trading;
- 9,2 million Euro liabilities for post-employment benefits (10,0 million Euro at 31 December 2019);
- 438,3 million Euro for other liabilities (390,0 million Euro at 31 December 2019), largely referred to amounts due to customers that have not yet been credited as well as the payable for 2019 dividends not distributed in the amount of 58,8 million Euro, to operating payables for approximately 98,3 million Euro and to payables due to the parent company La Scogliera for 17,3 million Euro.

Funding

FUNDING (in thousands of Euro)	AMOUNTS AT		CHANGE	
	31.12.2020	31.12.2019	ABSOLUTE	%
Payables due to banks	2.367.082	959.477	1.407.605	146,7%
- Payables due to Central banks	2.116.961	792.168	1.324.793	167,2%
<i>of which: TLTRO</i>	1.994.722	792.168	1.202.554	151,8%
<i>of which: Other deposits</i>	122.239	-	122.239	n.a.
- Other payables	250.121	167.309	82.812	49,5%
Payables due to customers	5.471.874	5.286.239	185.635	3,5%
- Repurchase agreements	-	150.280	(150.280)	(100,0)%
- Retail	4.459.954	4.790.954	(331.000)	(6,9)%
- Other term deposits	280.484	72.475	208.009	287,0%
- Lease payables	16.891	15.909	982	6,2%
- Other payables	714.545	256.621	457.924	178,4%
Debt securities issued	2.069.083	2.217.529	(148.446)	(6,7)%
Total funding	9.908.039	8.463.245	1.444.794	17,1%

Total funding amounted to 9.908,0 million Euro at 31 December 2020 (+17,1% compared to 31 December 2019) and is represented for 55,2% by Payables due to customers (compared to 62,5% at 31 December 2019), for 23,9% by Payables due to banks (compared to 11,3% at 31 December 2019), and for 20,9% by Debt securities issued (26,2% at 31 December 2019).

Payables due to customers at 31 December 2020 totalled 5.471,9 million Euro: +3,5% on 31 December 2019, where the reduction in retail funding (mainly Rendimax and Contomax), which goes from 4.791,0 million Euro at 31 December 2019 to 4.460,0 million Euro at 31 December 2020 and is more than offset by growth in other restricted deposits.

RETAIL FUNDING (in thousands of Euro)	AMOUNTS AT		CHANGE	
	31.12.2020	31.12.2019	ABSOLUTE	%
Short-term funding (within 18 months)	3.196.110	3.762.031	(565.921)	(15,0)%
of which: DEREGULATED	723.240	798.019	(74.779)	(9,4)%
of which: LIKE/ONE	1.084.400	1.361.563	(277.163)	(20,4)%
of which: CONSTRAINTS	1.316.288	1.602.449	(286.161)	(17,9)%
of which: GERMAN DEPOSIT	72.182	-	72.182	n.a.
Long-term funding (beyond 18 months)	1.263.844	1.028.923	234.921	22,8%
Total funding	4.459.954	4.790.954	(331.000)	(6,9)%

Payables due to banks amounted to 2.367,1 million Euro, up 146,7% compared to 31 December 2019. This increase is due to the June 2020 subscription of a TLTRO III tranche worth a nominal 1.900 million Euro maturing in June 2023 and the simultaneous early repayment of the TLTRO II tranche subscribed in 2017.

Debt securities issued amounted to 2.069,1 million Euro at 31 December 2020. This item includes:

- securities issued by the SPV Ifis Abcp Programme S.r.l. in view of the securitisation by the same name for a total of 969,0 million Euro (-15,7% on 31 December 2019);
- 634,9 million Euro (including interest) in senior bonds issued by Banca Ifis, as well as the 402,1 million Euro (including interest) Tier 2 bond;
- debt securities for 62,7 million Euro in a bond loan issued at the time by the merged entity Interbanca.

Provisions for risks and charges

PROVISIONS FOR RISKS AND CHARGES (in thousands of Euro)	AMOUNTS AT		CHANGE	
	31.12.2020	31.12.2019	ABSOLUTE	%
Provisions for credit risk related to commitments and financial guarantees granted	10.988	3.952	7.036	178,0%
Legal and tax disputes	21.016	22.894	(1.878)	(8,2)%
Personnel expenses	7.148	614	6.534	n.s.
Other provisions	14.792	5.505	9.287	168,7%
Total provisions for risks and charges	53.944	32.965	20.979	63,6%

Below is the breakdown of the provision for risks and charges at the end of 2020 by type of dispute compared with the amounts for the prior year.

Provisions for credit risk related to commitments and financial guarantees granted

At 31 December 2020, the balance of 11,0 million Euro, an increase on the figure at the previous year (4,0 million Euro), reflects the write-down of the financial guarantees and commitments given by the Group.

Legal and tax disputes

At 31 December 2020, provisions had been made for 21,0 million Euro for legal and tax disputes. This amount breaks down as follows:

- 11,2 million Euro for 32 disputes concerning the Factoring Area (the plaintiffs seek 32,9 million Euro in damages), these disputes are mainly connected with the request for the repetition of amounts collected or payments under guarantee in relation to factoring positions without recourse;
- 5,9 million Euro (the plaintiffs seek 64,0 million Euro in damages) for 12 disputes concerning the Corporate Banking & Lending Area deriving from the former Interbanca;
- 1,0 million Euro (the plaintiffs seek 3,1 million Euro in damages) for 47 disputes concerning the Leasing Area and trade receivables;
- 1,3 million Euro (the plaintiffs seek 3,7 million Euro in damages) for 35 disputes concerning receivables of the subsidiary Ifis Npl;
- 1,0 million Euro for various disputes concerning Credifarma;
- 395 thousand Euro (the plaintiffs seek 4,0 million Euro) for 31 disputes with customers and agents relating to Cap. Ital. Fin.;
- 149 thousand Euro for various disputes concerning Farbanca;
- 81 thousand Euro for 4 disputes concerning Ifis Npl Servicing S.p.A. (formerly Fbs S.p.A.), for which the plaintiffs seek a total of 352 thousand Euro in damages;
- 38 thousand Euro (the plaintiffs seek the same amount in damages) for disputes concerning the investee Ifis Rental Services.

Personnel expenses

At 31 December 2020, provisions are entered for personnel for 7,1 million Euro (0,6 million Euro at 31 December 2019). In order to implement the cost rationalisation programme envisaged in the 2020-2022 Business Plan unveiled on 14 January 2020, the Group has activated the procedure relative to the use of the extraordinary provisions of the Solidarity Fund in order to activate incentives to take early redundancy, on a purely voluntary basis for those who, already in 2020, met the requirements to access the Fund and will accrue the requirements to access the A.G.O. pension treatment by 31 December 2024. The provision made to the Solidarity Fund at 31 December 2020 is 6,6 million Euro.

Other provisions for risks and charges

At 31 December 2020, there were "Other provisions" of 14,8 million Euro (5,5 million Euro at 31 December 2019) consisting mainly of 7,1 million Euro for probable contractual indemnities for loan transfers, 5,1 million Euro for supplementary indemnities for customers connected with the operations of the Leasing Area, basically in line with 31 December 2019 and 0,7 million Euro for the provision for complaints. The increase of 9,3 million Euro in the item "Other provisions" compared with the balance at 31 December 2019 is mainly due to the provision made

for probable contractual indemnities for the transfer of loans and the increase in the complaints provision for early extinguishment operations.

Contingent liabilities

Here below are the most significant contingent liabilities outstanding at 31 December 2020. Based on the opinion of the legal advisers assisting the subsidiaries, they are considered possible, and therefore they are only disclosed.

Tax dispute

Dispute concerning the write-off of receivables. Company involved Ifis Leasing S.p.A. (former GE Capital Interbanca Group)

The Italian Revenue Agency has reclassified the write-off of receivables made by the Company in 2004, 2005, 2006 and 2007 and added in the years between 2005 and 2014 to losses on receivables - without any actual evidence. Overall, the Agency assessed 242,7 thousand Euro in additional taxes and administrative penalties amounting to 100%.

Dispute concerning the assumed "permanent establishment" in Italy of the Polish company

Following the investigation carried out by the Guardia di Finanza [Financial Police Force] in regard to Direct Tax, VAT and other tax for the tax years 2016 and 2017 and 2013/2015 limited to transactions implemented with the Polish subsidiary Ifis Finance Sp. z o.o., Verification Notices were served in regard to the years 2013/2015. The Guardia di Finanza claims that it has found evidence to suggest that in the foreign country (Poland), a "permanent establishment" of Banca Ifis has been set up and not an autonomous legal subject with capacity of self-determination. In other words, by refusing to acknowledge the autonomous legal organisation of the Company with simultaneous tax residence of such in Poland, the costs and revenues of the Polish office would constitute positive or negative items producing income taxable in Italy (net of the tax credit for tax ultimately paid abroad). Overall, the Agency assessed 756 thousand Euro in additional taxes and administrative penalties amounting to 100%. In holding the Financial Administration's claim to be unfounded, the Group will be filing an appeal against the Verification Notice pursuant to the law with the competent Tax Commissions, paying 1/3 of the tax as provisional enrolment on the tax register.

Regarding all the above tax disputes, the Group, supported by its tax advisers, evaluated the risk of defeat possible, but not probable and therefore, it did not allocate funds to the provision for risks and charges.

Reimbursements

In line with market practice, under the purchase agreement for the former GE Capital Interbanca Group, the seller made a series of representations and warranties related to Interbanca and other Investees. In addition, the agreement includes a series of special reimbursements paid by the seller related to the main legal and tax disputes involving the former GE Capital Interbanca Group companies.

Consolidated equity

Group consolidated equity at 31 December 2020 totalled 1.550,0 million Euro, in line with the 1.539,0 million Euro booked at end 2019. The main changes in consolidated equity are:

- the positive change relative to the year result pertaining to the Parent company of 68,8 million Euro;

- the net negative change of 13,5 million Euro in the valuation reserve for the year was attributable to the fair value adjustment of the financial instruments classified as Financial assets measured at fair value through other comprehensive income;
- the negative change of 2,5 million Euro in the exchange differences valuation reserve;
- the negative change of 0,3 million Euro in the valuation reserve connected with the change in net actuarial losses on employee severance indemnity;
- the change in equity attributable to non-controlling interests for 20,7 million Euro, mainly due to the acquisition of Farbanca;
- the negative change of 58,8 million Euro for 2019 dividends resolved and not distributed, reducing the Group's equity and booked as Other liabilities;
- other negative net changes for 3,4 million Euro, mainly linked to losses realised through the sale of financial instruments in the portfolio of Financial instruments measured at fair value through other comprehensive income.

The breakdown of the item and the change compared to the previous year are summarised in the tables below.

EQUITY: BREAKDOWN (in thousands of Euro)	AMOUNTS AT		CHANGE	
	31.12.2020	31.12.2019	ABSOLUTE	%
Share capital	53.811	53.811	-	0,0%
Share premiums	102.491	102.285	206	0,2%
Valuation reserves:	(19.337)	(3.037)	(16.300)	n.s.
- Securities	(10.733)	2.737	(13.470)	n.s.
- Post-employment benefits	(429)	(124)	(305)	246,0%
- Exchange differences	(8.175)	(5.650)	(2.525)	44,7%
Reserves	1.320.871	1.260.238	60.633	4,8%
Treasury shares	(2.948)	(3.012)	64	(2,1)%
Equity attributable to non-controlling interests	26.270	5.571	20.699	n.s.
Net profit attributable to the Parent company	68.804	123.097	(54.293)	(44,1)%
Group equity	1.549.962	1.538.953	11.009	0,7%

EQUITY: CHANGES	(in thousands of Euro)
Equity at 31.12.2019	1.538.953
Increases:	89.773
Profit for the year attributable to the Parent company	68.804
Other changes	270
Equity attributable to non-controlling interests	20.699
- of which from business combinations	20.367
Decreases:	78.764
Dividends resolved and suspended	58.806
Change in valuation reserve:	16.300
- Securities	13.470
- Post-employment benefits	305
- Exchange differences	2.525
Other changes	3.658
Equity at 31.12.2020	1.549.962

The change in the valuation reserve for the year was attributable to the fair value adjustment of the financial instruments classified as Financial assets measured at fair value through other comprehensive income.

On 16 December 2020, given the continued Covid-19 pandemic, the Bank of Italy - in line with the ECB - chose to maintain an extremely prudent approach, so as to safeguard the banks' capacity to absorb losses and grant loans to support the real economy, recommending that until 30 September 2021, the less significant Italian banks abstain from recognising or paying dividends or limit the relevant amount to the lesser of 15% of accumulated profits for 2019 and 2020 or 20 basis points of the CET1 coefficient.

In compliance and within the limits of the above-specified Bank of Italy recommendation, Banca Ifis will propose to the shareholders' meeting the distribution of a 2020 dividend of 25.126.044 Euro, corresponding to 0,47 Euro per share, consequently deducted from own funds at 31 December 2020. As regards the dividends resolved and not distributed in respect of 2019, the Bank will continue to maintain them as a reduction of the Group's equity and to book them amongst other liabilities, at least until 30 September 2021, as envisaged by the Bank of Italy Recommendation of 16 December 2020.

Own funds and capital adequacy ratios

OWN FUNDS AND CAPITAL ADEQUACY RATIOS (in thousands of Euro)	AMOUNTS AT	
	31.12.2020	31.12.2019
Common Equity Tier 1 Capital (CET1)	1.038.715	1.008.865
Tier 1 Capital (T1)	1.091.858	1.064.524
Total Own Funds	1.366.421	1.342.069
Total RWAs	9.203.971	9.206.155
Common Equity Tier 1 Ratio	11,29%	10,96%
Tier 1 Capital Ratio	11,86%	11,56%
Ratio – Total Own Funds	14,85%	14,58%

Common Equity Tier 1, Tier 1 Capital, and total Own Funds included the profits generated by the Banking Group at 31 December 2020 net of the estimated dividend.

Consolidated own funds, risk-weighted assets and prudential ratios at 31 December 2020 were calculated based on the regulatory principles set out in Directive no. 2013/36/EU (CRD IV) and (EU) Regulation no. 575/2013 (CRR), as subsequently amended, which were transposed in the Bank of Italy's Circulars no. 285 and 286. Specifically, Article 19 of the CRR requires to include the unconsolidated Holding of the Banking Group in prudential consolidation.

Moreover, EU Regulation no. 873/2020, relative to the transitional provisions aimed at attenuating the impact of the introduction of IFRS 9 on Own funds - defines for entities the possibility of including in their common equity tier 1 a portion of the accruals gained for expected credit losses, through different operating methods of the transitional period of reference (1 January 2018 - 31 December 2019 and 1 January 2020 - 31 December 2024).

Please note that at the time, Banca Ifis had already informed the Bank of Italy of its decision to apply the transitional provisions for the entire period.

Said portion will be included in CET1 gradually and by applying the following factors:

TEMPORARY TREATMENT IFRS 9 2018-2019	TEMPORARY TREATMENT IFRS 9 2020-2024
0,70 from 1 January 2020 to 31 December 2020	1,00 from 1 January 2020 to 31 December 2020
0,50 from 1 January 2021 to 31 December 2021	1,00 from 1 January 2021 to 31 December 2021
0,25 from 1 January 2022 to 31 December 2022	0,75 from 1 January 2022 to 31 December 2022
0,00 from 1 January 2023 to 31 December 2023	0,50 from 1 January 2023 to 31 December 2023
0,00 from 1 January 2024 to 31 December 2024	0,25 from 1 January 2024 to 31 December 2024

At 31 December 2020, the adoption of IFRS 9 caused the expected credit loss provisions to rise by 22,3 million Euro, net of the tax effect.

Therefore, in accordance with the two transitional arrangements 11,3 million Euro were included in the Common Equity Tier 1 (CET1) capital attributable to the Group.

Again with reference to the new provisions introduced by EU Regulation no. 873/2020 with a potential impact on CET1, please note the temporary treatment of unrealised profit and losses due to changes in the FV of debt instruments issued by the central, regional and local administrations; Banca Ifis has informed the Bank of Italy of its decision to apply the new transitional provisions starting 31 December 2020.

Said portion will be included in CET1 gradually and by applying the following factors.

TEMPORARY TREATMENT FOR OCI RESERVE	
	1,00 from 1 January 2020 to 31 December 2020
	0,7 from 1 January 2021 to 31 December 2021
	0,4 from 1 January 2022 to 31 December 2022

At 31 December 2020, the negative OCI reserve on debt instruments issued by the central, regional and local administrations, net of the tax effect, come to 2,7 million Euro.

Therefore, in accordance with the transitional arrangements, a negative 1,4 million Euro was sterilised by the Common Equity Tier 1 (CET1) capital attributable to the Group.

Pursuant to the temporary treatments aimed at mitigating the impact of the introduction of IFRS 9 and OCI reserves on government securities on Own Funds, during the transitional period the Banca Ifis Banking Group must disclose the Own Funds and the relevant capital ratios and financial leverage it would report without applying the transitional arrangements. The application of the transitional system has an impact on total own funds of 24 bps.

OWN FUNDS AND CAPITAL ADEQUACY RATIOS WITHOUT IFRS 9 TRANSITIONAL ARRANGEMENTS (in thousands of Euro)	AMOUNTS AT	
	31.12.2020	31.12.2019
Common Equity Tier 1 Capital (CET1)	1.014.822	1.007.416
Tier 1 Capital (T1)	1.067.964	1.063.075
Total Own Funds	1.342.527	1.340.620
Total RWAs	9.189.077	9.204.243
Common Equity Tier 1 Ratio	11,04%	10,95%
Tier 1 Capital Ratio	11,62%	11,55%
Ratio – Total Own Funds	14,61%	14,57%

Common Equity Tier 1, Tier 1 Capital, and total Own Funds included the profits generated by the Banking Group at 31 December 2020 net of the estimated dividend.

FINANCIAL LEVERAGE COEFFICIENT WITH/WITHOUT TRANSITIONAL ARRANGEMENTS IFRS 9/Reg. 873/2020 ⁽¹⁾ (%)	AMOUNTS AT	
	31.12.2020	31.12.2019
Financial leverage coefficient without application of transitional arrangements	8,59%	9,72%
Financial leverage coefficient with application of transitional arrangements	9,23%	9,73%

(1) Until 27 June 2021, temporary exclusion of some exposures to central banks from the measure of comprehensive exposure in light of the Covid-19 pandemic.

The new provisions introduced by EU Regulation no. 873/2020 with a potential impact on CET1 include the faculty not to partially deduct from the CET1 the intangible assets ascribed to software, applying prudent amortisation calculated over three years.

In defining own funds at 31 December 2020, Banca Ifis took this opportunity and the amount of the portion not deducted at 31 December 2020 is 3,9 million Euro.

Some legislative news introduced by EU Regulation no. 873/2020 was instead brought forward by a year with respect to the date of application defined by EU Regulation no. 876/2019, in order to encourage entities to grant credit to production and consumer segments, which are those worst struck by the Covid-19 pandemic; these news regard:

- the more favourable treatment (from 75% to 35%) to be applied to the calculation of the credit risk in relation to the loans granted by entities to pensioners and workers;
- the more favourable treatment of the Support factor to be applied to the calculation of the credit risk in relation to SMEs:
 - 76,19% for exposure of up to 2,5 million Euro, with respect to the previous threshold set at 1,5 million Euro;
 - introduction of the support factor of 85% for exposure in excess of 2,5 million Euro.

The 24 million Euro increase in Own Funds compared to 31 December 2019 was largely attributable to the following components:

- 13,9 million Euro arising from the inclusion of the profit for the year ended 31 December 2020 attributable to the Group and calculated for regulatory purposes, net of the estimated dividend;
- the lower 100% deduction from CET1 of "deferred tax assets that rely on future profitability and do not arise from temporary differences" totalling 56,2 million Euro - compared to 103,8 million Euro deducted at 31 December 2019; in this regard, please note that this deduction will be further absorbed by the future use of such deferred tax assets;
- the remainder referred to the positive change in reserves, including the changes in equity generated by the Companies not included in the Banking Group's scope and attributable to the Group;
- the lesser deduction of the negative components relative to investments in software, deriving from the application of prudent amortisation instead of accounting amortisation, as permitted by EU Regulation no. 2176/2020, where the Banca Ifis Group has decided to apply this method;
- the positive change in own funds has, however, been partially offset by the lesser accounting of the minority interests (Art. 84 CRR) for an amount of 52,2 million Euro according to the decline in risk-weighted assets and the correlated surplus capital.

The increase in own funds due to the above-described phenomena has meant that at 31 December 2020, the Total capital ratio is 14,85%, up from the results achieved at 31 December 2019 of 14,58%; this trend was also reported for the CET1 ratio now 11,29%, compared to the previous figure of 10,96%.

Here below is the breakdown by Segment of risk-weighted assets.

STATEMENT OF FINANCIAL POSITION DATA (in thousands of Euro)	COMMERCIAL & CORPORATE BANKING SEGMENT				NPL SEGMENT	GOVERNANCE & NON-CORE SERVICES SEGMENT	CONS. GROUP TOTAL
	TOTAL COMMERCIAL & CORPORATE BANKING SEGMENT	of which: FACTORING AREA	of which: LEASING AREA	of which: CORPORATE BANKING & LENDING AREA			
Total RWA per Segment	5.144.914	2.427.843	1.309.416	1.407.655	2.211.695	915.705	8.272.314
Market risk	X	X	X	X	X	X	57.572
Operational risk (basic indicator approach)	X	X	X	X	X	X	869.698
Credit valuation adjustment risk	X	X	X	X	X	X	4.386
Total RWAs	X	X	X	X	X	X	9.203.971

When comparing the results, please note that the Bank of Italy, following the Supervisory Review and Evaluation Process (SREP) to review the capitalisation targets of the system's largest intermediaries, notified the Banca Ifis Group that it needed to meet the following consolidated capital requirements in 2021, just like in 2020, including a 2,5% capital conservation buffer:

- Common Equity Tier 1 (CET1) capital ratio of 8,12%, with a required minimum of 5,62%;
- Tier 1 Capital Ratio of 10,0%, with a required minimum of 7,5%;
- Total Capital Ratio of 12,5%, with a required minimum of 10,0%.

At 31 December 2020, the Banca Ifis Group met the above prudential requirements.

As previously mentioned, Article 19 of the CRR requires to include the Holding of the Banking Group not consolidated in the booked equity, in prudential consolidation. The capital adequacy ratios of the Banca Ifis Group alone, presented exclusively for information purposes, would be as showed in the following table.

OWN FUNDS AND CAPITAL ADEQUACY RATIOS: BANCA IFIS BANKING GROUP SCOPE (in thousands of Euro)	AMOUNTS AT	
	31.12.2020	31.12.2019
Common Equity Tier 1 Capital (CET1)	1.422.796	1.312.821
Tier 1 Capital (T1)	1.424.610	1.312.821
Total Own Funds	1.827.409	1.713.198
Total RWAs	9.194.733	9.190.900
Common Equity Tier 1 Ratio	15,47%	14,28%
Tier 1 Capital Ratio	15,49%	14,28%
Ratio – Total Own Funds	19,87%	18,64%

Common Equity Tier 1, Tier 1 Capital, and total Own Funds included the profits generated by the Banking Group at 31 December 2020 net of the estimated dividend.

2.10.2 Income statements items

Formation of net banking income

Net banking income totalled 467,8 million Euro, down 16,2% from 558,3 million Euro at 31 December 2019.

The Covid-19 health emergency resulted in a reduction in margins in all segments and in particular in those where operations are linked to the legal system. The activities, whose operations are connected with the courts, were first blocked during lock-down and then slowed severely; generating major difficulties in proceeding with the legal collection of the amounts owed to it. In addition to this, a lesser physiological contribution is made of the release of the PPA, the effect of which in 2020 was 57,5 million Euro as compared with 69,8 million Euro last year, despite some significant accelerations during the last quarter of 2020.

NET BANKING INCOME (in thousands of Euro)	YEAR		CHANGE	
	2020	2019	ABSOLUTE	%
Net interest income	381.692	458.868	(77.176)	(16,8)%
Net commission income	74.887	94.078	(19.191)	(20,4)%
Other components of net banking income	11.221	5.387	5.834	108,3%
Net banking income	467.800	558.333	(90.533)	(16,2)%

Net interest income dropped by 16,8%, going from 458,9 million Euro at 31 December 2019 to 381,7 million Euro at 31 December 2020, in line with that described above with reference to net banking income.

Net commission income comes to 74,9 million Euro, down 20,4% on the figure booked at 31 December 2019: this performance was driven by the effects of the health emergency nationwide, on the economic fabric, causing a reduction in commission revenues both during new disbursements, for the lesser volumes intermediated and during the collection phase, following the effects of the moratoriums.

Commission income, totalling 84,2 million Euro, down 20,0% on 31 December 2019, primarily refers to factoring commissions on the turnover generated by individual customers (with or without recourse, in a flat or monthly scheme), arrangement fees for structured finance transactions, leases, third-party servicing, as well as from other fees usually charged to customers for services.

Commission expense, totalling 9,3 million Euro compared to 11,2 million Euro in the corresponding period of 2019, largely referred to fees paid to banks and financial intermediaries such as management fees, fees paid to third parties for the distribution of leasing products, as well as brokerage operations carried out by approved banks and other credit brokers.

The other components of net banking income are made up as follows:

- 3,0 million Euro for dividends generated by shares held in the Group-owned portfolio;
- -3,5 million Euro the negative result of trading (loss of 4,5 million Euro during 2019)

- 21,4 million Euro for gains from the sale or buy-back of financial assets and liabilities (18,7 million Euro at 31 December 2019);
- -9,7 million Euro in the negative net result of other financial assets and liabilities measured at fair value through profit or loss (as compared with the -9,6 million Euro at 31 December 2019) that includes the net negative change in the fair value of units of UCITs for -13,1 million Euro, the positive change in the fair value of loans for 2,5 million Euro, the positive change in fair value of securitisation held by the subsidiary Ifis Npl Servicing for 1,0 million Euro and the negative change in the fair value of other financial assets held by the Parent company for -0,1 million Euro.

Formation of net profit (loss) from financial activities

The Group's net profit from financial activities totalled 376,4 million Euro, compared to 471,1 million Euro at 31 December 2019 (-20,1%).

FORMATION OF NET PROFIT (LOSS) FROM FINANCIAL ACTIVITIES (in thousands of Euro)	YEAR		CHANGE	
	2020	2019	ABSOLUTE	%
Net banking income	467.800	558.333	(90.533)	(16,2)%
Net credit risk losses/reversals	(91.359)	(87.183)	(4.176)	4,8%
Net profit (loss) from financial activities	376.441	471.150	(94.709)	(20,1)%

Net credit risk losses totalled 91,4 million Euro at 31 December 2020, compared to net losses of 87,2 million Euro at 31 December 2019 (+4,8%). The Group recorded less in the way of provisions in the Factoring Area, which in 2019 had been negatively impacted by adjustments on certain individually significant counterparties in the constructors segment, juxtaposed by the increases made in the Corporate Banking & Lending area. A possible potential slowing to the deterioration of credit should also be noted, including in connection with the effect of the package of protection measures assumed by the government in the context of the pandemic. Therefore, in order to take into account the macroeconomic context due to the pandemic and the potential effects that the loss of these supporting measures may have in the near future, additional impairment losses have been made on the industry exposures most impacted by these phenomena for a total of approximately 31 million Euro.

Formation of net profit for the year is summarised in the table below:

FORMATION OF NET PROFIT (in thousands of Euro)	YEAR		CHANGE	
	2020	2019	ABSOLUTE	%
Net profit (loss) from financial activities	376.441	471.150	(94.709)	(20,1)%
Operating costs	(308.025)	(294.921)	(13.104)	4,4%
Value adjustments of goodwill	(700)	-	(700)	n.a.
Gains (Losses) on disposal of investments	24.161	(408)	24.569	n.s.
Pre-tax profit (loss) from continuing operations	91.877	175.821	(83.944)	(47,7)%
Income taxes for the year relating to current operations	(22.735)	(52.633)	29.898	(56,8)%
Profit (loss) for the year attributable to non-controlling interests	338	91	247	n.s.
Profit (Loss) for the year attributable to the Parent company	68.804	123.097	(54.293)	(44,1)%

Operating costs totalled 308,0 million Euro, showing an increase on 31 December 2019 (+4,4%).

OPERATING COSTS (in thousands of Euro)	YEAR		CHANGE	
	2020	2019	ABSOLUTE	%
Administrative expenses:	314.187	344.237	(30.050)	(8,7)%
<i>a) personnel expenses</i>	<i>123.369</i>	<i>129.959</i>	<i>(6.590)</i>	<i>(5,1)%</i>
<i>b) other administrative expenses</i>	<i>190.818</i>	<i>214.278</i>	<i>(23.460)</i>	<i>(10,9)%</i>
Net allocations to provisions for risks and charges	27.954	12.376	15.578	125,9%
Net impairment losses/reversals on property, plant and equipment and intangible assets	17.817	15.839	1.978	12,5%
Other operating income/expenses	(51.933)	(77.531)	25.598	(33,0)%
Operating costs	308.025	294.921	13.104	4,4%

Personnel expenses, equal to 123,4 million Euro, are down by 5,1% (130,0 million Euro at 31 December 2019) as a result of a prudent incentive policy and greater control over current expenses in light of the current context. The number of Group employees at 31 December 2020 was 1.758 as compared with 1.753 resources at 31 December 2019.

Other administrative expenses at 31 December 2019 included 30,9 million Euro in expenses relating to the settlement of certain tax disputes regarding the former subsidiary Interbanca, the economic impact of which is more than offset in the item "other net operating income" for 46,2 million Euro (including the related tax effect) against the activation of outstanding guarantees. Net of this effect, the other administrative expenses at 31 December 2020, which come to 190,8 million Euro rise by 4,1% on 31 December 2019. The increase is mainly due to higher costs for professional services and marketing and advertising expenses linked to the Group's rebranding in 2020.

OTHER ADMINISTRATIVE EXPENSES (in thousands of Euro)	YEAR		CHANGE	
	2020	2019	ABSOLUTE	%
Expenses for professional services	79.780	70.691	9.089	12,9%
Legal and consulting services	58.216	52.043	6.173	11,9%
Auditing	902	773	129	16,6%
Outsourced services	20.662	17.875	2.787	15,6%
Direct and indirect taxes	37.056	76.735	(39.679)	(51,7)%
Expenses for purchasing goods and other services	73.982	66.852	7.130	10,7%
Customer information	17.400	18.345	(945)	(5,2)%
Software assistance and hire	15.978	16.511	(533)	(3,2)%
Advertising and inserts	9.121	2.957	6.164	208,5%
FITD and Resolution fund	8.040	6.492	1.548	23,8%
Property expenses	5.761	5.643	118	2,1%
Postage and archiving of documents	5.432	5.708	(276)	(4,8)%
Telephone and data transmission expenses	3.805	2.671	1.134	42,5%
Securitisation costs	2.151	1.422	729	51,3%
Car fleet management and maintenance	2.103	2.452	(349)	(14,2)%
Business trips and transfers	1.194	2.546	(1.352)	(53,1)%
Other sundry expenses	2.997	2.105	892	42,3%
Total other administrative expenses	190.818	214.278	(23.460)	(10,9)%

The sub-item "Legal and consulting services" comes to 58,2 million Euro in 2020, up 11,9% on the 52,0 million Euro of 2019. The increase in this item is due to consulting services connected with initiatives included in the Business Plan presented in January 2020, such as Group reorganisation and rebranding activities, as well as integration interventions on the Group's information systems. The sub-item also includes the cost of the legal collection of receivables from the Npl Segment, which at 31 December 2020, came to 26,4 million Euro (25,1 million Euro at 31 December 2019).

"Outsourced services", amounting to 20,6 million Euro at 31 December 2020, records an increase (15,6%) on the 17,9 million Euro of the previous year, mainly refers to the non-judicial collections made in the Npl Segment.

Net of the charges relating to the settlement of tax disputes in 2019, which amounted to 30,9 million Euro, the item "Indirect taxes and duties", amounting to 37,1 million Euro compared to 45,8 million Euro at 31 December 2019, is down by 19,2%. The item mainly consists of the registration tax incurred for the judicial recovery of receivables belonging to the Npl Segment, amounting to 23,4 million Euro at 31 December 2020, shows a decrease of 25,4% due to the closure of the courts first and the slowing thereafter, as a result of the Covid-19 health emergency (31,3 million Euro at 31 December 2019). It also includes stamp duty of 11,7 million Euro, the charge-back of which to customers is included in the item "Other operating income".

“Expenses for purchasing goods and other services” amounted to 74,0 million Euro, up 10,7% from 66,9 million Euro at 31 December 2019. The change in this item is due to the contrasting effect in some of the most significant items, in particular:

- expenses for customer information, which come to 17,4 million Euro, down 5,2% as a result of the slow-down to actual during the lock-down period. These expenses are connected with the measurement of assets as a guarantee of the portfolios under management, focussed in particular on the Npl Segment, which, as mentioned, suffered the limits set as a result of the Covid-19 health emergency;
- expenses relating to the properties and motor vehicle management, which drop by a total of 0,4 million Euro, also due to smart working implemented with the start of the Covid-19 health emergency;
- advertising expenses increase by 3,0 million Euro to 9,1 million in December 2020, pursuing the rebranding that had begun in June 2020;
- securitisation costs go from 1,4 million Euro to 2,2 million Euro, +51,3%. The item was impacted by the action taken to sell portfolios;
- trips and transfers came to 1,2 million Euro, recording a decline of 53,1%, due to the limits to travel imposed by the Covid-19 health emergency.

Net allocations to provisions for risks and charges amounted to 28,0 million Euro compared with 12,4 million Euro at 31 December 2019. Net year provisions mainly, for 7,1 million Euro, refer to probable contractual indemnities for the sale of credits, for 6,6 million Euro to the Solidarity Fund, for 1,8 million Euro to the Corporate Banking & Lending Area and for 0,5 million Euro to the Fund for Supplementary Customer Indemnity. Finally, provisions are made for 8,8 million Euro for commitments to disburse funds and guarantees.

Other net operating income comes to 51,9 million Euro (77,5 million Euro at 31 December 2019). The item does, however, include some non-recurring items both during this year and last. More specifically, in 2020, the “gains on bargain purchases” are included in relation to the purchase of 70,77% of Farbanca for 16,8 million Euro and the proceeds for contractual indemnity on portfolios acquired in past years for 12,8 million Euro; 2019, on the other hand, contained the proceed linked to the indemnity relative to the definition of the tax dispute of 46,2 million Euro. Net of these items, the item would come to 20,6 million Euro as compared with the 31,3 million Euro at 31 December 2019, down mainly following the lesser revenues deriving from the recovery of expenses assigned to third parties and recoveries of leasing expenses.

Gains on disposal of investments of 24,2 million Euro include the effects of the sale of the Milan property in Corso Venezia, net of the related costs of sale.

Pre-tax profit from continuing operations amounted to 91,9 million Euro (-47,7% compared to 31 December 2019).

Income tax comes to 22,7 million Euro, down 56,8% on the figure booked at 31 December 2019, which also suffered the effects of the non-deductibility of the charge relating to the applications for “facilitated settlement of tax disputes” mentioned previously. The tax rate at 31 December 2020 was 24,75%, compared to 29,94% at the end of the previous year. The reduction is essentially due to the lesser pre-tax profit than in the previous year, on which the main tax benefits (ACE and “Super Amortisation”) have a higher percentage impact and the gain on bargain purchase relative to the acquisition of 70,77% of Farbanca, not subject to taxation.

Excluding 338 thousand Euro in profit attributable to non-controlling interests, the net profit for the year attributable to the Parent company totalled 68,8 million Euro (-44,1% from the prior year).

Below is the table reconciling equity and the net result of the Parent company with the corresponding consolidated data:

RECONCILIATION OF EQUITY AND THE NET RESULT OF THE PARENT COMPANY WITH THE CONSOLIDATED DATA (in thousand Euro)	31.12.2020		31.12.2019	
	EQUITY	OF WHICH: PROFIT (LOSS) FOR THE YEAR	EQUITY	OF WHICH: PROFIT (LOSS) FOR THE YEAR
Parent company balance	1.335.930	59.504	1.352.244	27.346
Difference compared to the carrying amounts of the companies consolidated	214.333	9.249	187.061	95.813
<i>Ifis Finance Sp z o.o.</i>	10.299	2.081	10.724	1.033
<i>Ifis Rental Services S.r.l.</i>	45.890	9.633	36.262	11.560
<i>Cap. Ital. Fin. S.p.A.</i>	-	4.461	(4.393)	(1.754)
<i>Credifarma S.p.A.</i>	10.527	540	9.761	211
<i>Farbanca S.p.A.</i>	37.521	17.048	n.a.	n.a.
<i>Ifis Npl S.p.A.</i>	106.455	(23.295)	129.762	79.738
<i>Gemini S.p.A.</i>	(4)	(4)	n.a.	n.a.
<i>Ifis Npl Servicing S.p.A. (formerly Fbs S.p.A.)</i>	4.197	(1.074)	9.967	5.026
<i>Ifis Real Estate S.p.A. (formerly Fbs Real Estate S.p.A.)</i>	(533)	(141)	3	1
<i>Ifis Finance IFN S.A.</i>	(19)	-	n.a.	n.a.
Other changes	(301)	51	(352)	(62)
Group consolidated balance	1.549.962	68.804	1.538.953	123.097

2.11 Main risks and uncertainties

Taking into account the business carried out and the results achieved, the Group's financial position is proportionate to its needs. Indeed, the Group's financial policy is aimed at favouring funding stability and diversification rather than the immediate operating needs. The main risks and uncertainties deriving from the present conditions of financial markets, including following the current situation linked to the Covid-19 pandemic, do not represent a particular problem for the Group's financial balance and, in any case, they are not likely to threaten business continuity.

Reference should be made to Part A of the Notes to the Consolidated Financial Statements for further information on the risks, uncertainties and impacts of the Covid-19 epidemic and to the information given in Part E of this same document about Banca Ifis Group's risks, typical of the banking sector.

2.12 Banca Ifis shares

The share price

As from 29 November 2004, Banca Ifis S.p.A.'s ordinary shares have been listed on the STAR segment of Borsa Italiana (the Italian stock exchange). The transfer to STAR occurred a year after the listing on the Mercato Telematico Azionario (MTA, an electronic stock market) of Borsa Italiana S.p.A.. Previously, as from 1990, the shares had been listed on the Mercato Ristretto (MR, a market for unlisted securities) of Borsa Italiana. The following table shows the share prices at the end of the year. As from 18 June 2012, Banca Ifis joined the FTSE Italia Mid Cap index.

Official share price	31.12.2020	31.12.2019	31.12.2018	31.12.2017	31.12.2016
Share price at year-end	9,18	14,00	15,44	40,77	26,00

Price/book value

Below is the ratio of the share price at year-end to consolidated equity per share outstanding.

Price/book value	31.12.2020	31.12.2019	31.12.2018	31.12.2017	31.12.2016
Share price at year-end	9,18	14,00	15,44	40,77	26,00
Consolidated Equity per share	28,99	28,79	27,30	25,62	22,99
Price/book value	0,32	0,49	0,57	1,59	1,13

Outstanding shares	31.12.2020	31.12.2019	31.12.2018	31.12.2017	31.12.2016
Number of shares outstanding at year end (in thousands) ⁽¹⁾	53.460	53.452	53.441	53.433	53.431

(1) Outstanding shares are net of treasury shares held in the portfolio.

Earnings per share and Price/Earnings

Here below is the ratio of the consolidated net profit for the year to the weighted average of the ordinary shares outstanding at year-end, net of treasury shares in portfolio, as well as the ratio of the year-end price to consolidated earnings per share.

Earnings per share (EPS) & Price/Earnings (P/E)	31.12.2020	31.12.2019
Net profit for the year attributable to the Parent company (in thousands of Euro)	68.804	123.097
Consolidated earnings per share (EPS)	1,29	2,30
Price/Earnings (P/E) Ratio	7,13	6,08

Earnings per share and diluted earnings per share	31.12.2020	31.12.2019
Net profit for the year attributable to the Parent company (in thousands of Euro)	68.804	123.097
Average number of outstanding shares	53.457.850	53.448.405
Average number of diluted shares	53.457.850	53.448.405
Consolidated earnings per share for the year (Units of Euro)	1,29	2,30
Consolidated diluted earnings per share for the year (Units of Euro)	1,29	2,30

Payout ratio

For 2020, the Board of Directors proposed to the Shareholders' Meeting to distribute a dividend of 0,47 Euro per share.

Payout ratio (in thousands of Euro)	2020	2019	2018	2017	2016
Consolidated net profit	68.804	123.097	146.763	180.767	687.945
Parent company dividends ⁽¹⁾⁽²⁾	25.126	58.797	56.125	53.433	43.813
Payout ratio	36,5%	47,8%	38,2%	29,6%	6,4%

(1) The data for FY 2020 refers to the dividend proposed by the Board of Directors of Banca Ifis.

(2) The figures for FY 2019 refer to the dividends resolved and not distributed, which the Bank will continue to maintain as a reduction of the Group's equity and book amongst other liabilities, at least until 30 September 2021, in compliance with the Bank of Italy Recommendation of 16 December 2020.

The 2016 payout ratio was influenced by the gain on bargain purchase deriving from the acquisition of the former GE Capital Interbanca Group. After normalising the profit for the year for the impact of the acquisition, the payout ratio would have stood at 48,8%. Consistently with the Group's willingness to further strengthen its capital base, the amount corresponding to the gain on bargain purchase that arose from the acquisition of the former GE Capital Interbanca Group was allocated to a reserve that will remain unavailable until the approval of the financial statements for the year 2021.

On 16 December 2020, given the continued Covid-19 pandemic, the Bank of Italy - in line with the ECB - chose to maintain an extremely prudent approach, so as to safeguard the banks' capacity to absorb losses and grant loans to support the real economy, recommending that until 30 September 2021, the less significant Italian banks:

- abstain from recognising or paying dividends or limit the relevant amount to the lesser of 15% of accumulated profits for 2019-20 or 20 basis points of the CET1 coefficient;
- abstain from recognising or paying interim dividends against 2021 profits;
- exercise extreme prudence in recognising variable remuneration.

This recommendation also envisaged that banks intending to pay dividends should:

- first critically verify their equity solidity and related capacity to self-finance, both presently and prospectively, taking into account the impacts of the pandemic on the quality of assets and the income statement; and
- contact the Supervisory Authority to assess whether or not the expected distribution level was prudent;

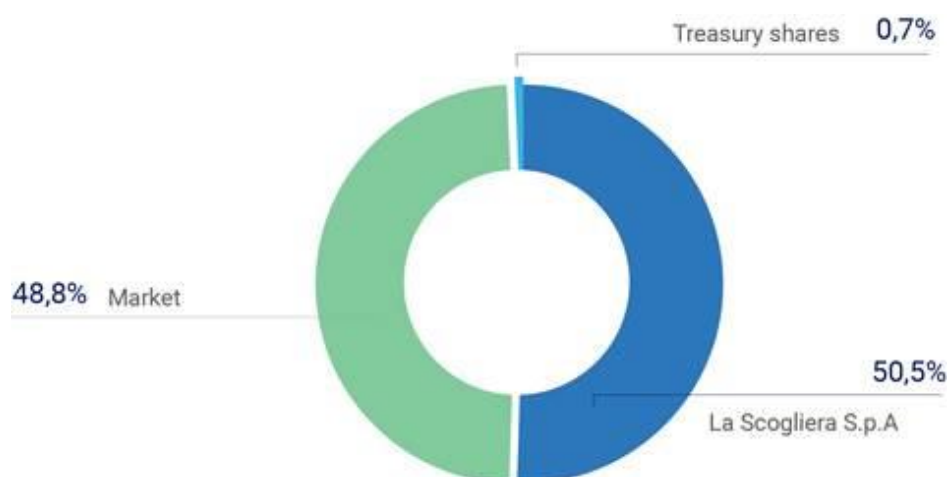
these same limits, restrictions and procedures apply to the buy-back of treasury shares in order to remunerate shareholders.

In compliance and within the limits of the above-specified Bank of Italy recommendation, Banca Ifis will propose to the shareholders' meeting the distribution of a 2020 dividend of 25.126.044 Euro, corresponding to 0,47 Euro per share, consequently deducted from own funds at 31 December 2020. As regards the dividends resolved and not distributed in respect of 2019, the Bank will continue to maintain them as a reduction of the Group's equity and to book them amongst other liabilities, at least until 30 September 2021, as envisaged by the Bank of Italy Recommendation of 16 December 2020.

Shareholders

The share capital of the Parent company at 31 December 2020 amounted to 53.811.095 Euro and is broken down into 53.811.095 shares for a nominal amount of 1 Euro each.

Below are Banca Ifis's shareholders that, either directly or indirectly, own equity instruments with voting rights representing over 3% of Banca Ifis's share capital:



Corporate governance rules

Banca Ifis has adopted the Corporate Governance Code for listed companies. The Bank's Board of Directors has established the Control and Risk Committee, the Appointments Committee and the Remuneration Committee. The Board of Directors has also appointed a Supervisory Body with autonomous powers of initiative and control pursuant to Italian Legislative Decree no. 231/2001.

Internal dealing rules

Banca Ifis regulations on internal dealing is aligned with the relevant EU legislation (EU Regulation no. 596/2014, Market Abuse Regulation).

The Policy currently in force governs the requirements placed on the Bank concerning trading by the Relevant Persons as well as the Persons Closely Associated with them in shares or other debt instruments issued by Banca Ifis as well as financial instruments linked to them. This is to ensure the utmost transparency in the Bank's disclosures to the market.

Specifically, this Policy governs:

- the requirements related to identifying the Relevant Persons and Closely Related People;
- the handling of information concerning the Transactions that the Relevant Persons submitted to the Bank;
- the handling of closed periods, i.e. those periods during which the Relevant Persons must refrain from trading in shares or other debt instruments issued by Banca Ifis as well as financial instruments linked to them.

This document is available on Banca Ifis's website, www.bancaifis.it, in the "Corporate Governance" Section.

Rules for the handling of inside information

Internal procedures for handling inside information and the list of individuals who have access to inside information are aligned with the mentioned Market Abuse Regulation.

In compliance with Article 115-bis of Italian Legislative Decree no. 58/1998, Banca Ifis has created a list of individuals who, in performing their professional and work duties or in carrying out their activity, have access to inside information (the list of insiders). Banca Ifis constantly updates this list.

In addition, it adopted a Group policy for the handling of inside information in order to:

- prevent individuals who, based on their duties, have no reason to know such information from accessing it;
- identify the individuals who have access to such information at all times.

This policy also describes the process of handling inside information of third-party issuers, also with reference to the management of passive market surveys.

2.13 Significant events during the year

The Banca Ifis Group transparently and promptly discloses information to the market, constantly publishing information on significant events through press releases. Please visit the Investor Relations and Media Press sections of the institutional website www.bancaifis.it to view all press releases.

Below is a summary of the most significant events that occurred during the year.

2.13.1 Banca Ifis: successful placement of the 400 million Euro Senior Preferred bond maturing on 25 June 2024

On 18 February 2020, Banca Ifis (Fitch rating BB+) successfully concluded placement of a Senior Preferred bond issue intended for professional investors, for an amount of 400 million Euro. The bond, issued under the scope of the EMTN Programme, comes as part of the funding strategy envisaged by the 2020-2022 Business Plan, which looks to better diversify the sources of finance. The transaction was strongly in demand with final orders, more than 60% of which came from foreign investors, more than three times the allocated amount. The reoffer price was 99,692, for a return at maturity of 1,82% and a coupon that is payable annually in the amount of 1,75%.

2.13.2 Farbanca joins the Banca Ifis Group

On 10 April 2020, Banca Ifis submitted a binding offer for the purchase of 70,77% of the share capital of Farbanca S.p.A. (company held by Banca Popolare di Vicenza), of which the remaining 29,23% is held by 450 small shareholders, mainly pharmacists. Following on from the press release given on 1 June 2020 in respect of the successful completion of the competitive process on 27 November 2020, Banca Ifis has declared that it has completed the acquisition of 70,77% of the capital of Farbanca S.p.A. held by Banca Popolare di Vicenza in LCA, whilst the remaining 29,23% is still held by approximately 450 minor shareholders, mainly pharmacists. Under the terms of the agreement, Banca Ifis has paid to LCA 32,52 million Euro. Completion of the acquisition follows the issue of the authorisation by the European Central Bank to Banca Ifis on 11 November 2020.

2.13.3 Communication on the FY 2019 and 2020 Dividend Distribution Policy

During 2020, Banca Ifis decided to act responsibly and comply with the recommendations adopted by the Bank of Italy on the dividends policy in the context of the Covid-19 pandemic. Therefore, the April 2020 Shareholders' Meeting, in compliance with the proposal of the Board of Directors, resolved to defer the payment of dividends on FY 2019, at least until 1 October 2020 and, therefore, to make said payment after that date, provided that no regulations or recommendations from supervisory authorities to the contrary are issued before that date.

On 6 August 2020, the Board of Directors acknowledged the Bank of Italy provision of 28 July 2020, whereby the Supervisory Authority recommended that all banks abstain until 1 January 2021 from paying dividends relative to FYs 2019 and 2020.

On 16 December 2020, given the continued Covid-19 pandemic, the Bank of Italy - in line with the ECB - chose to maintain an extremely prudent approach, so as to safeguard the banks' capacity to absorb losses and grant loans to support the real economy, recommending that until 30 September 2021, the less significant Italian banks:

- abstain from recognising or paying dividends or limit the relevant amount to the lesser of 15% of accumulated profits for 2019-20 or 20 basis points of the CET1 coefficient;
- abstain from recognising or paying interim dividends against 2021 profits;
- exercise extreme prudence in recognising variable remuneration.

This recommendation also envisaged that banks intending to pay dividends should:

- first critically verify their equity solidity and related capacity to self-finance, both presently and prospectively, taking into account the impacts of the pandemic on the quality of assets and the income statement; and
- contact the Supervisory Authority to assess whether or not the expected distribution level was prudent.

These same limits, restrictions and procedures apply to the buy-back of treasury shares in order to remunerate shareholders.

In compliance and within the limits of the above-specified Bank of Italy recommendation, Banca Ifis will propose to the shareholders' meeting the distribution of a 2020 dividend of 25.126.044 Euro, corresponding to 0,47 Euro per share, consequently deducted from own funds at 31 December 2020. As regards the dividends resolved and not distributed in respect of 2019, the Bank will continue to maintain them as a reduction of the Group's equity and to book them amongst other liabilities, at least until 30 September 2021, as envisaged by the Bank of Italy Recommendation of 16 December 2020.

2.13.4 Banca Ifis: Frederik Geertman Chief Executive Officer starting from the Shareholders' Meeting on the 2020 financial statements

On 21 December 2020, following agreements reached with the controlling shareholder of Banca La Scogliera S.p.A., the Chief Executive Officer, Luciano Colombini, announced his intention of renouncing his appointment as Director, including CEO, on the board, with effect from April 2021 in the Parent company and from April 2022 in the subsidiaries in which he currently holds a position. Therefore, La Scogliera reached the necessary agreements with Frederik Geertman, to allow him to join the Banca Ifis Board of Directors starting February and take over the role of Chief Executive Officer, subject to his confirmation in the Board by the shareholders' meeting, with effect from the April 2021 shareholders' meeting.

2.14 Significant subsequent events

2.14.1 Corporate reorganisation of the Group's business in the Npl Segment

On 1 January 2021, the NPL Segment underwent a corporate reorganisation with the creation of a vertical chain aiming to guarantee the separation and independence of loan acquisitions and collections. The Group's business in the Non-Performing Loans has therefore been reorganised into three separate companies: Ifis Npl Investing, Ifis Npl Servicing and Ifis Real Estate. The first acquires the portfolios, the second deals with management and collection and Ifis Real Estate deals with the real estate business, servicing the other two companies.

2.14.2 Resignation of Director Divo Gronchi

On 14 January 2021, the Independent Director Divo Gronchi tendered his resignation, with immediate effect, from the position of Director and, consequently, member of the Company's Appointments Committee and Supervisory Body. Having acknowledged the resignation tendered by Mr Gronchi, the Board of Directors resolved to replenish the Appointments Committee members, choosing Monica Billio as new member. The Board has also resolved to replenish the members of the Bank's Supervisory Body, appointing Beatrice Colleoni as new member.

2.14.3 Agreement for the cessation of contracts with Luciano Colombini

On 11 February 2021, Chief Executive Officer Luciano Colombini tendered his resignation, as already announced last December, from the role of Chief Executive Officer and the position of director on the board of Banca Ifis, to embark on new professional challenges. Mr Colombini will cease office upon conclusion of the Shareholders' meeting to be held this coming April to resolve on the financial statements.

The Chief Executive Officer has waived the entire amount of variable remuneration due him for FY 2020, as part of the agreement relative to the cessation of his contracts. This agreement, which is in line with the Bank's approved 2020 Remuneration Policy, establishes that the CEO will be paid his remuneration for the office until the date on which he effectively leaves office, as well as the deferred components of the bonus already accrued and recognised for FY 2019. At the date on which he leaves office, the CEO will receive severance indemnity equal to the fixed and variable remuneration envisaged for the residual term of the three-year mandate originally conferred upon him (12 months of recurring remuneration), to be paid in accordance with the terms and conditions of the 2020 Remuneration Policy (and, therefore, 50% in financial instruments, with a deferral period, of a portion of 40% of the indemnity, of 3 years, without prejudice, in any case, to the application of the malus and clawback clauses). The agreement also establishes that Mr Colombini shall continue to hold certain positions in the Group until the date on which the financial statements at 31 December 2021 are approved, each time receiving the relevant salary. No non-competition obligations are envisaged.

2.15 Outlook

Starting October 2020, the second wave of Covid-19 led the governments of a great many countries, including Italy, to once again restrict mobility or impose lock-downs to varying degrees, in a bid to limit the growth of contagion. These measures are continuing into the early months of 2021.

The current scenario makes all forecasts regarding both the duration and scope of the new containment/lock-down measures uncertain. We therefore expect to see the first part of 2021 still impacted by restrictions, whilst during the second half of the year, the progressive roll-out of vaccines should support a return to normality and the recovery of the Bank's businesses and macroeconomic context.

The current economic crisis is very different from previous ones, not only insofar as it has been brought about by a pandemic, but also in terms of the support offered by central banks and governments, which is unparalleled in recent decades. The main uncertainties relate to the speed of the economic recovery and the effectiveness of the government stimulation measures, which will be key in defining the macroeconomic context.

In this context, Banca Ifis remains concentrated on pursuing initiatives aimed at protecting the quality of assets and recoveries of the Npl portfolio, as well as proceeding with the investments and projects seeking to innovate the business model in support of the Bank's growth over the coming years.

On the credit front, at present, it is difficult to estimate the impacts on the quality of the assets, which will probably only become clear when moratoriums come to an end. The Banca Ifis Group business model, which looks to the short-term and is characterised by a good segment diversification, should afford greater protection. In addition, factoring substantively offers a twofold guarantee of the credit, by the transferred company and by the transferor, whilst the residual value of the leased assets helps reduce the risk. In a similar fashion, the impacts on the Npl business are mitigated by the diversification of the portfolio in terms of geography, economic segment and number of debtors. Additional provisions have also been made on performing exposures in the economic segments most exposed to the effects of the pandemic crisis, as well as action taken to reflect possible delays in the legal collection of debt.

In respect of its business model, the technological innovation aims, in the commercial business, to develop a digital lending platform with a view to digitising all management processes and creating a specific marketplace for small and medium enterprises, with a technological service that extends to all stages of the application, assessment and disbursement of the loan. The early months of 2021 saw the launch of a new service that allows customers to request and obtain a loan backed by the MCC Guarantee Fund in an all-digital procedure implemented from a remote position. In the future, the digital platform will be progressively extended to also include other products and services.

At the same time, in the Npl business, technological innovation intends to minimise Npl onboarding, management and monitoring time. In 2021, we will continue to seek out solutions aiming to reduce the time necessary for collecting on bad loans and limiting structural costs. The Npl business should also benefit from a progressive return to normality in the courts and the resuming of amicable "home" collections.

2.16 Other information

Adoption of Opt-Out Option pursuant to Consob resolution no. 18079 of 20 January 2012

On 21 January 2013, Banca Ifis's Board of Directors resolved, as per Article 3 of Consob Regulation no. 18079 of 20 January 2012, to adopt the opt-out option pursuant to Article 70, paragraph 8 and Article 71, paragraph 1-bis, of Consob's Regulation on Issuers, thus exercising the right to depart from the obligations to publish information documents required in connection with significant operations like mergers, spin-offs, capital increases by contribution in kind, acquisitions and sales.

Report on Corporate Governance and Shareholding Structure

Pursuant to Article 123 bis, paragraph three, of Italian Legislative Decree no. 58 of 24 February 1998, a separate report has been prepared from this Group Report on Operations, which was approved by the Board of Directors and published together with the draft consolidated financial statements. This document is also made available on Banca Ifis's website, www.bancaifis.com, in the "Corporate Governance" Section.

The Report on Corporate Governance and Shareholding Structure has been drawn up according to the format provided by Borsa Italiana.

Together with this Report, the "Report on Remuneration" prepared pursuant to Article 123-ter of the Consolidated Law on Finance, was also made available.

Non-Financial Statement

Pursuant to Article 5, paragraph 3 of Italian Legislative Decree no. 254 of 30 December 2016, the consolidated Non-Financial Statement (NFS) represents a report separate from this document, which is approved by the Board of Directors and published together with the draft consolidated financial statements at 31 December 2020. This document is also made available on the website, www.bancaifis.com, in the "About us - Sustainability" Section.

The disclosures on policies concerning the diversity of administration, management and control bodies in terms of age, gender, and education and professional background, as well as the description of the goals, implementation and results of said policies, as per Article 123-bis, paragraph 2, letter d-bis) of the Consolidated Law on Finance are included in the "Report on Corporate Governance and Shareholding Structure".

Privacy measures

The Banca Ifis Group has consolidated a project to comply with (EU) Regulation no. 2016/679 in order to incorporate the relevant regulatory provisions into its internal privacy management model, planning a series of both technological and organisational steps that will concern all the Group's companies.

Parent company management and coordination

Pursuant to Articles 2497 to 2497 sexies of the Italian Civil Code, it should be noted that the parent company La Scogliera S.p.A. does not carry out any management and coordination activities with respect to Banca Ifis, notwithstanding Article 2497 sexies of the Italian Civil Code, since the management and coordination of investee financial companies and banks is expressly excluded from La Scogliera's corporate purpose.

National consolidated tax regime

For the tax period closed at 31 December 2020, the companies Banca Ifis S.p.A., Ifis Npl S.p.A., Ifis Rental Services S.r.l., Cap.Ital Fin. S.p.A., Ifis Npl Servicing S.p.a. and Gemini S.p.A., together with the parent company, La Scogliera S.p.a., opted for the application of tax consolidation in accordance with Arts. 117 et seq. of Italian Presidential Decree no. 917/86.

Where the related requirements are met, the system will be extended to all the other Group companies. More specifically, Credifarma S.p.A. and Farbanca S.p.A. will not be able to adhere to the tax consolidation due to the demultiplication of the control chain envisaged by tax consolidation rules while Ifis Real Estate S.p.A. will adhere starting from tax period 2021.

Transactions between these companies were regulated by means of a private written agreement between the parties. This agreement will lapse after three years.

Adhesion to the tax consolidation allows the taxable income of the participating companies to be offset against each other (using the losses and the ACE realised during the adhesion period).

As envisaged by applicable regulations, adhering entities have an address for the service of notices of documents and proceedings relating to the tax periods for which this option is exercised at the office of La Scogliera, the consolidating company.

Under this tax regime, the taxable profits and tax losses reported by each entity for the fiscal year 2020 were transferred to the consolidating company La Scogliera.

It is specified that the 2020 consolidated financial statements benefited from the rules introduced by the "Cura Italia" Decree Law, applicable only to the specified tax period, which enabled, in compliance with the requirements laid down by the transformation of tax losses and surplus ACE accrued prior to the tax consolidation by Banca Ifis into tax credits, for an amount of 28,4 million Euro.

The credit due to the tax consolidating company, La Scogliera, entered under "Other assets" on these Financial Statements, at 31 December 2020 came to 83,3 million Euro, of which 80,1 million Euro accrued at the Parent company Banca Ifis, while the debt, accrued mainly by Ifis Npl and entered amongst "Other liabilities", comes to 17,3 million Euro. The net receivable in regard to the consolidating company La Scogliera is therefore 66 million Euro.

Transactions on treasury shares

At 31 December 2019, Banca Ifis held 359.144 treasury shares recognised at a market value of 3,0 million Euro and a nominal amount of 359.144 Euro.

During the year, Banca Ifis, as variable pay for the 2016 financial results, awarded the Top Management 7.717 treasury shares at an average price of 35,03 Euro, for a total of 270 thousand Euro and a nominal amount of 7.717 Euro, making profits of 206 thousand Euro that, in compliance with IAS/IFRS standards, were recognised under the premium reserve.

The remaining balance at the end of the year was 351.427 treasury shares with a market value of 2,9 million Euro and a nominal amount of 351.427 Euro.

Related-party transactions

In compliance with the provisions of Consob Resolution no. 17221 of 12 March 2010 and subsequently amended, as well as the prudential Supervisory provisions for banks in Circular no. 285 of 17 December 2013 of the Bank of Italy, part three, chapter 11 (on "Risk activities and conflicts of interest towards related parties"), any transactions with related parties and relevant parties are authorised pursuant to the procedure approved by the Board of Directors.

This document is publicly available on Banca Ifis's website, www.bancaifis.it, in the "Corporate Governance" Section.

During 2020, no significant transactions with related parties were undertaken outside the scope of the consolidated financial statements.

For information on individual related-party transactions, please refer to Part H of the Notes to the Consolidated Financial Statements.

Atypical or unusual transactions

During 2020, the Banca Ifis Group did not carry out atypical or unusual transactions as defined by Consob Communication no. 6064293 of 28 July 2006.

Research and development activities

Due to its business, the Group did not implement any research and development programmes during the year.

Venice - Mestre, 11 March 2021

For the Board of Directors

The C.E.O.

Luciano Colombini

3.

Consolidated Financial Statements



3.1 Consolidated Statement of Financial Position

ASSETS (in thousands of Euro)		31.12.2020	31.12.2019
10.	Cash and cash equivalents	82	56
20.	Financial assets measured at fair value through profit or loss	157.848	137.098
	a) financial assets held for trading	20.870	24.313
	c) other financial assets mandatorily measured at fair value	136.978	112.785
30.	Financial assets measured at fair value through other comprehensive income	774.555	1.173.808
40.	Financial assets measured at amortised cost	10.218.683	8.278.116
	a) receivables due from banks	1.083.281	626.890
	b) receivables due from customers	9.135.402	7.651.226
70.	Equity investments	-	6
90.	Property, plant and equipment	115.149	106.301
100.	Intangible assets	60.970	60.919
	of which:		
	- goodwill	38.798	39.542
110.	Tax assets:	381.431	391.185
	a) current	74.255	56.869
	b) deferred	307.176	334.316
120.	Non-current assets and disposal groups	-	25.560
130.	Other assets	317.478	352.975
	Total assets	12.026.196	10.526.024

LIABILITIES AND EQUITY (in thousands of Euro)		31.12.2020	31.12.2019
10.	Financial liabilities measured at amortised cost	9.908.039	8.463.245
	a) payables due to banks	2.367.082	959.477
	b) payables due to customers	5.471.874	5.286.239
	c) debt securities issued	2.069.083	2.217.529
20.	Financial liabilities held for trading	18.551	21.844
60.	Tax liabilities:	48.154	69.018
	a) current	12.018	28.248
	b) deferred	36.136	40.770
80.	Other liabilities	438.311	390.022
90.	Post-employment benefits	9.235	9.977
100.	Provisions for risks and charges:	53.944	32.965
	a) commitments and guarantees granted	10.988	3.952
	c) other provisions for risks and charges	42.956	29.013
120.	Valuation reserves	(19.337)	(3.037)
150.	Reserves	1.320.871	1.260.238
160.	Share premiums	102.491	102.285
170.	Share capital	53.811	53.811
180.	Treasury shares (-)	(2.948)	(3.012)
190.	Equity attributable to non-controlling interests (+/-)	26.270	5.571
200.	Profit (loss) for the year (+/-)	68.804	123.097
	Total liabilities and equity	12.026.196	10.526.024

3.2 Consolidated Income Statement

ITEMS (in thousands of Euro)		31.12.2020	31.12.2019
10.	Interest receivable and similar income	446.935	453.343
	<i>of which: interest income calculated using the effective interest method</i>	<i>444.816</i>	<i>452.404</i>
20.	Interest due and similar expenses	(107.707)	(114.337)
30.	Net interest income	339.228	339.006
40.	Commission income	84.234	105.250
50.	Commission expense	(9.347)	(11.172)
60.	Net commission income	74.887	94.078
70.	Dividends and similar income	3.025	813
80.	Net profit (loss) from trading	(3.490)	(4.487)
100.	Profit (loss) from sale or buyback of:	21.414	18.680
	a) financial assets measured at amortised cost	7.301	17.721
	b) financial assets at fair value through other comprehensive income	6.663	959
	c) financial liabilities	7.450	-
110.	Net result of other financial assets and liabilities measured at fair value through profit or loss	(9.728)	(9.619)
	b) other financial assets mandatorily measured at fair value	(9.728)	(9.619)
120.	Net banking income	425.336	438.471
130.	Net credit risk losses/reversals on:	(48.895)	32.679
	a) financial assets measured at amortised cost	(49.503)	32.566
	b) financial assets at fair value through other comprehensive income	608	113
150.	Net profit (loss) from financial activities	376.441	471.150
190.	Administrative expenses:	(314.187)	(344.237)
	a) personnel expenses	(123.369)	(129.959)
	b) other administrative expenses	(190.818)	(214.278)
200.	Net allocations to provisions for risks and charges	(27.954)	(12.376)
	a) commitments and guarantees granted	(8.759)	(1.287)
	b) other net allocations	(19.195)	(11.089)
210.	Net impairment losses/reversals on property, plant and equipment	(9.026)	(7.960)
220.	Net impairment losses/reversals on intangible assets	(8.791)	(7.879)
230.	Other operating income/expenses	51.933	77.531
240.	Operating costs	(308.025)	(294.921)
270.	Value adjustments of goodwill	(700)	-
280.	Gains (Losses) on disposal of investments	24.161	(408)
290.	Pre-tax profit (loss) from continuing operations	91.877	175.821
300.	Income taxes for the year relating to current operations	(22.735)	(52.633)
330.	Profit (loss) for the year	69.142	123.188
340.	Profit (loss) for the year attributable to non-controlling interests	338	91
350.	Profit (loss) for the year attributable to the Parent company	68.804	123.097

3.3 Consolidated Statement of Comprehensive Income

ITEMS (in thousands of Euro)		31.12.2020	31.12.2019
10.	Profit (Loss) for the year	69.142	123.188
	Other comprehensive income not to be reclassified to profit or loss	(19.637)	138
20.	Equity securities measured at fair value through other comprehensive income	(19.332)	380
30.	Financial liabilities measured at fair value through profit or loss (changes in own credit risk)	-	-
40.	Hedging of equity securities measured at fair value through other comprehensive income	-	-
50.	Property, plant and equipment	-	-
60.	Intangible assets	-	-
70.	Defined benefit plans	(305)	(242)
80.	Non-current assets and disposal groups	-	-
90.	Share of valuation reserves of equity accounted investments	-	-
	Other comprehensive income, net of taxes, to be reclassified to profit or loss	(318)	10.245
100.	Foreign investment hedges	-	-
110.	Exchange differences	(2.525)	382
120.	Cash flow hedges	-	-
130.	Hedging instruments (non-designated items)	-	-
140.	Financial assets (other than equity securities) measured at fair value through other comprehensive income	2.207	9.863
150.	Non-current assets and disposal groups	-	-
160.	Share of valuation reserves of equity accounted investments	-	-
170.	Total other comprehensive income, net of taxes	(19.955)	10.383
180.	Total comprehensive income (Item 10 + 170)	49.187	133.571
190.	Total consolidated comprehensive income attributable to non-controlling interests	336	91
200.	Total consolidated comprehensive income attributable to the Parent company	48.851	133.480

3.4 Statement of Changes in Consolidated Equity at 31 December 2020

	Balance at 31.12.2019	Change in opening	Balance at 01.01.2020	Allocation of profit from previous year		Changes during the year										Equity attributable to the Parent company at 31.12.2020	Equity attributable to non-controlling interests at 31.12.2020	Consolidated equity at 31.12.2020
				Reserves	Dividends and other allocations	Changes in reserves	Equity transactions							Comprehensive income for the year				
							Issue of new shares	Buyback of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury	Stock Options	Changes in equity interests					
Share capital:	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	
a) ordinary shares	53.811	X	53.811	-	X	X	-	-	X	X	X	X	-	X	53.811	24.797	78.608	
b) other shares	-	X	-	-	X	X	-	-	X	X	X	X	-	X	-	-	-	
Share premiums	102.285	X	102.285	-	X	206	-	X	X	X	X	X	-	X	102.491	-	102.491	
Reserves:	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	
a) retained earnings	1.254.846	-	1.254.846	95.751	X	(35.118)	-	-	-	X	X	X	-	X	1.315.479	1.069	1.316.548	
b) other	5.392	-	5.392	-	X	-	-	X	-	X	-	-	-	X	5.392	-	5.392	
Valuation reserves	(3.037)	-	(3.037)	X	X	3.653	X	X	X	X	X	X	-	(19.953)	(19.337)	66	(19.271)	
Equity instruments	-	X	-	X	X	X	X	X	X	-	X	X	-	X	-	-	-	
Treasury shares	(3.012)	X	(3.012)	X	X	X	-	64	X	X	X	X	X	X	(2.948)	-	(2.948)	
Profit (loss) for the year attributable to the Parent company	123.097	-	123.097	(95.751)	(27.346)	X	X	X	X	X	X	X	X	68.804	68.804	338	69.142	
Equity attributable to the Parent company	1.533.382	-	1.533.382	95.751	(27.346)	(31.259)	-	64	-	-	-	-	-	48.851	1.523.692	X	X	
Equity attributable to non-controlling interests	5.571	-	5.571	-	-	-	-	-	-	-	-	-	20.363	336	X	26.270	X	
Consolidated Equity	1.538.953	-	1.538.953	95.751	(27.346)	(31.259)	-	64	-	-	-	-	20.363	49.187	X	X	1.549.962	

3.5 Statement of Changes in Consolidated Equity at 31 December 2019

	Balance at 31.12.2018	Change in opening	Balance at 01.01.2019	Allocation of profit from previous year		Changes during the year										Equity attributable to the Parent company at 31.12.2019	Equity attributable to non-controlling interests at 31.12.2019	Consolidated equity at 31.12.2019
				Reserves	Dividends and other allocations	Changes in reserves	Equity transactions							Comprehensive income for the year				
							Issue of new shares	Buyback of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury	Stock Options	Changes in equity interests					
Share capital:	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
a) ordinary shares	53.811	X	53.811	-	X	X	-	-	X	X	X	X	-	X	53.811	4.434	58.245	
b) other shares	-	X	-	-	X	X	-	-	X	X	X	X	-	X	-	-	-	
Share premiums	102.116	X	102.116	-	X	169	-	X	X	X	X	X	-	X	102.285	-	102.285	
Reserves:	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
a) retained earnings	1.163.194	-	1.163.194	90.638	X	1.014	-	-	-	X	X	X	-	X	1.254.846	978	1.255.824	
b) other	5.349	-	5.349	-	X	43	-	X	-	X	-	-	-	X	5.392	-	5.392	
Valuation reserves	(14.606)	-	(14.606)	X	X	1.186	X	X	X	X	X	X	-	10.383	(3.037)	68	(2.969)	
Equity instruments	-	X	-	X	X	X	X	X	X	-	X	X	-	X	-	-	-	
Treasury shares	(3.103)	X	(3.103)	X	X	-	-	91	X	X	X	X	X	X	(3.012)	-	(3.012)	
Profit (loss) for the year attributable to the Parent company	146.763	-	146.763	(90.638)	(56.125)	X	X	X	X	X	X	X	X	123.097	123.097	91	123.188	
Equity attributable to the Parent company	1.453.524	-	1.453.524	-	(56.125)	2.412	-	91	-	-	-	-	-	133.480	1.533.382	X	X	
Equity attributable to non-controlling interests	5.476	-	5.476	-	-	-	-	-	-	-	-	-	4	91	X	5.571	X	
Consolidated Equity	1.459.000	-	1.459.000	-	(56.125)	2.412	-	91	-	-	-	-	4	133.571	X	X	1.538.953	

3.6 Consolidated Cash Flow Statement

CONSOLIDATED CASH FLOW STATEMENT Indirect method	AMOUNT	
	31.12.2020	31.12.2019
A. OPERATING ACTIVITIES		
1. Operations	180.282	186.016
- profit (loss) for the year (+/-)	68.804	123.097
- profit/loss on financial assets held for trading and on other financial assets/liabilities measured at fair value through profit or loss (-/+)	13.218	14.106
- net credit risk losses/reversals (+/-)	48.895	(32.679)
- net impairment losses/reversals on property, plant and equipment and intangible assets (+/-)	18.517	15.839
- net allocations to provisions for risks and charges and other expenses/income (+/-)	27.954	12.376
- unpaid taxes, duties and tax credits (+/-)	22.735	52.633
- other adjustments (+/-)	(19.841)	643
2. Cash flows generated/absorbed by financial assets	(926.062)	(1.087.568)
- financial assets held for trading	(47)	1.009
- other assets mandatorily measured at fair value	(33.900)	44.065
- financial assets measured at fair value through other comprehensive income	383.561	(730.032)
- financial assets measured at amortised cost	(1.306.184)	(309.424)
- other assets	30.509	(93.186)
3. Cash flows generated/absorbed by financial liabilities	774.826	1.042.277
- financial liabilities measured at amortised cost	856.839	1.025.853
- financial liabilities held for trading	(3.293)	(9.311)
- other liabilities	(78.720)	25.735
Net cash flows generated/absorbed by operating activities A (+/-)	29.046	140.725
B. INVESTING ACTIVITIES		
1. Cash flows generated by	50.506	100
- sale of equity investments	6	-
- sale of property, plant and equipment	50.500	-
- sales of subsidiaries and business units	-	100
2. Cash flows absorbed by	(79.520)	(85.167)
- purchases of property, plant and equipment	(37.472)	(6.979)
- purchases of intangible assets	(9.542)	(7.501)
- purchases of subsidiaries and business units	(32.506)	(70.687)
Net cash flows generated/absorbed by investing activities B (+/-)	(29.014)	(85.067)
C. FINANCING ACTIVITIES		
- issues/buyback of treasury shares	-	260
- issues/buyback of equity instruments	-	214
- distribution of dividends and other	-	(56.124)
- sale/purchase of minority control	(5)	-
Net cash flows generated/absorbed by financing activities C (+/-)	(5)	(55.650)
NET CASH GENERATED/USED DURING THE YEAR D=A+/-B+/-C	26	8
RECONCILIATION		
OPENING CASH AND CASH EQUIVALENTS E	56	48
TOTAL NET CASH GENERATED/USED DURING THE YEAR D	26	8
CASH AND CASH EQUIVALENTS: EFFECT OF CHANGES IN EXCHANGE RATES F		
CLOSING CASH AND CASH EQUIVALENTS G=E+/-D+/-F	82	56

4.

Notes to the Consolidated Financial Statements



4.1 Part A - Accounting policies

A.1 - General part

Section 1 – Statement of compliance with international accounting standards

The Consolidated Financial Statements at 31 December 2020 have been drawn up in accordance with the IAS/IFRS standards in force at said date issued by the International Accounting Standards Board (IASB), together with the relevant interpretations (IFRICs and SICs). These standards were endorsed by the European Commission in accordance with the provisions in Article 6 of European Union Regulation no. 1606/2002. This regulation was implemented in Italy with Italian Legislative Decree no. 38 of 28 February 2005.

Concerning the interpretation and implementation of international accounting standards, the Banca Ifis Group referred to the "Framework for the Preparation and Presentation and Financial Statements", even though it has not been endorsed by the European Commission, as well as the Implementation Guidance, Basis for Conclusions, and any other documents prepared by the IASB or the IFRIC complementing the accounting standards issued.

The accounting standards adopted in preparing these financial statements are those in force at 31 December 2020 (including SIC and IFRIC interpretations).

The Bank also considered the communications from Supervisory Authorities (Bank of Italy, Consob, and ESMA), which provide recommendations on the disclosures to include in the financial statements concerning the most material aspects or the accounting treatment of specific transactions.

These Consolidated Financial Statements are subject to certification by the delegated corporate bodies and the Corporate Accounting Reporting Officer, as per Article 154 bis paragraph 5 of Italian Legislative Decree no. 58 of 24 February 1998.

The Consolidated Financial Statements are audited by EY S.p.A..

Section 2 – Basis of preparation

The Consolidated Financial Statements consist of:

- the consolidated financial statements (statement of financial position and income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows);
- the Notes to the Consolidated Financial Statements;

in addition, they contain the Directors' Report.

The Consolidated Financial Statements have been drawn up according to the general principles of IAS 1, referring also to IASB's 'Framework for the preparation and presentation of financial statements', with particular attention to the fundamental principles of substance over legal form, the concepts of relevance and materiality of information, and the accruals and going concern accounting concepts.

For the preparation of these Consolidated Financial Statements, reference was made to the format set out by Bank of Italy's Circular no. 262 of 22 December 2005, 6th update of 22 December 2018, as supplemented by the Bank of Italy in its "Integrazioni alle disposizioni della Circolare n. 262 "Il bilancio bancario: schemi e regole di compilazione" aventi ad oggetto gli impatti del COVID-19 e delle misure a sostegno dell'economia ed emendamenti agli IAS/IFRS".

The currency of account is the Euro and, if not indicated otherwise, amounts are expressed in thousands of Euro. The tables in the Notes may include rounded amounts; any inconsistencies and/or discrepancies in the data presented in the different tables are due to these rounding differences.

Assets and liabilities, as well as costs and revenues, have been offset only if required or permitted by an accounting standard or the relevant interpretation.

The Notes do not include the items and tables required by Bank of Italy's Regulation no. 262/2005 where these items are not applicable to the Banca Ifis Group.

The recognition, measurement and derecognition criteria for assets and liabilities, and the procedures for recognising revenues and costs, adopted in the Consolidated Financial Statements at 31 December 2020 have remained substantially unchanged from those adopted for the preparation of the 2019 financial statements of the Banca Ifis Group.

Information on the business as a going concern

The Bank of Italy, Consob and Isvap, with document no. 2 issued on 6 February 2009 ("Disclosure in financial reports on the going concern assumption, financial risks, asset impairment tests and uncertainties in the use of estimates"), together with the subsequent document no. 4 of 4 March 2010, require directors to assess with particular accuracy the existence of the company as a going concern, as per IAS 1.

Unlike in the past, present conditions on financial markets and in the real economy, together with the negative short-term forecasts, require particularly accurate assessments of the going concern assumption, as records of the company's profitability and easy access to financial resources may no longer be sufficient in the current context.

In this regard, having examined the risks and uncertainties connected to the present macro-economic context, accentuated by the worsening of the Covid-19 pandemic, the Banca Ifis Group can indeed be considered as a going concern, in that it can be reasonably expected to continue operating in the foreseeable future. Therefore, the consolidated financial statements at 31 December 2020 are prepared in accordance with this fact.

Uncertainties connected to credit and liquidity risks are considered insignificant or, at least, not significant enough to raise doubts over the company's ability to continue as a going concern, thanks also to the good profitability levels that the Group has consistently achieved, to the quality of its loans, and to its current access to financial resources.

Section 3 - Consolidation scope and method

The Consolidated Financial Statements of the Banca Ifis Group have been drawn up on the basis of the accounts at 31 December 2020 prepared by the directors of the companies included in the consolidation scope.

At 31 December 2020, the Group was composed of the parent company, Banca Ifis S.p.A., the wholly-owned subsidiaries Ifis Finance Sp. z o.o., Ifis Rental Services S.r.l., Ifis Npl S.p.A., Cap.Ital.Fin. S.p.A., Ifis Npl Servicing S.p.A. (formerly Fbs S.p.A.), Ifis Real Estate S.p.A. (formerly Fbs Real Estate S.p.A.) and Gemini S.p.A., the newly-established Ifis Finance IFN S.A. 99,99% owned, the subsidiary held at 70% Credifarma S.p.A. and the newly-acquired Farbanca S.p.A., held 70,77%.

In 2020, in addition to the acquisition of 70,77% of Farbanca's shares, the residual 0,72% was also acquired of the capital of Ifis Real Estate S.p.A. (formerly Fbs Real Estate S.p.A.), the companies Gemini S.p.A. and Ifis Finance IFN S.A. were established and ownership of the company Elipso Finance S.r.l., held jointly at 50% each, was sold.

All the companies were consolidated using the line-by-line method.

The accounts of the Polish subsidiary Ifis Finance Sp. z o.o. and the Rumanian subsidiary Ifis Finance IFN S.A., both expressed in foreign currencies are translated into Euro by applying the rate of exchange at the end of the year to assets and liabilities. As for the income statement, the items are translated using the average exchange rate, which is considered as a valid approximation of the spot exchange rate. Exchange differences arising from the application of different exchange rates for the statement of financial position and the income statement, as well as the exchange differences from the translation of each investee company's equity, are recognised under capital reserves.

Assets and liabilities, off-balance-sheet transactions, income and expenses, as well as the profits and losses arising from relations between the consolidated companies are all eliminated.

Starting with the financial statements for years beginning after 1 July 2009, business combinations must be recognised by applying the principles established by IFRS 3; purchases of equity investments in which control is obtained and counting as "business combinations" must be recognised by applying the acquisition method, which requires:

- identification of the acquirer;
- determination of the acquisition date;
- recognition and measurement of the identifiable assets acquired, the liabilities assumed and any minority interest in the acquiree;
- recognition and measurement of goodwill or a gain from a bargain purchase.

The cost of an acquisition is determined as the sum of the amount transferred, measured at fair value at the acquisition date and the amount of the minority interest in the acquiree. For each business combination, the Group decides whether to measure any minority interest in the acquiree at fair value or in proportion to the minority share of the acquiree's net identifiable assets. Acquisition costs are expensed in the year and classified as administrative expenses.

Any contingent amount is recognised at the fair value at the acquisition date.

Goodwill is initially stated at cost represented by the excess of the total amount paid and the amount recognised for minority interests in respect of the net identifiable assets acquired and the liabilities assumed by the Group. If the fair value of the net assets acquired exceeds the total amount paid, the Group again verifies whether it correctly identified all the assets acquired and all the liabilities assumed and revises the procedures used to determine the amounts to be recognised at the acquisition date. If the new valuation still shows a fair value of the net assets acquired higher than the amount, the difference (profit) is recognised in the income statement.

After its initial recognition, goodwill is measured at cost net of accumulated impairment. For the purpose of impairment testing, goodwill acquired in a business combination is allocated, from the acquisition date, to each of the Group's cash generating units expected to benefit from the synergies of the combination, regardless of whether other assets or liabilities of the acquiree are assigned to those units.

If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss of the disposal. The goodwill associated with the disposed operation is determined on the basis of the relative values of the disposed operation and the portion of the cash-generating unit retained.

The consolidation process of the subsidiaries resulted in the following goodwill being recognised under the item intangible assets: 38,0 million Euro for the consolidation of the form Fbs Group, 778 thousand Euro at year end exchange rates for the subsidiary Ifis Finance Sp. z.o.o. and 700 thousand Euro for the subsidiary Cap. Ital. Fin S.p.A. The pre-existing goodwill allocated to Cap.Ital.Fin. was fully written-down during FY 2020. Therefore, at 31 December 2020, the total value of goodwill was 38,8 million Euro.

On 27 November 2020, the Group completed the purchase of 70,77% of Farbanca S.p.A. Relative to an overall 32,52 million Euro investment, the consolidation process resulted in a 16,8 million Euro gain on bargain purchase recognised under Other operating income.

1. Equity investments in exclusively controlled companies

COMPANY NAME	HEAD OFFICE	REGISTERED OFFICE	TYPE ⁽¹⁾	INVESTMENT		VOTING RIGHTS % ⁽²⁾
				COMPANY PARTICIPANT	SHARE %	
Ifis Finance Sp. z o.o.	Warsaw	Warsaw	1	Banca Ifis S.p.A.	100%	100%
Ifis Rental Services S.r.l.	Milan	Milan	1	Banca Ifis S.p.A.	100%	100%
Ifis Npl S.p.A. ⁽ⁱ⁾	Florence, Milan and Mestre (VE)	Mestre (VE)	1	Banca Ifis S.p.A.	100%	100%
Ifis Npl Servicing S.p.A. (formerly Fbs S.p.A.) ⁽ⁱⁱ⁾	Milan	Milan	1	Banca Ifis S.p.A.	100%	100%
Ifis Real Estate S.p.A. (formerly Fbs Real Estate S.p.A.)	Milan	Milan	1	Ifis Npl Servicing S.p.A. (formerly Fbs S.p.A.) ⁽ⁱⁱⁱ⁾	100%	100%
Cap. Ital. Fin. S.p.A.	Naples	Naples	1	Banca Ifis S.p.A.	100%	100%
Gemini S.p.A. ⁽ⁱⁱⁱ⁾	Mestre (VE)	Mestre (VE)	1	Ifis Npl S.p.A. ⁽ⁱ⁾	100%	100%
Ifis Finance IFN S.A.	Bucharest	Bucharest	1	Banca Ifis S.p.A.	99,99%	99,99%
Farbanca S.p.A.	Bologna	Bologna	1	Banca Ifis S.p.A.	70,77%	70,77%
Credifarma S.p.A.	Rome	Rome	1	Banca Ifis S.p.A.	70%	70%
Ifis ABCP Programme S.r.l.	Conegliano (Province of Treviso)	Conegliano (Province of Treviso)	4	Other	0%	0%
Indigo Lease S.r.l.	Conegliano (Province of Treviso)	Conegliano (Province of Treviso)	4	Other	0%	0%

Key

(1) Type of relationship:

1 = majority of voting rights in the Annual Shareholders' Meeting

2 = dominant influence in the Annual Shareholders' Meeting

3 = agreements with other shareholders

4 = other forms of control

5 = joint management pursuant to Article 26, paragraph 1, Italian Legislative Decree no. 87/92

6 = joint management pursuant to Article 26, paragraph 2, Italian Legislative Decree no. 87/92

(2) Voting rights in the Annual Shareholders' Meeting, distinguishing between effective and potential voting rights

(i) Starting 1 January 2021, as part of the reorganisation of the Npl Segment, the company Ifis Npl S.p.A. has been renamed Ifis Npl Investing S.p.A.

(ii) starting 1 January 2021, as part of the reorganisation of the Npl Segment, the company Ifis Npl Servicing S.p.A. has been merged by incorporation into Ifis Npl Investing S.p.A.

(iii) starting 1 January 2021, as part of the reorganisation of the NPL Segment, the company Gemini S.p.A. has been renamed Ifis Npl Servicing S.p.A.

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

In order to determine the scope of consolidation, Banca Ifis assessed whether it meets the requirements of IFRS 10 for controlling investees or other entities with which it has any sort of contractual arrangements.

An entity controls another entity when the former has all the following:

- power over the investee;
- exposure to variable returns;
- and the ability to affect the amount of its returns.

Generally, there is a presumption that a majority of voting rights gives control over the investee. The Group reconsiders whether or not it has control of an investee if the facts and circumstances indicate that there have been changes in one or more of the three elements relevant to the definition of control. The consolidation of a subsidiary begins when the Group obtains control and ceases when the Group loses control. The assets, liabilities, revenues and costs 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.

Profit or loss for the year and each component of other comprehensive income are attributed to the equity holders of the parent company of the Group and to the non-controlling interests, even if this results in the minority 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 standards. All assets and liabilities, equity, revenues, costs and inter-group financial flows relating to transactions between Group entities are derecognised completely during the consolidation phase.

Changes in the investment in a subsidiary that do not involve the loss of control are recognised in equity.

If the Group loses control of a subsidiary, it must derecognise the related assets (including goodwill), liabilities, minority interests and other components of equity, while any profit or loss is recognised in the Income Statement. Any retained interest must be measured at fair value.

The assessment carried out led the Bank to include the subsidiaries listed in the previous paragraph, as well as the SPVs (Special Purpose Vehicles) set up for securitisation purposes, for which control is considered to exist in accordance with IFRS 10; in the scope of consolidation at the reporting date. These SPVs are not formally part of the Banca Ifis Group.

3. Equity investments in exclusively controlled companies with significant minority interests

3.1 Non-controlling interests, voting rights held by non-controlling interests, and dividends distributed to non-controlling interests

Company Name	Minority interests %	Availability of minority votes % ⁽¹⁾	Dividends distributed to minorities
Credifarma S.p.A.	30,00%	30,00%	-
Farbanca S.p.A.	22,23%	22,23%	-

(1) Availability of voting rights in the Annual Shareholders' Meeting

3.2 Equity investments with significant non-controlling interests: accounting information

Company Name	Total assets	Cash and cash equivalents	Financial assets	Property, plant and equipment and intangible assets	Financial liabilities	Equity	Net interest income	Net banking income	Operating costs	Pre-tax profit (loss) from continuing operations	Profit (loss) from continuing operations, net of taxes	Profit (loss) of disposal groups, net of taxes	Profit (Loss) for the year (1)	Other comprehensive income, net of taxes (2)	Comprehensive income (3) = (1) + (2)
Credifarma S.p.A.	106.134	3	98.805	1.595	82.449	19.327	4.359	6.796	(5.550)	1.136	772	-	772	(6)	765
Farbanca S.p.A.	686.905	32	677.765	1.133	590.710	70.041	1.163	1.398	(433)	638	365	-	365	(2)	363

4 Significant restrictions

There were no significant restrictions as per paragraph 13 of IFRS 12, i.e. statutory, contractual and regulatory restrictions on its ability to access or use the assets and settle the liabilities of the Group, nor protective rights of non-controlling interests that can significantly restrict the Group's ability to access or use the assets and settle the liabilities of the Group.

5 Other information

The reporting date of the accounts prepared by the directors of the companies included in the consolidation scope was 31 December 2020.

Section 4 - Subsequent events

No significant events occurred between year-end and the preparation of these consolidated financial statements other than those already included herein.

For information on such events, please refer to the Directors' Report.

Section 5 – Other aspects

Risks, uncertainties and impacts of the Covid-19 epidemic

The upsurge of the Covid-19 pandemic in October 2020 in Italy and in the rest of Europe and the consequent legislative provisions adopted and being adopted by the various national governments, have given rise to significant uncertainty as to the economic impacts it may have on the various Group companies.

The results for 2020 include the impacts of Covid-19 as reasonably foreseeable at 31 December 2020. The adverse effects of Covid-19 may, however, persist beyond 2020, extending into the following months, although the timing and amount of such effects currently cannot be foreseen.

During 2020, in order to incorporate the impacts of the health emergency caused by the Covid-19 pandemic into the accounting valuation models used for impaired loans, analyses were performed and new prudent logics implemented, as well as the institutional measures introduced to temporarily support the national economy.

As regards credit risk management, the Italian Government has introduced measures aimed at providing financial support to businesses and households, through moratoriums and strengthening the public credit guarantee system, in order to alleviate the liquidity tensions caused by the emergency and encourage new credit. These measures also mitigate any impact on the credit quality of banks. The Group has therefore taken steps to revise the estimate of expected losses and the valuation of the Group's portfolios, both in terms of collective reserves and specific reserves.

More specifically, for the Npl Segment, during the period of health emergency, recovery activities through telephone collection have been strengthened as door to door activities of the agent network have been temporarily suspended. The restrictions imposed following the spread of Covid-19 have led to the partial closure of production activities, including the temporary closure of courts, effectively preventing legal action from being

taken to obtain precepts, foreclosures and garnishment orders. Although brief, the temporary court closures mainly impacted the lengthening of payment terms.

In order to incorporate the effects linked to the temporary closure of production activities, corrections were made to the forecasting models that entailed, with reference to amicable management, a limited decline in collections expected for FYs 2021 and 2022, in line with the general macroeconomic forecasts.

Consistently with the legislation released, certain corrections have been made to the models that cover both the secured Npl positions, as a result of the extension of collection times due to the suspension in proceeding with the attachment of properties received as collateral and for positions for which bankruptcy proceedings are in progress.

In all, these interventions entailed lower contributions to the net profit (loss) from financial activities deriving from changes in cash flow for an amount that can be quantified as approximately 22,8 million Euro, connected with both the change in collection time (see court closure) and the postponement of the process for transforming positions from purely amicable (measurement in curves) to amicable with plans or court proceedings with seizures and garnishment orders.

Reference should be made to the details given in Part E - Information on risks and related hedging policies.

As regards the assessment of the significant increase in the credit risk, the measures implemented to support the economy that impacted it include the concession of moratoriums, which must be mentioned. With the suspension of payments of amortisation plans, the verification of past-due by more than 30 days in order to allocate to Stage 2, also ceases. This has led the Group to make prudent corrections in respect of relations with counterparties involved by these moratoriums, or which belong to certain economic segments considered to be at higher risk of impact from Covid-19, so as to incorporate the increase in the expected risk.

The forward-looking information has seen an update to the macroeconomic scenarios following the evolution of the economic crisis linked to the spread of Covid-19, also in view of the recommendations given by the Supervisory Authorities.

In the face of these corrections, additional provisions were made for bad debt on the Commercial & Corporate Banking Segment for approximately 31 million Euro. Reference should be made to the details given in Part E - Information on risks and related hedging policies.

In addition, in line with what has been done for the secured portfolio of the Npl Segment, the collection times for receivables and portfolios of receivables secured by real estate for which bankruptcy proceedings are in progress have been reviewed to reflect the aforementioned suspension of real estate execution, including in the Commercial & Corporate Banking Segment. Overall, therefore, to cover possible additional credit risks linked to the pandemic, additional adjustments have been made for a total of 53,8 million Euro.

Finally, please also note that during FY 2020, analytical impairment was calculated on an individually significant position and operating in the retail segment, which, already restructured, has further worsened also following

the closure of commercial activities as a consequence of the Covid-19 pandemic. Total provisions in the year on this position amounted to 14,7 million Euro for loans and 2,2 million Euro for unsecured and secured exposures.

As described in greater detail in section 1.2 “Market risks” of Part E of this document, with reference to financial assets measured at fair value on a recurring basis, the effects of the pandemic have been characterised by limited impacts in line with the margins and dimension of the Group’s portfolio. Amongst others, net of the effects linked with the trend of the individual initiatives underlying the instruments, the income statement recorded negative impacts for changes in fair value in the amount of 4,6 million Euro following the update of the market parameters used to estimate the fair value of level 3 instruments; it is reasonable to consider that the market parameters used, as such and amongst others, already incorporate the negative effects of the Covid-19 pandemic.

As far as the Group's operating costs are concerned, just as the slowdown in court activity has limited credit recovery activity and therefore a reduction in the Group's margins, it has also led to a reduction in legal recovery costs and registration taxes.

As regards the impacts of the Covid-19 pandemic in IFRS 16 or IAS 19, the Group believes these not to be significant given the business model and the dimension of the underlying assets and liabilities. Reference is made to section 10.3 Other information of Part B of this document with reference to the Group’s valuations of goodwill.

The Board of Directors, the auditing bodies and the Bank’s management continue to constantly monitor the evolution of the emergency deriving from the spread of Covid-19 and to take all the decisions and implement all the measures necessary to cope with it.

Contractual amendments deriving from Covid-19

In the Corporate area, following the Covid-19 emergency, the Banca Ifis Group has taken various actions to best address the emergency in line with the new regulations. More specifically, it has adhered to the Cura Italia Decree, to the ABI credit agreement and the Liquidity Decree, with the consequent concession of moratoriums and the disbursement of new loans backed by the Central Fund.

In 2020, the Banca Ifis Group, in line with the Cura Italia Decree and subsequent regulatory interventions aimed at extending the duration of its provisions, such as the August Decree and the 2021 Budget Law (for more details, see section 2.8 Impact of regulatory changes), implemented the following supporting measures for micro, small and medium enterprises based in Italy, which were classified as performing and had a lack of liquidity due to the Covid-19 epidemic:

- limitation to the revocation of overdrafts until 30 June 2021;
- extension until 30 June 2021 of non-instalment loans with earlier contractual due date;
- suspension until 30 June 2021 and breaking down into instalments of mortgages and lease charges.

The Group also chose, for loans to private customers in the form of salary-backed loans and pension-backed loans involved by an exceptional temporary lay-off fund, to apply a selective freezing of instalments of the

amortisation plan for the entire duration of the contribution mechanism. The positions involved by this queuing of instalments are marginal and with irrelevant economic and financial effects.

Risks and uncertainties related to estimates

Using accounting standards often requires management to make estimates and assumptions that affect the carrying amounts of assets and liabilities and disclosure of contingent assets and liabilities. In making the assumptions underlying the estimates, management considers all available information at the reporting date of these consolidated financial statements, as well as any other factor deemed reasonable for this purpose, also as a consequence of the current situation connected with the Covid-19 pandemic, as explained previously.

Specifically, it made estimates on the carrying amounts of some items recognised in the consolidated financial statements at 31 December 2020, as per the relevant accounting standards. These estimates are largely based on the expected future recoverability of the amounts recognised and were made on a going concern basis. Such estimates support the carrying amounts reported at 31 December 2020.

Estimates are reviewed at least annually when preparing the financial statements.

The risk of uncertainty in the estimates, considering the materiality of the reported amounts of assets and liabilities and the judgement required of management, substantially concerns the measurement of:

- fair value of receivables and financial instruments not quoted in active markets;
- receivables of the Npl Segment;
- receivables managed by the Pharma BU, and specifically the interest on arrears considered recoverable;
- measurement of the Expected Credit Loss for receivables other than the Npl Segment;
- provisions for risks and charges;
- post-employment benefits;
- goodwill, other intangible assets and gain on bargain purchase.

Fair value of receivables and financial instruments not quoted in active markets

In the presence of receivables and financial instruments not quoted in active markets or illiquid and complex instruments, it is necessary to activate adequate valuation processes characterised with certain judgement on the choice of valuation models and related input parameters, which may sometimes not be observable in the market. There is a degree of subjectivity involved in assessing whether certain inputs are observable and categorising them within the fair value hierarchy accordingly. For qualitative and quantitative information on the method to determine the fair value of instruments measured at fair value, reference should be made to paragraph A.2 - Part relating to the main items of the consolidated financial statements at 31 December 2020.

Npl Segment exposures

Concerning specifically the measurement of the receivables in the Npl Segment, the Risk Management, when assessing the Bank's capital adequacy (ICAAP), regularly assesses the so-called model risk, since the characteristics of the business model imply a high level of variability concerning both the amount collected and the date of actual collection.

In particular, for receivables undergoing non-judicial operations, the proprietary model estimates cash flows by projecting the breakdown of the nominal amount of the receivable over time based on the historical recovery profile for similar clusters. In addition, for the positions with settlement plan funding characteristics, a deterministic model based on the measurement of the future instalments of the plan, net of the historical default rate is used. Therefore, the timely and careful management of cash flows is particularly important. To ensure expected cash flows are correctly assessed, also with a view to correctly pricing the transactions undertaken, the Group carefully monitors the trend in collections compared to expected flows.

For receivables undergoing judicial operations, i.e. for positions for which the presence of a job or a pension has been verified, a model has been developed for estimating cash flows prior to obtaining the Garnishment Order (ODA). In particular, cash flows are estimated for all those positions that have obtained a decree not opposed by the debtor from 1 January 2018.

The other positions undergoing judicial operations continue to be recognised at cost until said requirements are met or a garnishment order is issued.

Upon garnishment order, future cash flows are analytically determined on the basis of the objective elements known for each individual position; in this case, therefore, the estimates applied relate mainly to the identification of the duration of the payment plan.

Reference should be made to the details given in Part E - "Information on risks and related hedging policies" and to the previous paragraph entitled "Risks, uncertainties and impacts of the Covid-19 epidemic".

Receivables managed by the Pharma BU, and specifically the interest on arrears considered recoverable

As for the receivables of the Pharma BU, the Group estimates the cash flows from receivables due from Italy's National Health Service using a proprietary model, calculating the interest on arrears considered recoverable based on historical evidence and differentiating according to the type of collection actions taken by the Pharma BU (settlement or judicial action). Overall, the assumptions underlying the estimate of their recoverability were conservative. Banca Ifis estimates cash flows in accordance with the provisions of the joint Bank of Italy/Consob/Ivass document no. 7 of 9 November 2016 Accounting of interest on arrears as per Italian Legislative Decree no. 231/2002 on performing loans purchased outright.

Measurement of the Expected Credit Loss for receivables other than the Npl Segment

The allocation of receivables and debt securities classified as Financial assets measured at amortised cost and Financial assets measured at fair value through other comprehensive income in the three credit risk stages set forth in IFRS 9 and the calculation of the relative expected losses requires a detailed estimation process that regards primarily:

- defining the parameters for a significant increase in credit risk, which are essentially based on models for measuring the Probabilities of Default (PD) at the origination of financial assets and at the reporting date;
- the measurement of certain elements necessary for the determination of estimated future cash flows arising from non-performing loans: the expected debt collection times, the presumed realisable value of

any guarantees, the costs that it is deemed will be incurred to recover the credit exposure and lastly the likelihood of sale for positions for which there is a disposal plan.

“Expected Credit Losses” (ECLs) are calculated based on whether the financial instrument’s credit risk has significantly increased since initial recognition. Reference should be made to the information given in paragraph A.2 - Part relating to the main items of these consolidated financial statements at 31 December 2020 and to the paragraph above entitled “Risks, uncertainties and impacts of the Covid-19 epidemic”.

Goodwill, other intangible assets and gain on bargain purchase.

Business combinations must be booked as per the standards established by IFRS 3, using the acquisition method. Goodwill is initially stated at cost represented by the excess of the total amount paid and the amount recognised for minority interests in respect of the net identifiable assets acquired and the liabilities assumed by the Group.

As regards the purchase price allocation (“PPA”) of the aggregation to assets, liabilities and potential liabilities of the subject acquired, as can be identified at the purchase date and measured at their respective fair values, a preventive mapping has been carried out of all the assets and liabilities for which it was considered likely to encounter significant differences in value between the fair value and the respective carrying amount.

In particular, the fair values are determined on the basis of the methodology considered to be most appropriate for each class of asset and liability acquired (for example, for the loan portfolio, the discounted cash flow method).

If the fair value of the net assets acquired exceeds the total amount paid, the Group again verifies whether it correctly identified all the assets acquired and all the liabilities assumed and revises the procedures used to determine the amounts to be recognised at the acquisition date. If the new valuation still shows a fair value of the net assets acquired higher than the amount, the difference (profit) is recognised in the income statement as “gain on bargain purchase”.

Thereafter, in accordance with IAS 36, goodwill must be impairment tested annually, to check that the value can be recovered. The recoverable value is the greater of Value in Use and fair value, net of the costs of sale.

In order to determine the value in use of goodwill allocated to the cash generating units (“CGUs”) making it up, the Banca Ifis Group estimates both future cash flows in the explicit forecasting period and flows used to determine the terminal value. In a similar fashion, the Group also estimates the discounting rate of future cash flows previously estimated. The discounting rate has been determined by the Group using the “Capital Asset Pricing Model” (CAPM).

We would refer you to the more detailed information given in Part B - Consolidated Statement of Financial Position, Section 10 - Intangible assets - Item 100, Paragraph 10.3 Other information and Part G - Business combinations, of these Consolidated Financial Statements.

For the other cases listed, reference should be made to the valuation criteria described in paragraph A.2 - Part relating to the main items of these consolidated financial statements at 31 December 2020.

Coming into effect of new accounting standards

Standards issued, effective and applicable to these financial statements

The Consolidated Financial Statements at 31 December 2020 have been drawn up in accordance with the IAS/IFRS accounting standards in force at the reporting date. See the paragraph "Statement of compliance with international accounting standards".

The accounting standards used in preparing these consolidated financial statements, as far as the classification, recognition, measurement, and derecognition of financial assets and liabilities as well as the methods for recognising revenue and costs are concerned, are the same as those used in preparing the consolidated financial statements at 31 December 2019.

The Group has also adopted for the first time some accounting standards and amendments effective for years beginning on or after 1 January 2020. Below are the new accounting standards and the amendments to existing accounting standards endorsed by the EU, which have not materially affected the amounts reported in the annual consolidated financial statements at 31 December 2020:

- "Amendments to References to Conceptual Framework in IFRS Standards";
- "Definition of a Business (Amendment to IFRS 3 Business Combinations)";
- "Definition of Material (Amendment to IAS 1 and IAS 8)";
- "Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)";
- "Amendment to IFRS 16 Leases Covid 19- Related Rent Concessions".

Standards issued but not yet effective

The following are the new international accounting standards or amendments to them, some of which not yet endorsed by the European Commission, which are mandatory from 1 January 2021 or later. The Group does not consider the impact of the adoption of the following interpretations and amendments of existing international accounting standards to be material:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 (from 1 January 2021);
- Amendments to IFRS 4 Insurance Contracts – deferral of IFRS19 (from 1 January 2021);
- Amendments to
 - IFRS 3 Business Combinations;
 - IAS 16 Property, Plant and Equipment;
 - IAS 37 Provisions, Contingent Liabilities and Contingent Assets
 - Annual Improvements 2018-2020 (all from 1 January 2022);
- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current - Deferral of Effective Date (from 1 January 2023);
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (from 1 January 2023);
- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (from 1 January 2023);
- IFRS 17 Insurance Contracts, including Amendments to IFRS 17 (from 1 January 2023).

There were no other changes requiring disclosure as per IAS 8, paragraphs 28, 29, 30, 31, 39 and 40.

Deadlines for the approval and publication of the Financial Statements

Pursuant to Article 154-ter of Italian Legislative Decree no. 59/98 (Consolidated Law on Finance), the Parent company must approve the separate financial statements and publish the Consolidated Annual Financial Report, including the draft separate financial statements, the directors' report, and the declaration as per Article 154-bis, paragraph 5, within 120 days of the end of the financial year. The Board of Directors approved the Parent company's draft separate financial statements and the consolidated financial statements on 11 March 2021; the Parent company's separate financial statements will be submitted to the Shareholders' Meeting to be held on 22 April 2021 at first call for approval.

A.2 - Main items of the financial statements

1 - Financial assets measured at fair value through profit or loss ("FVTPL")

Classification criteria

This category comprises financial assets other than Financial assets measured at fair value through other comprehensive income and Financial assets measured at amortised cost. Specifically, this line item includes:

- financial assets held for trading, essentially consisting of debt and equity securities as well as the positive amount of derivative contracts held for trading;
- financial assets measured at fair value, i.e. non-derivative financial assets designated as such on initial recognition if the relevant conditions are met. At initial recognition, an entity may irrevocably designate a financial asset as measured at fair value through profit or loss if, and only if, doing so would eliminate or significantly reduce a measurement or recognition inconsistency.
- financial assets mandatorily measured at fair value, consisting of financial assets that are not eligible for the measurement at amortised cost or fair value through other comprehensive income based on the relevant business model or cash flow characteristics. Specifically, this category includes:
 - debt instruments, securities and loans without cash flows that are solely payments of principal and interest consistent with a "basic lending arrangement" (so-called "SPPI test" failed);
 - debt instruments, securities and loans held within a business model that is neither "Held to collect" (whose objective is to hold the asset to collect contractual cash flows) nor "Held to collect and sell" (whose objective is achieved by both collecting contractual cash flows and selling financial assets);
 - UCITS units;
 - equity instruments for which the Group elects not to use the option under the standard to measure them at fair value through other comprehensive income (so-called "OCI Option").

Derivative contracts include those embedded in complex financial instruments if the host contract is not a financial asset falling within the scope of IFRS 9, which are recognised separately if:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative;
- the hybrid instrument they are part of is not measured at fair value with the relevant changes recognised in profit or loss.

Reclassifications to other categories of financial assets are allowed only if the entity changes its business model to manage the financial assets. In these cases, financial assets may be reclassified from the category measured at fair value through profit or loss to one of the other two categories under IFRS 9 (Financial assets measured at amortised cost or Financial assets measured at fair value through other comprehensive income). The transfer value corresponds to the fair value at the time of the reclassification, which is applied prospectively from the reclassification date. In this case, the effective interest rate of the reclassified financial asset is calculated based on its fair value at the reclassification date, which is considered to be the date of initial recognition for the stage allocation for impairment purposes.

Recognition criteria

Financial assets are initially recognised at the date of settlement in the case of debt and equity securities, and at inception in the case of derivative contracts. At initial recognition, financial assets held for trading are measured at cost, that is the instrument's fair value, excluding the expenses and income directly attributable to the instrument, which are recognised in profit or loss.

Measurement criteria

Even after initial recognition, financial assets are measured at fair value, and the impact of the application of this method is recognised through profit or loss.

The fair value of the financial instruments included in this portfolio is calculated based on quoted prices in active markets, prices provided by market participants, or internal valuation models generally used for pricing financial instruments that take into account all relevant risk factors and are based on observable market data.

In the case of financial assets not quoted in an active market, the cost method is used as an approximation of fair value exclusively on a residual basis and in limited circumstances, that is if all the other previously mentioned measurement methods are not applicable.

Derecognition criteria

Financial assets are derecognised exclusively when all relevant risks and rewards have been substantially transferred. Should the company retain part of the relevant risks and rewards, the financial assets will continue to be recognised, even though legal ownership has been actually transferred to a third party.

Where it is not possible to ascertain the substantial transfer of the risks and rewards, financial assets are derecognised if the company no longer has control over them. Otherwise, the financial assets are recognised proportionally to the entity's continuing involvement in the asset, measured according to the exposure to changes in the transferred assets' value and cash flows.

Lastly, as for the transfer of collection rights, transferred financial assets are derecognised even if contractual rights to receive cash flows are maintained but an obligation to pay such flows to one or more entities is taken on.

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

Classification criteria

This category comprises financial assets that meet both the following conditions:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets ("Held to Collect and Sell" Business Model), and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest consistent with a "basic lending arrangement", in which consideration for the time value of money and credit risk are typically the most significant elements of interest (so-called "SPPI test" passed).

In addition, this line item includes equity instruments not held for trading for which at initial recognition the entity used the option to measure them at fair value through other comprehensive income not to be reclassified to profit or loss (so-called "OCI Option").

Reclassifications to other categories of financial assets are allowed only if the entity changes its business model to manage the financial assets. In these cases, financial assets may be reclassified from the category measured at fair value through other comprehensive income to one of the other two categories under IFRS 9 (Financial assets measured at amortised cost or Financial assets measured at fair value through profit or loss). The transfer value corresponds to the fair value at the time of the reclassification, which is applied prospectively from the reclassification date. If the asset is reclassified from the category concerned to amortised cost, the fair value of the financial asset at the reclassification date is adjusted by the accumulated gain (loss) presented in the valuation reserve. If the asset is reclassified to fair value through profit or loss, the accumulated gain (loss) previously recognised within the valuation reserve is reclassified from equity to profit or loss.

Recognition criteria

Financial assets are initially recognised at the date of settlement in the case of debt and equity securities, whereas loans are recognised at the date they were granted. These assets are initially recognised at fair value, including transaction costs directly attributable to the instruments, if any.

Measurement criteria

After initial recognition, the assets measured at fair value through other comprehensive income that are not equity securities are measured at fair value, recognising the impact of the application of amortised cost, impairment, and any exchange rate changes through profit or loss. Gains and losses resulting from changes in fair value are recognised under a dedicated equity reserve until the financial asset is transferred: then, accrued profits and losses are reclassified to profit or loss.

The equity instruments the Group elected to classify within this category are measured at fair value, and the amounts recognised through equity (Statement of comprehensive income) are not to be subsequently reclassified to profit or loss - including in the event of their disposal. The relevant dividends represent the only component of the equity securities concerned that is recognised through profit or loss.

The fair value is calculated on the basis already described for Financial assets measured at fair value through profit or loss.

In the case of Financial assets measured at fair value through other comprehensive income that are either debt securities or receivables, at each reporting date, including interim reporting dates, the Bank assesses whether a significant increase in credit risk (impairment) has occurred pursuant to IFRS 9, recognising an impairment loss to cover the expected credit losses through profit or loss.

Conversely, equity securities are not tested for impairment.

Derecognition criteria

Financial assets measured at fair value through other comprehensive income are derecognised exclusively when all relevant risks and rewards have been substantially transferred. Should the company retain part of the relevant risks and rewards, the financial assets will continue to be recognised, even though legal ownership has been actually transferred to a third party.

Where it is not possible to ascertain the substantial transfer of the risks and rewards, financial assets are derecognised if the company no longer has control over them. Otherwise, the financial assets are recognised proportionally to the entity's continuing involvement in the asset, measured according to the exposure to changes in the transferred assets' value and cash flows.

Lastly, as for the transfer of collection rights, transferred financial assets are derecognised even if contractual rights to receive cash flows are maintained but an obligation to pay such flows to one or more entities is taken on.

3 - Financial assets measured at amortised cost

Classification criteria

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

- the financial asset is held within a business model whose objective is achieved by collecting contractual cash flows ("Held to Collect" Business Model), and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest consistent with a "basic lending arrangement", in which consideration for the time value of money and credit risk are typically the most significant elements of interest (so-called "SPPI test" passed).

Specifically, if the above technical requirements are met, this line item includes:

- receivables due from banks,
- receivables due from customers, largely consisting of:
 - demand advances to customers as part of factoring operations vis-à-vis a receivables portfolio factored with recourse and still recognised in the seller's statement of financial position, or vis-à-vis receivables factored without recourse, providing no contractual clauses that eliminate the conditions for their recognition exist;
 - loans to customers deriving from mortgages or loans extended as part of corporate banking operations;

- distressed retail loans acquired from banks and retail lenders;
 - tax receivables resulting from insolvency proceedings;
 - reverse repurchase agreements;
 - receivables arising from finance leases;
 - salary- or pension-backed loans.
- debt securities acquired through subscription or private placement, with fixed or determinable payments, not quoted in active markets.

Reclassifications to other categories of financial assets are allowed only if the entity changes its business model to manage the financial assets. In these cases, which are expected to be very infrequent, the financial assets may be reclassified from the category measured at amortised cost to one of the other two categories under IFRS 9 (Financial assets measured at fair value through other comprehensive income or Financial assets measured at fair value through profit or loss). The transfer value corresponds to the fair value at the time of the reclassification, which is applied prospectively from the reclassification date. Gains or losses arising from the difference between the amortised cost of the financial asset and the relevant fair value are measured through profit or loss if the asset is reclassified to Financial assets measured at fair value through profit or loss or, if it is reclassified to Financial assets measured at fair value through other comprehensive income, through equity, within the specific valuation reserve.

Recognition criteria

These financial assets are initially recognised at the date of settlement in the case of debt and equity securities, whereas loans are recognised at the date they were granted. At initial recognition, the assets are measured at fair value, including transaction income or costs directly attributable to the asset. Costs meeting these characteristics, but to be reimbursed by the debtor or falling under normal internal administrative costs, are excluded.

Repurchase agreements or reverse repurchase agreements are recognised as funding or lending transactions. Specifically, repurchase agreements are recognised as payables for the amount received, while reverse repurchase agreements are recognised as receivables for the amount paid.

Measurement criteria

After initial recognition, receivables are measured at amortised cost, which is equal to the initial amount minus/plus principal repayments, impairment losses/reversals of impairment losses, and amortisation calculated using the effective interest method. The effective interest rate is calculated as the rate at which the present value of expected cash flows for the principal and interest is equal to the amount of the loan granted, including any costs/revenues directly attributable to the financial asset. This finance-based accounting method allows to spread the economic effect of costs/revenues over the expected residual life of the receivable.

The amortised cost method usually does not apply to short-term loans, as the effect of discounting would be immaterial. These are measured instead at their acquisition cost. A similar criterion applies to loans without a definite payment date or revocable loans. Furthermore, newly acquired distressed retail loans are measured at cost until the Bank has started taking action to collect the debt, as specified later on in the part concerning non-performing exposures in the Npl Segment.

At each reporting date, including interim reporting dates, the Group estimates the impairment of these assets in accordance with the impairment rules of IFRS 9, detailed in paragraph 16 – Other information.

The impairment losses found are recognised through profit or loss under “Net credit risk losses/reversals” and so are the reversals of part or all of the amounts previously written down.

Impairment losses are reversed if the quality of the exposure has improved to the point of reducing the previously recognised impairment loss.

In profit or loss, under “Interest receivable and similar income”, the Group recognises the amount represented by the gradual reversal of the discount calculated at the time the impairment loss was recognised.

In some cases, throughout the life of the financial assets concerned, and specifically of receivables, the parties to the agreement subsequently agree to modify the original contractual terms. When, during the life of an instrument, the contractual terms are modified, the Group shall assess whether the original asset must continue to be recognised or, conversely, the original instrument must be derecognised and a new financial instrument recognised in its place.

Generally, modifications of a financial asset result in its derecognition and the recognition of a new asset when they are “substantial”. The “substantiality” of the modification shall be assessed considering both qualitative and quantitative factors. In some cases, it will become apparent, without conducting complex analyses, that the changes introduced substantially modify the characteristics and/or contractual cash flows of a specific asset, whereas in other cases, additional analyses (including quantitative analyses) will be required to appreciate their impact and assess whether to derecognise the asset and recognise a new financial instrument.

The (quali-quantitative) analyses aimed at defining the “substantiality” of the contractual modifications made to a financial asset shall therefore consider:

- the purposes for which the modifications were made: for instance, renegotiations for business reasons or forbearance measures due to the counterparty's financial difficulties:
 - the former, intended to “retain” the customer, involve a borrower that is not in financial distress. This case includes all renegotiations aimed at adjusting the cost of debt to market conditions. These transactions result in changes to the original contractual terms, usually at the request of the borrower, that concern aspects associated with the cost of debt, giving rise to an economic benefit for the borrower. Generally, the Group believes that, whenever it enters into a renegotiation in order to avoid losing the client, this renegotiation shall be considered as substantial, since, in its absence, the customer could obtain financing from another intermediary and the Group would see estimated future revenue decline;
 - the latter, offered for “credit risk reasons” (forbearance measures), are part of the Group's attempt to maximise the recovery of the cash flows of the original receivable. Following the modifications, usually the underlying risks and rewards have not been substantially transferred: therefore, the accounting presentation that provides the most relevant information to users of the financial statements (except for the following discussion about objective factors) is the one made through “modification accounting” - whereby the difference between the carrying amount

and the present value of modified cash flows discounted at the original interest rate is recognised through profit or loss - rather than derecognition;

- the existence of specific objective factors affecting the substantial modifications of the characteristics and/or contractual cash flows of the financial instrument (including, but not limited to, the modification of the type of counterparty risk the entity is exposed to) that are believed to require derecognising the asset because of their impact (estimated to be significant) on the original contractual cash flows.

Derecognition criteria

A receivable is derecognised when it is considered unrecoverable and the Group forfeits the legal right to collect it. For instance, this occurs when insolvency proceedings are settled, the borrower dies without heirs, a court issues a final ruling that the debt does not exist, etc.

As for total or partial derecognitions without a forfeiture of the right to collect the receivable, to avoid continuing to recognise receivables that, even though they are still managed by debt collection structures, are highly unlikely to be recovered, at least every half-year, the Bank identifies the exposures to be derecognised that have all of the following characteristics:

- the receivable has been written off;
- the receivable has been classified as a bad loan for more than 5 years;
- the counterparty has filed for bankruptcy, been put into administrative liquidation, or is subject to any insolvency proceedings.

Derecognitions are directly recorded under net impairment losses on receivables to the extent of the unadjusted remaining portion, and are recognised as a reduction of the principal. Partial or complete reversals of previous impairment losses are recognised as a reduction of net impairment losses on receivables.

Sold or securitised financial assets are derecognised exclusively when all relevant risks and rewards have been transferred. Should the company retain part of the relevant risks and rewards, the financial assets will continue to be recognised, even though legal ownership has been actually transferred to a third party.

In such cases, a financial liability is recognised for an amount equal to the consideration received.

If some, but not all, the risks and rewards have been transferred, financial assets are derecognised only if the company no longer has control over them. Otherwise, the financial assets are recognised proportionally to the entity's continuing involvement in them.

Finally, as for the transfer of collection rights, transferred financial assets are derecognised even if contractual rights to receive cash flows are maintained but an obligation to pay such flows to one or more entities is taken on.

4 - Property, plant and equipment

Classification criteria

The item includes property, plant and equipment held for investment purpose as well as those for functional use.

All property (either fully owned or leased) held by the company for the purposes of obtaining rent and/or a capital gain fall under investment property.

All property (either fully owned or leased) held by the company for business and expected to be used for more than one fiscal year fall under property for functional use.

Property, plant and equipment for functional use include:

- land;
- buildings;
- furniture and accessories;
- electronic office machines;
- various machines and equipment;
- vehicles;
- leasehold improvements on third-party property.

Those are physical assets held for use in production, in providing goods and services or for administrative purposes, and that are expected to be used for more than one fiscal year.

This item also includes the rights of use acquired through leases and relating to the use of property, plant and equipment.

Under IFRS 16, a lease is a contract, or part of a contract, that, in exchange for a fee, transfers the right to use an asset (the underlying asset) for a period of time.

Leasehold improvements on third-party property are improvements and expenses relating to identifiable and separable asset. Normally, this kind of investment is sustained in order to make a property rented from third parties suitable for use.

Recognition criteria

Property, plant and equipment are initially recognised at cost, including all directly attributable costs connected to the acquisition or to bring the asset into use.

Subsequently incurred expenses are added to the carrying amount of the asset, or recognised as separate assets, if they are likely to yield future economic benefits exceeding those initially estimated and if the cost can be measured reliably; otherwise, they are recognised in profit or loss.

According to IFRS 16, leases are accounted for on a right of use basis, with the lessee having a financial obligation at the inception date to make payments due to the lessor to compensate for its right to use the underlying asset during the lease term.

When the asset is made available to the lessee for use (start date), the lessee recognises both the liability and the asset consisting of the right of use.

Measurement criteria

Property, plant and equipment and investment property are measured at cost, net of any depreciation or impairment losses.

Property, plant and equipment with a finite useful life are systematically depreciated on a straight-line basis over their useful life.

Property, plant and equipment with an indefinite useful life, whose residual value is equal to or higher than their carrying amount, are not depreciated.

For accounting purposes, land and buildings are treated separately, even when acquired together. Land is not depreciated, as it has an indefinite useful life. Where the value of land is included in the value of a building, the former is considered separately by applying the component approach. The separate values of the land and the building are calculated by independent experts in this field and only for entirely owned properties.

The useful life, residual amounts and depreciation methods of property, plant and equipment are reviewed at the closure of each period and, if expectations are not in line with previous estimates, the depreciation rate for the current year and subsequent ones is adjusted.

If there is objective evidence that an individual asset may be impaired, the asset's carrying amount is compared to its recoverable amount, which is the higher of an asset's fair value less costs to sell and its value in use, intended as the present value of future cash flows expected to arise from this asset. Any impairment loss is recognised in profit or loss.

When an impairment loss is reversed, the new carrying amount cannot exceed the net carrying amount that would have been measured if no impairment loss had been recognised on the asset in previous years.

The usually estimated useful lives are the following:

- buildings: not exceeding 34 years;
- furniture: not exceeding 7 years;
- electronic systems: not exceeding 5 years;
- other: not exceeding 5 years;
- Improvements on third party property/leasehold improvements: not exceeding 5 years.

With reference to the asset consisting of the right of use, recorded pursuant to IFRS 16, it is measured using the cost model in accordance with IAS 16 Property, plant and equipment; in this case, the asset is subsequently depreciated on a straight-line basis over the term of the lease contract and subject to an impairment test if impairment indicators emerge.

Derecognition criteria

Property, plant and equipment are derecognised from the statement of financial position on disposal or when they are withdrawn from use and no future economic benefits are expected from their disposal. Any profit/loss

that arises at the time the asset is derecognised (calculated as the difference between the net carrying amount of the asset and the amount received) is recognised in the Income Statement when the item is derecognised.

The right of use deriving from lease contracts is derecognised from the statement of financial position at the end of the lease.

5 - Intangible assets

Classification criteria

Intangible assets are non-monetary assets, identifiable even though they lack physical substance, that meet the requirements of identifiability, control over a resource and existence of future economic benefits. Intangible assets mainly include goodwill and software.

Recognition criteria

Intangible assets are recognised in the statement of financial position at cost, i.e. the purchase price and any direct cost incurred in preparing the asset for use.

Goodwill is represented by the positive difference between the acquisition cost and the fair value of the acquiree's assets and liabilities and when such positive difference is representative of the capacity to generate returns in the future.

Measurement criteria

Intangible assets with a finite useful life are systematically amortised according to their estimated useful life.

If there is objective evidence that a single asset may be impaired, the asset's carrying amount is compared to its recoverable amount, which is the higher of an asset's fair value less costs to sell and its value in use, intended as the present value of future cash flows expected to arise from this asset. Any impairment loss is recognised in profit or loss.

Intangible assets with an indefinite useful life are not amortised. The carrying amount is compared with the recoverable amount at least on an annual basis. If the carrying amount is greater than the recoverable amount, a loss equal to the difference between the two amounts is recognised in profit or loss.

Should the impairment of an intangible asset (excluding goodwill) be reversed, the increased net carrying amount cannot exceed the net carrying amount that would have been measured if no impairment loss had been recognised on the asset in previous years.

Goodwill is recognised in the statement of financial position at cost, net of any accrued losses, and is not subject to amortisation. Goodwill is tested for impairment at least annually by comparing its carrying amount to its recoverable amount. To this end, goodwill must be allocated to cash-generating units (CGUs) in compliance with the maximum combination limit that cannot exceed the "operating segment" identified for internal management purposes.

The impairment loss, if any, is calculated based on the difference between the carrying amount of the CGU plus its recoverable amount, which is the higher of the CGU's fair value less costs to sell and its value in use.

The amount of any impairment losses is recognised in profit or loss and is not derecognised in the following years should the reason for the impairment be no longer valid.

Derecognition criteria

An intangible asset is derecognised from the statement of financial position on disposal or when it is withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss arising from the derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss.

6 - Non-current assets and disposal groups

Non-current assets or groups of assets/liabilities for which a process of disposal has begun and their sale is considered highly probable are classified under the item of the assets "Non-current assets and disposal groups" and the item of the liabilities "Liabilities associated with assets held for sale". With the exception of certain types of assets (e.g. financial assets coming under the scope of application of IFRS 9), for which IFRS 5 specifically establishes that the measurement criteria of the relevant accounting standard must be applied, these assets/liabilities are otherwise measured at the lower of carrying amount and their fair value net of selling costs.

Income and expenses (net of the tax effect) attributable to asset disposal groups held for sale or recognized as such during the year, are presented in the income statement in a separate item.

7 - Current and deferred taxes

Classification criteria

Current and deferred taxes, calculated in compliance with national tax laws, are recognised in profit or loss with the exception of items directly credited or debited to equity.

Current tax liabilities are shown in the statement of financial position gross of the relevant tax advances paid for the current year.

Deferred tax assets and liabilities are recognised in the statement of financial position at pre-closing balances and without set-offs, and are included in the items 'Tax assets' and 'Tax liabilities', respectively, except when there is a legally enforceable right to set off current tax assets against current tax liabilities, and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which deferred tax liabilities or assets are expected to be settled or recovered.

Under the existing tax consolidation arrangements between the Group companies, the current corporate income (IRES) tax expense for the year is included in either Other Assets or Other Liabilities as Receivables due from/Payables due to the Consolidating/Parent company La Scogliera S.p.A..

Recognition and measurement criteria

Deferred tax assets and liabilities are calculated based on temporary differences—without time limits—between the value attributed to the asset or liability according to statutory criteria and the corresponding tax base, applying the tax rates expected to be applicable for the year in which the tax asset will be realised, or the tax liability will be settled, according to theoretical tax laws in force at the realisation date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

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

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses to the extent that it is probable that they can be recovered, based on the ability of the company concerned or the Parent company, as a result of the "tax consolidation" option, to continue to generate taxable profit, except:

- when the deferred tax asset relating to the deductible temporary difference 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 the accounting profit nor taxable profit or loss;
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

8 - Provisions for risks and charges

The provisions for risks and charges on commitments and guarantees granted include the provisions for credit risk set aside for loan commitments and the other guarantees granted that fall within the scope of the impairment rules in IFRS 9. As a general rule, in this case the Bank adopts the same methods for allocating items to three credit risk Stages and calculating expected credit losses as the ones described for financial assets measured at amortised cost or at fair value through other comprehensive income.

In addition, these include also the provisions for risks and charges set aside for other types of commitments and guarantees granted that, because of their specific characteristics, they do not fall within the scope of the impairment rules in IFRS 9. Specifically, other provisions for risks and charges consist of liabilities arising when:

- a legal or constructive obligation exists as a result of a past event;

- it is likely that it will be necessary to spend resources which could generate economic benefits to settle the obligation;
- the amount of the obligation can be reliably estimated.

Should all these conditions not be met, no liability is recognised.

The amount recognised as a provision represents the best estimate of the expense required to meet the obligation and reflects the risks and uncertainties regarding the facts and circumstances in question.

Where the cost deferral is significant, the amount of the provision is determined as the present value of the best estimate of the cost to settle the obligation. In this case a discount rate is used that reflects current market assessments.

The provisions made are periodically reviewed and, if necessary, adjusted to reflect the best current estimate. When the review finds that the cost is unlikely to be incurred, the provision is reversed.

9 - Financial liabilities measured at amortised cost

Classification criteria

Payables due to banks and customers and debt securities issued include the various forms of interbank funding, as well as funding from customers and through outstanding bonds, net of any buybacks.

In addition, payables incurred by the lessee as part of finance lease transactions are also included.

Recognition criteria

Payables due to banks and customers and debt securities issued are initially recognised at their fair value, which is equal to the consideration received, net of transaction costs directly attributable to the financial liability.

Measurement criteria

After initial recognition at fair value, these instruments are later measured at amortised cost, using the effective interest method.

The amortised cost method does not apply to short-term liabilities, as the effect of discounting would be insignificant.

Lease payables are revalued when there is a lease modification (e.g. a change in the perimeter of the contract), which is not accounted for/considered as a separate contract.

Derecognition criteria

Financial liabilities are derecognised when they are annulled, expired or settled. The difference between the carrying amount and the acquisition cost is recognised in profit or loss.

Liabilities are derecognised also when previously issued securities are bought back, even if such instruments will be sold again in the future. Gains and losses from such derecognition are recognised in profit or loss when the buyback price is higher or lower than the carrying amount.

Subsequent sales of the company's own bonds on the market are considered as an issuance of new debt.

10 - Financial liabilities held for trading

Classification criteria

Financial liabilities held for trading refer to derivative contracts that are not hedging instruments.

Recognition criteria

At initial recognition, financial liabilities held for trading are recognised at fair value.

Measurement criteria

Even after initial recognition, financial liabilities held for trading are measured at fair value at the reporting date, and the impact of the application of this method is measured through profit or loss. The fair value is calculated based on the same criteria as those used for financial assets held for trading.

Derecognition criteria

Financial liabilities are derecognised when they are settled or when the obligation is fulfilled, cancelled or expired. The difference arising from their derecognition is recognised in profit or loss.

11 - Foreign currency transactions

Initial recognition

At initial recognition, foreign currency transactions are recognised in the money of account, applying the exchange rate at the date of the transaction.

Subsequent recognitions

At each reporting date, including interim periods, foreign currency monetary assets and liabilities are translated using the closing exchange rate.

Non-monetary assets and liabilities recognised at historical cost are translated at the historical exchange rate, while those measured at fair value are translated using the year-end rate. Any exchange differences arising from the settlement of monetary elements or their translation at exchange rates different from those used at initial recognition or in previous financial statements are recognised in profit or loss in the period in which they arise, excluding those relating to available for sale financial assets, as they are recognised in equity.

12 - Other information

Post-employment benefits

Pursuant to IAS 19 'Employee benefits' and up to 31 December 2006, the so-called 'TFR' post-employment benefit for employees of the Group's Italian companies was classified as a defined benefit plan. The Group had to recognise this benefit by discounting it using the projected unit credit method.

Following the coming into force of the 2007 Budget Law, which brought the reform regarding supplementary pension plans - as per Italian Legislative Decree no. 252 of 5 December 2005 - forward to 1 January 2007, the employee was given a choice as to whether to allocate the post-employment benefits earned as from 1 January 2007 to supplementary pension funds or to maintain them in the company, which would then transfer it to a dedicated fund managed by INPS (the Italian National Social Security Institute).

This reform has led to changes in the accounting of post-employment benefits as for both the benefits earned up to 31 December 2006 and those earned from 1 January 2007.

In particular:

- post-employment benefits earned as from 1 January 2007 constitute a defined-contribution plan, regardless of whether the employee has chosen to allocate them to a supplementary pension fund or to INPS's Treasury Fund. Those benefits shall be calculated according to contributions due without applying actuarial methods;
- post-employment benefits earned up to 31 December 2006 continue to be considered as a defined-benefit plan, and as such are calculated on an actuarial basis which, however, unlike the calculation method applied until 31 December 2006, no longer requires that the benefits be proportionally attributed to the period of service rendered. This is because the employee's service is considered entirely accrued due to the change in the accounting nature of benefits earned as from 1 January 2007.

Actuarial gains/losses shall be included immediately in the calculation of the net obligations to employees through equity, to be reported in other comprehensive income.

Share-based payments

They are payments granted to employees or similar parties as remuneration for the services received that are settled in equity instruments.

The relevant international accounting standard is IFRS 2 – Share-based payments; specifically, since the Group is to settle the obligation for the service received in equity instruments (shares "to the value of", i.e. a given amount is converted into a variable number of shares based on the fair value at grant date), those payments fall under "equity-settled share-based payments". The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model.

That cost is recognised in employee benefits expense together with a corresponding increase in equity over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity

instruments that will ultimately vest. The cost or revenue in the statement of profit or loss for the year represents the movement in cumulative expense recognised at the beginning and end of that year.

Treasury shares

Pursuant to regulations in force in Italy, buying back treasury shares requires a specific resolution of the shareholders' meeting and the recognition of a specific reserve in equity. Treasury shares in the portfolio are deducted from equity and measured at cost, calculated using the "Fifo" method. Differences between the purchase price and the selling price deriving from trading in these shares during the accounting period are recognised under equity reserves.

Recognition of income and costs

Income from management and guarantee services for receivables purchased through factoring activities are recognised under commission income according to their duration. Components considered in the amortised cost to calculate the effective interest rate are excluded and recognised instead under interest income.

Costs are recognised on an accrual basis. Concerning the costs of the Npl Segment, the costs incurred upfront for non-judicial debt collection operations through settlement plans, as well as legal expenses and registration fees for judicial debt collection operations, are recognised in profit or loss under "Other administrative expenses" in the period in which the positive impact of the relevant receivables deriving from the change in the underlying cash flows associated with the plans entered into or the court orders obtained is recognised in profit or loss.

Dividends

Dividends are recognised through profit or loss in the year in which the resolution concerning their distribution is passed.

Repurchase and reverse repurchase agreements

Securities received as a result of transactions that contractually require they are subsequently sold, as well as securities delivered as a result of transactions that contractually require they are subsequently repurchased, are not recognised in and/or derecognised from the financial statements.

Consequently, in cases of securities acquired under a reverse repurchase agreement, the amount paid is recognised as due from customers or banks, or as a financial asset held for trading; and in cases of securities sold under a repurchase agreement, the liability is entered under payables due to banks or customers, or under financial liabilities held for trading. Income from these commitments, made up of the coupons matured on the securities and of the difference between their spot price and their forward price, is recognised under interest income in profit or loss.

The two types of transactions are offset if, and only if, they have been carried out with the same counterparty and if such offsetting is contractually envisaged.

Amortised cost

The amortised cost of a financial asset or liability is its amount upon initial recognition, net of any principal repayments, plus or minus the overall amortisation of the difference between the initial and the maturity value calculated using the effective interest method, and deducting any impairment losses.

The effective interest rate method is a method of spreading interest income or interest expense over the duration of a financial asset or liability. The effective interest rate is the rate that precisely discounts expected future payments or cash flows over the life of the financial instrument at the net carrying amount of the financial asset or liability. It includes all the expenses and basis points paid or received between the parties to a contract that are an integral part of such rate, as well as the transaction costs and all other premiums or discounts.

Commissions considered an integral part of the effective interest rate are the initial commissions received for selling or buying a financial asset not classified as measured at fair value: for example, those received as remuneration for the assessment of the debtor's financial situation, for the assessment and the registration of sureties and, in general, for completing the transaction.

Transaction costs, in turn, include fees and commissions paid to agents (including employees that act as sales agents), advisors, brokers and dealers, levies charged by regulatory bodies and stock exchanges, and transfer taxes and duties. Transaction costs do not include financing, internal administration or operating costs.

Amortised cost applies to financial assets measured at amortised cost and at fair value through other comprehensive income, as well as financial liabilities measured at amortised cost.

Specifically concerning financial assets that are considered to be impaired at initial recognition, be they measured at amortised cost or fair value through other comprehensive income, and classified as "Purchased or Originated Credit Impaired (POCI) Financial Assets", at initial recognition, the Bank calculates a credit-adjusted effective interest rate for which it is necessary to incorporate the initial expected credit losses into cash flow estimates. The Bank uses said credit-adjusted effective interest rate to apply the amortised cost method and, therefore, calculate the relevant interest.

Purchased or Originated Credit Impaired (POCI) Financial Assets

"Purchased or Originated Credit Impaired (POCI) Financial Assets" means the exposures that were impaired at the date they were acquired or originated.

POCI financial assets include also the exposures acquired as part of sales (of either individual assets or portfolios) and business combinations.

Based on the Business Model within which the asset is managed, POCI financial assets are classified as either Financial assets measured at fair value through other comprehensive income or Financial assets measured at amortised cost. As previously mentioned, interest is accounted for by applying a credit-adjusted effective interest rate, i.e. the rate that, upon initial recognition, discounts all the asset's estimated future cash receipts at amortised cost considering also lifetime expected credit losses.

The Bank regularly reviews said expected credit losses, recognising impairment losses or gains through profit or loss. Favourable changes in lifetime ECLs are recognised as an impairment gain, even if said lifetime ECLs are lower than those incorporated into cash flow estimates at initial recognition.

"Purchased or Originated Credit Impaired Financial Assets" are usually allocated to Stage 3 at initial recognition.

A subsequent improvement in the counterparty's creditworthiness, which may be reflected in the present value of cash flows, shall cause the exposure to be classified within Stage 2.

These assets shall never be allocated to Stage 1, as the expected credit loss must always be calculated over a time horizon equal to their remaining useful life.

The Npl Segment's receivables all qualify as POCI financial assets and are recognised and assessed through the following steps:

- at the time of purchase, receivables are recognised by allocating the portfolio's purchase price among the individual receivables it consists of through the following steps:
 - recognition of the individual receivables at a value equal to the contract price, which is used for the purposes of reporting to the Central Credit Register;
 - after verifying the documentation, if provided in the contract, the Bank returns the positions lacking documentation or beyond the statute of limitations to the seller, and measures the fair value of receivables which actually exist and can be collected; finally, after sending a notice of assignment to the debtor, the Bank can start taking action to collect the receivable;
 - once the collection process begins, receivables are measured at amortised cost using the effective interest rate method;
 - the effective interest rate is calculated on the basis of the price paid, the transaction costs, if any, and the estimated cash flows and collection time calculated using either proprietary models or analytical estimates made by managers;
 - the effective interest rate as set out in the previous point is unchanged over time;
 - at the end of each reporting period, interest income accrued on the basis of the original effective interest rate is recognised under Interest Income. Said interest is calculated as follows: Amortised Cost at the beginning of the period x IRR/365 x days in the period;
 - in addition, at the end of each reporting period, the expected cash flows for each position are re-estimated;
- should events occur (higher or lower revenues realised or expected compared to forecasts and/or a change in collection times) which cause a change in the amortised cost (calculated by discounting the new cash flows at the original effective rate compared to the amortised cost in the period), this change is also recognised under Credit risk losses/reversals.

Impairment of financial instruments

Under IFRS 9, the relevant impairment provisions apply to financial assets measured at amortised cost, financial assets measured at fair value through other comprehensive income that are not equity securities, and loan commitments and guarantees granted that are not measured at fair value through profit or loss.

“Expected Credit Losses” (ECLs) are calculated based on whether the financial instrument’s credit risk has significantly increased since initial recognition.

The general impairment model requires allocating the financial instruments within the scope of IFRS 9 to three Stages, which reflect the deterioration in credit quality:

- Stage 1: financial instruments that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date;
- Stage 2: financial instruments that have had a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date) but that individually do not have objective evidence of impairment;
- Stage 3: financial assets that have had a significant increase in credit risk since initial recognition with objective evidence of impairment at the reporting date. This coincides with non-performing exposures, i.e. those classified as bad loans, unlikely to pay, or non-performing past due exposures according to the rules of the Bank of Italy.

To identify the significant increase in credit risk, the Banca Ifis Group applies the following quantitative and qualitative transfer criteria to the loan portfolio according to the type of counterparty defined by segmenting receivables into portfolios:

- The only quantitative transfer criterion is the Significant Deterioration for which, to identify the “significant increase in credit risk” on exposures within rated portfolios (Italian companies), the Group used an approach backed by quantitative analyses, under which the exposure is allocated to Stage 2 if the change in the one-year PD between the origination and the measurement date exceeds a given threshold.
- Qualitative transfer criteria:
 - “Rebuttable presumption – 30 days past due”: the Standard establishes that, regardless of how the entity assesses significant increases in credit risk, there is a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. The entity can rebut this presumption if it has reasonable and supportable information that demonstrates that the credit risk has not increased significant since initial recognition even though the contractual payments are more than 30 days past due. However, the Ifis Group has not pursued this option;
 - Forbearance: according to this criterion, a financial instrument is allocated to Stage 2 when the Group classifies the exposure as forborne;
 - Watchlist: this requires identifying qualitative deterioration criteria defined by the Group as part of the process for defining especially risky positions during credit monitoring.

According to 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, that is:

- it has a low risk of default;
- the borrower is considered, in the short term, to have a strong capacity to meet its obligations;
- the lender expects, in the longer term, that adverse changes in economic and business conditions might reduce the ability of the borrower to fulfil its obligations.

The measurement of expected credit losses (ECLs) accounts for cash shortfalls, the probability of default, and the time value of money. Specifically, the Group measures the loss allowance for the financial instrument as:

- expected losses at 12 months for positions that have not suffered a significant deterioration in creditworthiness (Stage 1); i.e. an estimate of the non-payments resulting from possible default events in the following 12 months, weighted by the probability that such events will occur;
- expected "Lifetime" losses for positions that have suffered a significant deterioration in creditworthiness (Stage 2); in this case, it estimates the cash shortfalls resulting from default events that are possible over the expected life of the financial instrument, weighted by the probability of that default occurring and discounted at the measurement date (ECL).

To ensure its collective impairment calculations are in the closest possible compliance with regulatory requirements, the Group has defined a specific methodological framework. This involved developing quantitative methods and analyses based on proprietary datasets as well as qualitative methods and analyses to essentially model the following risk parameters and the methodological aspects relevant to the calculation of impairment under IFRS 9:

- estimated Probability of Default (PD);
- estimated Loss Given Default (LGD);
- estimated Exposure at Default (EAD);
- definition of the stage allocation transfer logic;
- calculation of the expected credit losses including point-in-time factors;
- calculation of the expected credit losses including forward-looking elements.

As for the securities portfolio, considering the methodological complexity associated with developing a dedicated model, the Group decided to use the calculation of impairment under IFRS 9, provided at consortium level by the information system outsourcer (i.e. estimating risk parameters, calculating the Stage allocation and ECLs). Specifically, the formula used to calculate the impairment of the tranches allocated to Stage 1 and 2 is consistent with the approach to credit exposures. The Stage allocation of performing debt securities requires using an external rating of the issue or, if this is not available, the issuer; in short, the securities are allocated to the different Stages based on specific transfer criteria associated with this type of portfolio. Exposures are allocated to Stage 3 if credit risk has deteriorated to the point that the security is considered impaired, i.e. classified as non-performing, including in the case of financial instruments in default.

In developing the above methods, the Group has considered multiple solutions, the current and prospective complexity of its portfolio, as well as how to maintain and update risk parameters.

A multi-period approach to risk parameters has been developed exclusively for the PD; the other credit risk parameters (LGD and CCF) are applied on a constant basis until maturity. The LGD has been estimated based on historical proprietary evidence, except in the case of Banks, Central Governments and Local Administrations (excluding municipalities) and operations where there is no sufficiently deep database to estimate the recovery of non-performing positions for which, for lack of any objective historical data, an LGD was used equal to the regulatory floor.

The Group has adopted econometric models (based on the stress test framework - "satellite" models), aimed at forecasting the evolution of the institute's risk factors (i.e. mainly PD, LGD, EAD and migrations between statuses for credit risk) on the basis of a joint forecast of the evolution of the economic and financial indicators (see macroeconomic scenario).

The satellite models meet the need to identify the existence of a significant relationship between the general economic conditions (i.e. macroeconomic and financial variables) and a proxy variable of the risk factor (i.e. target variable) e.g. the credit rating of counterparties (which represents the respectively probability of default as a summary of the PD factor) and the recovery rates (summarising the LGD factor for bad loans).

Non-performing loans are assessed either individually or collectively, according to the cases described below, and the total amount of the impairment loss on each loan is equal to the difference between the carrying amount at measurement (amortised cost) and the present value of expected future cash flows, calculated by applying the original effective interest rate. Expected cash flows are calculated taking into account the expected recovery times, the estimated realisable value of guarantees, if any, and the costs expected to be incurred to recover the exposure.

The original effective interest rate of each loan does not change over time even if a restructuring involved changing the contractual rate or the loan no longer bears contractual interest in practice. Any impairment loss is recognised through profit or loss. The impairment loss is reversed in the following years to the extent that the reason for the impairment no longer exists, provided this assessment can be related objectively to an event occurring after the impairment was recognised. The reversal is recognised through profit or loss and shall not exceed the amortised cost that the loan would have had if the impairment had not been recognised.

Bad loans, excluding those referring to leasing and retail portfolios of personal loans or mortgages, with an outstanding gross amount of more than 100 thousand Euro are individually evaluated, whereas bad loans with an outstanding gross amount of less than 100 thousand Euro as well as bad loans with an outstanding gross amount of more than 100 thousand Euro but that were classified as such over 10 years prior to the reporting date are written off.

Unlikely to pay, excluding those referring to leasing or retail portfolios of personal loans or mortgages, with an amount of more than 100 thousand Euro are individually evaluated, whereas those with an amount of less than 100 thousand Euro are collectively tested for impairment.

For Stage 3 exposures that are not individually tested for impairment, the Group defines a lifetime provision in line with the concept of expected credit loss. Specifically concerning LGD, to calculate the collective losses for Stage 3 exposures (mainly non-performing past due and unlikely-to-pay), the Group made certain adjustments to ensure consistency with the measures used for performing loans.

A.3 - Disclosure of transfers of financial assets between portfolios

No financial assets were transferred between portfolios during 2020.

A.4 - Fair value disclosure

Qualitative disclosure

Fair value is the price that would be received to sell an asset or the price paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date, under current market

conditions (i.e. the exit price), regardless of the fact that said price is directly observable or that another measurement approach is used.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

IFRS 13 establishes a fair value hierarchy based on the extent to which inputs to valuation techniques used to measure the underlying assets/liabilities are observable. Specifically, the hierarchy consists of three levels.

- Level 1: the instrument's fair value is measured based on (unadjusted) quoted prices in active markets.
- Level 2: the instrument's fair value is measured based on valuation models using inputs observable in active markets, such as:
 - quoted prices for similar assets or liabilities;
 - quoted prices for identical or similar assets or liabilities in non-active markets;
 - observable inputs such as interest rates or yield curves, implied volatility, default rates and illiquidity factors;
 - inputs that are not observable but supported and confirmed by market data.
- Level 3: the instrument's fair value is measured based on valuation models using mainly inputs that are unobservable in active markets.

Each financial asset or liability of the Group is categorised in one of the above levels, and the relevant measurements may be recurring or non-recurring (see IFRS 13, paragraph 93, letter a). The fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input.

The choice among the valuation techniques is not optional, since these shall be applied in a hierarchical order: indeed, the fair value hierarchy gives the highest priority to (unadjusted) quoted prices available in active markets for identical assets or liabilities (Level 1 data) and the lowest priority to unobservable inputs (Level 3 data).

Valuation techniques used to measure fair value are applied consistently on an on-going basis.

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

In the absence of quoted prices in an active market, the fair value measurement of a financial instrument is performed using valuation techniques maximising the use of inputs observable on the market.

The use of a valuation technique is intended to estimate 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, under current market conditions. In this case, the fair value measurement may be categorised in Level 2 or Level 3, according to what extent inputs to the pricing model are observable.

In the absence of observable prices in an active market for the financial asset or liability to be measured, the fair value of the financial instruments is measured using the so-called comparable approach (Level 2), requiring valuation models based on market inputs.

In this case, the valuation is not based on the quoted prices of the financial instrument being measured (identical asset), but on prices, credit spreads or other factors derived from the official quoted prices of instruments that are substantially similar in terms of risk factors and duration/return, using a given calculation method (pricing model).

In the absence of quoted prices in an active market for a similar instrument, or should the characteristics of the instrument to be measured not allow to apply models using inputs observable in active markets, it is necessary to use valuation models assuming the use of inputs that are not directly observable in the market and, therefore, requiring to make estimates and assumptions (non observable input - Level 3). In these cases, the financial instrument is measured using a given calculation method that is based on specific assumptions regarding:

- the trend in future cash flows, possibly contingent on future events whose probability of occurring can be derived from historical experience or based on behavioural assumptions;
- the level of specific inputs not quoted on active markets: for the purposes of estimating them, information acquired from prices and spreads observed on the market shall have a higher priority. If these are not available, entities shall use historical data about the specific underlying risk factor or specialist research on the matter (e.g. reports by ratings agencies or primary market players).

In the cases described above, entities may make valuation adjustments taking into account the risk premiums considered by market participants in pricing instruments. If not explicitly considered in the valuation model, valuation adjustments may include:

- model adjustments: adjustments that take into account any deficiencies in the valuation models highlighted during calibration;
- liquidity adjustments: adjustments that take into account the bid-ask spread if the model calculates a mid-price;
- credit risk adjustments: adjustments related to the counterparty or own credit risk;
- other risk adjustments: adjustments related to a risk premium "priced" in the market (e.g. relating to the complexity of valuation of an instrument).

With regard to the valuation of financial assets and liabilities measured at fair value on a recurring basis, the method used by the Group for receivables mandatorily measured at fair value is the Discounted Cash Flow Model, which discounts the expected cash flows of each loan at a market rate that takes into account elements such as the risk-free rate for equal maturities, the funding cost, the lifetime credit risk of the counterparty and the cost of capital absorption.

In order to measure unquoted equity instruments, the Bank mainly uses income or financial models (Discounted Cash Flow Model or market multiples for comparable entities).

With specific reference to the valuation of UCITS units, the approach used on the basis of the methods presented above for the valuation is the Net Asset Value determined by the AMC. It must be verified whether, in determining the NAV, the fund's assets have been measured at fair value in accordance with the IVS (International Valuation Standards) and/or the RICS Valuation (Professional Standards Red Book). A discount is applied to the NAV determined in this way using a structured rate as described above.

Finally, as for over-the-counter (OTC) derivatives not quoted in active markets, their fair value is calculated based on measurement techniques that take into account all risk factors that could affect the value of the financial instrument concerned, using observable market inputs (interest rates, exchange rates, share indices, etc.) adjusted as appropriate to account for the creditworthiness of the specific counterparty, including the counterparty's credit risk (CVA, Credit Value Adjustment) and/or the Group's own credit risk (DVA, Debt Value Adjustment).

As for the measurement of financial assets and liabilities measured at fair value on a non-recurring basis, the relevant portfolio consists of on-balance-sheet exposures classified as performing with a residual life exceeding one year (medium-long term). Therefore, all exposures classified as non-performing, the ones with a residual life less than one year, and unsecured loans are excluded from the valuation, as it is believed that their amortised cost can be used as an approximation of fair value.

For the purposes of measuring performing loans at fair value, given the absence of prices directly observable on active and liquid markets, entities shall use valuation techniques based on a theoretical model meeting the requirements of IAS/IFRS standards (Level 3). The approach used to determine the fair value of receivables is the Discounted Cash Flow Model, i.e. the discounting of expected future cash flows at a risk-free rate for the same maturity, increased by a spread representative of the counterparty's risk of default plus a liquidity premium.

As for the receivables portfolio of the Npl Segment, which purchases and manages non-performing receivables mainly due from individuals, the Discounted Cash Flow Model is used to calculate fair value. In this case, the expected net cash flows are discounted at a market rate. The market rate is calculated without considering a credit spread, since the credit risk of the individual counterparties is already incorporated in the statistical model used to estimate future cash flows with regard to collective management (non-judicial operations). The model projects the relevant cash flows based on historical evidence concerning the recovery of positions in the Group's portfolio. As for individual management (judicial operations), the projections of future cash flows are based on an internal algorithm or defined by the manager according to how the underlying receivable is being processed.

As for acquired tax receivables, the Bank believes their amortised cost can be used as an approximation of fair value. The only element of uncertainty concerning these receivables due from tax authorities is the time required for collecting them; currently, there are no significant differences in the time it takes for the tax authorities to repay their debts. It should also be noted that Banca Ifis is one of the leading players in this operating segment, which makes it a price maker in the case of sales.

In general, for the purposes of the Level 3 fair value measurement of assets and liabilities, reference is made to:

- market rates calculated, according to market practice, using either money market rates for maturities less than one year, and swap rates for greater maturities, or the rates quoted in the market for similar transactions;
- Banca Ifis's credit spreads;
- financial statements and information from business plans.

A.4.2 Measurement processes and sensitivity

In compliance with IFRS 13, for financial assets and liabilities measured at fair value categorised within level 3, the Group tests their sensitivity to changes in one or more unobservable inputs used in the fair value measurements like, by way of example and in no means exhaustive, discount rates applied to cash flows or expected cash flows themselves.

A.4.3 Fair value hierarchy

Concerning recurring fair value measurements of financial assets and liabilities, the Banca Ifis Group transfers them between levels of the hierarchy based on the following guidelines.

Debt securities and loans are transferred from level 3 to level 2 when the inputs to the valuation technique used are observable at the measurement date. The transfer from level 3 to level 1 is allowed when it is confirmed that there is an active market for the instrument at the measurement date. Finally, they are transferred from level 2 to level 3 when some inputs relevant in measuring fair value are not directly observable at the measurement date.

Equity securities classified as assets measured at fair value through other comprehensive income are transferred between levels when:

- observable inputs became available during the period (e.g. prices for identical assets and liabilities defined in comparable transactions between independent and knowledgeable parties). In this case, they are reclassified from level 3 to level 2;
- inputs directly or indirectly observable used in measuring them are no longer available or current (e.g. no recent comparable transactions or no longer applicable multiples). In this case, the entity shall use valuation techniques incorporating unobservable inputs.

Quantitative information

A.4.5 Fair value hierarchy

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

Financial assets/liabilities measured at fair value (in thousands of Euro)	31.12.2020			31.12.2019		
	L1	L2	L3	L1	L2	L3
1. Financial assets measured at fair value through profit or loss	11.623	19.250	126.975	5.061	24.313	107.724
<i>a) financial assets held for trading</i>	1.620	19.250	-	-	24.313	-
<i>b) financial assets measured at fair value</i>	-	-	-	-	-	-
<i>c) other financial assets mandatorily measured at fair value</i>	10.003	-	126.975	5.061	-	107.724
2. Financial assets measured at fair value through other comprehensive income	749.322	-	25.233	1.159.444	-	14.364
3. Hedging derivatives	-	-	-	-	-	-
4. Property, plant and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	760.945	19.250	152.208	1.164.505	24.313	122.088
1. Financial liabilities held for trading	-	18.551	-	-	21.844	-
2. Financial liabilities measured at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total	-	18.551	-	-	21.844	-

Key:

L1 = Level 1: fair value of a financial instrument quoted in an active market;

L2 = Level 2 fair value measured using valuation techniques based on observable market inputs other than the financial instrument's price;

L3 = Level 3 fair value calculated using valuation techniques based on inputs not observable in the market.

At 31 December 2020, the impact of applying the Credit Value Adjustment to the book values of the derivatives with a positive mark-to-market amounted to 0,4 million Euro (related to derivatives held for trading); as for the instruments with a negative mark-to-market, there was no impact resulting from the application of the Debit Value Adjustment to the book values of the derivatives.

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

	Financial assets measured at fair value through profit or loss				Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Property, plant and equipment	Intangible assets
	Total	of which: a) financial assets held for trading	of which: b) financial assets measured at fair value	of which: c) other financial assets mandatorily measured at fair value				
1. Opening balance	107.724	-	-	107.724	14.364	-	-	-
2. Increases	53.346	-	-	53.346	26.426	-	-	-
2.1. Purchases	49.425	-	-	49.425	26.426	-	-	-
<i>of which from business combinations</i>	21			21				
2.2. Profit taken to:	3.167	-	-	3.167	-	-	-	-
1.2.2. Income Statement	3.167	-	-	3.167	-	-	-	-
- of which capital gains	1.199	-	-	1.199	-	-	-	-
2.2.2. Equity	-	X	X	X	-			
2.3. Transferred from other levels	-	-	-	-	-	-	-	-
2.4. Other increases	754	-	-	754	-	-	-	-
3. Decreases	34.095	-	-	34.095	15.557	-	-	-
3.1. Sales	15.375	-	-	15.375	-	-	-	-
3.2. Reimbursements	2.197	-	-	2.197	4.154	-	-	-
3.3. Losses taken to:	13.777	-	-	13.777	-	-	-	-
3.3.1. Income Statement	13.777	-	-	13.777	-	-	-	-
- of which capital losses	13.069	-	-	13.069	-	-	-	-
3.3.2. Equity	-	X	X	X	11.403	-	-	-
3.4. Transferred to other levels	-	-	-	-	-	-	-	-
3.5. Other decreases	2.746	-	-	2.746	-	-	-	-
4. Closing balance	126.975	-	-	126.975	25.233	-	-	-

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

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis (in thousands of Euro)	31.12.2020				31.12.2019			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Financial assets measured at amortised cost	10.218.683	1.239.323	-	9.037.067	8.278.116	241.048	-	8.115.038
2. Property, plant and equipment held for investment purpose	565	-	-	565	720	-	-	720
3. Non-current assets and disposal groups	-	-	-	-	25.560	-	-	50.500
Total	10.219.248	1.239.323	-	9.037.632	8.304.396	241.048	-	8.166.258
1. Financial liabilities measured at amortised cost	9.908.039	768.887	-	9.108.401	8.463.245	748.984	-	7.721.092
2. Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-
Total	9.908.039	768.887	-	9.108.401	8.463.245	748.984	-	7.721.092

Key

CA = Carrying amount

Fair value

Stage 1 and 2

Stage 3

A.5 - Disclosure on day one profit/loss

With reference to the provisions of IFRS 7 par. 28, a financial instrument must initially be recognised at a value equal to its fair value which, unless there is evidence to the contrary, is equal to the price paid/collected in trading. The above standard governs such cases by establishing that an entity may recognise a financial instrument at a fair value other than the consideration given or received only if the fair value is evidenced:

- by comparison with other observable current market transactions in the same instrument;
- through valuation techniques using exclusively, as variables, data from observable markets.

In other words, the assumption under IFRS 9, whereby fair value is equal to the consideration given or received, may be overcome only if there is objective evidence that the consideration given or received is not representative of the actual market value of the financial instrument being traded.

Such evidence must be derived only from objective and non-refutable parameters, thus eliminating any hypothesis of discretion on the part of the evaluator.

The difference between the fair value and the negotiated price, only when the above conditions are met, is representative of the day one profit and is immediately recognised in the income statement.

No such transactions were carried out as part of the Group's operations during 2020.

4.2 Part B - Consolidated statement of financial position

ASSETS

Section 1 - Cash and cash equivalents - Item 10

1.1 Cash and cash equivalents: breakdown

	31.12.2020	31.12.2019
a) Cash	82	56
b) On demand deposits at Central banks	-	-
Total	82	56

Section 2 - Financial assets measured at fair value through profit or loss - Item 20

2.1 Financial assets held for trading: breakdown by type

Items/Amounts	31.12.2020			31.12.2019		
	L1	L2	L3	L1	L2	L3
A. Cash assets						
1. Debt securities	-	-	-	-	-	-
1.1 Structured	-	-	-	-	-	-
1.2 Other	-	-	-	-	-	-
2. Equity securities	1.620	-	-	-	-	-
3. UCITS units	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Reverse repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total (A)	1.620	-	-	-	-	-
B. Derivatives						
1. Financial derivatives	-	19.250	-	-	24.313	-
1.1 held for trading	-	19.250	-	-	24.313	-
1.2 connected to the fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 for trading	-	-	-	-	-	-
2.2 connected to the fair value option	-	-	-	-	-	-
2.3 Other	-	-	-	-	-	-
Total (B)	-	19.250	-	-	24.313	-
Total (A+B)	1.620	19.250	-	-	24.313	-

The financial assets held for trading outstanding at 31 December 2020 still mainly referred to interest rate derivatives that the merged entity, the former Interbanca S.p.A., negotiated with its Corporate clients up to 2009

to provide them with instruments to hedge risks such as fluctuations in interest rates. In order to remove market risk, these transactions are hedged with "back to back" trades, in which Interbanca assumed a position opposite to the one sold to corporate clients with independent market counterparties. Alongside these financial assets, the trading book also includes options and futures deriving from hedges and ancillary enhancements to the Group's proprietary investment strategy, whose business started in the second half of 2019.

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

Items/Amounts	31.12.2020	31.12.2019
A. Cash assets	-	-
1. Debt securities	-	-
a) Central Banks	-	-
b) Public Administrations	-	-
c) Banks	-	-
d) Other financial companies of which: insurance companies	-	-
e) Non-financial companies	-	-
2. Equity securities	1.620	-
a) Banks	382	-
b) Other financial companies of which: insurance companies	-	-
c) Non-financial companies	1.238	-
d) Other issuers	-	-
3. UCITS units	-	-
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)	1.620	-
B. Derivatives	-	-
a) Central Counterparties	-	-
b) Other	19.250	24.313
Total (B)	19.250	24.313
Total (A+B)	20.870	24.313

2.5 Other financial assets mandatorily measured at fair value: breakdown by type

Items/Amounts	31.12.2020			31.12.2019		
	L1	L2	L3	L1	L2	L3
1. Debt securities	-	-	3.532	-	-	2.715
1.1. Structured	-	-	-	-	-	-
1.2. Other debt securities	-	-	3.532	-	-	2.715
2. Equity securities	-	-	20.683	-	-	-
3. UCITS units	10.003	-	71.476	5.061	-	82.702
4. Loans	-	-	31.284	-	-	22.307
4.1 Reverse repurchase agreements	-	-	-	-	-	-
4.2. Others	-	-	31.284	-	-	22.307
Total	10.003	-	126.975	5.061	-	107.724

Key

Fair value

Stage 1 and 2

Stage 3

Other debt securities consisted of junior and mezzanine notes associated with securitisation transactions.

Equity securities refer to transactions of the Equity Investment Department in minority shares of industrial companies.

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

	31.12.2020	31.12.2019
1. Equity securities	20.683	-
of which: banks	-	-
of which: other financial companies	2.137	-
of which: non-financial companies	18.546	-
2. Debt securities	3.532	2.715
a) Central Banks	-	-
b) Public Administrations	-	-
c) Banks	-	-
d) Other financial companies	3.532	2.715
of which: insurance companies	-	-
e) Non-financial companies	-	-
3. UCITS units	81.479	87.763
4. Loans	31.284	22.307
a) Central Banks	-	-
b) Public Administrations	-	-
c) Banks	-	-
d) Other financial companies	2.525	260
of which: insurance companies	-	-
e) Non-financial companies	28.639	22.047
f) Households	120	-
Total	136.978	112.785

UCITS units include 46,9 million Euro in closed-end equity funds that invest in impaired loans, 17,7 million Euro in closed-end equity funds investing in equity securities and 10,0 million Euro in open funds.

Section 3 - Financial assets measured at fair value through other comprehensive income - Item 30

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

Items/Amounts	31.12.2020			31.12.2019		
	L1	L2	L3	L1	L2	L3
1. Debt securities	721.216	-	-	1.124.635	-	-
1.1 Structured	-	-	-	-	-	-
1.2 Other	721.216	-	-	1.124.635	-	-
2. Equity securities	28.106	-	25.233	34.809	-	14.364
3. Loans	-	-	-	-	-	-
Total	749.322	-	25.233	1.159.444	-	14.364

Key

Fair value

Stage 1 and 2

Stage 3

Level 1 "other debt securities" referred for 709 million to Italian government bonds.

"Equity securities" referred to minority interests. Level 3 securities are connected with minority interests deriving from the acquisition of the former Interbanca Group.

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

Items/Amounts	31.12.2020	31.12.2019
1. Debt securities	721.216	1.124.635
a) Central Banks	-	-
b) Public Administrations	708.641	1.093.602
c) Banks	-	15.212
d) Other financial companies	10.480	13.666
of which: insurance companies	-	-
e) Non-financial companies	2.095	2.155
2. Equity securities	53.339	49.173
a) Banks	18.602	5.752
b) Other issuers:	34.737	43.421
- other financial companies	5.961	10.971
of which: insurance companies	4.093	3.242
- non-financial companies	28.776	32.450
- other	-	-
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	774.555	1.173.808

3.3 Financial assets measured at fair value through other comprehensive income: gross amount and overall impairment losses/reversals

	Gross amount				Overall impairment losses/reversals			Overall partial write-offs ⁽¹⁾
	Stage 1	of which: Low credit risk instruments	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	721.434	721.434	-	-	(218)	-	-	-
Loans	-	-	-	-	-	-	-	-
Total 31.12.2020	721.434	721.434	-	-	(218)	-	-	-
Total 31.12.2019	1.125.461	1.125.461	-	-	(826)	-	-	-
<i>of which: purchased or originated credit impaired financial assets</i>	X	X	-	-	X	-	-	-

(1) Amount to be reported for disclosure purposes.

Section 4 - Financial assets measured at amortised cost - Item 40

4.1 Financial assets measured at amortised cost: breakdown of receivables due from banks by type

Type of transaction/Amounts	31.12.2020						31.12.2019					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Stage 1 and 2	Stage 3	of which: purchased or originated credit impaired	L1	L2	L3	Stage 1 and 2	Stage 3	of which: purchased or originated credit impaired	L1	L2	L3
A. Receivables due from Central banks	693.829	-	-	-	-	690.025	373.705	-	-	-	-	373.705
1. Term deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Legal reserve	693.829	-	-	X	X	X	31.162	-	-	X	X	X
3. Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Others	-	-	-	X	X	X	342.543	-	-	X	X	X
B. Receivables due from banks	389.452	-	-	58.785	-	211.664	253.185	-	-	10.232	-	233.873
1. Loans	332.719	-	-	-	-	211.664	242.943	-	-	-	-	233.873
1.1 Current accounts and on demand deposits	253.060	-	-	X	X	X	75.933	-	-	X	X	X
1.2. Term deposits	76.732	-	-	X	X	X	161.553	-	-	X	X	X
1.3 Other loans:	2.927	-	-	X	X	X	5.457	-	-	X	X	X
- Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
- Finance leases	781	-	-	X	X	X	1.400	-	-	X	X	X
- Other	2.146	-	-	X	X	X	4.057	-	-	X	X	X
2. Debt securities	56.733	-	-	58.785	-	-	10.242	-	-	10.232	-	-
2.1 Structured	7.116	-	-	7.116	-	-	-	-	-	-	-	-
2.2 Other debt securities	49.617	-	-	51.669	-	-	10.242	-	-	10.232	-	-
Total	1.083.281	-	-	58.785	-	901.689	626.890	-	-	10.232	-	607.578

4.2 Financial assets measured at amortised cost: breakdown of receivables due from customers by type

Type of transaction/Amounts	31.12.2020						31.12.2019					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Stage 1 and 2	Stage 3	of which: purchase d or originated credit impaired	L1	L2	L3	Stage 1 and 2	Stage 3	of which: purchase d or originated credit impaired	L1	L2	L3
1. Loans	6.275.563	1.593.909	1.465.565	-	-	7.811.765	5.739.885	1.604.345	1.364.638	-	-	7.432.323
1. Current accounts	61.165	227.037	198.236	X	X	X	19.312	41.805	862	X	X	X
2. Reverse repurchase agreements	-	1	1	X	X	X	-	-	-	X	X	X
3. Loans/mortgages	1.961.201	171.835	159.479	X	X	X	1.221.183	110.053	87.629	X	X	X
4. Credit cards, personal loans and salary-backed loans	38.001	678.373	683.260	X	X	X	33.908	563.681	563.786	X	X	X
5. Finance leases	1.219.241	10.860	499	X	X	X	1.227.978	16.518	383	X	X	X
6. Factoring	2.306.234	76.838	1.033	X	X	X	2.584.609	145.376	1.637	X	X	X
7. Other loans	689.721	428.965	423.057	X	X	X	652.895	726.912	710.341	X	X	X
2. Debt securities	1.265.929	1	-	1.180.538	-	324.178	306.995	1	-	230.816	-	75.137
2.1. Structured	795	-	-	-	-	795	996	-	-	-	-	996
2.2. Other debt securities	1.265.134	1	-	1.180.538	-	323.383	305.999	1	-	230.816	-	74.141
Total	7.541.492	1.593.910	1.465.565	1.180.538	-	8.135.943	6.046.880	1.604.346	1.364.638	230.816	-	7.507.460

Acquired non-performing exposures mainly refer to the distressed retail loans of the Npl Segment and the non-performing assets that arose from the business combination with the GE Capital Interbanca Group at the acquisition date.

Finally, at 31 December 2020, other debt securities include 1.095,3 million Euro in government securities acquired by Banca Ifis S.p.A. with a view to optimising Group liquidity. Level 3 securities include investments in securitisations and minibond issues.

4.3 Financial assets measured at amortised cost: breakdown of receivables due from customers by debtor/issuer

Type of transaction/Amounts	31.12.2020			31.12.2019		
	Stage 1 and 2	Stage 3	of which: purchased or originated credit impaired	Stage 1 and 2	Stage 3	of which: purchased or originated credit impaired
1. Debt securities:	1.265.929	1	-	306.995	1	-
a) Public Administrations	1.099.347	-	-	216.023	-	-
b) Other financial companies	138.649	-	-	73.074	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	27.933	1	-	17.898	1	-
2. Loans to:	6.275.563	1.593.909	1.465.565	5.739.885	1.604.345	1.364.638
a) Public Administrations	633.162	14.340	5	690.911	49.455	3
b) Other financial companies	178.851	5.035	6.241	318.971	4.751	4.123
of which: insurance companies	315	11	-	253	-	-
c) Non-financial companies	4.743.915	328.546	212.731	4.202.819	397.590	222.913
d) Households	719.635	1.245.988	1.246.588	527.184	1.152.549	1.137.599
Total	7.541.492	1.593.910	1.465.565	6.046.880	1.604.346	1.364.638

4.4 Financial assets measured at amortised cost: gross amount and overall impairment losses/reversals

	Gross amount				Overall impairment			Overall partial write-offs ⁽¹⁾
	Stage 1	of which: Low credit risk instruments	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	1.323.681	1.323.681	-	1	(1.019)	-	-	-
Loans	6.975.264	606.004	396.168	1.833.192	(63.664)	(5.655)	(239.285)	(42.511)
Total 31.12.2020	8.298.945	1.929.685	396.168	1.833.193	(64.683)	(5.655)	(239.285)	(42.511)
Total 31.12.2019	6.315.333	317.563	396.363	1.912.669	(31.955)	(5.970)	(308.324)	(60.379)
<i>of which: purchased or originated credit impaired financial assets</i>	<i>X</i>	<i>X</i>	<i>40.652</i>	<i>1.513.623</i>	<i>X</i>	<i>-</i>	<i>-</i>	<i>(7.385)</i>

(1) Amount to be reported for disclosure purposes

4.4a Loans measured at amortised cost concerned by Covid-19 support measures: gross value and overall impairment losses/reversals

The table below gives details of the gross value and overall impairment losses/reversals broken down by risk stages for loans concerned by “moratoriums” or other Covid-19 concessions, or which constitute new liquidity granted by means of public guarantee mechanisms.

	Gross amount				Overall impairment losses/reversals			Overall partial write-offs ⁽¹⁾
	Stage 1	Of which: Instruments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
1. Loans concerned by concessions in compliance with the GLs	629.525	116.284	22.694	4.716	(9.108)	(641)	(1.260)	n.a.
2. Loans concerned by other concessions	-	-	3.813	7.230	-	(200)	(3.740)	n.a.
3. New loans	202.338	1.842	12.288	-	(141)	(117)	-	n.a.
Total 31.12.2020	831.863	118.126	38.795	11.946	(9.249)	(958)	(5.000)	n.a.
Total 31.12.2019	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

(1) The information relative to the partial write-offs at 31 December 2020 is not given, in compliance with the provisions of the Bank of Italy Communication of 21 December 2020 called “Integrazioni alle disposizioni della Circolare n. 262 “Il bilancio bancario: schemi e regole di compilazione” aventi ad oggetto gli impatti del COVID-19 e delle misure a sostegno dell’economia ed emendamenti agli IAS/IFRS”

Section 7 - Equity investments - Item 70

7.5 Equity investments: annual changes

Assets/Amounts	31.12.2020	31.12.2019
A. Opening balance	6	-
B. Increases	-	6
B.1 Purchases	-	6
of which: from business combinations	-	6
B.2 Reversals of impairment losses	-	-
B.3 Revaluations	-	-
B.4 Other changes	-	-
C. Decreases	6	-
C.1 Sales	6	-
C.2 Impairment losses/reversals	-	-
C.3 Devaluations	-	-
C.4 Other changes	-	-
D. Closing balance	-	6

The reduction in the equity investments relates to the sale of the share of equity that at 31 December 2019 was held by the Group in the company Elipso Finance S.r.l., a company entered on the list of securitisation SPVs held by the Bank of Italy and which came to 6 thousand Euro.

Section 9 - Property, plant and equipment - Item 90

9.1 Property, plant and equipment for functional use: breakdown of assets measured at cost

Assets/Amounts	31.12.2020	31.12.2019
1. Owned	97.173	88.934
a) Land	20.297	20.297
b) Buildings	65.883	60.417
c) Furniture	1.703	2.188
d) Electronic equipment	4.085	4.629
e) Other	5.205	1.403
2. Rights of use acquired through leases	17.411	16.648
a) Land	-	-
b) Buildings	15.300	14.562
c) Furniture	-	-
d) Electronic equipment	506	495
e) Other	1.605	1.591
Total	114.584	105.582
<i>of which: obtained by enforcing collateral</i>	-	-

Property, plant and equipment for functional use came to 114,6 million Euro as compared with the 105,6 million Euro at 31 December 2019, slightly up mainly due to the inclusion of Farbanca S.p.A. in the Group and certain investments made in improvements in Group offices.

At the end of the year, the properties recognised under property, plant and equipment included the important historical building "Villa Marocco", located in Mestre – Venice and housing Banca Ifis's registered office. Since Villa Marocco is a luxury property, it is not depreciated, but it is tested for impairment at least annually. To this end, it is appraised by experts specialising in luxury properties. The impairment test did not reveal any impairment losses to be recognised in profit or loss.

9.2 Property, plant and equipment held for investment purpose: breakdown of assets measured at cost

Assets/Amounts	31.12.2020				31.12.2019			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Owned	565	-	-	565	720	-	-	720
a) Land	-	-	-	-	-	-	-	-
b) Buildings	565	-	-	565	720	-	-	720
2. Rights of use acquired through leases	-	-	-	-	-	-	-	-
a) Land	-	-	-	-	-	-	-	-
b) Buildings	-	-	-	-	-	-	-	-
Total	565	-	-	565	720	-	-	720
<i>of which: obtained by enforcing collateral</i>	-	-	-	-	-	-	-	-

Key

Fair value

Stage 1 and 2

Stage 3

9.6 Property, plant and equipment for functional use: annual changes

	Land	Buildings	Furnishings	Electronic equipment	Other	Total 31.12.2020
A. Gross opening balance	20.297	97.212	12.562	20.546	16.113	166.730
A.1 Total net amortisation and impairment losses	-	(22.234)	(10.374)	(15.422)	(13.119)	(61.149)
A.2 Net opening balance	20.297	74.978	2.188	5.124	2.994	105.581
B. Increases	-	13.232	3.324	2.052	6.183	24.791
B.1 Purchases	-	11.800	3.306	2.035	1.038	18.179
<i>of which from business combinations</i>	-	1.003	19	12	121	1.155
B.2 Capitalised improvement expenses	-	-	-	-	-	-
B.3 Reversals of impairment losses	-	560	-	-	-	560
B.4 Fair value gains taken to:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
B.5 Exchange gains	-	-	-	-	-	-
B.6 Transfers from investment property	-	-	X	X	X	-
B.7 Other changes	-	872	18	17	5.145	6.052
C. Decreases	-	(7.027)	(3.809)	(2.585)	(2.367)	(15.788)
C.1 Sales	-	(153)	(21)	-	(77)	(251)
C.2 Depreciation	-	(4.251)	(588)	(2.582)	(1.605)	(9.026)
C.3 Impairment losses taken to:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
C.4 Fair value losses taken to:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) Investment property	-	-	X	X	X	-
b) Non-current assets and disposal groups	-	-	-	-	-	-
C.7 Other changes	-	(2.623)	(3.200)	(3)	(685)	(6.511)
D. Net closing balance	20.297	81.181	1.704	4.593	6.809	114.584
D.1 Total net depreciation and impairment losses	19.487	56.004	1.552	4.671	6.918	88.632
D.2 Gross closing balance	39.784	137.185	3.256	9.264	13.727	203.216
E. Measurement at cost	-	-	-	-	-	-

Property, plant and equipment for functional use are measured at cost and are depreciated on a straight-line basis over their useful life, with the exclusion of land with an indefinite useful life and the "Villa Marocco" property, whose residual value at the end of its useful life is expected to be higher than its book value.

Property, plant and equipment not yet brought into use at the reporting date are not depreciated.

9.7 Property, plant and equipment held for investment purpose: annual changes

	31.12.2020	
	Land	Buildings
A. Opening balance	-	720
B. Increases	-	-
B.1 Purchases	-	-
B.2 Capitalised improvement expenses	-	-
B.3 Fair value gains	-	-
B.4 Reversals of impairment losses	-	-
B.5 Exchange gains	-	-
B.6 Transfers from property for functional use	-	-
B.7 Other changes	-	-
C. Decreases	-	(155)
C.1 Sales	-	-
C.2 Depreciation	-	-
C.3 Fair value losses	-	-
C.4 Impairment losses	-	(155)
C.5 Exchange losses	-	-
C.6 Transfers to:	-	-
a) property for functional use	-	-
b) Non-current assets and disposal groups	-	-
C.7 Other changes	-	-
D. Closing balance	-	565
E. Measurement at fair value	-	565

Buildings held for investment purposes are measured at cost and refer to leased property. They are not depreciated as they are destined for sale.

9.9 Commitments to purchase property, plant and equipment

There were no commitments to purchase property, plant and equipment.

Section 10 - Intangible assets - Item 100

10.1 Intangible assets: breakdown by asset type

Assets/Amounts	31.12.2020		31.12.2019	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	X	38.798	X	39.542
A.1.1 attributable to the Group	X	38.798	X	39.542
A.1.2 attributable to non-controlling interests	X	-	X	-
A.2 Other intangible assets	22.172	-	21.377	-
A.2.1 Assets measured at cost:	22.172	-	21.377	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	22.172	-	21.377	-
A.2.2 Assets measured at fair value:	-	-	-	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	-	-	-	-
Total	22.172	38.798	21.377	39.542

Goodwill totalled 38,8 million Euro, with 778 thousand Euro arising from the line-by-line consolidation of the Polish subsidiary Ifis Finance Sp. z o.o. and 38,0 million Euro from the former Fbs Group, acquired in 2019. The reduction in the value of goodwill as compared with the figure recorded at 31 December 2019 is due, in addition to the exchange effect on the goodwill of the Polish subsidiary, to the full write-down applied in 2020 to the goodwill allocated to the subsidiary Cap.Ital.Fin., for 700 thousand Euro, carried out to bring it back into line with the corresponding value of its net assets and liabilities on the financial statements.

Other intangible assets at 31 December 2020 refer exclusively to software purchase and development, amortised on a straight-line basis over the estimated useful life, which is five years from deployment.

10.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: internally generated		Other intangible assets: other		Total
		FINITE	INDEF	FINITE	INDEF	
A. Opening balance	39.542	-	-	21.377	-	60.919
A.1 Total net amortisation and impairment losses	-	-	-	-	-	-
A.2 Net opening balance	39.542	-	-	21.377	-	60.919
B. Increases	-	-	-	9.567	-	9.567
B.1 Purchases	-	-	-	9.567	-	9.567
B.2 Increases in internally generated intangible assets	X	-	-	-	-	-
B.3 Reversals of impairment losses	X	-	-	-	-	-
B.4 Fair value gains	-	-	-	-	-	-
- to equity	X	-	-	-	-	-
- to profit or loss	X	-	-	-	-	-
B.5 Exchange gains	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
C. Decreases	(744)	-	-	(8.772)	-	(9.516)
C.1 Sales	-	-	-	-	-	-
C.2 Impairment losses/reversals	(700)	-	-	(8.772)	-	(9.472)
- Amortisation	X	-	-	(8.772)	-	(8.772)
- Impairment losses:	(700)	-	-	-	-	(700)
+ equity	X	-	-	-	-	-
+ profit or loss	(700)	-	-	-	-	(700)
C.3 Fair value losses:	-	-	-	-	-	-
- to equity	X	-	-	-	-	-
- to profit or loss	X	-	-	-	-	-
C.4 Transfer to non-current assets under disposal	-	-	-	-	-	-
C.5 Exchange losses	(44)	-	-	-	-	(44)
C.6 Other changes	-	-	-	-	-	-
D. Net closing balance	38.798	-	-	22.172	-	60.970
D.1 Total net amortisation, impairment losses and reversals of impairment losses	-	-	-	-	-	-
E. Gross closing balance	38.798	-	-	22.172	-	60.970
F. Measurement at cost	-	-	-	-	-	-

Key

FIN: finite useful life

INDEF: indefinite useful life

Purchases refer mainly to investments for the enhancement of IT systems.

10.3 Other information

Information about goodwill

The application of accounting standard IFRS 3 in booking acquisitions may entail the entry of new intangible assets and the recording of goodwill.

In the case of the Banca Ifis Group, acquisitions made during previous years (of the companies Ifis Finance Sp. z o.o., Cap. Ital. Fin. S.p.A. and the former Fbs Group) resulted in the recording of total goodwill of 39,5 million Euro at 31 December 2019.

Instead, the acquisition of 70,77% of the shares of Farbanca made in 2020 generated no goodwill. For more details on the above transaction, see part G of these Notes.

The goodwill value of 39,5 million Euro at 31 December 2019 reduced to 38,8 million Euro at 31 December 2020 due to the dynamics summarised in the table below, where the values of goodwill entered in the Consolidated financial statements are detailed by CGU (representing the aggregations of business at which level impairment testing is required on goodwill, to verify the recoverable amount).

GOODWILL: YEAR CHANGES (in thousands of Euro)	Goodwill at 31.12.2019	Exchange rates update	Write- downs	Goodwill at 31.12.2020
Goodwill for the Fbs Group (CGU: "Npl Segment")	38.020	-	-	38.020
Goodwill for Ifis Finance Sp. z o. o. ("Commercial & Corporate Banking Segment" CGU)	822	(44)	-	778
Total goodwill	38.842	(44)	-	38.798

In accordance with IAS 36, goodwill must be impairment tested annually, to check that the value can be recovered. The recoverable value is the greater of Value in Use and fair value, net of the costs of sale.

Finally, please note that IAS 36, in order to determine the Value in Use of the intangibles subject to impairment testing, rules that reference must be made to the cash flows relative to the intangible in its current condition (at the date of impairment testing), without drawing any distinction between the cash flows referring to the asset originally noted during application of IFRS 3 and those relative to the assets in place at the time of impairment testing; this insofar as it would be difficult, particularly in the case of extraordinary transactions between businesses or changes to the asset following significant turnover of assets, customers, contracts, etc., to distinguish between the flows referring to the original asset and others.

This concept can also be replicated for the determination, for the impairment testing of goodwill, of the Value in Use of the CGU, whose cash flows must be considered with reference to all assets and liabilities included in the CGU and not only for the assets and liabilities in regard to which goodwill was noted during application of IFRS 3.

Also, please note that the methods and assumptions underlying the goodwill impairment testing procedure and the related results defined by the management, were approved by the Board of Directors before approval of the draft 2020 financial statements.

Impairment testing of the CGUs and goodwill

The definition of Cash Generating Units (CGUs)

The estimate of the Value in Use, in order to perform impairment testing, in accordance with IAS 36 of intangible assets with undefined life (including goodwill), which do not generate cash flow except jointly with other corporate assets, requires the preliminary attribution of such intangible assets to organisational units of relatively autonomous management, able to generate flows of financial resources that are largely independent of those produced by other business areas, but inter-dependent within the organisational unit that generates them. These organisational units are called “Cash Generating Units” (or “CGUs”).

The text of IAS 36 reveals the need to correlate the level at which goodwill is tested with the level of internal reporting at which the management controls the growth and reductions of said value. In these terms, the definition of said level is closely linked to the organisational models and the attribution of the management responsibilities in order to define operative guidelines and consequent monitoring. The organisational models can be regardless (and indeed in the case of the Banca Ifis Group are regardless) of the structure of the legal entities through which operations take place and, very often, are closely linked to the definition of the business operating segments that underlie the Segment reporting envisaged by IFRS 8. These considerations with reference to the criteria employed to determine the CGUs for impairment testing the goodwill are, moreover, consistent with the definition of the recoverable value of an asset - the determination of which underlies the impairment testing - according to which the amount is relevant that the company expects to recover from said asset, considering synergies with other assets.

Therefore, consistently with the logics of price formation that gave rise to the booking of goodwill, the recoverable value for the purpose of the impairment testing of the CGU to which goodwill is allocated, must include the valuation of not only external (or universal) synergies, but also internal synergies, which the specific buyer can obtain from the integration of the assets acquired in its economic combinations, evidently according to the defined business management models.

In view of the foregoing and in line with the Group Policy, the CGUs have been identified with the operating segments as defined in the information accompanying the consolidated financial statements (Commercial & Corporate Banking Segment and Npl Segment).

Considering that the goodwill connected with the purchase of the equity investment in Ifis Finance Sp. z o.o. is significant in regard to the whole of the Commercial & Corporate Banking Segment, in practical implementation, the choice has been made to perform impairment testing at the level of the individual companies.

The carrying amount of the CGUs

The carrying amount of the CGUs must be determined consistently with the criterion whereby their recoverable value was estimated. For a bank, it is not possible to identify the flows generated by a CGU without considering the flows deriving from financial assets/liabilities, given that the latter represent its core business. In other

words, the recoverable value of the CGU is impacted by said flows and, accordingly, their carrying amount must be determined consistently with the scope of estimate of the recoverable value and must, therefore, also include the financial assets/liabilities.

Taking this approach, the carrying amount of the CGU of the Banca Ifis Group can be determined in terms of contribution towards the consolidated equity, including any part pertaining to minorities. In any case, under the scope of the combinations performed by Banca Ifis, resulting in the recording of goodwill, there is no share of goodwill pertaining to minorities, because they are all transactions resulting in 100% control.

Therefore, the carrying amount of the CGUs comprising companies belonging to a single Segment has been determined through the sum of the individual equity contributions on a consolidated level.

The table below gives the carrying amounts of the CGUs and the portions of goodwill allocated to each before being subjected to annual impairment testing.

CARRYING AMOUNTS AND GOODWILL ALLOCATED (in thousands of Euro)	Amounts at 31.12.2020 (pre-impairment testing)		
	Carrying amount	of which Group share of goodwill	of which goodwill pertaining to minorities
Npl Segment	512.322	38.020	-
Ifis Finance Sp. z o. o.	36.655	778	-
Total	548.977	38.798	-

Criteria for estimating the Value in Use of the CGUs

The Value in Use (or “VIU”) is the current value of estimated future cash flows deriving from the continuous use of the assets and its disposal at the end of its useful life.

Cash flows comprise cash flows from the business in its current condition and cash flows deriving from budget forecasts, short-term forecasts and terminal value, adjusted for the company’s specific risks.

More specifically, IAS 36 requires cash flow forecasts based on reasonable, sustainable assumptions that are specific for CGUs, which reflect the value of the CGU in its current condition and represent the best estimate management can make in regard to all existing economic circumstances during the rest of the useful life of the CGU.

For the purpose of impairment testing, reference is made to the value in use estimated according to the valuation approach that can be identified with the method known in doctrine as “discounted cash flow - DCF”. The method estimates the value in use of an asset by discounting the forecast cash flows, determined according to economic-financial forecasts prepared by the management in respect of the asset valued.

In the case of banks and financial institutions in general, the available cash flow is understood as the distributable cash flow, taking into account the equity restrictions imposed by the Supervisory Authorities or held to be appropriate to monitor the risk typical of the asset analysed. As concerns the determination of the value in use of the CGU in question, the choice was made to apply the Excess Capital variant of the Dividend Discount Model (“DDM”) valuation method. The method in question is one of the methods based on prospective cash flow, in this case represented by future dividends, recognised by most doctrine and standard practice, above all with reference to the companies or business units subject to compliance with the minimum regulatory capital requirements.

This method makes it possible to consider the current equity of the companies/business units valued, with respect to the supervisory requirements and their income prospects reflected in the forecasts. The flow of the last year of the analytical forecast is forecast perpetually through an appropriate long-term growth rate (“g”), in order to estimate the terminal value.

Future cash flows must be discounted at a rate that reflects the current valuations of the time value of money and specific risks of the business. More specifically, the discounting rates to be used must incorporate current market values with reference to the risk-free component and risk premium correlated with the share component observed over a sufficiently extensive time frame to reflect market conditions and different economic cycles, and using an appropriate beta coefficient in consideration of the risk levels of the respective operating areas.

Cash flow forecasts

Forecast cash flow is understood as the distributable cash flow, taking into account the equity restrictions imposed by the Supervisory Authorities or held to be appropriate to monitor the risk typical of the asset analysed. Therefore, future cash flows can be identified as the flows that may potentially be distributed after having satisfied the minimum allocated capital restrictions. In the forecasts of available cash flows, consideration was given to maintaining a level of CET1 in line with the supervisory provisions, of 8,12% (minimum value envisaged by the last SREP received and relative to the Banca Ifis Group). The consolidated SREP limit is considered insofar as higher thresholds are imposed internally in respect of a control context, envisaging alert and warning thresholds. The consolidated limit is respected as required by the Supervisory Body. Implicitly, this limit sets limits that exceed the regulatory minimums for the subsidiaries. The internal audits, with higher thresholds in RAF, prudently avoid any overrun.

Determination of the recoverable amount is hinged on the discounting of forecast cash flow and relates to the 2021 Budget and the inertial prospects relative to FYs 2022 and 2023 for the CGUs in question (Npl Segment, Ifis Finance Sp. z o.o.), as approved by the Parent company’s Board of Directors on 14 January 2021.

Under the scope of the financial matrix measurement criteria, as is that used to estimate the Value in Use, the value of a business at the end of the analytical flow forecasting period (the “Terminal Value”) is generally determined by capitalising infinitely at an appropriate “g” rate, the cash flow that can be achieved when “fully up and running”.

Flow discounting rates

The Value in Use is estimated by discounting cash flows at a rate that considers the current market rates referring to both the time value component and the country risk component, as well as specific risks of the assets considered.

The discounting rate has been determined using the “Capital Asset Pricing Model” (CAPM). On the basis of this model, the discounting rate is determined as the sum of the returns on risk-free investments and a risk premium, in turn dependent on the specific risk level of the asset (thereby meaning both the risk level of the operating segment and the geographic risk level represented by the “country risk”).

If we take a more detailed look at the various components that go towards determining the discounting rate, we note that:

- with reference to the risk-free component and the risk premium, consideration was given to the currently, very low values with reference to the general interest rate context. Indeed, although the interest rates are not expected to rise significantly (at least in the short/medium-term), it is in any case appropriate to give some thought to assessing whether or not the current situation can reasonably be expected to last for beyond the “explicit period” of cash flow forecasting, for impairment test measurements. Indeed, it is common knowledge that a significant component of the calculation of the CGU value consists of its Terminal Value, calculated as the perpetual incoming cash flow that can be achieved when “fully up and running”; in this sense, reflections should focus on the analysis of the current macroeconomic context, to verify if the current level of interest rates may be representative of an ordinary situation and, therefore, can be incorporated into the flow discount rate implicit in the Terminal Value, in long-term calculations, as those required for an impairment testing process. On the basis of the situation described above, considering the mentioned long-term prospects that must guide the impairment testing, for the 2020 financial statements, we have chosen to use:
 - as risk free rate for the CGU Npl Segment, the spot gross return value of the Italian ten-year BTP, recorded on 31 December 2020, while for the CGU Ifis Finance, the spot gross return figure of the Polish ten-year government bond, recorded at that same date;
 - as risk premium, the average market return, determined on the basis of the long-term spread in the return of equities and bonds;
- the beta coefficient, which measures the specific risk level of the individual company or operating segment, has been determined as follows:
 - for the CGU Npl Segment, the average was used, recorded over a 2-year discovery period and on a weekly basis, of the betas relative to a sample of comparable listed companies;
 - for the CGU Ifis Finance Sp. z o.o., the beta of Banca Ifis was adopted, determined on the basis of 2-year weekly observations.

Results of the impairment testing

The results of the impairment testing revealed that at 31 December 2020, the Values in Use of the CGUs Npl Segment and Finance Sp. z o.o. exceeded their respective carrying amounts. There was therefore no need to impair the impairment-tested goodwill booked.

Sensitivity analyses

As the Value in Use is determined by using estimates and assumptions that may include elements of uncertainty, as required by the IAS/IFRS standards, sensitivity analyses have been performed to verify the sensitivity of the results obtained to changes in certain underlying parameters and hypotheses.

More specifically, for CGUs with residual goodwill values, the impact was verified on the Value in Use of a change in the “g” growth rate of +/-1% and a delta of the Ke of +/-1%.

None of the CGUs tested revealed any impairment in the cases analysed.

Section 11 - Tax assets and liabilities - Item 110 of assets and Item 60 of liabilities

11.1 Deferred tax assets: breakdown

The main types of deferred tax assets are set out below.

Deferred tax assets	31.12.2020	31.12.2019
A. Gross deferred tax assets	307.176	334.316
A1. Receivables (including securitisations)	221.395	221.055
A2. Other financial instruments	714	1.088
A3. Goodwill	12.573	12.574
A4. Expenses spanning several years	-	-
A5. Property, plant and equipment	2.762	2.729
A6. Provisions for risks and charges	15.538	9.416
A7. Entertainment expenses	-	-
A8. Personnel-related expenses	2	-
A9. Tax losses	51.051	81.232
A10. Unused tax credits to be deducted	-	-
A11. Other	3.141	6.222
B. Set-off with deferred tax liabilities	-	-
C. Net deferred tax assets	307.176	334.316

Deferred tax assets amounted to 307,2 million Euro, compared with 334,3 million Euro at 31 December 2019, of which 51,1 million Euro for previous tax losses and ACE benefits (81,2 million Euro at 31 December 2019). The Group has benefited from Art. 55, Italian Decree Law no. 18/2020 (the “Cura Italia” Decree), proceeding to transfer the deferred tax assets on previous tax losses and ACE benefit into tax credits for 28,4 million Euro.

At present, no risks are seen on the potential failure to recover prepaid tax in the medium/long-term.

11.2 Deferred tax liabilities: breakdown

The main types of deferred tax liabilities are shown below.

Deferred tax liabilities	31.12.2020	31.12.2019
A. Gross deferred tax liabilities	36.136	40.770
A1. Capital gains to be spread over multiple periods	-	-
A2. Goodwill	-	-
A3. Property, plant and equipment	536	5.964
A4. Financial instruments	1.022	1.494
A5. Personnel-related expenses	-	-
A6. Other	34.578	33.312
B. Set-off with deferred tax assets	-	-
C. Net deferred tax liabilities	36.136	40.770

Deferred tax liabilities, totalling 36,1 million Euro, largely included 31,4 million Euro in receivables for interest on arrears that will be taxed upon receipt, 0,5 million Euro in the revaluation of property, and 2,9 million Euro in other mismatches of trade receivables and 1 million Euro relative to financial assets measured at fair value (FVOCI).

The reduction in deferred tax liabilities for 4,6 million Euro on the figure of 40,8 million Euro at end FY 2019 is mainly due to the reversal deriving from the sale of the Milan property at Corso Venezia 56, on which deferred tax liabilities deriving from the impact of the switch to the IAS-IFRS standards issued but not international (FTA).

11.3 Changes in deferred tax assets (recognised through profit or loss)

	31.12.2020	31.12.2019
1. Opening balance	333.041	342.433
2. Increases	21.734	22.377
2.1 Deferred tax assets recognised in the year	19.136	8.782
a) relative to previous years	892	5
b) due to change in accounting standards	-	-
c) reversals of impairment losses	-	-
d) other	18.244	8.777
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	2.598	13.595
<i>Business combinations</i>	<i>2.598</i>	<i>-</i>
3. Decreases	48.569	31.769
3.1 Deferred tax assets reversed during the year	20.108	30.479
a) reversals	17.517	26.191
b) impairment losses due to unrecoverability	51	-
c) change in accounting standards	-	-
d) other	2.540	4.288
3.2 Reductions in tax rates	-	-
3.3 Other decreases	28.461	1.290
a) conversion into tax credits as per Italian Law no. 214/2011	28.461	-
b) other	-	1.290
4. Closing balance	306.206	333.041

Concerning the changes in deferred tax assets (recognised through profit or losses), please note that:

- increases included deferred tax assets resulting from the inclusion of the companies Gemini and Farbanca in the scope of consolidation;
- decreases included the prepaid tax transformed following the benefit granted by Art. 55 of Italian Decree Law no. 18/2020;
- the deferred tax assets related to the taxable profit for the year were not included, as they were recognised under other assets and other liabilities as a Receivable and Payable due from and to the Parent/Consolidating Company La Scogliera under current tax consolidation arrangements.

11.4 Changes in deferred tax assets as per Italian Law no. 214/2011

	31.12.2020	31.12.2019
1. Opening balance	218.430	218.430
2. Increases	2.155	-
3. Decreases	1.412	-
3.1 Reversals	1.412	-
3.2 Conversion in tax credits	-	-
a) deriving from losses for the year	-	-
b) deriving from tax losses	-	-
3.3 Other decreases	-	-
4. Closing balance	219.173	218.430

11.5 Changes in deferred tax assets (recognised through profit or loss)

	31.12.2020	31.12.2019
1. Opening balance	39.263	38.597
2. Increases	4.943	4.465
2.1 Deferred tax assets recognised in the year	4.943	1.573
a) relative to previous years	7	-
b) due to change in accounting standards	-	-
c) other	4.936	1.573
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	2.892
3. Decreases	9.095	3.799
3.1 Deferred tax liabilities reversed during the year	9.011	3.799
a) reversals	9.011	933
b) due to change in accounting standards	-	-
c) other	-	2.866
3.2 Reductions in tax rates	-	-
3.3 Other decreases	84	-
4. Closing balance	35.111	39.263

11.6 Changes in deferred tax assets (recognised through equity)

	31.12.2020	31.12.2019
1. Opening balance	1.275	5.831
2. Increases	1.214	110
2.1 Deferred tax assets recognised in the year	-	110
a) relative to previous years	-	-
b) due to change in accounting standards	-	-
c) other	-	110
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	1.214	-
3. Decreases	1.519	4.666
3.1 Deferred tax assets reversed during the year	1.519	4.666
a) reversals	-	4.663
b) impairment losses due to unrecoverability	-	-
c) due to change in accounting standards	-	-
d) other	1.519	3
3.2 Reductions in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	970	1.275

The change was strictly related to the tax impact of the negative change in the fair value reserve for financial assets measured at fair value through other comprehensive income.

11.7 Changes in deferred tax liabilities (recognised through equity)

	31.12.2020	31.12.2019
1. Opening balance	1.507	758
2. Increases	439	998
2.1 Deferred tax assets recognised in the year	439	750
a) relative to previous years	-	-
b) due to change in accounting standards	-	-
c) other	439	750
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	248
3. Decreases	921	249
3.1 Deferred tax liabilities reversed during the year	921	1
a) reversals	-	1
b) due to change in accounting standards	-	-
c) other	921	-
3.2 Reductions in tax rates	-	-
3.3 Other decreases	-	248
4. Closing balance	1.025	1.507

Section 12 – Non-current assets and disposal groups and related liabilities – Item 120 (assets) and Item 70 (liabilities)

12.1 Non-current assets and disposal groups: breakdown by type of asset

	31.12.2020	31.12.2019
A. Assets held for sale		
A.1 Financial assets	-	-
A.2 Equity investments	-	-
A.3. Property, plant and equipment	-	25.560
<i>of which: obtained by enforcing collateral</i>	-	-
A.4 Intangible assets	-	-
A.5 Other non-current assets	-	-
Total (A)	-	25.560
<i>of which measured at cost</i>	-	25.560
<i>of which measured at fair value level 1</i>	-	-
<i>of which measured at fair value level 2</i>	-	-
<i>of which measured at fair value level 3</i>	-	-
B. Discontinued operations		
B.1 Financial assets measured at fair value through profit or loss	-	-
- financial assets held for trading	-	-
- financial assets measured at fair value	-	-
- other financial assets mandatorily measured at fair value	-	-
B.2 Financial assets measured at fair value through other comprehensive income	-	-
B.3 Financial assets measured at amortised cost	-	-
B.4 Equity investments	-	-
B.5 Property, plant and equipment	-	-
<i>of which: obtained by enforcing collateral</i>	-	-
B.6 Intangible assets	-	-
B.7. Other assets	-	-
Total (B)	-	-
<i>of which measured at cost</i>	-	-
<i>of which measured at fair value level 1</i>	-	-
<i>of which measured at fair value level 2</i>	-	-
<i>of which measured at fair value level 3</i>	-	-

C. Liabilities associated with assets held for sale		
C.1 Debts	-	-
C.2 Securities	-	-
C.3 Other liabilities	-	-
Total (C)	-	-
<i>of which measured at cost</i>	-	-
<i>of which measured at fair value level 1</i>	-	-
<i>of which measured at fair value level 2</i>	-	-
<i>of which measured at fair value level 3</i>	-	-
D. Liabilities associated with discontinued operations		
C.1 Financial liabilities measured at amortised cost	-	-
C.2 Financial liabilities held for trading	-	-
D.3. Financial liabilities measured at fair value	-	-
D.4 Provisions	-	-
D.5 Other liabilities	-	-
Total (D)	-	-
<i>of which measured at cost</i>	-	-
<i>of which measured at fair value level 1</i>	-	-
<i>of which measured at fair value level 2</i>	-	-
<i>of which measured at fair value level 3</i>	-	-

Non-current assets under disposal entered at 31 December 2019 referred to the property in Corso Venezia, Milan, for which, at end 2019, a binding offer had been stipulated for sale, at the price of 50,5 million Euro. This property was sold in 2020, for a price equal to the offer received.

Section 13 - Other assets - Item 130

13.1 Other assets: breakdown

	31.12.2020	31.12.2019
Tax receivables	17.168	41.280
Accrued income and deferred expenses	35.022	34.522
Guarantee deposits	1.152	1.215
Debtors for invoices	57.953	70.933
Sundry receivables	165.010	163.637
Miscellaneous provisional items	19.229	16.422
Portfolio of effects subject to collection	21.944	24.966
Total	317.478	352.975

Other sundry items include 83,3 million Euro in credits due to the parent company La Scogliera under the tax consolidation agreements (106,6 million Euro at 31 December 2019).

LIABILITIES

Section 1 - Financial liabilities measured at amortised cost - Item 10

1.1 Financial liabilities at amortised cost: breakdown of payables due to banks by type

Type of transaction/Amounts	31.12.2020				31.12.2019			
	CA	Fair Value			CA	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Payables due to Central banks	2.116.961	X	X	X	792.168	X	X	X
2. Payables due to banks	250.121	X	X	X	167.309	X	X	X
2.1 Current accounts and on demand deposits	4.994	X	X	X	27.926	X	X	X
2.2 Term deposits	132.304	X	X	X	119.663	X	X	X
2.3 Loans	112.421	X	X	X	19.280	X	X	X
2.3.1 Repurchase agreements	-	X	X	X	-	X	X	X
2.3.2 Other	112.421	X	X	X	19.280	X	X	X
2.4 Debt from buyback commitments on treasury equity instruments	-	X	X	X	-	X	X	X
2.5 Lease payables	-	X	X	X	-	X	X	X
2.6 Other payables	402	X	X	X	440	X	X	X
Total	2.367.082	-	-	2.367.082	959.477	-	-	959.477

Key

CA = Carrying amount

Fair value

Stage 1 and 2

Stage 3

Payables due to banks amounted to 2.367,1 million Euro, up 146,7% compared to 31 December 2019. This increase is due to the June 2020 subscription of a TLTRO III tranche worth a nominal 1.900 million Euro maturing in June 2023 and the simultaneous early repayment of the TLTRO II tranche subscribed in 2017.

The fair value of payables due to banks is in line with the relevant carrying amount, considering the fact that interbank deposits are short- or very short-term.

1.2 Financial liabilities measured at amortised cost: breakdown of payables due to customers by type

Type of transaction/Amounts	31.12.2020				31.12.2019			
	CA	Fair Value			CA	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and on demand deposits	1.256.402	X	X	X	1.013.871	X	X	X
2. Term deposits	4.017.198	X	X	X	4.065.418	X	X	X
3. Loans	-	X	X	X	150.280	X	X	X
3.1 Repurchase agreements	-	X	X	X	150.280	X	X	X
3.2 Other	-	X	X	X	-	X	X	X
4. Debt from buyback commitments on treasury equity instruments	-	X	X	X	-	X	X	X
5. Lease payables	16.891	X	X	X	15.250	X	X	X
6. Other payables	181.383	X	X	X	41.420	X	X	X
Total	5.471.874	-	-	5.085.441	5.286.239	-	-	5.309.828

Key

CA = Carrying amount

Fair value

Stage 1 and 2

Stage 3

Payables due to customers at 31 December 2020 totalled 5.471,9 million Euro and are up 3,5% on 31 December 2019, insofar as the controlled reduction is brought about by policies implemented to limit the costs of retail funding (mainly Rendimax and Contomax), which goes from 4.791,0 million Euro at 31 December 2019 to 4.460,0 million Euro at 31 December 2020 and is more than offset by growth in other restricted deposits.

It should be noted that the Group does not carry out "term structured repo" transactions.

1.3 Financial liabilities measured at amortised cost: breakdown of debt securities issued by type

Type of securities/Amounts	31.12.2020				31.12.2019			
	CA	Fair Value			CA	Fair Value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. Bonds	2.068.672	768.887	-	1.262.879	2.217.078	748.984	-	1.451.336
1.1 structured bonds	-	-	-	-	-	-	-	-
1.2 other bonds	2.068.672	768.887	-	1.262.879	2.217.078	748.984	-	1.451.336
2. Other securities	411	-	-	411	451	-	-	451
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	411	-	-	411	451	-	-	451
Total	2.069.083	768.887	-	1.263.290	2.217.529	748.984	-	1.451.787

Key

CA = Carrying amount

Fair value

Stage 1 and 2

Stage 3

The bonds include, for principal and interest, for a total of 969,0 million Euro, the securities issued by the SPV under the scope of the securities transactions, the senior bonds issued by Banca Ifis S.p.A. for a total of 634,9 million Euro and the Tier 2 bond for 402,1 million Euro issued mid-October 2017. The line item also included 62,7 million Euro in bond loans issued by the merged entity, the former Interbanca S.p.A.

1.4 Breakdown of subordinated debts/securities

The line item "Debt securities issued" included 402,1 million Euro in subordinated notes related to Euro Tier 2 bond issued in mid-October 2017 for a nominal amount of 400 million Euro.

1.6 Lease payables

	31.12.2020	31.12.2019
Lease payables	16.891	15.907

The above payable relates for 13,6 million Euro to lease contracts of properties and cars coming under the scope of application of accounting standard IFRS 16, which came into force at 1 January 2019 and as more extensively described in "Part M - Information on leasing" of this document.

It also includes 3,1 million Euro for the real estate lease the former company Toscana Finanza S.p.A. entered into in 2009 for the property located in Florence, which housed the headquarters of the Npl Segment until August 2016. The term of the lease entered into with Centro Leasing S.p.A. is 18 years (from 01.03.2009 to 01.03.2027) and provides for the payment of 216 monthly instalments of about 28 thousand Euro, including the principal, interest and an option to buy the asset at the end of the lease for 1,9 million Euro. The property currently houses the head office of Banca Ifis.

Section 2 - Financial liabilities held for trading - item 20

2.1 Financial liabilities held for trading: breakdown by type

Type of transaction/Amounts	31.12.2020					31.12.2019				
	NA	Fair value			Fair value*	NA	Fair value			Fair value*
		L1	L2	L3			L1	L2	L3	
A. On-balance-sheet liabilities										
1. Payables due to banks	-	-	-	-	-	-	-	-	-	-
2. Payables due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	-	-	-	-	-	-	-	-	-	-
B. Derivatives										
1. Financial derivatives	-	-	18.551	-	-	-	-	21.844	-	-
1.1 Held for trading	X	-	18.551	-	X	X	-	21.844	-	X
1.2 Connected to the fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	-	-	-	-	-	-	-	-	-	-
2.1 For trading	X	-	-	-	X	X	-	-	-	X
2.2 Connected to the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	X	-	18.551	-	X	X	-	21.844	-	X
Total (A+B)	-	-	18.551	-	-	-	-	21.844	-	-

Key

NA = Nominal or notional amount

Fair value

Stage 1 and 2

Stage 3

Fair Value* = Fair value calculated excluding changes in value due to changes in the issuer's creditworthiness compared to the date of issuance

Concerning level 2 liabilities held for trading, see the comments in section 2 under assets.

Section 6 - Tax liabilities - Item 60

Current tax liabilities, amounting to 12,0 million Euro, represent the tax burden for the year (28,2 million Euro at 31 December 2019). Deferred tax liabilities, of 36,1 million Euro, are better described in section 11 of the assets, to which reference is made.

Section 8 - Other liabilities - Item 80

8.1 Other liabilities: breakdown

	31.12.2020	31.12.2019
Payables due to suppliers	98.327	103.398
Payables due to personnel	14.845	17.279
Payables due to the Tax Office and Social Security agencies	8.669	13.937
Sums available to customers	50.177	20.596
Accrued liabilities and deferred income	2.600	2.641
Other payables	203.629	190.865
Miscellaneous provisional items	60.064	41.306
Total	438.311	390.022

Other payables include 17,3 million Euro for a payable due to the parent company La Scogliera deriving from the application of the tax consolidation.

Section 9 - Post-employment benefits - Item 90

9.1 Post-employment benefits: annual changes

	31.12.2020	31.12.2019
A. Opening balance	9.977	8.039
B. Increases	1.688	3.173
B.1 Provisions for the year	363	984
B.2 Other changes	1.160	353
B.3 Business combinations	165	1.836
C. Decreases	2.430	1.235
C.1 Payments made	1.644	401
C.2 Other changes	786	834
D. Closing balance	9.235	9.977

The increases deriving from business combinations concern the post-employment benefit liabilities assumed by the Group as a result of the acquisition of Farbanca S.p.A.

Payments made represent the benefits paid to employees during the year.

Other decreases include the impact of the discounting of benefits earned up to 31 December 2006 and still held in the company, which, based on the changes introduced by the new IAS 19, are recognised through equity.

9.2 Other information

Under IAS/IFRS standards, a company's liabilities regarding benefits that will be paid to employees at the conclusion of the employer/employee relationship (post-employment benefits) should be recognised based on actuarial calculations of the amount that will be paid at maturity.

Specifically, these allocations must take into account the amount already earned over the period at the reporting date, projecting it into the future in order to calculate the amount that will be paid at the conclusion of the employer/employee relationship. This amount must then be discounted to take into account the time that will pass until payment.

Following the coming into force of the 2007 Budget Law, which brought the reform regarding supplementary pension plans - as per Italian Legislative Decree no. 252 of 5 December 2005 - forward to 1 January 2007, the employee was given a choice as to whether to allocate the post-employment benefits earned as from 1 January 2007 to supplementary pension funds or to maintain them in the company, which would then transfer it to a dedicated fund managed by INPS (the Italian National Social Security Institute).

This reform has led to changes in the accounting of post-employment benefits as for both the benefits earned up to 31 December 2006 and those earned from 1 January 2007.

In particular:

- post-employment benefits earned as from 1 January 2007 constitute a defined-contribution plan, regardless of whether the employee has chosen to allocate them to a supplementary pension fund or to INPS's Treasury Fund. Those benefits shall be calculated according to contributions due without applying actuarial methods;
- post-employment benefits earned up to 31 December 2006 continue to be considered as a defined-benefit plan, and as such are calculated on an actuarial basis which, however, unlike the calculation method applied until 31 December 2006, no longer requires that the benefits be proportionally attributed to the period of service rendered. This is because the employee's service is considered entirely accrued due to the change in the accounting nature of benefits earned as from 1 January 2007.

Section 10 - Provision for risks and charges - Item 100

10.1 Provisions for risks and charges: breakdown

Items/Components	31.12.2020	31.12.2019
1. Provisions for credit risk related to commitments and financial guarantees granted	10.988	3.952
2. Provisions on other commitments and financial guarantees granted	-	-
3. Provisions for pensions	-	-
4. Other provisions for risks and charges	42.956	29.013
4.1 legal and tax disputes	21.016	22.894
4.2 personnel expenses	7.148	614
4.3 other	14.792	5.505
Total	53.944	32.965

10.2 Provisions for risks and charges: annual changes

	Provisions on other commitments and financial guarantees granted	Provisions for pensions	Other provisions for risks and charges	Total 31.12.2020
A. Opening balance	-	-	29.013	29.013
B. Increases	-	-	20.893	20.893
B.1 Provisions for the year	-	-	20.476	20.476
B.2 Changes due to the passage of time	-	-	-	-
B.3 Changes due to changes in the discount rate	-	-	-	-
B.4 Other changes	-	-	417	417
<i>Business combinations</i>	-	-	312	312
C. Decreases	-	-	6.950	6.950
C.1 Used in the year	-	-	3.274	3.274
C.2 Changes due to changes in the discount rate	-	-	-	-
C.3 Other changes	-	-	3.676	3.676
D. Closing balance	-	-	42.956	42.956

The change for “Business combinations” relates to the acquisition of Farbanca S.p.A.

10.3 Provisions for credit risk related to commitments and financial guarantees granted

	Provisions for credit risk related to commitments and financial guarantees granted			
	Stage 1	Stage 2	Stage 3	Total
Loan commitments	2.948	-	323	3.271
Guarantees granted	287	2	7.428	7.717
Total	3.235	2	7.751	10.988

At 31 December 2020, the balance of 11,0 million Euro, an increase on the figure at the previous year (4,0 million Euro), reflects the write-down of the financial guarantees and commitments given by the Group.

10.6 Provisions for risks and charges - Other provisions

Legal and tax disputes

At 31 December 2020, provisions had been made for 21,0 million Euro for legal and tax disputes. This amount breaks down as follows:

- 11,2 million Euro for 32 disputes concerning the Factoring Area (the plaintiffs seek 32,9 million Euro in damages), these disputes are mainly connected with the request for the repetition of amounts collected or payments under guarantee in relation to factoring positions without recourse;

- 5,9 million Euro (the plaintiffs seek 64,0 million Euro in damages) for 12 disputes concerning the Corporate Banking & Lending Area deriving from the former Interbanca;
- 1,0 million Euro (the plaintiffs seek 3,1 million Euro in damages) for 47 disputes concerning the Leasing Area and trade receivables;
- 1,3 million Euro (the plaintiffs seek 3,7 million Euro in damages) for 35 disputes concerning receivables of the subsidiary Ifis Npl;
- 1,0 million Euro for various disputes concerning Credifarma;
- 395 thousand Euro (the plaintiffs seek 4,0 million Euro) for 31 disputes with customers and agents relating to Cap. Ital. Fin.;
- 149 thousand Euro for various disputes concerning Farbanca;
- 81 thousand Euro for 4 disputes concerning Ifis Npl Servicing S.p.A. (formerly Fbs S.p.A.), for which the plaintiffs seek a total of 352 thousand Euro in damages;
- 38 thousand Euro (the plaintiffs seek the same amount in damages) for disputes concerning the investee Ifis Rental Services.

Personnel expenses

At 31 December 2020, provisions are entered for personnel for 7,1 million Euro (0,6 million Euro at 31 December 2019). In order to implement the cost rationalisation programme envisaged in the 2020-2022 Business Plan unveiled on 14 January 2020, the Group has activated the procedure relative to the use of the extraordinary provisions of the Solidarity Fund in order to activate incentives to take early redundancy, on a purely voluntary basis for those who, already in 2020, meet the requirements to access the Fund and will accrue the requirements to access the A.G.O. pension treatment by 31 December 2024. The provision made to the Solidarity Fund at 31 December 2020 is 6,6 million Euro.

Other provisions for risks and charges

At 31 December 2020, there were "Other provisions" of 14,8 million Euro (5,5 million Euro at 31 December 2019) consisting mainly of 7,1 million Euro for probable contractual indemnities for loan transfers, 5,1 million Euro for supplementary indemnities for customers connected with the operations of the Leasing Area, basically in line with 31 December 2019 and 0,7 million Euro for the provision for complaints. The increase of 9,3 million Euro in the item "Other provisions" compared with the balance at 31 December 2019 is mainly due to the provision made for probable contractual indemnities for the transfer of loans and the increase in the complaints provision for early extinguishment operations.

Contingent liabilities

Here below are the most significant contingent liabilities outstanding at 31 December 2020. Based on the opinion of the legal advisers assisting the subsidiaries, they are considered possible, and therefore they are only disclosed.

Tax dispute

Dispute concerning the write-off of receivables. Company involved Ifis Leasing S.p.A. (former GE Capital Interbanca Group)

The Italian Revenue Agency has reclassified the write-off of receivables made by the Company in 2004, 2005, 2006 and 2007 and added in the years between 2005 and 2014 to losses on receivables - without any actual

evidence. Overall, the Agency assessed 242,7 thousand Euro in additional taxes and administrative penalties amounting to 100%.

Dispute concerning the assumed "permanent establishment" in Italy of the Polish company

Following the investigation carried out by the Guardia di Finanza [Financial Police Force] in regard to Direct Tax, VAT and other tax for the tax years 2016 and 2017 and 2013/2015 limited to transactions implemented with the Polish subsidiary Ifis Finance Sp. z o.o., Verification Notices were served in regard to the years 2013/2015. The Guardia di Finanza claims that it has found evidence to suggest that in the foreign country (Poland), a "permanent establishment" of Banca Ifis has been set up and not an autonomous legal subject with capacity of self-determination. In other words, by refusing to acknowledge the autonomous legal organisation of the Company with simultaneous tax residence of such in Poland, the costs and revenues of the Polish office would constitute positive or negative items producing income taxable in Italy (net of the tax credit for tax ultimately paid abroad). Overall, the Agency assessed 756 thousand Euro in additional taxes and administrative penalties amounting to 100%. In holding the Financial Administration's claim to be unfounded, the Group will be filing an appeal against the Verification Notice pursuant to the law with the competent Tax Commissions, paying 1/3 of the tax as provisional enrolment on the tax register.

Regarding all the above tax disputes, the Group, supported by its tax advisers, evaluated the risk of defeat possible, but not probable and therefore, it did not allocate funds to the provision for risks and charges.

Reimbursements

In line with market practice, under the purchase agreement for the former GE Capital Interbanca Group, the seller made a series of representations and warranties related to Interbanca and other Investees. In addition, the agreement includes a series of special reimbursements paid by the seller related to the main legal and tax disputes involving the former GE Capital Interbanca Group companies.

Section 13 - Group Equity - Items 120, 130, 140, 150, 160, 170 and 180

13.1 Share capital and treasury shares: breakdown

Item		31.12.2020	31.12.2019
170	Share capital (in thousands of Euro)	53.811	53.811
	Number of ordinary shares	53.811.095	53.811.095
	Nominal amount of ordinary shares	1 euro	1 euro
180	Treasury shares (in thousands of Euro)	(2.948)	(3.012)
	Number of treasury shares	351.427	359.144

13.2 Share capital - number of parent company shares: annual changes

Items/Types	Ordinary	Other
A. Shares held at the beginning of the year	53.811.095	-
- fully paid-up	53.811.095	-
- not fully paid-up	-	-
A.1 Treasury shares (-)	(359.144)	-
A.2 Outstanding shares: opening balance	53.451.951	-
B. Increases	7.717	-
B.1 New issues	-	-
- paid:	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- other	-	-
- free:	-	-
- in favour of employees	-	-
- in favour of directors	-	-
- other	-	-
B.2 Sale of treasury shares	-	-
B.3 Other changes	7.717	-
C. Decreases	-	-
C.1 Annulments	-	-
C.2 Buybacks of treasury shares	-	-
C.3 Company sell-offs	-	-
C.4 Other changes	-	-
D. Outstanding shares: closing balance	53.459.668	-
D.1 Treasury shares (+)	351.427	-
D.2 Shares held at the end of the year	53.811.095	-
- fully paid-up	53.811.095	-
- not fully paid-up	-	-

13.3 Share capital: other information

The share capital is composed of 53.811.095 ordinary shares with a nominal value of 1 Euro each, bearing no rights, liens and obligations, including those relating to dividend distribution and capital redemption.

13.4 Profit reserves: other information

Items/Components	31.12.2020	31.12.2019
Legal reserve	20.010	17.806
Extraordinary reserve	613.614	546.261
Other reserves	681.855	690.779
Total profit reserves	1.315.479	1.254.846
Other reserves, not "profit reserves"	5.392	5.392
Total item 150 reserves	1.320.871	1.260.238

Total profit reserves include "Other reserves" for 633,4 million Euro as non-available reserve until approval of the financial statements for the year ended 31 December 2021. This amount is equal to the gain on bargain purchase from the acquisition of the former GE Capital Interbanca Group.

Pursuant to Article 1, paragraph 147 of the 2014 Stability Law (Italian Law no. 147 of 27.12.2013) and Article 1, paragraph 704 of the 2020 Budget Law (Italian Law no. 160 of 27.12.2019), the Banca Ifis Group has realigned the spread between the statutory value and tax value on certain properties. The amount corresponding to the higher values following the realignment, net of the substitute tax, generated a 15,3 million Euro untaxed reserve.

In addition, following the 2017 merger of Interbanca S.p.A. into Banca Ifis S.p.A., in accordance with Article 172 paragraph 5 of the Consolidated Law on Income Tax, the surviving entity restored the merging entity's deferred tax reserves as follows:

- 4,6 million Euro special reserve as per Article 15 paragraph 10 of Italian Law no. 516 of 07/08/1982;
- 2,3 million Euro revaluation reserve as per Italian Law no. 408/90

Finally, there were an additional 20,7 million Euro in deferred tax reserves recognised by Banca Ifis and arising from the merger of Interbanca, in accordance with the following laws: no. 576/07, no. 83/72 and no. 408/90, that had been previously recognised as share capital of the latter.

Section 14 - Equity attributable to non-controlling interests - Item 190

14.1 Breakdown of Item 210 Equity attributable to non-controlling interests

Company name	31.12.2020	31.12.2019
Equity investments in consolidated companies with significant minority interests		
1. Credifarma S.p.A.	5.795	5.567
2. Ifis Real Estate S.p.A.	-	4
3. Farbanca S.p.A.	20.475	-
Total	26.270	5.571

Other information

1. Commitments and financial guarantees granted

	Nominal amount of commitments and financial guarantees granted			Total 31.12.2020	Total 31.12.2019
	Stage 1	Stage 2	Stage 3		
1. Loan commitments	1.065.053	2.355	21.698	1.089.106	791.102
a) Central Banks	-	-	-	-	-
b) Public Administrations	-	-	-	-	1.474
c) Banks	-	-	-	-	-
d) Other financial companies	74.756	-	-	74.756	184.229
e) Non-financial companies	670.690	1.770	19.703	692.163	352.290
f) Households	319.607	585	1.995	322.187	253.109
2. Guarantees granted	319.911	314	44.884	365.109	287.891
a) Central Banks	-	-	-	-	-
b) Public Administrations	-	-	-	-	-
c) Banks	86.622	314	806	87.742	32.320
d) Other financial companies	8.713	-	-	8.713	6.568
e) Non-financial companies	219.668	-	31.551	251.219	232.385
f) Households	4.908	-	12.527	17.435	16.618

2. Other commitments and guarantees given

	Nominal amount	
	31.12.2020	31.12.2019
Other guarantees granted	5.474	19
<i>of which: non-performing loans</i>	<i>11</i>	<i>19</i>
a) Central Banks	-	-
b) Public Administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
e) Non-financial companies	5.474	19
f) Households	-	-
Other commitments	32.348	39.657
<i>of which: non-performing loans</i>	<i>-</i>	<i>-</i>
a) Central Banks	-	-
b) Public Administrations	-	-
c) Banks	-	-
d) Other financial companies	32.348	39.657
e) Non-financial companies	-	-
f) Households	-	-

3. Assets used as collateral for own liabilities and commitments

Portfolios	31.12.2020	31.12.2019
1. Financial assets measured at fair value through profit or loss	-	-
2. Financial assets measured at fair value through other comprehensive income	713.017	1.096.321
3. Financial assets measured at amortised cost	1.142.749	228.882
4. Property, plant and equipment	-	-
- of which: property, plant and equipment qualifying as inventories	-	-

Financial assets at fair value through other comprehensive income, just like financial assets measured at amortised cost, respectively for 708,6 million Euro and 1.095,3 million Euro, refer to government securities guaranteeing loans on the Eurosystem.

The rest of the financial assets measured at amortised cost refer to bank deposits backing derivative transactions.

5. Administration and mediation on behalf of third parties

Type of services	AMOUNT
1. Execution of orders on behalf of clients	
a) purchases	-
1. settled	-
2. unsettled	-
b) sales	-
1. settled	-
2. unsettled	-
2. Portfolio management	
a) individual	-
b) collective	-
3. Safekeeping and administration of securities	
a) third party securities in custody: associated with depositary bank services (excluding portfolio management)	-
1. securities issued by consolidated companies	-
2. other securities	-
b) other third party securities in custody (excluding portfolio management): other	987.698
1. securities issued by consolidated companies	7.149
2. other securities	980.549
c) third party securities held with third parties	938.343
d) own securities held with third parties	3.078.116
4. Other transactions	-

4.3 Part C - Consolidated income statement

Section 1 - Interest - Items 10 and 20

1.1 Interest receivable and similar income: breakdown

Items/Technical forms	Debt securities	Loans	Other transactions	Total 31.12.2020	Total 31.12.2019
1. Financial assets measured at fair value through profit or loss:	5	787	923	1.715	5.923
1.1. Financial assets held for trading	-	-	-	-	-
1.2. Financial assets measured at fair value	-	-	-	-	-
1.3. Other financial assets mandatorily measured at fair value	5	787	923	1.715	5.923
2. Financial assets measured at fair value through other comprehensive income	938	-	X	938	3.864
3. Financial assets measured at amortised cost:	9.942	420.840	-	430.782	427.721
3.1. Receivables due from banks	711	7.390	X	8.101	3.026
3.2. Receivables due from customers	9.231	413.450	X	422.681	424.695
4. Hedging derivatives	X	X	-	-	-
5. Other assets	X	X	13.500	13.500	15.835
6. Financial liabilities	X	X	X	-	-
Total	10.885	421.627	14.423	446.935	453.343
<i>of which: interest income on impaired financial assets</i>	-	171.833	-	171.833	146.778
<i>of which: interest income on financial leases</i>	-	44.519	-	44.519	44.289

As for Financial assets measured at fair value through profit or loss, the amounts refer to debt securities and loans that failed the SPPI test, whereas in the case of Financial assets measured at fair value through other comprehensive income, the reported amounts are securities, mainly government bonds, in the portfolio.

Interest income from receivables due from customers at amortised cost referring to debt securities is associated with the senior tranche of a securitisation backed by the Italian government's state-guarantee scheme for Npl-backed securities (GACS) that the Group, as well as with the securities portfolio, established as a use of liquidity.

Finally, interest income on receivables due from customers at amortised cost referring to loans, related for 140,1 million Euro to Npl Segment exposures (128,4 million Euro in 2019).

1.2 Interest receivable and similar income: other information

1.2.1 Interest income on foreign currency financial assets

	31.12.2020	31.12.2019
Interest income on foreign currency financial assets	6.326	7.877

1.3 Interest due and similar expenses: breakdown

Items/Technical forms	Payables	Securities	Other transactions	Total 31.12.2020	Total 31.12.2019
1. Financial liabilities measured at amortised cost	(72.480)	(35.209)	-	(107.689)	(114.321)
1.1 Payables due to central banks	(1.459)	X	X	(1.459)	(2.741)
1.2 Due to banks	(1.666)	X	X	(1.666)	(2.341)
1.3 Due to customers	(69.355)	X	X	(69.355)	(78.523)
1.4 Debt securities issued	X	(35.209)	X	(35.209)	(30.714)
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities measured at fair value	(14)	-	-	(14)	(10)
4. Other liabilities and provisions	X	X	(4)	(4)	(6)
5. Hedging derivatives	X	X	-	-	-
6. Financial assets	X	X	X	-	-
Total	(72.494)	(35.209)	(4)	(107.707)	(114.337)
<i>of which: interest expense on lease payables</i>	<i>(258)</i>	<i>-</i>	<i>-</i>	<i>(258)</i>	<i>(235)</i>

Interest expense on payables due to customers measured at amortised cost included 61,4 million Euro at 31 December 2020 (70,3 million Euro at 31 December 2019) relating to retail funding - deriving mainly from the Rendimax savings account and the Contomax current account.

Interest expense on debt securities issued included 7,0 million Euro in funding costs for the securitisation carried out in late 2016, as detailed in Part E of these Notes.

1.4 Interest due and similar expenses: other information

1.4.1 Interest expense on foreign currency liabilities

	31.12.2020	31.12.2019
Interest expense on foreign currency liabilities	(1.323)	(2.118)

Section 2 - Commissions - Items 40 and 50

2.1 Commission income: breakdown

Type of services/Amounts	31.12.2020	31.12.2019
a) guarantees granted	1.789	2.004
b) credit derivatives	-	-
c) management, mediation and consultancy services:	5.668	8.395
1. trading in financial instruments	-	-
2. trading in currencies	-	-
3. individual asset management	-	53
3.1. individual	-	53
3.2. collective	-	-
4. safe custody and management of securities	-	-
5. depository bank	-	-
6. placement of securities	4	-
7. order collection and transmission	1	-
8. consultancy	181	-
8.1 on investments	-	-
8.2 on financial structure	181	-
9. third-party services	5.482	8.342
9.1. portfolio management	-	-
9.1.1. individual	-	-
9.1.2. collective	-	-
9.2. insurance products	5.410	-
9.3. other products	72	8.342
d) collection and payment services	5.389	3.430
e) servicing for securitisation transactions	1.960	5.758
f) services for factoring transactions	49.558	62.376
g) tax collection and payment	-	-
h) management of multi-lateral trading systems	-	-
i) current account holding and management	722	621
j) other services	19.148	22.666
Total	84.234	105.250

In 2020, commissions for other services included 5,4 million Euro (compared to 8,0 million Euro in 2019) in fees received as part of leasing operations.

2.2 Commission expense: breakdown

Services/Amounts	31.12.2020	31.12.2019
a) guarantees received	(842)	(550)
b) credit derivatives	-	-
c) management, mediation and consultancy services:	(1.219)	(86)
1. trading in financial instruments	(27)	-
2. trading in currencies	-	-
3. individual asset management	(18)	(47)
3.1 own assets	(18)	(47)
3.2 delegated by third parties	-	-
4. safe custody and management of securities	(43)	(39)
5. placement of financial instruments	-	-
6. out-of-office canvassing of financial instruments, services and products	(1.131)	-
d) collection and payment services	(1.118)	(1.892)
e) other services	(6.168)	(8.644)
Total	(9.347)	(11.172)

Section 3 - Dividends and similar income - Item 70

3.1 Dividends and similar income: breakdown

Items/Income	31.12.2020		31.12.2019	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	-	-	-	-
B. Other financial assets mandatorily measured at fair value	-	-	-	-
C. Financial assets measured at fair value through other comprehensive income	3.025	-	813	-
D. Equity investments	-	-	-	-
Total	3.025	-	813	-

Section 4 - Net profit (loss) from trading - Item 80

4.1 Net profit (loss) from trading: breakdown

Transactions/Income items	Capital gains (A)	Profit from trading (B)	Capital losses (C)	Losses from trading (D)	Net result [(A+B) - (C+D)]
1. Financial assets held for trading	-	1.527	-	(854)	673
1.1 Debt securities	-	976	-	-	976
1.2 Equity instruments	-	551	-	(854)	(303)
1.3 UCITS units	-	-	-	-	-
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	-	-	-	-	-
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
Financial assets and liabilities: exchange differences	X	X	X	X	(786)
3. Derivatives	23.023	68.498	(66.478)	(28.420)	(3.377)
3.1. Financial derivatives:	23.023	68.498	(66.478)	(28.420)	(3.377)
- On debt securities and interest rates	10.725	9.743	(13.502)	(9.637)	(2.671)
- On equity instruments and share indexes	12.298	58.755	(52.976)	(18.783)	(706)
- On currencies and gold	X	X	X	X	-
- Other	-	-	-	-	-
3.2 Derivatives on loans	-	-	-	-	-
<i>Of which: natural hedges connected to the fair value option</i>	X	X	X	X	-
Total	23.023	70.025	(66.478)	(29.274)	(3.490)

Section 6 - Profit (loss) from sale or buyback - Item 100

6.1 Profit (loss) from sale or buyback: breakdown

Items/Income items	31.12.2020			31.12.2019		
	Profit	Losses	Net result	Profit	Losses	Net result
Financial assets						
1. Financial assets measured at amortised cost	16.762	(9.461)	7.301	17.740	(19)	17.721
1.1 Receivables due from banks	-	-	-	-	-	-
1.2 Receivables due from customers	16.762	(9.461)	7.301	17.740	(19)	17.721
2. Financial assets measured at fair value through other comprehensive income	12.045	(5.382)	6.663	10.021	(9.062)	959
2.1 Debt securities	12.045	(5.382)	6.663	10.021	(9.062)	959
2.2 Loans	-	-	-	-	-	-
Total assets (A)	28.807	(14.843)	13.964	27.761	(9.081)	18.680
Financial liabilities measured at amortised cost						
1. Payables due to banks	-	-	-	-	-	-
2. Payables due to customers	-	-	-	-	-	-
3. Debt securities issued	7.450	-	7.450	-	-	-
Total liabilities (B)	7.450	-	7.450	-	-	-

Section 7 - Net result of financial assets and liabilities measured at fair value through profit or loss - Item 110

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

Transactions/Income items	Capital gains (A)	Gains on sale (B)	Capital losses (C)	Losses on sale (D)	Net result [(A+B)-(C+D)]
1. Financial assets	3.567	1.010	(14.305)	-	(9.728)
1.1 Debt securities	-	-	(109)	-	(109)
1.2 Equity instruments	50	6	(173)	-	(117)
1.3 UCITS units	4	10	(13.007)	-	(12.993)
1.4 Loans	3.513	994	(1.016)	-	3.491
2. Financial assets: exchange differences	X	X	X	X	-
Total	3.567	1.010	(14.305)	-	(9.728)

Section 8 - Net credit risk losses/reversals - Item 130

8.1 Net credit risk losses related to financial assets measured at amortised cost: breakdown

Transactions/ Income items	Impairment losses			Reversals of impairment losses		Total 31.12.2020	Total 31.12.2019
	Stage 1 and 2	Stage 3		Stage 1 and 2	Stage 3		
		Write- offs	Other				
A. Receivables due from banks	(451)	-	-	19	251	(181)	(60)
- loans	(407)	-	-	19	-	(388)	(60)
- debt securities	(44)	-	-	-	251	207	-
of which: purchased or originated credit impaired loans	-	-	-	-	-	-	-
B. Receivables due from customers	(29.088)	(150.384)	(334.559)	1.146	463.563	(49.322)	32.626
- loans	(28.445)	(150.384)	(334.559)	1.146	463.563	(48.679)	(81.779)
- debt securities	(643)	-	-	-	-	(643)	114.405
of which: purchased or originated credit impaired loans	-	(131.327)	(244.247)	18	417.223	41.667	116.734
Total	(29.539)	(150.384)	(334.559)	1.165	463.814	(49.503)	32.566

Impairment losses/reversals on receivables due from customers measured at amortised cost related to purchased or originated credit impaired ("POCI") loans included 42,5 million Euro (119,6 million Euro at 31 December 2019) in reversals on exposures of the Npl Segment. Specifically, this line item includes the impact of the periodic change in lifetime expected credit losses, even if those changes are favourable or lower than the ones included in the estimates of cash flows on initial recognition.

Net of that item, net credit risk losses would total 91,4 million Euro at 31 December 2020, compared to net losses of 87,2 million Euro at 31 December 2019 (+4,8%). The Group recorded less in the way of provisions in the Factoring Area, which in 2019 had been negatively impacted by adjustments on certain individually significant counterparties in the constructors segment, juxtaposed by the increases made in the Corporate Banking & Lending area. A possible potential slowing to the deterioration of credit should also be noted, including in connection with the effect of the package of protection measures assumed by the government in the context of the pandemic. Therefore, in order to take into account the macroeconomic context due to the pandemic and the potential effects that the loss of these supporting measures may have in the near future, additional value adjustments have been made on the economic segment exposures most impacted by these phenomena for a total of 31 million Euro.

8.1 a Net credit risk losses related to loans measured at amortised cost concerned by Covid-19 support measures: breakdown

The table below gives details of the write-downs/write-backs of value for loans at amortised cost, concerned by “moratoriums” or other Covid-19 concessions, or which constitute new liquidity granted by means of public guarantee mechanisms.

Transactions/ Income items	Impairment losses			Total 31.12.2020	Total 31.12.2019
	Stage 1 and 2	Stage 3			
		Write- offs	Other		
1. Loans concerned by concessions in compliance with the GLs	(5.226)	(38)	(545)	(5.809)	n.a.
2. Loans concerned by other concessions	(76)	-	(2.656)	(2.732)	n.a.
3. New loans	(248)	-	-	(248)	n.a.
Total 31.12.2020	(5.550)	(38)	(3.201)	(8.789)	n.a.
Total 31.12.2019	n.a.	n.a.	n.a.	n.a.	n.a.

8.2 Net credit risk losses related to financial assets measured at fair value through other comprehensive income: breakdown

Transactions/ Income items	Impairment losses			Reversals of impairment losses		Total 31.12.2020	Total 31.12.2019
	Stage 1 and 2	Stage 3		Stage 1 and 2	Stage 3		
		Write-offs	Other				
A. Debt securities	-	-	-	-	608	608	113
B. Loans	-	-	-	-	-	-	-
- To customers	-	-	-	-	-	-	-
- To banks	-	-	-	-	-	-	-
<i>of which: purchased or originated credit impaired financial assets</i>	-	-	-	-	-	-	-
Total	-	-	-	-	608	608	113

Section 12 - Administrative expenses - Item 190

12.1 Personnel expenses: breakdown

Type of expense/Sectors	31.12.2020	31.12.2019
1) Employees	(117.859)	(122.053)
a) salaries and wages	(82.234)	(85.843)
b) social security contributions	(23.602)	(23.719)
c) post-employment benefits	(4.633)	(5.339)
d) pension expense	(563)	(606)
e) allocations for post-employment benefits	(363)	(454)
f) allocations to pensions and similar provisions:	-	(45)
- defined contribution plans	-	-
- defined benefit plans	-	(45)
g) payments made to supplementary external funds:	(128)	(107)
- defined contribution plans	(108)	(107)
- defined benefit plans	(20)	-
h) costs arising from share-based payment agreements	-	-
i) other employee benefits	(6.336)	(5.939)
2) Other serving employees	(558)	(318)
3) Directors and Statutory Auditors	(4.952)	(7.587)
4) Retired personnel	-	-
Total	(123.369)	(129.959)

Personnel expenses, equal to 123,4 million Euro, are down by 5,1% (130,0 million Euro at 31 December 2019) as a result of a prudent incentive policy and greater control over current expenses in light of the current context. At 31 December 2020, the Group workforce numbered 1.758, 31 resources from the acquisition of Farbanca S.p.A., effectively in line with the number of Group resources at 31 December 2019 of 1.753.

Allocations for post-employment benefits included both contributions that employees have chosen to leave in the company and to be paid to INPS's Treasury Fund, and contributions to be paid to supplementary pension funds -- as well as the interest expense on the defined benefit obligation.

12.2 Average number of employees by category

Employees:	31.12.2020	31.12.2019
Employees:	1.755,5	1.695,5
a) managers	76,0	67,5
b) middle managers	514,0	498,5
c) other employees	1.165,5	1.129,5
Other personnel	-	-

12.5 Other administrative expenses: breakdown

Type of expense/Amounts	31.12.2020	31.12.2019
Expenses for professional services	(79.780)	(70.691)
Legal and consulting services	(58.216)	(52.043)
Auditing	(902)	(773)
Outsourced services	(20.662)	(17.875)
Direct and indirect taxes	(37.056)	(76.735)
Expenses for purchasing goods and other services	(73.982)	(66.852)
Customer information	(17.400)	(18.345)
Software assistance and hire	(15.978)	(16.511)
Advertising and inserts	(9.121)	(2.957)
FITD and Resolution fund	(8.040)	(6.492)
Property expenses	(5.761)	(5.643)
Postage and archiving of documents	(5.432)	(5.708)
Telephone and data transmission expenses	(3.805)	(2.671)
Securitisation costs	(2.151)	(1.422)
Car fleet management and maintenance	(2.103)	(2.452)
Business trips and transfers	(1.194)	(2.546)
Other sundry expenses	(2.997)	(2.105)
Total other administrative expenses	(190.818)	(214.278)

Other administrative expenses at 31 December 2019 included 30,9 million Euro in expenses relating to the settlement of certain tax disputes regarding the former subsidiary Interbanca, the economic impact of which is more than offset in the item "other net operating income" for 46,2 million Euro (including the related tax effect) against the activation of outstanding guarantees. Net of this effect, the other administrative expenses at 31 December 2020, which come to 190,8 million Euro rise by 4,1% on 31 December 2019. The increase is mainly due to higher costs for professional services and marketing and advertising expenses.

The sub-item "Legal and consulting services" comes to 58,2 million in 2020, up 11,9% on the 52,0 million of 2019. The increase in this item is due to consulting services connected with initiatives included in the Business Plan presented in January 2020, such as Group reorganisation and rebranding activities, as well as integration interventions on the Group's information systems. The sub-item also includes the cost of the legal collection of receivables from the Npl Segment, which at 31 December 2020, came to 26,4 million Euro, up 5,1% on December 2019 (25,1 million Euro).

"Outsourced services", amounting to 20,7 million Euro in December 2020, records a slight increase (15,6%) on the 17,9 million Euro of the same period of the previous year, mainly refers to the non-judicial collections made in the Npl Segment.

Net of the charges relating to the settlement of tax disputes in 2019, which amounted to 30,9 million Euro, the item "Indirect taxes and duties", amounting to 37,1 million Euro compared to 45,8 million Euro at 31 December 2019, is down by 19,2%. The item mainly consists of the registration tax incurred for the judicial recovery of receivables belonging to the Npl Segment, amounting to 23,4 million Euro at 31 December 2020, shows a decrease of 25,4% due to the closure of the courts first and the slowing thereafter, as a result of the Covid-19 health emergency (31,3 million Euro at 31 December 2019). It also includes stamp duty of 11,7 million Euro, the charge-back of which to customers is included in the item "Other operating income".

"Expenses for purchasing goods and other services" amounted to 74,0 million Euro, up 10,7% from 66,9 million Euro in December 2019. The change in this item is due to the contrasting effect in some of the most significant items, in particular:

- expenses for customer information, which come to 17,4 million Euro, down 5,2% as a result of the slow-down to actual during the lock-down period. These expenses are connected with the measurement of assets as a guarantee of the portfolios under management, focussed in particular on the Npl Segment, which suffered the limits set as a result of the Covid-19 health emergency;
- expenses relating to the properties and motor vehicle management, which drop by a total of 0,4 million Euro, also due to smart working implemented with the start of the Covid-19 health emergency;
- advertising expenses increase by 3,0 million Euro to 9,1 million in December 2020, pursuing the rebranding that had begun in June 2020;
- securitisation costs go from 1,4 million Euro to 2,2 million Euro, +51,3%. The item was impacted by the action taken to sell portfolios;
- trips and transfers came to 1,2 million Euro, recording a decline of 53,1%, due to the limits to travel imposed by the Covid-19 health emergency.

Below is a summary of the prices for auditing and non-auditing services for 2020.

Type of services	Service provider	Beneficiary	Fees (units of Euro)
Independent auditors' fees	EY S.p.A.	Banca Ifis S.p.A.	262
		Subsidiaries	354
Certification services	EY S.p.A.	Banca Ifis S.p.A.	237
		Subsidiaries	-
Tax consultancy services	EY S.p.A.	Banca Ifis S.p.A.	-
		Subsidiaries	-
Other services	EY S.p.A.	Banca Ifis S.p.A.	105
		Subsidiaries	-
Total			958

Section 13 - Net allocations to provisions for risks and charges - Item 200

13.1 Net provisions for credit risk related to loan commitments and financial guarantees granted: breakdown

Net provisions for credit risk related to loan commitments and financial guarantees granted totalled 8,8 million Euro in at 31 December 2020, reflecting the estimated risk on the commitments made.

13.3. Net allocations to other provisions for risks and charges: breakdown

For more details, see Part B, Section 10 Provisions for risks and charges in these Notes to the Consolidated Financial Statements.

Section 14 - Net impairment losses/reversals on property, plant and equipment - Item 210

14.1. Net impairment losses on property, plant and equipment: breakdown

Assets/Income items	Depreciation (a)	Impairment losses (b)	Reversals of impairment losses (c)	Net result (a + b - c)
A. Property, plant and equipment				
1. for functional use	(8.871)	(155)	-	(9.026)
- owned	(5.024)	(155)	-	(5.179)
- rights of use acquired through leases	(3.847)	-	-	(3.847)
2. Held for investment	-	-	-	-
- owned	-	-	-	-
- rights of use acquired through leases	-	-	-	-
3. Inventories	X	-	-	-
Total	(8.871)	(155)	-	(9.026)

Section 15 - Net impairment losses/reversals on intangible assets - Item 220

15.1 Net impairment losses on intangible assets: breakdown

Assets/Income items	Amortisation (a)	Impairment losses (b)	Reversals of impairment losses (c)	Net result (a + b - c)
A. Intangible assets				
A.1 Owned	(8.791)	-	-	(8.791)
- Internally generated	-	-	-	-
- Other	(8.791)	-	-	(8.791)
A.2 Rights of use acquired through leases	-	-	-	-
Total	(8.791)	-	-	(8.791)

Section 16 - Other operating income (expenses) - Item 230

16.1 Other operating expenses: breakdown

Type of expense/Amounts	31.12.2020	31.12.2019
a) Transactions with customers	(383)	(485)
b) Capital losses	(2.284)	(1.966)
c) Other expenses	(3.275)	(2.667)
Total	(5.942)	(5.118)

16.2 Other operating income: breakdown

Amounts/Income	31.12.2020	31.12.2019
a) Bargain on interest acquisition	16.790	-
a) Recovery of expenses charged to third parties	16.454	17.245
c) Rental income	121	786
d) Income from the realisation of property, plant and equipment	1.752	97
e) Other income	22.758	64.521
Total	57.875	82.649

Other operating income comes to 57,9 million Euro (82,6 million Euro at 31 December 2019). The item does, however, include some non-recurring items both during this year and last. More specifically, in 2020, the “gains on bargain purchases” are included in relation to the purchase of 70,77% of Farbanca for 16,8 million Euro and the proceeds for contractual indemnity on portfolios acquired in past years for 14,5 million Euro; 2019, on the other hand, contained the proceed linked to the indemnity relative to the definition of the tax dispute of 46,2 million Euro. Net of these items, the item would come to 26,6 million Euro as compared with the 36,4 million Euro at 31 December 2019, down mainly following the lesser revenues deriving from the recovery of expenses assigned to third parties and recoveries of leasing expenses.

Section 19 - Value adjustments of goodwill - Item 270

19.1 Value adjustments of goodwill: breakdown

Value adjustments of goodwill come to 700 thousand Euro at 31 December 2020 and refer to the full write-down of the goodwill deriving from the consolidation of Cap.Ital.Fin.

Section 20 - Profit (loss) from sale or buyback - item 280

20.1 Profit (Loss) from sale of investments: breakdown

Type of expense/Amounts	31.12.2020	31.12.2019
A. Property	24.161	-
- Gains on disposal	24.161	-
- Losses on disposal	-	-
B. Other assets	-	(408)
- Gains on disposal	-	-
- Losses on disposal	-	(408)
Net result	24.161	(408)

Gains on disposal of investments of 24,2 million Euro include the effects of the sale of the Milan property in Corso Venezia, net of the related costs of sale.

Section 21 - Income taxes for the year relating to current operations - Item 300

21.1 Income taxes for the year relating to current operations: breakdown

Income items/Sectors		31.12.2020	31.12.2019
1.	Current taxes (-)	(29.691)	(57.553)
2.	Changes in current taxes of previous years (+/-)	1.197	4.347
3.	Reductions in current taxes for the year (+)	-	-
3.bis	Reductions in current taxes for the year for tax credits as per Italian Law no. 214/2011 (+)	-	-
4.	Changes in deferred tax assets (+/-)	1.607	(1.653)
5.	Changes in deferred tax liabilities (+/-)	4.152	2.226
6.	Tax expense for the year (-) (-1+/-2+3+3 bis+/-4+/-5)	(22.735)	(52.633)

21.2 Reconciliation between theoretical tax charges and effective tax charges for the year

Items/Components	31.12.2020
Pre-tax profit (loss) for the period from continuing operations	91.877
Corporate tax (IRES) - theoretical tax charges (27,5%)	(25.266)
- lower tax rate impact	298
- effect of non-taxable income and other decreases - permanent	29.709
- effect of non-deductible charges and other increases - permanent	(18.787)
- non-current corporate tax (IRES)	909
Corporate tax (IRES) - Effective tax charges	(13.137)
Regional tax on productive activities (IRAP) - theoretical tax charges (5,57%)	(5.116)
- lower tax rate impact	283
- effect of income/charges that are not part of the taxable base	(5.099)
- non-current regional tax on productive activities (IRAP)	334
Regional tax on productive activities (IRAP) - Effective tax charges	(9.598)
Other taxes	-
Effective tax charges for the year	(22.735)

The tax rate for the year 2020 was 24,75%. The effective tax rate is below (- 8,32%) the theoretical tax rate of 33,07% (27,5% IRES + 5,57% IRAP) due to the following components:

- “Super depreciation” benefit: the residual off-accounts deduction of 30%-40% of the depreciation shares of “new instrumental tangible assets” acquired by Ifis Rental Services in the Dry Lease business equates to a reduction of the tax incidence of -3,48 percentage points;

- ACE benefit: the deduction of the “notional return of 1,30%” of the increases in Equity made in the Group companies (capital increases and/or profits assigned to reserves less dividends distributed) in the period 2010-2020 equates to a reduction in the tax incidence of -4,73 percentage points;
- Bargain benefit on the purchase of Farbanca: the non-taxable nature of the “gain on bargain purchase” recorded purely for the consolidated financial statements, equates to a reduction in the tax incidence of -6,04 percentage points;
- Dividends: taxation in the individual financial statements of Banca Ifis of the dividends collected by Ifis Npl and then eliminated in the consolidated, equates to an increase in the tax incidence of +3,14 percentage points;
- Negative impact of non-deductible IRES/IRAP costs: the presence of non tax deductible costs equates to an increase of the tax incidence of +2,79 percentage points.

Section 23 - Profit (loss) for the year attributable to non-controlling interests - Item 340

23.1 Detail of item 340 Profit (loss) for the year attributable to non-controlling interests

Company Name	31.12.2020	31.12.2019
Consolidated equity investments with significant minority interests		
Credifarma S.p.A.	231	91
Farbanca S.p.A.	107	-
Total	338	91

Section 24 - Other information

24.1 Disclosure of government grants as per Article 1, paragraph 125 of Italian Law no. 124 of 4 August 2017 (the “Annual Law on the Market and Competition”)

Italian Law no.124 of 04 August 2017 (Annual Market and Competition Law), under Art. 1, paragraphs 125-129, introduced various measures aimed at increasing the transparency of contributions by administrations and public companies, including listed, in the favour of third sector subjects and businesses in general.

Specifically, with respect to the 2020 financial reporting process, the law requires all businesses to disclose subsidies, grants, paid positions, and economic benefits of any kind received from the following entities in the notes to the separate and consolidated financial statements:

- public administrations and entities with equivalent status (Article 2-bis, Italian Legislative Decree no. 33/2013);
- entities owned, either de jure or de facto, directly or indirectly, by public administrations; and
- state-owned enterprises.

Said disclosures are required if the amounts received during the reporting period exceeded 10 thousand Euro.

Consistently with the clarification issued by Italy's Council of State with opinion no. 1.149 of 1 June 2018 and the guidance provided by trade associations (Assonime), as well as in line with currently available public information, apparently the disclosure requirements do not apply to the following:

- prices for the business provision of professional and other services and supplies or other appointments coming under the scope of the core business. Indeed, these amounts received do not come under the scope of donations/public support policies;
- tax expenditures available to all businesses that meet specific conditions, based on pre-established general requirements, which are also the subject of specific disclosures;
- extension of subsidised loans to customers, as these involve funds of third parties (e.g. interest rate subsidies from the public administration) and not funds of the bank that acts as intermediary.

In consideration of the foregoing, below are the subsidies, grants, paid positions, and economic benefits of any kind received by the Group's companies, gross of the 4% withholding envisaged by Article 28, paragraph 2 of Italian Presidential Decree no. 600/1973.

Grantor	Recipient Group Company	Amount of the government grant (in thousands of Euro)
Italian Fund for the support of employment in the credit industry	Banca Ifis S.p.A.	258
Italian Fund for the support of employment in the credit industry	Ifis Npl S.p.A.	327
Total		585

Grantor	Reference	Recipient Group Company	Amount of the government grant (in thousands of Euro)
Italian Social Security Administration	Italian Law no. 205/2017	Banca Ifis S.p.A.	153
Italian Social Security Administration	Italian Law no. 205/2017	Ifis Npl S.p.A.	16
Italian Social Security Administration	Italian Law no. 205/2017	Ifis Npl Servicing S.p.A.	12
Italian Social Security Administration	Italian Law no. 104/2020	Cap.Ital.Fin S.p.A.	19
Italian Social Security Administration	Italian Law no. 104/2020	Ifis Npl Servicing S.p.A.	8
Total			208

Grantor	Reference	Recipient Group Company	Amount of the government grant (in thousands of Euro)
Metropolitan city of Bologna	Italian Law no. 68/1999	Banca Ifis S.p.A.	8
Total			8

In addition, please refer to the "Transparency" section of Italy's National State Aid Register for a summary of the applications for Training Aid (Article 31 Regulation no. EC 651/2014) and the relevant commitment of expenditure by the granter.

Section 25 - Earnings per share

25.1 Average number of ordinary diluted shares

Earnings per share and diluted earnings per share	31.12.2020	31.12.2019
Net profit for the year attributable to the Parent company (in thousands of Euro)	68.804	123.097
Average number of outstanding shares	53.457.850	53.448.405
Average number of diluted shares	53.457.850	53.448.405
Consolidated earnings per share for the year (Units of Euro)	1,29	2,30
Consolidated diluted earnings per share for the year (Units of Euro)	1,29	2,30

4.4 Part D - Consolidated statement of comprehensive income

ITEMS (in thousands of Euro)		31.12.2020	31.12.2019
10.	Profit (Loss) for the year	69.142	123.188
	Other comprehensive income not to be reclassified to profit or loss	(19.637)	138
20.	Equity securities measured at fair value through other comprehensive income	(21.932)	759
	a) fair value gains (losses)	(17.166)	1.945
	b) transfers to other components of equity	(4.766)	(1.186)
70.	Defined benefit plans	(421)	(334)
100.	Income taxes related to other comprehensive income to be reclassified to profit or loss	2.716	(287)
	Other comprehensive income to be reclassified to profit or loss	(318)	10.245
120.	Exchange differences	(2.525)	382
	a) value gains (losses)	(2.525)	382
150.	Financial assets (other than equity securities) measured at fair value through other comprehensive income	3.598	14.963
	a) fair value gains (losses)	(5.749)	13.990
	b) reclassification to profit or loss	9.347	973
	- credit risk losses	(608)	(460)
	- gains/losses on sale	9.955	1.433
180.	Income taxes related to other comprehensive income to be reclassified to profit or loss	(1.391)	(5.100)
190.	Total other comprehensive income	(19.955)	10.383
200.	Total comprehensive income (Item 10 + 190)	49.187	133.571
210.	Total consolidated comprehensive income attributable to non-controlling interests	336	91
220.	Total consolidated comprehensive income attributable to the Parent company	48.851	133.480

4.5 Part E - Information on risks and risk management policies

Risk governance organisation

The prudential supervisory provisions for banks continue to strengthen the system of rules and incentives that allow to measure more accurately potential risks connected to banking and financial operations as well as maintain internal capital levels more suited to the effective level of risk exposure of each intermediary.

Concerning risk governance, the Group regularly reviews the strategic guidelines set out in the so-called Risk Appetite Framework. Meanwhile, the second pillar of the provisions includes the ICAAP (Internal Capital Adequacy Assessment Process) and ILAAP (Internal Liquidity Adequacy Assessment Process) processes, pursuant to which the Group autonomously assesses, respectively, its own current and expected capital adequacy in relation to both so-called first-pillar risks (credit risk, counterparty risk, market risk and operational risk) and other risks (banking book interest rate risk, concentration risk, etc.), and its adequacy as far as the governance and management of liquidity risk and funding is concerned.

This process accompanied the preparation and sending to the Supervisory Body in June 2020 of the Annual ICAAP and ILAAP Report with reference to the position at 31 December 2019 and the forecasts envisaged for 2020, including the estimated impact of the current health emergency.

Again with reference to 31 December 2019 and in compliance with the obligations in the Pillar 3 provisions, Banca Ifis published, along with the 2019 consolidated financial statements, information on its capital adequacy, its exposure to risks, and the general characteristics of the systems it has put in place to identify, measure and manage these risks. This document has been published on the website www.bancaifis.it in the Investor Relations section.

With reference to the above and pursuant to Circular no. 285 of 17 December 2013 as amended - Supervisory Provisions for banks - the Banca Ifis Group has set up an Internal Control System that aims to guarantee a reliable and sustainable generation of value in a context of sensible risk control and taking, so as to protect the Group's capital adequacy as well as its financial position and performance.

The Banca Ifis Group's Internal Control System consists of a series of rules, functions, structures, resources, processes, and procedures aimed at ensuring the following goals are achieved consistently with the principle of sound and prudent management:

- executing business strategies and policies;
- containing risk within the limits set out in the Group's Risk Appetite Framework ("RAF");
- safeguarding the value of assets and protecting the Bank from losses;
- maintaining effective and efficient business processes;
- ensuring the reliability and security of corporate information and IT procedures;
- preventing the risk that the Group might become involved, including involuntarily, in unlawful activities (and specifically those associated with money laundering, usury, and terrorist financing);
- ensuring operations comply with the law and supervisory regulations as well as internal policies, rules and procedures.

Audits involve all personnel to varying degrees and constitute an integral part of day-to-day operations. They can be classified according to the relevant organisational structures. Some types of audits are highlighted below:

- line audits aim to ensure operations are carried out correctly. These audits are carried out by the operational structures themselves, incorporated in procedures, or performed as part of back office operations. The operational structures are primarily responsible for the risk management process: as part of their day-to-day operations, they shall identify, measure or assess, monitor, mitigate, and report the risks arising from ordinary operations in accordance with the risk management process; they shall comply with the operational limits assigned to them in accordance with the risk objectives and the procedures that form part of the risk management process;
- risk and compliance controls ("second line of defence") are intended to ensure the risk management process is correctly implemented in accordance with the operational limits assigned to the various functions, and that business operations comply with regulations - including corporate governance rules;
- internal auditing ("third line of defence") is aimed at identifying breaches of procedures and regulations as well as regularly assessing the comprehensiveness, adequacy, functionality (in terms of both efficiency and effectiveness), and reliability of the internal control and IT systems on a regular basis based on the nature and extent of the risks.

The role of the different players involved in the Internal Control System (the Board of Directors, the Control and Risks Committee, the Director in charge of the Internal Control and Risk Management System, the Supervisory Body pursuant to Italian Legislative Decree no. 231/2001, Internal Audit Function, Risk Management Function, Compliance Function, Anti-Money Laundering Function) in addition to the Corporate Accounting Reporting Officer according to the connotation of banking reality with listed shares, are described in detail in the Report on corporate governance and ownership structures prepared in accordance with the third paragraph of Article 123 bis of Italian Legislative Decree no. 58 of 24 February 1998 (TUF), as amended, the latest edition of which will be approved by the Board of Directors jointly with these consolidated financial statements and subsequently published on the Bank's website in the Corporate Governance section.

Risk culture

The Parent company facilitates the development and dissemination at all levels of an integrated risk culture in relation to the various types of risk and extended to the entire Group. Specifically, working together with the different corporate functions and Human Resources, it has developed and implemented training programmes to raise awareness about risk prevention and management responsibilities among employees.

In this context, the Parent company's control functions (Risk Management, Compliance and Anti-Money Laundering, Compliance) are active parties in the training processes as far as they are concerned. A culture of widespread responsibility is promoted, with capillary staff training, aimed both at acquiring knowledge of the risk management framework (approaches, methodologies, operational applications, rules and limits, controls), and at internalising the Group's value profiles (code of ethics, behaviour, rules of conduct and relations).

This Part E of the Consolidated Notes to the financial statements provides information on the following risk profiles, the relevant management and hedging policies implemented by the Group, and trading in derivative financial instruments:

- credit risk;
- market risks:

- interest rate risk,
- price risk,
- currency risk,
- liquidity risk;
- operational risks.

Section 1 - Accounting consolidation risks

Quantitative information

The gross exposures reported in the following tables account for the positive impact of the breakdown of the difference between the fair value as measured in the business combination and the carrying amount of the receivables recognised by the subsidiaries over time.

A. Credit quality

A.1 Non-performing and performing exposures: amounts, impairment losses, trend, economic breakdown

A.1.1 Breakdown of financial assets by portfolio and credit quality (carrying amounts)

Portfolio/Quality	Bad loans	Unlikely to pay	Non-performing past due exposures	Performing past due exposures	Other performing exposures	Total
1. Financial assets measured at amortised cost	1.099.967	458.639	33.249	309.260	8.317.568	10.218.683
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	721.216	721.216
3. Financial assets measured at fair value	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value	3.809	20.596	-	4.114	6.297	34.816
5. Financial assets under disposal	-	-	-	-	-	-
Total 31.12.2020	1.103.776	479.235	33.249	313.374	9.045.081	10.974.715
Total 31.12.2019	1.053.329	471.287	98.266	405.405	7.399.486	9.427.773

Equity securities and UCITS units are not included in this table.

A.1.2 Breakdown of financial assets by portfolio and credit quality (gross and net amounts)

Portfolio/Quality	Non-performing				Performing			Total (net exposure)
	Gross exposure	Overall impairment losses/reversals	Net exposure	Overall partial write-offs ⁽¹⁾	Gross exposure	Overall impairment losses/reversals	Net exposure	
1. Financial assets measured at amortised cost	1.828.027	236.173	1.591.854	40.555	8.697.168	70.339	8.626.829	10.218.683
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	721.434	218	721.216	721.216
3. Financial assets measured at fair value	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily measured at fair value	24.404	-	24.404	-	X	X	10.412	34.816
5. Financial assets under disposal	-	-	-	-	-	-	-	-
Total 31.12.2020	1.852.431	236.173	1.616.258	40.555	9.418.602	70.557	9.358.457	10.974.715
Total 31.12.2019	1.927.328	304.446	1.622.882	60.379	7.837.160	38.755	7.804.891	9.427.773

(1) Amount to be reported for disclosure purposes.

Equity securities and UCITS units are not included in this table.

Portfolio/Quality	Low credit quality assets		Other assets
	Accumulated capital losses	Net exposure	Net exposure
1. Financial assets held for trading	312	32	19.217
2. Hedging derivatives	-	-	-
Total 31.12.2020	312	32	19.217
Total 31.12.2019	540	28	24.285

Equity securities are not included in this table.

B. Disclosure on structured entities (other than securitisation vehicles)

B.2 Unconsolidated structured entities

Qualitative information

There were no unconsolidated structured entities at 31 December 2020.

Section 2 - Prudential consolidation risks

1.1 Credit risk

Qualitative information

1. General aspects

In accordance with the guidelines approved by the Parent company's Governing Body and the changes in the supervisory regulatory framework, the Group seeks to strengthen its competitive position in the market offered to small and medium businesses. The aim is to increase its market share in the following segments: trade receivables—including for entities with specialist needs such as pharmacies—leasing, tax receivables, and distressed loans, providing high-quality and highly customisable financial services while keeping credit risk under control and profitability in line with the level of quality offered. The Private segment is also a complementary reference market for the Banking Group's credit business, in respect of the strategic guidelines defined over time by the Business Plan and the related implementing initiatives. Under the scope of pharmaceutical segment operations, the last quarter saw completion of the purchase of Farbanca, a banking operator specialised in medium/long-term loans to pharmacies. This acquisition, coupled with the work carried out by the subsidiary Credifarma, strengthens the Group's role in support of the pharmaceutical segment, speeding up, thanks to the better competences, the development of increasingly specialised, customised, digital services, for the first time integrated into a single major operator. The banking group's business current develops over the following operating areas:

- the factoring business is characterised by the direct assumption of risks related to granting advances and loans, as well as guarantees, if any, on trade receivables of mainly small- and medium-sized enterprises. As part of its operations, the factoring segment purchases receivables due from public health service and local authorities outright;
- structured finance operations focus on offering medium- and long-term loans as well as secured and unsecured products to support companies operating in Italy in their organic or inorganic growth through extraordinary operations to reposition or expand their business, establish alliances or pursue integrations, promote restructuring processes, or introduce new investors and partners into the company. The clients of this segment are usually corporations;
- investments in non-financial companies and in units of intermediaries;
- medium/long-term loans for small and medium enterprises (SMEs) and businesses with fewer than 500 employees, operating in the main production segments, backed by the Central Guarantee Fund. The Central Guarantee Fund (Italian Law no. 662/96) is a public guarantee created by the Ministry of Economic Development (MED). Following the Covid-19 emergency, the Group has: i) increased the maximum guaranteed amount for the individual company; ii) extended admissibility to the guarantee to medium-sized enterprises; iii) increased the percentage direct guarantee to 80%, regardless of the rating brackets and term of loans, with the possibility of direct coverage of up to 100% for certain financial transactions and for certain types of beneficiaries;
- the leasing segment targets mainly small economic operators as well as small- and medium-sized businesses (SMEs). In general, finance leases help independent contractors and businesses finance company cars and commercial vehicles as well as facilitate equipment investments for businesses and resellers. Meanwhile, long-term leases mainly focus on equipment finance - specifically on office and IT products and, to a lesser extent, industrial and healthcare equipment;
- the acquisition of non-performing loans by the subsidiary Ifis Npl S.p.A., mainly from retail customers;

- servicing (master and special services), management of Npl portfolios with collection both judicial and non-judicial, consultancy in due diligence activities and authorised investors in Npl transactions, managed by the company Ifis Npl Servicing S.p.A. (formerly Fbs S.p.A.);
- the granting of loans to retail customers, including through the definition and refinancing of transferred non-performing loans, to be settled through salary- or pension-backed loan schemes, managed by the subsidiary Cap.Ital.Fin. S.p.A.;
- short- and medium-term lending to pharmacies by the subsidiaries Credifarma S.p.A. and Farbanca S.p.A., including through the disposal of receivables due from Italy's National Health Service as well as public- and private-sector healthcare providers.

Given the particular business of the Group's companies, credit risk is the most important element to consider as far as the general risks assumed by the Group are concerned. Maintaining an effective credit risk management is a strategic objective for the Banca Ifis Group, pursued by adopting integrated tools and processes that ensure proper credit risk management at all stages (preparation, lending, monitoring and management, and interventions on troubled loans).

During 2020, in order to incorporate the impacts of the health emergency caused by the Covid-19 pandemic into the accounting valuation models used for Npls, analyses were performed and new prudent logics implemented, as well as the institutional measures introduced to temporarily support the national economy.

The Italian Government has introduced measures aimed at providing financial support to businesses and households, through moratoriums and strengthening the public credit guarantee system, in order to alleviate the liquidity tensions caused by the emergency and encourage new credit. These measures also mitigate any impact on the credit quality of banks. The Group has therefore taken steps to revise the estimate of expected losses and the valuation of its portfolios, both in terms of collective reserves and specific reserves.

More specifically, for the Npl Segment, during the period of health emergency, recovery activities through telephone collection have been strengthened as door to door activities of the agent network have been temporarily suspended. The restrictions imposed following the spread of Covid-19 have led to the partial closure of production activities, including the temporary closure (particularly during the first half of 2020) of courts, effectively preventing legal action from being taken to obtain precepts, foreclosures and garnishment orders. Although brief, the temporary court closures mainly impacted the lengthening of payment terms. During the second half, a substantial return to work by the courts was seen, at the levels of the start of the year; the values of precepts and foreclosures in the latter months of the year were aligned to the pre-COVID figures recording even higher figures in October and November than in January and February 2020, up by approximately 14%.

In order to incorporate the effects linked to the temporary closure of production activities, corrections were made to the forecasting models that entailed, with reference to amicable management, a limited decline in collections expected for FYs 2021 and 2022, in line with the general macroeconomic forecasts used for the medium-term estimates.

Consistently with the legislation released, certain corrections have been made to the models that cover both the secured Npl positions, as a result of the extension of collection times due to the suspension in proceeding with

the attachment of properties received as collateral and for positions for which bankruptcy proceedings are in progress.

These interventions entailed overall lower contributions to the interest margin deriving from changes in cash flow for an amount that can be quantified as approximately 22,8 million Euro.

As regards loans to private customers in the form of salary- and pension-backed loans granted through the subsidiary Cap.Ital.Fin. S.p.A., the Group suffered the effect of the closure and block to production of numerous companies that, in many cases, applied for the social shock absorber of derogation temporary lay-off fund; this led to the disbursement of salaries directly by INPS, often resulting in delays in the disbursement of funds and, consequently, in the receipt of payments.

The Group chose to selectively freeze instalments of the amortisation plan for the entire duration of the contribution mechanism. Just 65 positions are involved by this and the comprehensive economic and financial effects are irrelevant in terms of the overall economics of Cap.Ital.Fin.

In the Corporate area, following the Covid-19 emergency, the Banca Ifis Group has taken various actions to best address the emergency in line with the new regulations. More specifically, it has adhered to the Cura Italia Decree, to the ABI credit agreement and the Liquidity Decree, with the consequent concession of moratoriums and the disbursement of new loans backed by the Central Fund.

In 2020, the Banca Ifis Group, in line with the Cura Italia Decree, implemented the following supporting measures for micro, small and medium enterprises based in Italy, which were classified as performing and had a lack of liquidity due to the Covid-19 epidemic:

- limitation to the revocation of overdrafts until 30 June 2021;
- extension until 30 June 2021 of non-instalment loans with earlier contractual due date.
- suspension until 30 June 2021 and breaking down into instalments of mortgages and lease charges.

Under the scope of loans to pharmacies granted through the subsidiary Credifarma, consistently with the provisions of the Cura Italia Decree and subsequent extensions introduced in order to take into account the developments of the pandemic, 25 counterparties making such a request were granted suspension of payment of the current loan instalments (after verifying the effective reduction in their corporate turnover). The economic effects of the concession of these moratoriums are virtually nil.

2. Credit risk management policies

As part of its lending operations, the Banca Ifis Group is exposed to the risk that an unexpected change in the creditworthiness of a counterparty may cause an unforeseen change in the relevant credit exposure, requiring to write off all or part of the receivables. This risk is always inherent in conventional lending operations, regardless of the form of financing.

The main reasons for non-compliance are the lack of the borrower's independent capacity to service and repay the debt (due to lack of liquidity, insolvency, etc.) and the occurrence of circumstances that affect the borrower's economic and financial conditions, such as the "country risk".

2.1 Organisational aspects

The standards and guidelines that the Banca Ifis Group intends to give in respect of the concession of credit are set out in the "Group Credit Policy" applied and given out, insofar as competent, to all the organisational units of the Bank and Group companies involved in the assumption and management of credit.

Inside, we find:

- the roles and responsibilities of the corporate bodies and organisational structures involved in the loan process;
- the definition of the credit strategies and rules with reference to segments of customers, counterparties and types of comparable transactions, the limits of reliance assigned to non-banking counterparties, the limits to exposure assigned to the various types of economic businesses, the identification of the Most Significant Transactions (MSTs) for the preventive verification that they are indeed consistent with the risk limits and objectives defined in the Group Risk Appetite Framework (RAF), the limits to the risk assigned to transactions with related parties and/or company representatives, pursuant to Art. 136 of the Consolidated Law on Banking. The monitoring, review and update of the credit rules and strategies involve: i) the Parent company's Monitoring and Major Risks Department, in coordinating the process of formulating proposed reviews and updates to the credit policies to be submitted for the approval of the Parent company's Board of Directors; ii) the Parent company's Risk Management Department in monitoring the results achieved by the Group in terms of volumes and overall effective positioning on the credit market in line with the defined credit strategies;
- the most qualifying elements in the credit process, with specific reference:
 - to the definition of risk categories to be assigned to customers, according to the different risk profile that can be attributed to the technical loan forms involved, closely linked to the operative processes connected with the "Group System of delegated powers" on the assumption of the credit risk;
 - to the examination of all useful information, both internal and external, functional to the determination of the customer's credit rating and future solvency of the debtor, measuring the credit risk firstly using normal sources for the repayment of exposure and, thereafter, considering the use of the accessory guarantees connected with the credit intervention;
- the monitoring and review of the model used to define credit faculties or the matrix of faculties for granting credit and the related limits;
- the structuring of the credit process, in its comprehensive cycle, into two macro processes of "investigation and disbursement of credit" and "monitoring and collection of debt".

On an operative level, the various Group companies structure the specific operating procedures for the application of credit rules into Organised Procedures or Operative Notes.

Within the Banca Ifis Group, the Corporate Bodies of the Bank and the subsidiaries play a key role in managing and controlling credit risk, ensuring an appropriate supervision of credit risk within the scope of their responsibilities by identifying strategic guidelines as well as risk management and control policies, assessing their efficiency and effectiveness over time, and defining the duties and responsibilities of the corporate functions involved in the relevant processes.

Under the current organisational structure, specific central areas are involved in credit risk management and governance, ensuring, with the appropriate level of segregation, the performance of management operations as well as first and second line of defence controls by adopting adequate processes and IT applications.

Overall, despite some differences deriving from the various products/portfolios, the lending process follows a shared organisational approach with various operational stages and roles, responsibilities, and controls at different levels.

Specifically, Banca Ifis's organisational structure consists of the following business units, dedicated to different activities, centralised in the Affairs Department:

- Commercial Italy, the organisational unit that provides both short- and medium/long-term financing services for Italian firms;
- Pharmacies, the organisational unit that provides financing services for Italian pharmacies that are either developed internally or referred by the sales network of the subsidiary Credifarma;
- International, the organisational unit that provides financing services for Italian exporters as well as foreign companies;
- Tax Receivables, the organisational unit dedicated to purchasing tax receivables, mainly from companies in insolvency proceedings or liquidation;
- Corporate Finance, the organisational unit dedicated to structured finance transactions or investments in performing non-financial companies and intermediaries;
- Leasing and Rental, the organisational unit dedicated to offering and managing leasing and renting products;
- Insurance Development, the organisational unit dedicated to the supply of insurance products;
- Banca Corporate project, organisational unit dedicated to defining and monitoring the possible evolution of the Bank in terms of the distribution model and product catalogue for the SMEs;
- Marketing and Business Strategy, organisational unit that deals with the planning and monitoring of the commercial production and development of specific commercial campaigns, identifying the relevant target, the contact channels and monitoring tools.

Within the Affairs Management Area, there is a specific organisational unit dedicated to the acquisition and management of credit in respect of local health authorities and hospitals, called Pharma Management.

In addition, under the Problem Loans Management, the Special Situations Service intervenes in the loan process; this is the organisational unit responsible for identifying and assessing new opportunities for lending to Italian companies that, despite reporting positive operating profits, have gone through or are recovering from financial distress.

Finally, at the reporting date the lending process included the lending operations of the subsidiaries:

- Ifis Npl S.p.A., company dedicated to the acquisition and transfer of non-performing loans, mainly originated by financial institutions and banks;
- Ifis Npl Servicing S.p.A. (formerly Fbs S.p.A.), company specialising in the management of Npls and servicing and recovery activities on behalf of third parties;
- Ifis Real Estate S.p.A. (formerly Fbs Real Estate S.p.A.), company dedicated to the real estate business at the service of the subsidiaries Ifis Npl S.p.A. and Ifis Npl Servicing S.p.A.;
- Cap.Ital.Fin. S.p.A., which provides salary- or pension-backed loans as well as salary or pension deductions and distributes financial products such as mortgages and personal loans;

- Credifarma S.p.A., the reference for pharmacies when it comes to advances, medium- and long-term loans, equipment leases, and financial services;
- Ifis Finance Sp. z o.o., a factoring company operating in Poland;
- Ifis Rental Services S.r.l., an unregulated entity specialising in operating leases;
- Farbanca S.p.A., banking operator mainly targeting the world of pharmacies and health.

Each organisational unit develops and manages business relationships and opportunities in its respective segment by working together with the Branches located throughout Italy, in accordance with the strategic guidelines and objectives set by the Board of Directors.

As for the lending process, each business unit identifies the opportunities for new transactions in accordance with the lending policies in force and the defined risk appetite; in this context, it examines loan applications and formalises a proposal to be submitted to the competent decision-making bodies, ensuring lending policies and controls are implemented correctly and analysing the applicant's creditworthiness in accordance with existing internal regulations.

The proposals to grant lines of credit and/or purchase receivables are submitted to the competent decision-making bodies, which, based on the powers delegated to them, express their decision - which always refers to the overall exposure towards the counterparty (or any related groups).

Banca Ifis's Branches have no independent decision-making power for the purposes of assuming credit risk; Branches manage ordinary operations with customers under the constant monitoring of the central structures in accordance with the limits and procedures established by the Head Office's competent bodies.

In carrying out their operations, the subsidiaries can independently take certain decisions within the operational and organisational limits defined by the Parent company Banca Ifis.

The line of credit is then finalised: the Bank finalises the agreement, obtains guarantees, if any, and grants the credit line. Throughout these stages, the business units are aided by specific supporting units responsible for preparing the agreement in accordance with the terms of the approval as well ensuring all activities leading to the granting of the credit facility are properly carried out.

The operational management of receivables, carried out for performing customers, mainly consists in the ordinary management and monitoring conducted by dedicated structures at each of the Group's companies with the aim of constantly and pro-actively reviewing borrowers. In addition, a specific organisational unit within the Parent company performs monitoring activities at the Group level to identify counterparties with performance issues, so as to anticipate problems and provide adequate reporting to the competent corporate functions.

If the credit position is in an objective situation of distress, it is transferred to specific functions specialised in managing and recovering non-performing exposures.

The process for the acquisition of non-performing loan portfolios adopted by the structures of the Npl Segment consists of similar stages that can be summarised as follows:

- origination: the Bank identifies the counterparties from which it plans to purchase the portfolios and assesses the economic expediency of said transactions;
- due diligence, as part of which highly-skilled analysts assess the quality of the portfolio being transferred and the relevant organisational impact. Once the due diligence is completed, the Group sets the terms and conditions for offering/acquiring the receivables portfolio and how to manage it (individual or collective method), assessing the relevant impact on operating structures;
- approval: this stage includes the preparation of the file, the decision-making process, and the implementation of the approval by the competent decision-making body;
- finalisation: the parties prepare and finalise the purchase agreement, and the relevant consideration is paid.

Purchases are made directly by originators and/or SPVs (primary market) or, in some circumstances, by operators who have purchased on the primary market and who intend to dispose of their investment for various reasons (secondary market). Receivables - deriving from traditional consumer credit operations, credit cards and special purpose loans - are mainly unsecured; there are also current account balances in the event of transfers by banks.

The current context linked to the Covid-19 pandemic has impacted and continues to impact expectations of collection of the new portfolios valued and, therefore, the assumptions used during pricing. More specifically, with reference to the cash flows forecast by the legal management of the positions under analysis, the Group expects these take place over a longer period of time, due to the slow-down to court activity. In addition, during pricing, an increase in the rate of unemployment is factored in, and a reduction in the value of the properties given as guarantee of secured facilities. In a similar fashion, for amicable collections, a reduction is expected for the entire duration of the health emergency, in view of the lesser income received by various categories of subjects.

Right after the acquisition, pending the completion of information retrieval operations to help decide the most appropriate debt recovery method, the receivable is classified in a so-called "staging" area and measured at cost with no contribution to profit or loss.

After this phase, which normally lasts 6-12 months, the positions are directed towards the form of management most appropriate to their characteristics (non-judicial and judicial operations), which carries out an activity closely related to the transformation into paying positions and the collection of receivables.

The operational management of the recovery of receivables arising from the purchase of receivables that are difficult to collect is carried out both by internal resources of the subsidiaries Ifis Npl S.p.A. and Ifis Npl Servicing S.p.A. (formerly Fbs S.p.A.), and by a widespread and proven network of collection companies and agents in financial activities operating throughout national territory.

The non-judicial operations consist mainly in the activation of the credit through the debtor's subscription of bills of exchange or voluntary settlement plans; the judicial operations consist, instead, in the transformation through legal action aimed at obtaining from the court the garnishment order of one-fifth of the pension or salary (the existence of which is the necessary prerequisite for the start of this form of transformation) or the sale on

the market of the asset to guarantee the credit (secured management). Specific information regarding these operations is provided below.

Finally, there is also an assessment of the expediency of selling non-performing loan portfolios, mainly represented by processing codes, to be submitted for approval to the competent decision-making bodies, consistently with the established profitability targets and after analysing the relevant accounting, reporting, legal, and operational impacts. To do so, it relies on the in-depth inquiries conducted by the Parent company's competent business functions within their area of expertise.

Non-judicial operations

As for the positions not eligible for judicial operations, after completing the groundwork for processing them, they are classified in a "collective" portfolio pending that the recovery process through call centres or recovery networks can culminate with a collection of settlement plans referred to above (in the form of a proposal/acceptance from customer to bank). At this stage, the positions are measured at amortised cost, calculated as the present value of expected cash flows determined on the basis of a proprietary statistical model developed by the Risk Management function on the basis of historical internal data, referred to as "curve model"; this model projects collection expectations onto clusters of homogeneous receivables based on the recovery profile historically observed (macro region, amount of credit, natural person/legal person, seniority of the file with respect to the DBT date, type of purchase market), in addition to prudential adjustments, such as, by way of example, the cap of simulated cash flows for debtors who are older than the life expectancy present in the mortality tables provided by Istat. This method of valuing debt collection flows means that the expected collection profile is decreasing as time passes with respect to the date of purchase of the credit, until the asset value of the credit is reduced to zero when it reaches the tenth year from the date of purchase.

Expectations of collection also take into account the probability of obtaining a settlement plan net of the relative probability of default.

There are two types of settlement (collection) plans that can be entered into:

- bills of exchange: that is, the set of credit positions for which the debtor has signed a settlement plan supported by the issue of bills of exchange;
- Manifestations of Will (MdV): those practices for which the recovery process has led to the collection of a formalised settlement plan by the debtor.

The moment the position obtains a paying settlement plan ("active plans"), i.e. after having observed the payment of at least three times the value of the average instalment of the plan, the cash flows of the "curve model" are replaced by the cash flows of the "deterministic model", which projects the future instalments of the settlement plan agreed with the debtor net of the historically observed default rate and taking into account also in this case a cap to the simulated cash flows if the age of the debtor exceeds what is indicated in the mortality tables of Istat in relation to life expectancy.

Positions that do not obtain a paying settlement plan remain valued by means of the "curve model"; this means that as time passes, the probability of collection is reduced also by means of the plan and consequently the expected cash flows are reduced down until zeroing.

These models are regularly updated (“recalibrated”) by the Risk Management function to account for changes in collections as well as the characteristics of the acquired portfolios.

Judicial operations

Positions that meet the requirements (presence of a job or a pension) for judicial processing are initiated in the relevant operations. This also includes (minority) practices that are processed in a logic of real estate attachment of property.

Judicial processing, understood as real estate enforcement action against third parties, is characterised by several legal steps aimed at obtaining an enforcement title, which as a whole usually last 18-24 months (the durations and the relative volatility depend on the court in which the case is handled) and are thus as follows:

- obtaining a court order,
- writ,
- attachment of property and
- garnishment order.

These positions are measured at amortised cost, calculated as the present value of expected cash flows determined on the basis of two proprietary models developed by the Risk Management function on the basis of historical internal data, referred to as “pre-garnishment order Legal Factory model”. During the fourth quarter of 2020, as part of the pre-garnishment order Legal Factory model and the Garnishment order model, the form was implemented by which to calculate future cash flows on creditors aged over 67 years old; this form has been developed in order to consider the possibility that the subject, once retired, should receive a pension that can be used and which, for the purpose of the new legal procedure, will make it possible to seek a new garnishment order.

In addition to the above, judicial operations involve also collection efforts, i.e. foreclosure proceedings, which consist of several stages and apply to portfolios originated in corporate, banking, or real estate segments.

2.2 Management, measurement and control systems

Credit risk is constantly monitored by means of procedures and instruments that can rapidly identify particular anomalies.

Over time, the Banca Ifis Group has implemented instruments and procedures allowing to specifically evaluate and monitor risks for each type of customer and product.

If the applicant passes the evaluation process and is granted a credit facility, the Group starts monitoring the credit risk on an ongoing basis, ensuring repayments are made on time and the relationship remains regular, reviewing the information that the Italian banking system reports to the Central Credit Register or select databases as well as the reputational profile, and examining the underlying causes for each one of these aspects.

Concerning portfolio monitoring operations, as previously mentioned, receivables due from customers are monitored by specific units within the mentioned business units that are responsible for constantly and proactively reviewing borrowers (first line of defence); a specific organisational unit conducts additional

monitoring at a centralised level, using mainly performance analysis models – including models developed by the Parent's Risk Management function – to identify any potential issues through specific early warning indicators.

Credit risk exposures to Italian companies are assigned an internal rating based on a model developed in-house for the trade receivables portfolio. In 2020, developments were completed of the new estimated ratings models on a population that was expanded to include not only trade receivables but also other businesses (i.e. leasing). The introduction of these models into the Bank's processes is set as the start of 2021 insofar as the Bank has chosen to temporarily align the coming into force of the new default definition with the rules of exposure classification and the methods for measuring expected losses. Indeed, the calibration of the PD associated with the rating classes was carried out on the basis of the new default definition, as per the EBA Guidelines.

Risk Management plays a crucial role as part of the second line of defence in measuring and monitoring operations.

Concerning credit risks, the Risk Management function:

- oversees, monitors and assesses credit risks, carrying out audits and analysis in accordance with the relevant guidelines; specifically, it: i) assesses credit quality, ensuring compliance with lending strategies and guidelines by monitoring credit risk indicators on an ongoing basis; ii) constantly monitors the exposure to credit risk as well as compliance with the operational limits assigned to the different structures with reference to the assumption of credit risk; iii) ensures, through second line of defence controls, that the performance of individual exposures, and specifically non-performing ones, is properly monitored, and assesses the consistency of the classifications as well as the level of provisions; iv) monitors the exposure to concentration risk as well as the performance of Major Exposures;
- performs quantitative analyses to support the business units in using risk measures;
- oversees the supervision of the value of collateral as well as personal and financial guarantees.

Within the individual Group companies, special attention is paid to the monitoring of credit risk by the specific Risk Management Departments. In 2020, merely by way of example, the Credifarma Risk Management Department and Cap.Ital.Fin.:

- estimated the attention and critical threshold of managerial indicators and monitored, on a monthly basis, any overshooting of such;
- carried out quarterly stress testing with a view to determining the effects on internal capital of the credit risk and reserves (both generic and specific) of worsening, determined in a judgemental manner, of the probability of default.

The Banca Ifis Group pays particular attention to the concentration of credit risk with reference to all the Group's companies, both at an individual and consolidated level. Banca Ifis's Board of Directors has mandated the Top Management to take action to contain major risks. In line with the Board of Directors' instructions, all positions at risk which significantly expose the Group are systematically monitored.

Concerning the credit risk associated with bond and equity investments, the Bank constantly monitors their credit quality, and Banca Ifis's Board of Directors and Top Management receive regular reports on this matter.

In the context of Basel 3 principles for calculating capital requirements against first-pillar credit risks, Banca Ifis chose to adopt the Standardised Approach. To calculate capital requirements for single-name concentration risk, which falls under second-pillar risks, the Group adopts the Granularity Adjustment method as per Annex B, Title III of Circular no. 285 of 17 December 2013, with a capital add-on calculated using the ABI method to measure geo-segmental concentration risk.

In order to assess its vulnerabilities in terms of capital and liquidity management, the Parent company Banca Ifis has developed quantitative and qualitative techniques with which it assesses its exposure to exceptional but plausible events. These analyses, known as stress tests, measure the impact in terms of risk deriving from a combination of changes in economic-financial variables under adverse scenarios on the Banks and its subsidiaries. These analyses significantly concern credit risk.

Stress analyses make it possible to verify the Group's resilience, simulating and estimating the impacts of adverse situations, and provide important indications regarding its exposure to risks and instruments, the adequacy of the related mitigation and control systems and its ability to cope with unexpected losses, also from a prospective and planning perspective.

For regulatory purposes, the Parent company Banca Ifis conducts stress tests when defining the Risk Appetite Framework and preparing the Recovery Plan as well as the ICAAP and ILAAP report at least on an annual basis, as required by applicable prudential supervisory regulations. In this context, it assesses, among other things, the sustainability of lending strategies under adverse market conditions.

2.3 Measurement of expected credit losses

According to IFRS 9, all financial assets not measured at fair value through profit or loss, represented by debt securities and loans, and off-balance sheet exposures (commitments and guarantees granted) must be subject to the impairment model based on expected losses (ECL - Expected Credit Losses).

The most significant aspects that characterise this approach, concern:

- the classification of loans into three different levels (or "Stages") to which different methods correspond for calculating the losses to be recorded; Stage 1 includes performing positions that have not undergone a significant increase in credit risk otherwise placed in Stage 2; Stage 3 includes all positions classified as non-performing, bad loans, unlikely-to-pay, non-performing past due in accordance with the criteria and rules specifically adopted by the Group;
- the calculation of the expected loss calculated at 12 months for Stage 1 or for the entire useful life of the credit (lifetime) for Stages 2 and 3;
- the requirement to use a Point-in-Time, rather than a Through-the-Cycle, approach for regulatory purposes;
- forecast information regarding the future dynamics of macroeconomic factors (forward looking) considered to have the potential to influence the debtor's situation.

In this context, the Group has adopted a method for determining the "significant" increase in credit risk with respect to the initial recognition date, which involves classifying the instruments in Stages 1 and 2, combining statistical (quantitative) and performance (qualitative) elements, as part of the estimate of impairment of performing loans.

To identify the significant increase in credit risk, the Banca Ifis Group applies the following quantitative and qualitative transfer criteria to the loan portfolio according to the type of counterparty defined by segmenting receivables into portfolios:

- The only quantitative transfer criterion is the Significant Deterioration for which, to identify the "significant increase in credit risk" on exposures within rated portfolios (Italian companies), the Group used an approach backed by quantitative analyses, under which the exposure is allocated to Stage 2 if the change in the one-year PD between the origination and the measurement date exceeds a given threshold.
- Qualitative transfer criteria
 - "Rebuttable presumption – 30 days past due": the Standard establishes that, regardless of how the entity assesses significant increases in credit risk, there is a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. The entity can rebut this presumption if it has reasonable and supportable information that demonstrates that the credit risk has not increased significantly since initial recognition even though the contractual payments are more than 30 days past due. However, the Ifis Group has not pursued this option;
 - Forbearance: according to this criterion, a financial instrument is allocated to Stage 2 when the Group classifies the exposure as forbore;
 - Watchlist: this requires identifying qualitative deterioration criteria defined by the Group as part of the process for defining especially risky positions during credit monitoring.

According to 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, that is:

- it has a low risk of default;
- the borrower is considered, in the short term, to have a strong capacity to meet its obligations;
- the lender expects, in the longer term, that adverse changes in economic and business conditions might reduce the ability of the borrower to fulfil its obligations.

The measurement of expected credit losses (ECLs) accounts for cash shortfalls, the probability of default, and the time value of money. Specifically, the Group measures the loss allowance for the financial instrument as:

- expected losses at 12 months for positions that have not suffered a significant deterioration in creditworthiness (Stage 1); i.e. an estimate of the non-payments resulting from possible default events in the following 12 months, weighted by the probability that such events will occur;
- expected "Lifetime" losses for positions that have suffered a significant deterioration in creditworthiness (Stage 2); in this case, it estimates the cash shortfalls resulting from default events that are possible over the expected life of the financial instrument, weighted by the probability of that default occurring and discounted at the measurement date (ECL).

To ensure its collective impairment calculations are in the closest possible compliance with regulatory requirements, the Group has defined a specific methodological framework. This involved developing quantitative methods and analyses based on proprietary datasets as well as qualitative methods and analyses to essentially model the following risk parameters and the methodological aspects relevant to the calculation of impairment under IFRS 9:

- estimated Probability of Default (PD);

- estimated Loss Given Default (LGD);
- estimated Exposure at Default (EAD);
- definition of the stage allocation transfer logic;
- calculation of the expected credit losses including point-in-time factors;
- calculation of the expected credit losses including forward-looking elements.

Concerning the exposures to Banks, Central Governments, Public-Sector Entities (low default portfolios) and foreign counterparties, the Group used default rates associated with migration matrices based on public information provided by the ratings agency Moody's or external providers.

On some subsidiaries, even though the generic reserves are determined using a lump sum approach, and therefore according to the level of risk calculated (PD, LGD and EAD), on the basis of internal evidence, the specific reserves may use different calculation methods (by way of example, adopting a judgemental approach rather than a lump sum approach), on the basis of the legal experience accrued on forecast cash flow on default positions. The Risk Management Department periodically compares the balance of the reserves with the estimated losses expected, obtained using the risk levels forecast on the basis of internal evidence, which can be traced to the same impaired positions.

As for the securities portfolio, considering the methodological complexity associated with developing a dedicated model, the Group decided to use the calculation of impairment under IFRS 9, provided at consortium level by the information system outsourcer (i.e. estimating risk parameters, calculating the Stage allocation and ECLs). Specifically, the formula used to calculate the impairment of the tranches allocated to Stage 1 and 2 is consistent with the approach to credit exposures. The Stage allocation of performing debt securities requires using an external rating of the issue or, if this is not available, the issuer; in short, the securities are allocated to the different Stages based on specific transfer criteria associated with this type of portfolio. Exposures are allocated to Stage 3 if credit risk has deteriorated to the point that the security is considered impaired, i.e. classified as non-performing, including in the case of financial instruments in default.

In developing the above methods, the Group has considered multiple solutions, the current and prospective complexity of its portfolio, as well as how to maintain and update risk parameters.

A multi-period approach to risk parameters has been developed exclusively for the PD; the other credit risk parameters (LGD and CCF) are applied on a constant basis until maturity. The LGD has been estimated based on historical proprietary evidence, except in the case of Banks, Central Governments and Local Administrations (excluding municipalities) and operations where there is no sufficiently deep database to estimate the recovery of non-performing positions for which, for lack of any objective historical data, an LGD was used equal to the regulatory floor.

The Group has adopted econometric models (based on the stress test framework - "satellite" models), aimed at forecasting the evolution of the institute's risk factors (i.e. mainly PD, LGD, EAD and migrations between statuses for credit risk) on the basis of a joint forecast of the evolution of the economic and financial indicators (see macroeconomic scenario).

The satellite models meet the need to identify the existence of a significant relationship between the general economic conditions (i.e. macroeconomic and financial variables) and a proxy variable of the risk factor (i.e. target variable) e.g. the credit rating of counterparties (which represents the respectively probability of default as a summary of the PD factor) and the recovery rates (summarising the LGD factor for bad loans).

The Risk Management Department has included the forecasts defined by its satellite models in the structures at the end of the PD lifetime. For the purpose of applying macroeconomic shifts, the migration matrices have been defined between the different credit statuses of each perimeter and the scaling factors derived, to be applied to the curves as per the defined method. Starting out, therefore, from an initial transition matrix, the approach used allows for a stressed matrix to be obtained.

The satellite models developed for the PD have also been applied to the danger rate, used in LGD.

For Stage 3 exposures that are not individually tested for impairment, the Group defines a lifetime provision in line with the concept of expected credit loss. Specifically concerning LGD, to calculate the collective losses for Stage 3 exposures (mainly non-performing past due and unlikely-to-pay), the Group made certain adjustments to ensure consistency with the measures used for performing loans.

Valuation of the significant increase in the credit risk (SICR)

Of the various measures in support of the economy that impact the valuation of the significant increase in credit risk, we should certainly mention the concession of moratoriums. With the suspension of payments of amortisation plans, the verification of past-due by more than 30 days in order to allocate to Stage 2, also ceases. This led the Group to introduce, during the second half of 2020, a collective prudent correction for relations with counterparties operating in certain segments considered as being at high risk of impact by Covid-19 (transport, tourism, catering, automotive). This prudent measure has been adopted in order to incorporate the increase in risk expected in those economic segments most impacted by the current pandemic crisis and consequent economic crisis.

Additional lump sum corrective measures have also been implemented for exposures relative to certain types of medium/long-term loans, to date which are regular, but which are expected to be at higher risk in respecting the amortisation plan envisaged following the economic impacts expected post Covid-19.

Measurement of expected losses

With reference to the forward-looking information offering the inputs to the IFRS 9 provisioning process, through the use of the satellite models reported previously, the Risk Management Department has updated the macro economic scenarios following the evolution of the economic crisis linked to the spread of the Covid-19, also in consideration of the recommendations given by the Supervisory Authorities. The information used by Banca Ifis to update the forward looking impacts in the estimates of risk parameters comes from several institutions, including the Bank of Italy and the ECB.

The choice was also made to update the probability of occurrence of the scenarios by leaving to the baseline scenario the higher probability of occurrence (70%), reserving for the adverse scenario a probability of 25%,

higher than that associated with the improvement scenario (5%) due to the high uncertainty and considering the continued limitations to movement and economic businesses.

During the third quarter of 2020, an additional correction was made in calculating the expected losses deriving from lease operations on positions concerned by moratorium. The assets concerned by these transactions are motor vehicles, commercial and industrial vehicles characterised by a deterioration of the asset typically in line with the financial plan. The concession of the moratorium introduces a misalignment of more than 12 months between the two curves, thereby reducing the degree of coverage of collateral to the lease credit and introducing a higher risk of LGD in the event of customer default. The correction made aims to adjust the calculation of expected loss to both the impacts described above and the increase in the default risk expected on the same counterparties.

2.4 Credit risk mitigation techniques

Credit risk mitigation techniques include instruments that contribute to reducing the loss that the Group would incur in the event of counterparty default; specifically, they refer to guarantees received from customers, both collateral and personal, and to any contracts that may lead to a reduction in credit risk.

In general, as part of the process of granting and managing credit, for certain types of lines, the release by customers of suitable guarantees to reduce their risk is encouraged. They can be represented by collaterals on assets, such as pledges on financial assets, mortgages on real estate (residential/non-residential) and/or personal guarantees (typically sureties) on a third party where the person (natural or legal) is the guarantor of the customer's debt position in the event of insolvency.

In particular:

- as part of factoring operations, when the type and/or quality of factored receivables do not fully satisfy requirements or, more generally, the invoice seller is not sufficiently creditworthy, the bank's established practice is to hedge the credit risk assumed by the Group by obtaining additional surety bonds from the shareholders or directors of the invoice seller. As for the account debtors in factoring relationships, wherever the Bank believes that the elements available to assess the account debtor do not allow to properly measure/assume the related credit risk, or the proposed amount of risk exceeds the limits identified during the debtor's assessment, the Bank adequately hedges the risk of default of the account debtor. Guarantees issued by correspondent factors and/or insurance policies underwritten with specialised operators are the main hedge against non-domestic account debtors in non-recourse operations;
- in loans to businesses, where possible, suitable guarantees are acquired from the Central Guarantee Fund or other companies coming under the public scope, such as SACE S.p.A.;
- in regard to Special Situations and Structured Finance, collateral is acquired according to the counterparty's standing as well as the term and type of the facility. Said collateral includes mortgage guarantees, liens on plant and equipment, pledges, surety bonds, credit insurance, and collateral deposits;
- as for finance leases, the credit risk is mitigated by the leased asset. The lessor maintains the ownership until the purchase option is exercised, ensuring a higher recovery rate in the event the client defaults;

- as for operations concerning distressed loans and purchases of tax receivables arising from insolvency proceedings, as well as the relevant business model, generally no action is taken to hedge credit risks;
- salary-backed loans certainly have low risk, considering the particular characteristics of this product: it requires having insurance against the customer's risk of death and/or loss of employment as well as imposing a lien on the Post-employment benefits earned by the customer as additional collateral for the loan.
- lending to pharmacies involves an advance as well as a transfer or debt collection mandate, with the possibility of deducting subsequent advances from existing credit facilities.

In line with that established by the Liquidity Decree (Italian Decree Law no. 23 of 08 April 2020), the Group has benefited from the guarantees offered by the state Guarantee Fund for the type of customer and loans envisaged by the Decree, with cover that can reach 100%. This guarantee enables a reduction in the RWAs relative to the credit risk, proportionally to the share of exposure covered by the Fund.

The acquired Npl portfolios include positions secured by mortgages on properties with a lower level of risk than the total portfolio acquired.

When calculating the overall credit limit for an individual customer and/or legal and economic group, the Bank considers specific criteria when weighing the different categories of risks and guarantees. Specifically, when measuring collateral, it applies prudential "spreads" differentiated by type of guarantee.

The Group continuously verifies the quality and adequacy of the guarantees acquired on the loan portfolio, with second level monitoring carried out by the Parent company's Risk Management Department and carried out under the scope of the Single File Review.

3. Non-performing credit exposures

3.1 Management strategies and policies

The Group adopts a business model that has peculiar features compared to most other Italian banking institutions, which largely operate as general banks.

This peculiarity of the business is reflected in the processes and management structures, generating flows and stock dynamics that are reflected in assets and related indicators.

Nevertheless, the Parent company believes that the reference to "system" management and structural ratios and the maintenance of its indicators at levels of excellence represents an element of quality and value to be pursued as a specific objective, both for the strengthening of company structures and for the improvement of internal processes.

Among these, the quality of assets is a top priority that must be expressed both in the ability to provide credit, minimizing the risks of deterioration of exposures, and in the ability to manage non-performing exposures, optimising recovery performance in terms of amount and timing of recovery.

In this sense, the Group's action is oriented in two directions:

- constant efforts to improve not only the processes for selecting and granting loans, but also the processes for managing performing loans, referring, where appropriate, to the commercial and/or selection policies of individual transactions, in order to contain the generation of non-performing loans in the best possible way;
- the definition of quantitative objectives (such as maximum limits) in terms of non-performing exposures as well as pre-established actions to be implemented according to appropriate application criteria and priorities, in order to ensure compliance with the established limits over time.

In managing these aspects, the Group must, however, necessarily take into account the different segments of business and related types of credit, classifying solutions and actions consistent with the specificities of the individual segments, in order to ensure the best result in terms of value protection and speed of solution.

In view of the above, the Group has maintained the following two indicators as performance indicators and explicit objectives to be pursued with careful and proactive management when updating its annual operating plan for the management of short and medium/long-term Npls, presented to the Supervisory Authority in March 2020:

- "gross Npe ratio", consisting of the ratio of "gross non-performing exposures" to "total receivables due from customers";
- "net Npe", consisting of the ratio of "non-performing exposures net of related adjustments" to "total receivables due from customers".

With reference to receivables due from customers for cash in place at 31 December 2020, excluding the positions stemming from the acquisition and management of non-performing exposures of third party originators managed by the subsidiaries Ifis Npl S.p.A. and Ifis Npl Servicing S.p.A. despite the economic impacts deriving from the Covid-19 emergency situation currently in progress, the levels of Npe ratio have improved with respect to the objectives set when defining the strategic guidelines contained in the 2020-2022 Business Plan. This result is mainly due to the positive effects deriving from the concession of moratoriums on loans and the transfers of impaired loans made during the year. Regardless of the current outlook, the pursuit of the objective of a general reduction in the stock of non-performing loans remains and is expected to take place through a differentiated strategy in relation to the specificity of the individual portfolios concerned (taking into account the type of counterparty and the specificity of the individual products). In general, the action that will be taken is essentially based on the following goals, which it has been pursuing for some time now:

- containment of the default rate in order to reduce the inflow of non-performing positions by extending and strengthening the monitoring of lending aimed at anticipating, and possibly preventing, deterioration of positions;
- improvement of the "performing" rates of return through a more significant use of granting measures in relation to counterparties that show signs of financial difficulty;
- leveraging the expertise within the Banca Ifis Group and the virtuous collection processes currently in place to maximise collection rates;
- reducing the stock of non-performing loans by considering selective sales of individual significant positions as well as applying existing write-off policies.

The positions that have deteriorated or present significant problems are handled directly by specific organisational units established at each company of the Group, which:

- assess the counterparty's willingness and ability to repay the debt in order to establish the most appropriate recovery strategy;
- manage judicial and non-judicial proceedings concerning debt collection operations;
- define potential modifications to the administrative status as well as the quantification of "doubtful individual outcomes" for the positions assigned to it, submitting them to the competent decision maker;
- monitor the amount of exposures classified as bad loans and the relevant debt collection operations.

3.2 Write-offs

As specified by IFRS 9, write-off is an event that results in derecognition when there is no longer a reasonable expectation that the financial asset will be recovered. It may occur before the lawsuit for recovery of the financial asset has concluded and does not necessarily imply a waiver of the legal right of the bank to collect the debt.

A receivable is derecognised when it is considered unrecoverable and the Group forfeits the legal right to collect it. For instance, this occurs when insolvency proceedings are settled, the borrower dies without heirs, a court issues a final ruling that the debt does not exist, etc.

As for total or partial derecognition without a forfeiture of the right to collect the receivable, to avoid continuing to recognise receivables that, even though they are still managed by debt collection structures, are highly unlikely to be recovered, at least every half-year, the Bank identifies the exposures to be derecognised that have all specific characteristics defined for each product.

The derecognition of bad debts is a good management practice. It allows structures to concentrate on receivables that are still recoverable, guarantees an adequate representation of the ratio between anomalous receivables and total receivables and ensures a correct representation of balance sheet assets.

At an organisational level, the operating methods used by the various Group structures to eliminate credit exposures and to report to Top Management are described in detail in the company's credit monitoring and recovery policies.

In 2020, total derecognitions were applied for approximately 30,3 million Euro (nominal amount) worth of exposures, without forfeiting the right to collect the receivable.

3.3 Purchased or originated credit impaired financial assets

Organisational aspects

"Purchased or Originated Credit Impaired (POCI) Financial Assets" means the exposures that were non-performing at the date they were acquired or originated.

POCI financial assets include also the exposures acquired as part of sales (of either individual assets or portfolios) and business combinations.

Based on the Business Model within which the asset is managed, POCI financial assets are classified as either Financial assets measured at fair value through other comprehensive income or Financial assets measured at amortised cost. As previously mentioned, interest is accounted for by applying a credit-adjusted effective

interest rate, i.e. the rate that, upon initial recognition, discounts all the asset's estimated future cash collections considering also lifetime expected credit losses (ECL).

The Bank regularly reviews said expected credit losses, recognising impairment losses or gains through profit or loss. Favourable changes in lifetime ECLs are recognised as an impairment gain, even if said lifetime ECLs are lower than those incorporated into cash flow estimates at initial recognition.

"Purchased or Originated Credit Impaired Financial Assets" are usually allocated to Stage 3 at initial recognition.

If, as a result of an improvement in the counterparty's credit standing, the assets become "performing", they are allocated to Stage 2.

These assets shall never be allocated to Stage 1, as the expected credit loss must always be calculated over a time horizon equal to their remaining useful life.

Impaired assets include the receivables acquired by the subsidiaries Ifis Npl S.p.A. and Ifis Npl Servicing S.p.A. (formerly Fbs S.p.A.) at a significant discount to their nominal amount, as well as the non-performing assets that arose from the business combinations completed by the Group at the time of the acquisition, in accordance with the standard IFRS 9.

Quantitative information

To date, the outstanding nominal amount of Ifis Npl S.p.A.'s proprietary portfolio was approximately 19.787 million Euro. At the time of purchase, the nominal amount of these receivables was approximately 20.491 million Euro, and they were acquired for approximately 1.187 million Euro, i.e. an average price equal to approximately 5,8% of the historical book value. In 2020, approximately 4.058 million Euro were acquired for approximately 250 million Euro, i.e. an average price equal to 6,17%. The overall portfolio of non-performing exposures purchased and not yet collected has an overall weighted average life of around 37 months compared to their acquisition date.

As regards the individual phases of processing of Npl receivables, as described in paragraph "2.1 - Organisational aspects" above in relation to credit risk, the carrying amount at 31 December 2020 of the positions in out-of-court management comes to 372 million Euro, whilst the carrying amount of the positions under legal management¹ comes to 864 million Euro.

Finally, Ifis Npl S.p.A. seizes market opportunities in accordance with its business model by selling portfolios of positions yet to be processed to third parties. Overall, Ifis Npl S.p.A. completed 10 sales of portfolios to leading players whose business is purchasing Npls. Overall, receivables were sold with an outstanding nominal amount of approximately 272 million Euro, consisting of approximately 40 thousand positions, for an overall consideration of about 23 million Euro.

¹ Legal management including garnishment actions with third parties, corporate positions, MIPOs and bankruptcy procedure.

Ifis Npl Servicing S.p.A. acts as master servicer in the Elipso Finance portfolio transaction: this is an investment as mezzanine and junior noteholder in a securitisation and with underlying non-performing positions worth a total original nominal amount of approximately 2,6 billion Euro. The original investment is the result of an acquisition made in March 2016, to date, only the Class B tranche remains, as in FY 2020, the Class C tranche previously held, was sold off.

4. Financial assets subject to business renegotiations and forbore exposures

For information about the effects deriving from the measures implemented in support of the economy by the government and adopted by the Group, please refer to the paragraphs above.

Throughout the life of the financial assets, and specifically of receivables, the parties to the agreement subsequently agree to modify the original contractual terms. When, during the life of an instrument, the contractual terms are modified, the Group shall assess whether the original asset must continue to be recognised (modification without derecognition) or, conversely, the original instrument must be derecognised and a new financial instrument recognised in its place.

Generally, modifications of a financial asset result in its derecognition and the recognition of a new asset when they are "substantial". The "substantiality" of the modification shall be assessed considering both qualitative and quantitative factors. In some cases, it will become apparent, without conducting complex analyses, that the changes introduced substantially modify the characteristics and/or contractual cash flows of a specific asset, whereas in other cases, additional analyses (including quantitative analyses) will be required to appreciate their impact and assess whether to derecognise the asset and recognise a new financial instrument.

The (quali-quantitative) analyses aimed at defining the "substantiality" of the contractual modifications made to a financial asset shall therefore consider:

- the purposes for which the modifications were made: for instance, renegotiations for business reasons and forbearance measures due to the counterparty's financial difficulties:
 - the former, intended to "retain" the customer, involve a borrower that is not in financial distress. This case includes all renegotiations aimed at adjusting the cost of debt to market conditions. These transactions result in changes to the original contractual terms, usually at the request of the borrower, that concern aspects associated with the cost of debt, giving rise to an economic benefit for the borrower. Generally, the Group believes that, whenever it enters into a renegotiation in order to avoid losing the client, this renegotiation shall be considered as substantial, since, in its absence, the customer could obtain financing from another intermediary and the bank would see estimated future revenue decline;
 - the latter, offered for "credit risk reasons" (forbearance measures), are part of the Group's attempt to maximise the recovery of the cash flows of the original receivable. Following the modifications, usually the underlying risks and rewards have not been substantially transferred: therefore, the accounting presentation that provides the most relevant information to users of the financial statements (except for the following discussion about objective factors) is the one made through "modification accounting" - whereby the difference between the carrying amount and the present value of modified cash flows discounted at the original interest rate is recognised through profit or loss - rather than derecognition;

- the existence of specific objective factors affecting the substantial modifications of the characteristics and/or contractual cash flows of the financial instrument (including, but not limited to, the modification of the type of counterparty risk the entity is exposed to) that are believed to require derecognising the asset because of their impact (estimated to be significant) on the original contractual cash flows.

These logics have been adopted by the Group also in order to assess any changes connected with support measures implemented by the government and industry associations. As regards risk assessments and the measurement of expected losses connected with said measurements, refer to paragraphs 2.2 and 2.3 above in this section.

Quantitative information

A. Credit quality

A.1 Non-performing and performing credit exposures: amounts, impairment losses, trend, and economic breakdown

A.1.1 Prudential consolidation - Breakdown of financial assets by past due buckets (carrying amounts)

Portfolios/risk stages	Stage 1			Stage 2			Stage 3		
	From 1 day to 30 days	From over 30 days to 90 days	Over 90 days	From 1 day to 30 days	From over 30 days to 90 days	Over 90 days	From 1 day to 30 days	From over 30 days to 90 days	Over 90 days
1. Financial assets measured at amortised cost	134.906	1.730	12.009	2.865	42.376	239.638	3.366	3.672	1.494.493
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
2. Financial assets under disposal	-	-	-	-	-	-	-	-	-
Total 31.12.2020	134.906	1.730	12.009	2.865	42.376	239.638	3.366	3.672	1.494.493
Total 31.12.2019	281.137	5.751	122.183	10.509	49.059	204.306	5.004	21.818	1.445.246

A.1.2 Prudential consolidation - Financial assets, loan commitments and financial guarantees granted: overall impairment losses/reversals and overall provisions

Reason/Risk stage	Overall impairment losses/reversals																Total provisions on loan commitments and financial guarantees granted			Total
	Stage 1 assets					Stage 2 assets					Stage 3 assets					of which: purchased or originated credit impaired financial assets	Stage 1	Stage 2	Stage 3	
	Financial assets measured at amortised cost	Financial assets at fair value through other comprehensive income	Financial assets under disposal	of which: individual write-downs	of which: collective write-downs	Financial assets measured at amortised cost	Financial assets at fair value through other comprehensive income	Financial assets under disposal	of which: individual write-downs	of which: collective write-downs	Financial assets measured at amortised cost	Financial assets at fair value through other comprehensive income	Financial assets under disposal	of which: individual write-downs	of which: collective write-downs					
Opening balance	31.299	827	-	-	32.126	5.965	-	-	-	5.965	293.793	-	-	293.793	-	-	1.761	93	2.098	335.836
Increases from purchased or originated financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Derecognitions other than write-offs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net credit risk losses/reversals (+/-)	27.174	(608)	-	-	26.566	254	-	-	-	254	(112.524)	-	-	(112.524)	-	(89.660)	1.464	(91)	7.386	(76.945)
Contractual modifications without derecognition	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in estimation method	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs not recognised directly through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other changes	5.535	(1)	-	-	5.534	(584)	-	-	-	(584)	44.545	-	-	44.545	-	89.660	10	-	(1.733)	47.772
Closing balance	64.008	218	-	-	64.226	5.635	-	-	-	5.635	225.814	-	-	225.814	-	-	3.235	2	7.751	306.663
Reversals from collections on financial assets written off	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs recognised directly through profit or loss	229	-	-	-	229	-	-	-	-	-	132.718	-	-	132.718	-	131.327	-	-	-	132.947

A.1.3 Prudential consolidation - Financial assets, loan commitments and financial guarantees granted: transfers between different credit risk stages (gross and nominal amounts)

Portfolios/risk stages	Gross amounts/nominal amount					
	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3	
	From Stage 1 to Stage 2	From Stage 2 to Stage 1	From Stage 2 to Stage 3	From Stage 3 to Stage 2	From Stage 1 to Stage 3	From Stage 3 to Stage 1
1. Financial assets measured at amortised cost	173.141	152.025	15.961	46.118	61.500	25.198
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
3. Financial assets under disposal	-	-	-	-	-	-
4. Loan commitments and financial guarantees granted	1.217	9.444	1.291	23	9.214	4.558
Total 31.12.2020	174.358	161.469	17.252	46.141	70.714	29.756
Total 31.12.2019	772.459	139.625	46.983	17.191	118.468	53.819

A.1.3a Loans concerned by Covid-19 support measures: transfers between different credit risk stages (gross amounts)

The table below shows the gross value of the loans concerned by moratorium or other Covid-19 concessions, or which constitute new liquid funds granted by means of public guarantee mechanisms, split by portfolio (amortised cost and fair value through other comprehensive income), when the risk bracket into which the exposures fall at year end differs from that in which they were included at the start of the year (or at the initial booking date if after the start of the year).

Portfolios/risk stages	Gross amounts/nominal amount					
	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3	
	From Stage 1 to Stage 2	From Stage 2 to Stage 1	From Stage 2 to Stage 3	From Stage 3 to Stage 2	From Stage 1 to Stage 3	From Stage 3 to Stage 1
A. Loans measured at amortised cost	15.455	10.683	897	1.348	1.540	481
A.1 concerned by concessions in compliance with the GLs	10.130	10.190	876	497	1.540	332
A.2 concerned by other concessions	-	-	21	-	-	-
A.3 new funding	5.325	493	-	851	-	149
B. Loans measured at fair value through other comprehensive income	-	-	-	-	-	-
B.1 concerned by concessions in compliance with the GLs	-	-	-	-	-	-
B.2 concerned by other concessions	-	-	-	-	-	-
B.3 new funding	-	-	-	-	-	-
Total 31.12.2020	15.455	10.683	897	1.348	1.540	481
Total 31.12.2019	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

A.1.4 Prudential consolidation - On- and off-balance-sheet credit exposures to banks: gross and net amounts

Types of exposures/Amounts	Gross exposure		Overall impairment losses/reversals and overall allocations	Net exposure	Overall partial write-offs
	Non-performing	Performing			
A. On-balance-sheet credit exposures					
a) Bad loans	-	X	-	-	-
- of which forborne exposures	-	X	-	-	-
b) Unlikely to pay	-	X	-	-	-
- of which forborne exposures	-	X	-	-	-
c) Non-performing past due exposures	-	X	-	-	-
- of which forborne exposures	-	X	-	-	-
d) Performing past due exposures	X	-	-	-	-
- of which forborne exposures	X	-	-	-	-
e) Other performing exposures	X	1.075.444	1.309	1.074.135	-
- of which forborne exposures	X	-	-	-	-
Total (A)	-	1.075.444	1.309	1.074.135	-
B. Off-balance-sheet credit exposures					
a) Non-performing	-	X	-	-	-
b) Performing	X	94.200	-	94.200	-
Total (B)	-	94.200	-	94.200	-
Total (A+B)	-	1.169.644	1.309	1.168.335	-

On-balance-sheet exposures include all on-balance-sheet financial assets due from customers, regardless of the portfolio they are included in (available for sale, held to maturity, loans and receivables).

A.1.5 Prudential consolidation - On- and off-balance-sheet credit exposures to customers: gross and net amounts

Types of exposures/Amounts	Gross exposure		Overall impairment losses/reversals and overall allocations	Net exposure	Overall partial write-offs
	Non-performing	Performing			
A. On-balance-sheet credit exposures					
a) Bad loans	1.217.316	X	117.485	1.099.831	588
- of which forborne exposures	120.685	X	3.536	117.149	8
b) Unlikely to pay	564.046	X	105.508	458.538	-
- of which forborne exposures	84.745	X	9.554	75.191	-
c) Non-performing past due exposures	35.449	X	2.821	32.628	-
- of which forborne exposures	3.067	X	503	2.564	-
d) Performing past due exposures	X	391.393	5.635	385.758	-
- of which forborne exposures	X	5.562	263	5.299	-
e) Other performing exposures	X	7.070.911	62.699	7.008.212	39.967
- of which forborne exposures	X	34.067	968	33.099	-
Total (A)	1.816.811	7.462.304	294.148	8.984.967	40.555
B. Off-balance-sheet credit exposures					
a) Non-performing	66.496	X	7.750	58.746	-
b) Performing	X	1.393.136	3.238	1.389.898	-
Total (B)	66.496	1.393.136	10.988	1.448.644	-
Total (A+B)	1.883.307	8.855.440	305.136	10.433.611	40.555

On-balance-sheet exposures include all on-balance-sheet financial assets due from customers regardless of the portfolio they are included in (measured at amortised cost, measured at fair value through other comprehensive income, designated as measured at fair value, mandatorily measured at fair value, under disposal).

A.1.5a On-balance sheet receivables due from customers for cash concerned by Covid-19 support measures: gross and net amounts

This table shows, with reference to the loans concerned by moratorium or other Covid-19 concessions, or which constitute new liquidity granted by means of public guarantee mechanisms, details of the gross exposure and comprehensive value adjustments, as well as a disclosure on net exposure for the various categories of impaired/non-impaired assets.

Types of exposures/Amounts	Gross exposure	Overall impairment losses/reversals and overall allocations	Net exposure	Overall partial write-offs ⁽¹⁾
A. Bad loans:	822	425	397	n.a.
a) Concerned by concession in compliance with the GLs	453	278	175	n.a.
b) Concerned by other concessions	369	147	222	n.a.
c) New loans	-	-	-	n.a.
B. Unlikely to pay exposures:	9.592	4.256	5.336	n.a.
a) Concerned by concession in compliance with the GLs	3.608	810	2.798	n.a.
b) Concerned by other concessions	5.984	3.446	2.538	n.a.
c) New loans	-	-	-	n.a.
C. Non-performing past due exposures:	1.710	326	1.384	n.a.
a) Concerned by concession in compliance with the GLs	833	179	654	n.a.
b) Concerned by other concessions	877	147	730	n.a.
c) New loans	-	-	-	n.a.
D. Performing past due exposures:	17.725	569	17.156	n.a.
a) Concerned by concession in compliance with the GLs	15.342	442	14.900	n.a.
b) Concerned by other concessions	1.924	127	1.797	n.a.
c) New loans	459	-	459	n.a.
E. Other performing exposures:	852.755	9.631	843.124	n.a.
a) Concerned by concession in compliance with the GLs	636.699	9.300	627.399	n.a.
b) Concerned by other concessions	1.889	73	1.816	n.a.
c) New loans	214.167	258	213.909	n.a.
Total (A+B+C+D+E)	882.604	15.207	867.397	n.a.

(1) The partial write-offs at 31 December 2020 is not given, in compliance with the provisions of the Bank of Italy Communication of 21 December 2020 called "Integrazioni alle disposizioni della Circolare n. 262 "Il bilancio bancario: schemi e regole di compilazione" aventi ad oggetto gli impatti del COVID-19 e delle misure a sostegno dell'economia ed emendamenti agli IAS/IFRS"

A.1.7 Prudential consolidation - On-balance-sheet credit exposures to customers: trends in gross non-performing exposures

Reason/Categories	Bad loans	Unlikely to pay	Non-performing past due exposures
A. Opening gross exposure	1.220.101	591.138	103.789
- of which: transferred and not derecognised	-	3.394	4.880
B. Increases	745.557	325.682	272.758
B.1 income from performing exposures	1.518	72.892	271.931
B.2 income from purchased or originated impaired financial assets	596.646	219.329	510
B.3 transfers from other non-performing exposure categories	46.771	28.688	317
B.4 contractual modifications without derecognition	-	-	-
B.5 other increases	100.622	4.773	-
- of which: business combinations	3.654	2.393	-
C. Decreases	748.342	352.774	341.098
C.1 outflows to performing exposures	31.158	34.931	248.939
C.2 write-offs	29.937	349	25
C.3 collections	213.960	166.688	2.543
C.4 proceeds from sales	94.375	50.808	-
C.5 losses on sale	368.951	9.134	175
C.6 transfers to other non-performing loan categories	9.538	44.173	22.065
C.7 contractual modifications without derecognition	-	-	-
C.8 other decreases	423	46.691	67.351
D. Closing gross exposure	1.217.316	564.046	35.449
- of which: transferred and not derecognised	1.519	4.934	1.782

On-balance-sheet exposures include all on-balance-sheet financial assets due from customers regardless of the portfolio they are included in (measured at amortised cost, measured at fair value through other comprehensive Income, designated as measured at fair value, mandatorily measured at fair value, under disposal).

A.1.7bis Prudential consolidation - On-balance-sheet credit exposures to customers: trends in gross forborne exposures broken down by credit quality

Reason/Categories	Forborne exposures: non-performing	Forborne exposures: performing
A. Opening gross exposure	214.030	30.449
- of which: transferred and not derecognised	1.036	3.798
B. Increases	576.814	54.395
B.1 inflows from non-forborne performing exposures	885	11.740
B.2 inflows from forborne performing exposures	2.587	X
B.3 inflows from non-performing forborne exposure	X	1.909
B.4 inflows from non-forborne non-performing exposures	23.314	61
B.5 other increases	550.028	40.685
C. Decreases	582.347	45.215
C.1 outflows to non-forborne performing exposures	X	16.091
C.2 outflows to forborne performing exposures	1.909	X
C.3 outflows to non-performing forborne exposures	X	2.587
C.4 write-offs	5.994	-
C.5 collections	91.234	1.013
C.6 proceeds from sales	72.322	-
C.7 losses on sale	43.861	-
C.8 other decreases	367.027	25.524
D. Closing gross exposure	208.497	39.629
- of which: transferred and not derecognised	1.232	4.617

A.1.9 Prudential consolidation - On-balance-sheet non-performing credit exposures to customers: trends in overall impairment losses/reversals

Reason/Categories	Bad loans		Unlikely to pay		Non-performing past due exposures	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Opening balance of total impairment losses/reversals of impairment losses	167.004	10.273	120.312	6.700	6.477	464
- of which: transferred and not derecognised	-	-	1.680	154	-	-
B. Increases	52.408	1.285	64.428	4.843	4.355	228
B.1 impairment losses from purchased or originated impaired financial assets	-	X	-	X	-	X
B.2. other impairment losses	36.785	412	62.556	4.625	3.833	228
B.3 losses on sale	9.688	812	-	-	-	-
B.4 transfers from other non-performing exposure categories	4.959	61	1.706	218	329	-
B.5 contractual modifications without derecognition	-	-	-	-	-	-
B.6 other increases	976	-	166	-	193	-
C. Decreases	101.927	8.022	79.232	1.989	8.011	189
C.1 impairment reversals from appreciation	13.239	-	23.779	-	6.256	-
C.2 impairment reversals from collection	13.414	3.269	32.824	1.283	59	-
C.3 gains on disposal	124	-	-	-	-	-
C.4 write-offs	74.663	4.753	17.016	-	4	-
C.5 transfers to other non-performing loan categories	7	-	5.463	-	1.524	189
C.6 contractual modifications without derecognition	-	-	-	-	-	-
C.7 other decreases	480	-	150	616	168	-
D. Closing balance of total impairment losses/reversals of impairment losses	117.485	3.536	105.508	9.554	2.821	503
- of which: transferred and not derecognised	-	-	1.876	151	261	29

A.2 Classification of exposures based on external and internal ratings

A.2.1 Prudential consolidation - Breakdown of financial assets, loan commitments and financial guarantees granted by external rating class (gross amounts)

For the purposes of calculating capital requirements against credit risk, Banca Ifis uses the external credit assessment institution (ECAI) Fitch Ratings exclusively for the positions recognised under "Exposures to Central Governments and Central Banks"; no external ratings are used for the other asset classes. Considering the composition of the assets, external ratings are used exclusively for the portfolio of government bonds.

A.2.2 Prudential consolidation - Breakdown of financial assets, loan commitments and financial guarantees granted by internal rating class (gross amounts)

The Banca Ifis Group does not use internal ratings for the purposes of calculating capital absorption. The Group has implemented a managerial internal ratings system on the domestic enterprises segment. This has been developed on proprietary databases and has the following components:

- a "financial" module, to assess the company's operating/financial soundness;
- a "central credit register" module, presenting the evolution of counterparty risk vis-à-vis the banking industry;
- an "internal performance" module, monitoring the performance of the relationships between the counterparty and the Group.

A.3 Breakdown of guaranteed credit exposures by guarantee type

A.3.1 Prudential consolidation - Guaranteed on- and off-balance-sheet credit exposures to banks

	Gross exposure	Net exposure	Collateral guarantees (1)				Personal guarantees (2)								Total (1)+(2)	
							Credit derivatives					Unsecured loans				
			Property Mortgages	Property Finance Leases	Securities	Other collateral guarantees	CLN	Other derivatives				Public Administrations	Banks	Other financial companies		Other entities
								Central counterparties	Banks	Other financial companies	Other entities					
1. Guaranteed on-balance-sheet credit exposures:	784	781	-	-	781	-	-	-	-	-	-	-	-	-	-	781
1.1 totally guaranteed	784	781	-	-	781	-	-	-	-	-	-	-	-	-	-	781
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 partially guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Guaranteed off-balance-sheet credit exposures:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.1 totally guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 partially guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.3.2 Prudential consolidation - Guaranteed on- and off-balance-sheet credit exposures to customers

	Gross exposure	Net exposure	Collateral guarantees (1)				Personal guarantees (2)									Total (1)+(2)
							Credit derivatives					Unsecured loans				
			Property Mortgages	Property Finance Leases	Securities	Other collateral guarantees	CLN	Other derivatives				Public Administrations	Banks	Other financial companies	Other entities	
								Central counterparties	Banks	Other financial companies	Other entities					
1. Guaranteed on-balance-sheet credit exposures:	3.301.073	3.152.354	692.034	-	8.840	1.403.871	-	-	-	-	-	334.391	-	30.424	403.289	2.872.849
1.1 totally guaranteed	2.428.310	2.316.973	526.721	-	2.923	1.322.719	-	-	-	-	-	62.395	-	25.229	376.986	2.316.973
- of which non-performing	285.482	201.040	141.238	-	-	13.311	-	-	-	-	-	346	-	79	46.066	201.040
1.2 partially guaranteed	872.763	835.381	165.313	-	5.917	81.152	-	-	-	-	-	271.996	-	5.195	26.303	555.876
- of which non-performing	63.190	35.335	14.966	-	-	180	-	-	-	-	-	4.788	-	146	2.740	22.820
2. Guaranteed off-balance-sheet credit exposures:	63.177	62.759	1.057	-	297	8.001	-	-	-	-	-	-	-	100	35.308	44.763
2.1 totally guaranteed	36.589	36.413	-	-	297	1.195	-	-	-	-	-	-	-	75	34.848	36.415
- of which non-performing	1.013	933	-	-	-	-	-	-	-	-	-	-	-	-	933	933
2.2 partially guaranteed	26.588	26.346	1.057	-	-	6.806	-	-	-	-	-	-	-	25	460	8.348
- of which non-performing	2.594	2.443	-	-	-	-	-	-	-	-	-	-	-	-	-	-

B. Concentration and distribution of credit exposures

B.1 Prudential Consolidation - Breakdown of on- and off-balance-sheet credit exposures to customers by segment

Exposures/Counterparties	Public Administrations		Financial companies		Financial companies (of which: insurance companies)		Non-financial companies		Households	
	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals
A. On-balance-sheet credit exposures										
A.1 Bad loans	3.489	8.291	1.239	106	-	-	187.200	100.504	907.903	8.584
- of which forborne exposures	-	-	9	-	-	-	3.822	3.120	113.318	416
A.2 Unlikely to pay	806	131	1.656	2.124	11	3	147.197	95.010	308.879	8.243
- of which forborne exposures	-	-	9	5	-	-	12.968	6.768	62.214	2.781
A.3 Non-performing past due exposures	9.974	279	22	4	-	-	17.831	1.638	4.801	900
- of which forborne exposures	-	-	-	-	-	-	771	70	1.793	433
A.4 Performing exposures	2.439.898	1.299	333.822	3.377	315	6	3.900.497	54.391	719.753	9.267
- of which forborne exposures	1.220	25	4.543	-	-	-	18.392	472	14.243	734
Total (A)	2.454.167	10.000	336.739	5.611	326	9	4.252.725	251.543	1.941.336	26.994
B. Off-balance-sheet credit exposures										
B.1 Non-performing exposures	-	-	-	-	-	-	43.650	7.548	15.096	202
B.2 Performing exposures	-	-	131.806	843	-	-	927.912	2.307	330.180	88
Total (B)	-	-	131.806	843	-	-	971.562	9.855	345.276	290
Total (A+B) 31.12.2020	2.454.167	10.000	468.545	6.454	326	9	5.224.287	261.398	2.286.612	27.284
Total (A+B) 31.12.2019	2.048.761	9.075	240.990	14.311	35	-	5.482.078	275.944	1.969.165	35.611

B.2 Prudential consolidation - Geographical breakdown of on- and off-balance-sheet credit exposures to customers

Exposures/Geographic areas	Italy		Other European countries		America		Asia		Rest of the World	
	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals
A. On-balance-sheet credit exposures										
A.1 Bad loans	1.099.213	117.396	596	88	13	-	1	1	8	-
A.2 Unlikely to pay	457.659	103.742	872	1.766	3	-	-	-	4	-
A.3 Non-performing past due exposures	32.127	2.792	501	29	-	-	-	-	-	-
A.4 Performing exposures	7.014.614	58.570	258.430	8.404	81.964	1.171	36.255	176	2.707	13
Total (A)	8.603.613	282.500	260.399	10.287	81.980	1.171	36.256	177	2.719	13
B. Off-balance-sheet credit exposures										
B.1 Non-performing exposures	56.926	7.750	1.820	-	-	-	-	-	-	-
B.2 Performing exposures	1.319.989	3.047	67.832	191	-	-	1.661	-	416	-
Total (B)	1.376.915	10.797	69.652	191	-	-	1.661	-	416	-
Total (A+B) 31.12.2020	9.980.528	293.297	330.051	10.478	81.980	1.171	37.917	177	3.135	13
Total (A+B) 31.12.2019	9.251.437	329.982	337.296	4.082	108.423	682	43.195	192	643	3

B.3 Prudential consolidation - Geographical breakdown of on- and off-balance-sheet credit exposures to banks

Exposures/Geographic areas	Italy		Other European countries		America		Asia		Rest of the World	
	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals
A. On-balance-sheet credit exposures										
A.1 Bad loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	1.049.473	1.234	15.197	40	9.465	35	-	-	-	-
Total (A)	1.049.473	1.234	15.197	40	9.465	35	-	-	-	-
B. Off-balance-sheet credit exposures										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	81.769	-	1.206	-	11.225	-	-	-	-	-
Total (B)	81.769	-	1.206	-	11.225	-	-	-	-	-
Total (A+B) 31.12.2020	1.131.242	1.234	16.403	40	20.690	35	-	-	-	-
Total (A+B) 31.12.2019	660.856	747	30.102	110	21.524	38	-	-	-	-

B.4 Major exposures

		31.12.2020	31.12.2019
a)	Carrying amount	3.418.576	2.565.298
b)	Weighted amount	425.098	573.734
c)	Number	4	4

The overall weighted amount of major exposures at 31 December 2020 consisted of 232 million Euro in tax assets and 193 million Euro in exposures to counterparties not included in the prudential scope of consolidation.

Disclosure regarding Sovereign Debt

On 5 August 2011, Consob (drawing on ESMA document no. 2011/266 of 28 July 2011) issued Communication no. DEM/11070007 on disclosures by listed companies of their exposures to sovereign debt and market performance, the management of exposures to sovereign debt, and their operating and financial impact.

Pursuant to said communication, please note that at 31 December 2020 the exposures to sovereign debt entirely consisted of Italian government bonds; their carrying amount totalled 1.808 million Euro, net of the negative 2,7 million Euro valuation reserve.

These securities, with a nominal amount of approximately 1.783 million Euro, are included within the banking book and have a weighted residual average life of approximately 39 months.

The fair values used to measure the exposures to sovereign debt securities at 31 December 2020 are considered to be Level 1.

Pursuant to the Consob Communication, besides the exposure to sovereign debt, it is also necessary to consider receivables due from the Italian National Administration, which at 31 December 2020 totalled 646 million Euro, including 96 million Euro relating to tax receivables.

C. Securitisation transactions

Securitisations in which the Bank is the originator and for which all the liabilities issued by the special purpose vehicles were subscribed by the Bank at the time of issue shall not be recorded in this Part.

Qualitative information

Objectives, strategies and processes

The Group has exposures to securitisations originated by third parties, acquired for investment purposes with the aim of generating a profit margin and achieving an appreciable medium/long-term return on capital.

These transactions may be originated by the Group's Business Units, based on the characteristics of the underlying portfolio – performing or non-performing – or as part of liquidity investments.

Purchases are carried out in accordance with credit risk policies and procedures, and specifically the "Securitisation management policy in the role of promoter or investor", as well as the Risk Appetite Framework. The Group invests in securitisations of which it is able to value, on the basis of its experience, the relevant underlying assets.

In particular, after identifying the investment opportunity, the unit that proposes the transaction conducts a due diligence review to estimate future cash flows and determine whether the price is fair, coordinating the organisational units concerned from time to time and formalising the relevant findings to be submitted to the competent decision-making body.

Subsequent to the purchase, the investment is constantly monitored based on the performance indicators of the underlying exposures and whether cash flows are in line with the estimates made at the time of the acquisition.

Internal measurement and control systems for risks associated with securitisation transactions

The Group has not entered into securitisation transactions with risk transfer to third parties.

Hedging policies adopted to mitigate the relevant risks

The Group has a "Securitisation management policy in the role of promoter or investor" that governs the management of securitisation transactions in which it is involved as "investor" (i.e. the buyer of the notes) or "sponsor" (i.e. the party that establishes the transaction). For each potential case, the policy sets out the responsibilities of the organisational units and bodies with reference to both the due diligence process and the ongoing monitoring of the transaction.

This section describes the Group's exposures towards securitisation transactions in which it is involved as originator, sponsor, or investor.

Ifis ABCP Programme securitisation

On 7 October 2016, Banca Ifis launched a three-year revolving securitisation of trade receivables due from account debtors. After Banca Ifis (originator) initially reassigned the receivables for 1.254,3 million Euro, in the second quarter of 2018, the vehicle named Ifis ABCP Programme S.r.l. issued an initial 850 million Euro, increased to 1.000 million Euro, worth of senior notes subscribed for by the investment vehicles owned by the banks that co-arranged the transaction, simultaneously with the two-year extension of the revolving period. An additional tranche of senior notes, with a maximum nominal amount of 150 million Euro, initially issued for 19,2 million Euro, and that was subsequently adjusted based on the composition of the assigned portfolio, was subscribed for by Banca Ifis. During the first half of 2019, this portion was first partially repaid by the vehicle, then sold to a third-party bank for a total residual value of 98,9 million Euro. The difference between the value of the receivables portfolios and the senior notes issued represents the credit granted to the notes' bearers, which consists in a deferred purchase price.

Banca Ifis acts as servicer, performing the following tasks:

- following collection operations and monitoring cash flows on a daily basis;
- reconciling the closing balance at every cut-off date;

- verifying, completing and submitting the service report with the information on the securitised portfolio requested by the vehicle and the banks at every cut-off date.

As part of the securitisation programme, the Bank sends the amount it collects to the vehicle on a daily basis, while the new portfolio is assigned approximately six times each month; this ensures a short time lapse between the outflows from the Bank and the inflows associated with the payment of the new assignments.

Only part of the securitised receivables due from account debtors are recognised as assets, especially for the portion that the Bank has purchased outright, resulting in the transfer of all risks and rewards to the buyer. Therefore, the tables in the quantitative disclosure show only this portion of the portfolio.

In compliance with IAS/IFRS accounting standards, currently the securitisation process does not involve the substantial transfer of all risks and rewards, as it does not meet derecognition requirements. In addition, the vehicles were consolidated in order to provide a comprehensive view of the transaction.

The maximum theoretical loss for Banca Ifis is represented by the losses that could potentially arise within the portfolio of assigned receivables, and the impact would be the same as if the securitisation programme did not exist; therefore, the securitisation has been accounted for as follows:

- the securitised receivables purchased outright were recognised under "receivables due from customers", subitem "factoring";
- the funds raised from the issue of senior notes subscribed for by third parties were recognised under "debt securities issued";
- the interest on the receivables was recognised under "interest on receivables due from customers";
- the interest on the notes was recognised under "interest due and similar expenses", subitem "debt securities issued";
- the arrangement fees were fully recognised in profit or loss in the year in which the programme was launched.

At 31 December 2020, the interest expense on the senior notes recognised in profit or loss amounted to 7,0 million Euro.

Securitisation transactions acquired through Farbanca

At the reference date of the financial statements at 31 December 2020, there were two securitisation transactions in place, respectively called Ambra and Emma, prepared by Farbanca and which came under the scope of the Banca Ifis Group by virtue of the acquisition of 70,77% of said company in 2020.

As regards Ambra, on 1 January 2017 a securitisation was completed in accordance with Italian Law no. 130/1999, classed as multi-originator and involving not only Farbanca but also another two companies belonging to the former Banca Popolare di Vicenza Group. The transaction concerned a portfolio of non-performing exposures (unsecured and mortgage loan contracts, credit facilities and other sundry contracts) for a nominal amount of a total of 4,3 billion Euro, transferred for a price of 1,7 billion Euro. All ABS securities issued in three tranches (senior, mezzanine and junior) by the SPV Ambra S.r.l. were subscribed "pro quota" by the three originators in connection with the portfolio sold ("self-securitisation"). In the case in point, Farbanca subscribed 0,8 million Euro in senior tranches (out of a total of 250 million Euro), 2,0 million Euro by way of mezzanine

tranches (out of a total of 656 million Euro) and 2,6 million Euro in junior securities (with respect to a total of 780 million Euro). For this transaction, Farbanca, for the portion under its competence, subscribed a specific servicing contract with the SPV for the coordination and supervision of the management, administration and collection of securitised loans, as well as for collection in the event of debtor default.

In March 2018, Farbanca autonomously completed the securitisation of loans called "Emma" for a total nominal amount of approximately 460 million Euro. The loan portfolio transferred regarded performing exposures relative to secured credit, mortgage and unsecured loans, characterised by average seasoning of 7 years. The transaction, structured by Banca IMI (Intesa Sanpaolo Group) was completed with the acquisition of loans by the SPV pursuant to Italian Law no. 130/1999, Emma S.P.V. S.r.l. The securities were issued in three classes: a senior class for an amount of 322 million Euro, fully subscribed by institutional investors through private placement; a mezzanine class of 46 million Euro and a junior class of 96 million Euro, both subscribed fully by Farbanca.

The above securitisation transactions, Emma and Ambra, do not meet the requirements for derecognition in accordance with IFRS 9, not configuring a substantial transfer of all risks and related benefits. Therefore, the assets transferred and not cancelled with reference to the loans concerned by said securitisation, not meeting the requirements envisaged for derecognition, were "restored" to the financial statements.

Third-party securitisation transactions

At 31 December 2020, the Group held 121,0 million Euro in notes deriving from third-party securitisation transactions: specifically, it held 117,5 million Euro worth of senior notes and 2,8 million Euro worth of mezzanine and junior notes termed "single tranche" for 0,8 million Euro. The portfolio value rose significantly on the figure of 62,9 million Euro at 31 December 2019, mainly due to the new subscriptions of securities made by the Group in 2020, as detailed in the next paragraph.

Here below are the main characteristics of the transactions outstanding at the reporting date:

- "Cinque V" securitisation: launched in late November 2017, this securitisation through the special purpose vehicle Ballade SPV S.r.l. only has a mortgage loan classified as bad loan as the underlying asset, with a nominal amount of 20 million Euro and maturity in October 2020. Also in this case, the Parent company participates as Senior Noteholder and Sponsor, subscribing for 100% of the senior notes (2,1 million Euro) and 5% of the junior notes; the transaction was substantially closed following the sale of the underlying asset to the mortgage credit;
- "Elite Basket Bond (EBB)" securitisation: the special purpose vehicle EBB S.r.l. issued Asset Backed Securities (ABS) at a price equal to the nominal amount, amounting to 122 million Euro, in a single tranche with maturity in December 2027 and a Basket of minibonds issued by 11 Italian listed companies as the underlying asset. These notes are unsecured senior bonds but carry a Credit Enhancement equal to 15% of the transaction's overall amount (24 million Euro), to be used in the event the issuers default on interest and/or principal payments on the minibonds. The Parent company participates in this transaction only as underwriter, subscribing for 5,6 million Euro worth of notes of the above tranche;
- "FINO 1" securitisation: this is an investment as a senior Noteholder in a securitisation transaction whose tranches issued are supported by a state guarantee "GACS" (Guarantee on the securitisation of bad loans) and with underlying bad loans with an original total nominal amount of about 5,4 billion Euro.

The tranche originally subscribed for 92,5 million Euro by Banca Ifis (out of a total nominal amount of 650 million Euro) is the Senior Note Class A, with maturity in October 2045. Net of the redemptions occurred during the year, at 31 December 2020 the carrying amount of the portion subscribed for was 35,7 million Euro (54,2 million Euro at 31 December 2019);

- “Elipso Finance” securitisation: this is an investment as mezzanine noteholder in a securitisation and with underlying non-performing positions worth a total original nominal amount of approximately 2,6 billion Euro. The only tranche today held by the company that is today the subsidiary Ifis Npl Servicing, previously acquired, has a residual nominal amount of 74 million Euro (out of a total nominal amount of 470 million Euro): this is the Class B Mezzanine Note maturing in January 2028. No capital redemptions occurred during the year and at 31 December 2020 the carrying amount of the portion subscribed for was 2,7 million Euro;
- “Auxilio” securitisation: this is an investment made in October 2020 for an opening nominal amount of 1,9 million Euro relative to the purchase by Banca Ifis of a portion of senior notes, with legal maturity in September 2035, issued by the securitisation SPV Auxilio SPV S.r.l., with underlying credits deriving from loans backed by the Central Guarantee Fund. The transaction is characterised by a ramp-up period during which the issuer can purchase additional loans against the proceeds deriving from the payment of further tranches of the security subscription price; as a result of the payments made between the purchase date and the end of the year, the nominal amount of the senior tranche held is 4,5 million Euro. No capital redemptions occurred during the months between the investment date and end 2020, and at 31 December 2020, the carrying amount of the portion subscribed for was 4,5 million Euro;
- “Dyret II” securitisation: the involvement of the Banca Ifis Group is limited to the purchase during November 2020 by the Parent company of senior tranches of securities issued by the securitisation SPV Dyret SPV S.r.l. and with loans deriving from salary-backed or pension-backed loans or payment delegations as collateral, for a nominal amount of 14,9 million Euro at the purchase date. The securities envisage the periodic redemption of the principal against the flows deriving from the securitised portfolio and have legal maturity at December 2035. At 31 December 2020, the residual nominal amount is 14,4 million Euro due to the redemptions applied between the security purchase date and the year end, while the carrying amount of the tranches subscribed is 14,3 million Euro;
- “Futura 2019” securitisation: In 2020, Banca Ifis subscribed, for a nominal amount of 2,7 million Euro, senior securities maturing in July 2044, issued by the SPV Futura 2019 S.r.l. There were no redemptions on said securities after their subscription, and at 31 December 2020 they had a net carrying amount of 2,7 million Euro;
- “BCC NPLs 2020” securitisation: this transaction was carried out in November 2020 by Iccrea Banca on an underlying of Npls for a total of 2,4 billion Euro, divided up over more than 9.600 debtors and 17.000 positions. This transaction, carried out through the SPV BCC NPLs 2020 S.r.l., is backed by the government GACS guarantee scheme and regarded the issue of senior, mezzanine and junior securities with maturity at January 2045. The Parent company Banca Ifis was involved in connection with the subscription of a portion of securities for each tranche, for a total nominal amount of 55,5 million Euro. In December, no redemptions were applied on these securities and the carrying amount at 31 December 2020 of the securities subscribed is 54,7 million Euro for the senior tranches (measured at amortised cost), while the value attributed to the mezzanine and junior portions (measured at fair value through profit or loss) is effectively null;
- “Bluwater” securitisation: this is a transaction implemented in December 2020 with Banco BPM as originator and Pillarstone Italy SPV S.r.l. as SPV and that consisted of the issue of a single tranche of securities (referred to as “single tranche”) maturing in October 2030. Banca Ifis subscribed a portion of

said securities for 3,7 million in nominal amount, which at 31 December 2020 has a carrying amount of 0,8 million Euro (securities measured at fair value through profit or loss).

For the sake of completeness, the Group participates, through the most extensive intervention carried out in 2017 by the Voluntary Scheme of the Interbank Deposit Protection Fund, in units of the mezzanine and junior notes of the "Berenice" securitisation for a total of 0,1 million Euro.

Quantitative information**C.1 Prudential consolidation - Exposures from the main "own" securitisations broken down by type of securitised asset and type of exposure**

Type of securitised asset/Exposure	On-balance-sheet exposures						Guarantees granted						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Carrying amount	Impairment losses/ reversals	Carrying amount	Impairment losses/ reversals	Carrying amount	Impairment losses/ reversals	Net exposure	Impairment losses/ reversals	Net exposure	Impairment losses/ reversals	Net exposure	Impairment losses/ reversals	Net exposure	Impairment losses/ reversals	Net exposure	Impairment losses/ reversals	Net exposure	Impairment losses/ reversals
A. Fully derecognised																		
- asset type	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Partly derecognised																		
- asset type	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
C. Not derecognised																		
- non-performing receivables due from customers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- performing receivables due from customers	162.056	3.753	46.001	1.065	166.455	2.164	-	-	-	-	-	-	-	-	-	-	-	-

C.2 Prudential consolidation - Exposures from the main "third-party" securitisations broken down by type of securitised asset and type of exposure

Type of securitised asset/Exposure	On-balance-sheet exposures						Guarantees granted						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Carrying amount	Impairment losses/ reversals	Carrying amount	Impairment losses/ reversals	Carrying amount	Impairment losses/ reversals	Net exposure	Impairment losses/ reversals	Net exposure	Impairment losses/ reversals	Net exposure	Impairment losses/ reversals	Net exposure	Impairment losses/ reversals	Net exposure	Impairment losses/ reversals	Net exposure	Impairment losses/ reversals
Secured and unsecured loans	57.174	108	89	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt securities	118.264	502	2.754	-	20	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	175.438	610	2.843	-	20	-	-	-	-	-	-	-	-	-	-	-	-	-

C.3 Prudential consolidation - Interests in special purpose vehicles for the securitisation

Securitisation name / Special purpose vehicle name	Registered office	Consolida tion	Assets			Liabilities		
			Receivabl es	Debt securities	Other	Senior	Mezzanin e	Junior
Ifis Abcp Programme S.r.l.	Conegliano (Province of Treviso)	100%	1.265.046	-	84.467	968.994	-	-

C.6 Prudential consolidation - Consolidated securitisation vehicles

Securitisation name/ Special purpose vehicle	Registered office	% stake
Ifis Abcp Programme S.r.l.	Conegliano (Province of Treviso)	0%

D. Disposals

A. Financial assets sold and not fully derecognised

Qualitative information

Financial assets sold but not derecognised refer to securitised receivables.

Quantitative information

D.1. Prudential consolidation - Financial assets sold and fully recognised and associated financial liabilities: carrying amounts

	Financial assets sold and fully recognised				Associated financial liabilities		
	Carrying amount	of which: securitised	of which: subject to repurchase agreements	of which non-performing	Carrying amount	of which: securitised	of which: subject to repurchase agreements
A. Financial assets held for trading							
1. Debt securities	-	-	-	X	-	-	-
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
B. Other financial assets mandatorily measured at fair value							
1. Debt securities	-	-	-	-	-	-	-
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
C. Financial assets measured at fair value							
1. Debt securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income							
1. Debt securities	-	-	-	-	-	-	-
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
E. Financial assets measured at amortised cost							
1. Debt securities	-	-	-	-	-	-	-
2. Loans	1.064.930	1.064.929	-	-	1.000.210	1.000.210	-
Total 31.12.2020	1.064.930	1.064.929	-	-	1.000.210	1.000.210	-
Total 31.12.2019	983.146	832.843	150.303	-	383.166	232.886	150.280

C. Financial assets sold and fully derecognised

In October 2020, the Banca Ifis Board of Directors resolved to take part in a multioriginator securitisation of a portfolio of bad loans with the submission of an application to the Ministry for the Economy and Finance to be admitted to the government guarantee scheme for liabilities issued (the "GACS") in accordance with Italian Decree Law no. 18 of 14 February 2016, converted with Italian Law no. 49 of 08 April 2016, implemented by Decree of the Ministry for the Economy and Finance of 03 August 2016, with Decree of the Ministry for the Economy and Finance of 21 November 2017 and with Decree of the Ministry for the Economy and Finance of 10

October 2018, as subsequently amended by Italian Law no. 41 of 20 May 2019, converting into law, with amendments, Italian Decree-Law no. 22 of 25 March 2019.

The transaction, which involved a large scope of banks, envisaged the transfer, in accordance with Italian Law no. 130 of 30 April 1999, of unsecured and mortgage loan portfolios, mainly backed by first ranking mortgages, deriving from the loans classified as non-performing for a total credit claim of approximately 2,3 billion Euro, in the favour of a securitisation SPV established specifically to this end and called "BCC NPLs 2020 S.r.l." as well as the simultaneous conferral of a management mandate (servicing) by the latter to a third party independent servicer with respect to the originating banks. The SPV acquired the portfolio on 18 November 2020, financing the purchase by issuing asset-backed securities, in accordance with the combined provisions of Articles 1 and 5 of Italian Law no. 130, for a total nominal amount of approximately 585 million Euro, structured into the following classes:

- 520 million Euro in Senior Notes maturing in January 2045, with rating Baa2 and BBB respectively assigned by Moody's Italia Srl and Scope Rating AG;
- 41 million Euro in Mezzanine Notes maturing in January 2045, with rating Caa2 and CC respectively assigned by Moody's Italia Srl and Scope Rating AG;
- 24 million Euro in Junior Notes maturing in January 2045, unrated.

In order to fulfil the obligation to maintain the net economic interest of 5% in the transaction, as per Article 6 of (EU) Regulation no. 2017/2402 of the European Parliament and Council of 12 December 2017, the adhering banks, including Banca Ifis, have subscribed - and undertaken to maintain such for the entire duration of the transaction - a share of at least 5% of the nominal amount of each tranche of Notes issued in the context of the Transaction (the "vertical segment" procedure). The remaining share of Mezzanine and Junior Notes was instead subscribed by a third party independent investor.

The transaction has been structured in such a way as to have suitable characteristics to allow the Senior Notes to benefit from said GACS, given the expected deconsolidation by the originating banks of the receivables concerned by the transaction, in compliance with international accounting standards IAS/IFRS. In the case in point, paragraph 3.2.12 of IFRS 9 states that "When derecognising the financial asset as a whole, the difference between:

- the carrying amount (measured at the date of derecognition) and
- the price received (including any new assets obtained less any new liability accepted), must be noted under profit (loss) for the year".

Consequently, upon conclusion of the transaction, Banca Ifis:

- has eliminated from the assets on the balance sheet the receivables transferred in the financial position in progress at the time the settlement as made listing the mezzanine and junior tranches on the market;
- recorded on the income statement, under "Profit (loss) from sale or buyback of financial assets measured at amortised cost" the total capital loss/gain determined as the difference between the aggregated gross value at the date of transfer of the loans, less the cumulative value adjustments and including any collections made from said loans and pertaining to the SPV at the date of sale (60,3 million Euro) and the price received (57,0 million Euro); a difference that is expressed as a total capital loss of 3,3 million Euro;

- noted on the balance sheet the Senior, Mezzanine and Junior notes subscribed at the related fair value for a total amount of 55,2 million Euro (for more details on the units subscribed by Banca Ifis, refer to the information given in section "C. Securitisation transactions" of this Part E).

1.2 Market risks

Impacts deriving from the Covid-19 pandemic

The effects of the Covid-19 pandemic relative to the market risk concerning the items that are part of the trading book, were characterised by limited impacts, in line with the margins and dimension of that portfolio with respect to the total portfolio owned by the Group, as ruled internally by the Risk Appetite Framework.

The evolution of the pandemic and the significant risk off that characterised the various asset classes during the first quarter has in any case determined, by the department in charge of the proprietary portfolio management, a strategy characterised by a tendency to reduce the risk component, including through the progressive disposal of certain previous positions.

The operations in question, on the other hand, revealed an operative picture constantly characterised by an accurate, stringent control of risk operatively laid out both through a careful use of derivatives for hedging (economic, not accounting) and the economic enhancement of the banking book and a marginal allocation of liquidity relative to the trading book and established in terms of potential investment.

In line with the management strategy mentioned, despite the exceptional nature of the pandemic, during FY 2020, no violations were seen to the risk thresholds assigned internally.

During the year, the methodological and technological improvement project was completed, relative to both the front and middle office processes and the risk measurement and control systems through the implementation of a specific suite supplied by an external vendor.

1.2.1 Interest rate risk and price risk - supervisory trading book

Qualitative information

A. General aspects

In 2020, the investment strategy continued, as regulated in the "Banca Ifis Proprietary Portfolio Management Policy" is structured to coincide with the risk appetite formulated in 2020 by the Board of Directors under the scope of the Risk Appetite Framework and laid out in the "Group Market Risk Management Policy", as well as with the system of objectives and limits.

Within this process, the comprehensive investment strategy continued to centralise a conservative "stance", mainly comprising a bond portfolio whose main component consists of highly-liquid Italian government securities and a strategy that would offer constant returns in the medium-term.

Accordingly, the assets making up said portfolio are mainly measured at amortised cost or through the FVOCI method; they come under the scope of the banking book and do not, therefore, constitute any market risk.

Under this scope, the component relating to the "trading book", from whence stems the market risk in question, is marginal, both in terms of absolute risk values recorded and with respect to the limits established. The trading book mainly comprises options and futures deriving from hedging transactions and ancillary enhancements to the investment strategy in assets that are part of the "banking book" and "principal-discretionary trading" portfolio, characterised by short-term speculation. There is also an equity security present for residual amounts.

The trading book also contains residual transactions from the Corporate operations, as part of which clients were offered derivative contracts hedging the financial risks they assumed. In order to remove market risk, all outstanding transactions are hedged with "back to back" trades, in which the Bank assumes a position opposite to the one sold to corporate clients with independent market counterparties.

B. Management procedures and measurement methods concerning interest rate risk and price risk

The guidelines on the assumption and monitoring of market risk are laid out on a Group level in the current "Group Market Risk Management Policy", which also indicates, for the purpose of a more rigorous and detailed representation of the process activities, the metrics used for the measuring and monitoring of the risk in question.

The risk appetite level is defined in the Risk Appetite Framework, laid out over the main investment and management strategies defined in the "Banca Ifis Proprietary Portfolio Management Policy".

In particular, the measurement and assessment of market risks is based on the various characteristics (in terms of time frame, investment instruments, etc.) of the investment strategies used in the Banca Ifis Proprietary Portfolio. This is consistent with the "Banca Ifis Proprietary Portfolio Management Policy", which defines and details the strategies to be pursued in terms of portfolio structure, operative instruments and assets.

Under this scope, the monitoring of the consistency of the Group's portfolio risk profiles in respect of the risk/return objectives is based on a system of limits (both strategic and operational), which envisages the combined use of various different indicators. More specifically, the following are defined:

- Maximum Acceptable Loss;
- Maximum negative gross financial impact;
- VaR limit;
- Limits of sensitivity and Greeks;
- Any limits to the type of financial instruments admitted;
- Any composition limits.

Respect for the limits assigned to each portfolio is checked daily.

The summary management indicator used to assess exposure to the risks in question is the Value at Risk (VaR), which is a statistical measure that allows the loss that may be suffered following adverse changes to risk factors, to be estimated.

The VaR is measured using a confidence interval of 99% and a holding period of 1 day; it expresses the "threshold" of daily losses that, on the basis of probabilistic hypotheses may only be surpassed in 1% of cases.

The method used to calculate the VaR is historical simulation. With this approach, the portfolio is re-valued, applying all variations to the risk factors recorded the previous year (256 observations). The values thus obtained are compared with the current portfolio value, determining the relevant series of hypothetical gains or losses. The VaR corresponds to the ninety-ninth worst result of those obtained.

The VaR is also divided, for monitoring purposes, amongst the risk factors referring to the portfolio.

To supplement the risk indications deriving from the VaR, managerially, for monitoring purposes, the Expected Shortfall (ES) is also used, which expresses the average daily loss that exceeds the VaR data.

The forecasting capacity of the risk measurement model used, is verified through a daily backtesting analysis in which the VaR for the positions in the portfolio at $t-1$ is compared with the profit and loss generated by such positions at t .

Quantitative information

1. Supervisory trading book: breakdown by residual maturity (re-pricing date) of on-balance-sheet financial assets and liabilities and financial derivatives - Currency: Euro

Type/Residual maturity	on demand	up to 3 months	over 3 to 6 months	over 6 months to 1 year	over 1 to 5 years	over 5 to 10 years	over 10 years	indefinite life
1. On-balance-sheet assets	-	-	-	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. On-balance-sheet liabilities	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	232	-	-	-	-	-	-
- Other								
+ long positions	-	-	-	82	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	44.714	62.536	4.239	36.301	4.645	-	-
+ short positions	-	44.714	62.536	4.239	36.301	4.645	-	-

3. Supervisory trading book: internal models and other methods for the sensitivity analysis

1.2.2 Interest rate risk and price risk - banking portfolio

Qualitative information

A. General aspects, management procedures and measurement methods concerning the interest rate risk and the price risk

As a general principle, the Group does not assume significant interest rate risks. In terms of breakdown of the balance sheet with reference to the types of risk in question, in respect of the liabilities, the main funding source is still the on-line savings account "Rendimax", the fixed-rate customer deposits for the restricted component

and the non index-linked variable rate that can be unilaterally revised by the Bank in respect of the rules and contracts, for unrestricted demand and on-call deposits. The other main components of funding concern mainly fixed-rate bond funding, variable-rate self-securitisation operations and loans with the Eurosystem (TLTRO).

As for the assets, loans to customers still largely have floating rates as far as both trade receivables and corporate financing are concerned.

As for the operations concerning distressed retail loans (carried out by the subsidiaries Ifis Npl S.p.A. and Ifis Npl Servicing S.p.A.), for which the business model focuses on acquiring receivables at prices lower than their nominal amount, there is a potential interest rate risk also associated with the uncertainty about when the receivables will be collected.

At 31 December 2020, the comprehensive bond portfolio mainly comprises government securities for a percentage of approximately 85%; the comprehensive average modified duration is approximately 2,6 years.

The corporate department appointed to guarantee the rate risk management is the Capital Markets Central Department, which, in line with the risk appetite established, defines what action is necessary to pursue this. The Risk Management Department is responsible for proposing the risk appetite, identifying the most appropriate risk indicators and monitoring the relevant performance of the assets and liabilities in connection with the pre-set limits. Senior Management makes annual proposals to the Bank Board as to the policies on lending, funding and the management of interest rate risk, as well as suggesting appropriate actions by which to ensure that operations are carried out consistently with the risk policies approved by the Bank.

The Risk Management function periodically reports to the Bank's Board of Directors on the interest rate risk position by means of a specific monthly report prepared for the Bank's management.

The interest rate risk falls under the category of second-pillar risks. The guidelines on the assumption and monitoring of market risk are laid out on a Group level in the "Group Banking Book Interest Rate Risk Management Policy", which also indicates, for the purpose of a more rigorous and detailed representation of the process activities, the metrics used for the measuring and monitoring of the risk in question. Monitoring is performed at the consolidated level.

Considering the extent of the risk assumed, the Banca Ifis Group does not usually specific interest rate risk hedges.

The classification of a portion of the bonds held in the Proprietary Portfolio as Financial assets measured at fair value through other comprehensive income introduces the risk that the Group's reserves may fluctuate as a result of the change in their fair value. There is also a residual portion in equity securities, which belong to the major European indexes and are highly liquid, including Financial assets measured at fair value through other comprehensive income. A part share of these assets are economically hedged through derivatives that are part of the trading book.

From a managerial viewpoint, the above assets, relating to the management of the Group's Proprietary Portfolio, are specifically monitored as regulated in the "Group Market Risk Management Policy".

Quantitative information

1. Banking book: breakdown by residual maturity (re-pricing date) of financial assets and liabilities - Currency: Euro

Type/Residual maturity	on demand	up to 3 months	over 3 to 6 months	over 6 months to 1 year	over 1 to 5 years	over 5 to 10 years	over 10 years	Indefinite life
1. On-balance-sheet assets	2.464.525	4.088.542	1.300.125	239.869	2.009.047	493.327	108.501	-
1.1 Debt securities	345	221.505	653.693	13.533	874.268	225.508	58.559	-
- with early redemption option	345	21.503	4.358	13.533	30.632	2.029	5.700	-
- other	-	200.002	649.335	-	843.636	223.479	52.859	-
1.2 Loans to banks	196.354	768.743	93	188	408	-	-	-
1.3 Loans to customers	2.267.826	3.098.294	646.339	226.148	1.134.371	267.819	49.942	-
- current a/c	127.455	215	19.775	6.799	89.595	19.875	7.489	-
- other loans	2.140.371	3.098.079	626.564	219.349	1.044.776	247.944	42.453	-
- with early redemption option	262.898	1.486.393	416.678	21.854	63.012	758	2.181	-
- other	1.877.473	1.611.686	209.886	197.495	981.764	247.186	40.272	-
2. On-balance-sheet liabilities	1.644.356	2.972.269	368.231	904.212	3.274.996	494.666	327	-
2.1 Due to customers	1.570.508	1.936.685	297.326	623.213	1.016.796	5.318	327	-
- current a/c	857.800	141.570	32.991	62.811	151.767	-	-	-
- other payables	712.708	1.795.115	264.335	560.402	865.028	5.318	327	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	712.708	1.795.115	264.335	560.402	865.028	5.318	327	-
2.2 Due to banks	11.014	66.578	70.864	280.956	1.623.131	87.258	-	-
- current a/c	4.994	-	-	-	-	-	-	-
- other payables	6.020	66.578	70.864	280.956	1.623.131	87.258	-	-
2.3 Debt securities	62.834	969.006	41	43	635.069	402.090	-	-
- with early redemption option	-	-	-	-	-	402.090	-	-
- other	62.834	969.006	41	43	635.069	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4. Other off-balance-sheet transactions								
+ long positions	134.107	-	-	-	-	-	-	-
+ short positions	74.056	3.382	265	1.000	35.212	20.192	-	-

1. Banking book: breakdown by residual maturity (re-pricing date) of financial assets and liabilities - Currency: Other currencies

Type/Residual maturity	on demand	up to 3 months	over 3 to 6 months	over 6 months to 1 year	over 1 to 5 years	over 5 to 10 years	over 10 years	Indefinite life
1. On-balance-sheet assets	54.632	210.904	4.344	289	610	-	-	-
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Loans to banks	21.791	38.971	-	-	-	-	-	-
1.3 Loans to customers	32.841	171.933	4.344	289	610	-	-	-
- current a/c	16.999	-	-	-	-	-	-	-
- other loans	15.842	171.933	4.344	289	610	-	-	-
- with early redemption option	24	18.343	1.044	138	328	-	-	-
- other	15.818	153.590	3.300	151	282	-	-	-
2. On-balance-sheet liabilities	26.408	239.479	-	41	-	-	-	-
2.1 Due to customers	9.463	12.239	-	-	-	-	-	-
- current a/c	9.463	-	-	-	-	-	-	-
- other payables	-	12.239	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	12.239	-	-	-	-	-	-
2.2 Due to banks	-	227.240	-	41	-	-	-	-
- current a/c	-	-	-	-	-	-	-	-
- other payables	-	227.240	-	41	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4. Other off-balance-sheet transactions								
+ long positions	210	-	-	-	-	-	-	-
+ short positions	210	-	-	-	-	-	-	-

1.2.3 Currency risk

Qualitative information

A. General aspects, management procedures and measurement methods of the currency risk

The assumption of currency risk, intended as an operating element that could potentially improve treasury performance, represents an operation that is not part of the Group's policies. Banca Ifis's foreign currency operations largely involve collections and payments associated with factoring operations and in hedging assets in foreign currencies, like units of UCITSs. In this sense, the assets in question are generally hedged with deposits and/or loans from other banks in the same currency, thus eliminating for the most part the risk of losses associated with exchange rate fluctuations. In some cases, synthetic instruments are used as hedging instruments.

A residual currency risk arises as a natural consequence of the mismatch between the clients' borrowings and the Capital Markets Central Department's funding operations in foreign currency. Such mismatches are mainly a result of the difficulty in correctly anticipating financial trends connected with factoring operations, with particular reference to cash flows from account debtors vis-à-vis the maturities of loans granted to customers, as well as the effect of interest on them.

However, the Capital Markets Central Department strives to minimise such mismatches every day, constantly realigning the size and timing of foreign currency positions.

Currency risk related to the Bank's business is assumed and managed according to the risk policies and limits set by the Parent company's Board of Directors, with precise delegations of power limiting the autonomy of those authorised to operate, as well as especially strict limits on the daily net currency position.

The business functions responsible for ensuring the currency risk is managed correctly are: the Capital Markets Central Department, which, amongst other duties, directly manages the Bank's funding operations and currency position; the Risk Management function, responsible for selecting the most appropriate risk indicators and monitoring them with reference to pre-set limits; and the Top Management, which every year, based on the Capital Markets Central Department's proposals, shall consider these suggestions and make proposals to the Bank's Board of Directors regarding policies on funding and the management of currency risk, as well as suggest appropriate actions during the year in order to ensure that operations are conducted consistently with the risk policies approved by the Group.

The operations in Poland, through the subsidiary Ifis Finance Sp. z o.o., are no exception to the above approach: assets denominated in Zloty are financed through funding in the same currency.

With the acquisition of the Polish subsidiary, Banca Ifis has assumed the currency risk represented by the initial investment in Ifis Finance Sp. z o.o.'s share capital for an amount of 21,2 million Zloty and the subsequent share capital increase for an amount of 66 million Zloty.

In 2020, the Rumanian subsidiary Ifis Finance IFN was established, with a capital of 14,7 million Rumanian leu (RON). The company was not yet operative at 31 December 2020 and, therefore, the previously-described organisation has not changed.

Furthermore, Banca Ifis owns a 4,68% interest in India Factoring and Finance Solutions Private Limited, worth 20 million Indian rupees and with a market value of 3.044 thousand Euro at the historical exchange rate. In 2015 the Bank tested said interest for impairment, recognising a 2,4 million Euro charge in profit or loss. Starting from 2016, the fair value was adjusted through equity, bringing the value of the equity interest to 324 thousand Euro.

B. Hedging of currency risk

Considering the size of this investment, the Bank did not deem it necessary to hedge the ensuing currency risk.

Quantitative information

1. Distribution of assets, liabilities and derivatives by currency

Items	Currencies					
	US DOLLAR	UK STERLING	JAPANESE YEN	CANADIAN DOLLAR	SWISS FRANC	OTHER CURRENCIES
A. Financial assets	209.277	1.437	-	-	-	65.796
A.1 Debt securities	-	-	-	-	-	-
A.2 Equity securities	22.926	-	-	-	-	324
A.3 Loans to banks	44.253	478	-	-	-	16.579
A.4 Loans to customers	142.098	959	-	-	-	48.893
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	-	-	-	-	-	58
C. Financial liabilities	211.256	1.357	-	-	-	73.979
C.1 Payables due to banks	190.773	1.353	-	-	-	72.761
C.2 Payables due to customers	20.483	4	-	-	-	1.218
C.3 Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	-	-	-	-	-	5.236
E. Financial derivatives						
- Options						
+ long positions	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-
- Other						
+ long positions	-	-	-	-	-	-
+ short positions	-	-	-	-	-	16.855
Total assets	209.277	1.437	-	-	-	65.854
Total liabilities	211.256	1.357	-	-	-	96.070
Imbalance (+/-)	(1.979)	80	-	-	-	(30.216)

1.3 Derivative instruments and hedging policies

1.3.1 Derivative instruments held for trading

A. Financial derivatives

Please see paragraph 1.2 Market risks.

A.1 Financial derivatives held for trading: year-end notional amounts

Underlying assets/Types of derivatives	31.12.2020				31.12.2019			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Debt securities and interest rates	-	-	152.435	-	-	-	256.641	-
a) Options	-	-	-	-	-	-	75.464	-
b) Swaps	-	-	152.435	-	-	-	181.177	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and share indexes	-	-	20.230	-	-	-	66.431	-
a) Options	-	-	20.230	-	-	-	66.431	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold	-	-	-	-	-	-	79.509	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	79.509	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Others	-	-	-	-	-	-	-	-
Total	-	-	172.665	-	-	-	402.581	-

A.2 Financial derivatives held for trading: gross positive and negative fair value - breakdown by product

Types of derivatives	31.12.2020				31.12.2019			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Positive fair value								
a) Options	-	-	1.056	-	-	-	3.197	-
b) Interest rate swaps	-	-	18.193	-	-	-	20.667	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	-	449	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	-	-	19.249	-	-	-	24.313	-
2. Negative fair value								
a) Options	-	-	-	-	-	-	474	-
b) Interest rate swaps	-	-	18.551	-	-	-	21.277	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	-	93	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	-	-	18.551	-	-	-	21.844	-

A.3 OTC financial derivatives held for trading: notional amounts, gross positive and negative fair value by counterparty

Underlying assets	Central counterparties	Banks	Other financial companies	Other entities
<i>Contracts not included in netting agreements</i>				
1) Debt securities and interest rates				
- notional amount	X	101.614	-	50.821
- positive fair value	X	11.374	-	6.819
- negative fair value	X	18.551	-	-
2) Equity securities and share indexes				
- notional amount	X	20.230	-	-
- positive fair value	X	1.056	-	-
- negative fair value	X	-	-	-
3) Currencies and gold				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
4) Goods				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
<i>Contracts included in netting agreements</i>				
1) Debt securities and interest rates				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
2) Equity securities and share indexes				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currencies and gold				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Goods				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

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

Underlying assets/Residual life	Up to 1 year	Over 1 to 5 years	Over 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	70.543	72.602	9.289	152.434
A.2 Financial derivatives on equity securities and share indexes	15.956	4.275	-	20.231
A.3 Financial derivatives on exchange rates and gold	-	-	-	-
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31.12.2020	86.499	76.877	9.289	172.665
Total 31.12.2019	195.580	186.923	20.078	402.581

1.4 Liquidity risk

Qualitative information

A. General aspects, management procedures and measurement methods of the liquidity risk

The liquidity risk refers to the possibility that the Group fails to service its debt obligations due to the inability to raise funds or sell enough assets on the market to address liquidity needs. The liquidity risk also refers to the inability to secure new adequate financial resources, in terms of amount and cost, to meet its operating needs and opportunities, hence forcing the Group to either slow down or stop its operations, or incur excessive funding costs in order to service its obligations, significantly affecting its profitability.

During 2020, in line with the strategy adopted, a reduction was seen in the retail funding component, in particular in reference to the on demand and on call components, and a significant increase in access to the form of financing, via the Eurosystem, relative to the TLTRO III transaction.

At 31 December 2020, the main funding sources were equity, on-line retail funding - consisting of on-demand and term deposits - medium/long-term bonds issued as part of the EMTN programme, funding from the Eurosystem (TLTRO), medium/long-term securitisation transactions from the Abaco channel at the Bank of Italy.

The Group's operations consist in factoring operations, which focus mainly on trade receivables and receivables due from Italy's public administration maturing within the year, and medium/long-term receivables deriving from leasing, structured finance, receivables due from customers granted by Farbanca and work-out and recovery operations.

As for the Group's operations concerning the Npl Segment and the segment relative to purchases of tax receivables arising from insolvency proceedings, the characteristics of the business model imply a high level of variability concerning both the amount collected and the date of actual collection. Therefore, the timely and careful management of cash flows is particularly important. To ensure expected cash flows are correctly assessed, also with a view to correctly pricing the transactions undertaken, the Group carefully monitors the trend in collections compared to expected flows.

The amount of high-quality liquidity reserves (mainly held by the Group in its account with the Bank of Italy and government bonds forming part of the intra-day reserve) makes it possible to meet regulatory requirements (with respect to the limits of LCR and NSFR) and internal requirements relating to prudent management of liquidity risk.

The Group is constantly striving to improve the state of its financial resources, in terms of both size and cost, so as to have available liquidity reserves adequate for current and future business volumes.

The Parent's business functions responsible for ensuring that liquidity policies are properly implemented are the Capital Markets Central Department, which deals with the direct management of liquidity; the Risk Management function, responsible for proposing the risk appetite, selecting the most appropriate risk indicators and monitoring them with reference to pre-set limits, as well as supporting Top Management; and the Top Management, which every year, aided by the Capital Markets Central Management, shall make proposals to the Board of Directors regarding policies on funding and the management of liquidity risk, as well as suggest appropriate actions during the year in order to ensure that operations are conducted consistently with the risk policies approved.

As part of the continuous process to update procedures and policies concerning liquidity risk, and taking into account the changes in the relevant prudential regulations, the Parent company uses an internal liquidity risk governance, monitoring, and management framework at the Group level.

In compliance with supervisory provisions, the Bank also has a Contingency Funding Plan aimed at protecting the banking Group from losses or threats arising from a potential liquidity crisis and guaranteeing business continuity even in the midst of a serious emergency arising from its own internal organisation and/or the market situation.

The Risk Management function periodically reports to the Bank's Board of Directors on the liquidity risk position by means of a Dashboard prepared for the Bank's management.

With reference to the Polish subsidiary, treasury operations are coordinated by the Parent company.

Impacts deriving from the Covid-19 pandemic

Upon onset of the Covid-19 pandemic relative to the liquidity risk, the Group promptly defined a strengthening of the internal measures, both through an increase in frequency (from monthly to weekly) in convening the ALM Technical Committee, regardless of any reports of alert situations or crises detected through the Contingency Funding Plan and with a further strengthening of the instruments and processes for monitoring and controlling the liquidity position.

In the period of greatest crisis, the available, readily usable liquidity reserves remained plentiful in respect of the Group's obligations, constantly noting, for the regulatory indicators LCR and NSFR, values significantly higher than the thresholds required. Also in terms of survival period, which considers the onset of a severe combined stress scenario, values were recorded that are in line with the defined risk appetite.

In regard to the evolution of the funding volumes in 2020, due to the effects of the pandemic, a reduction in the stock of securitised funds is noted, with trade receivables as collateral, as a consequence of the reduction in the balance of underlying receivables, deriving from the economic slow-down. Also in order to make up for any potential further reductions in such forms of funding and taking into account the freezing of the wholesale funding market at the time, in June 2020, the Group adhered for a significant amount to the new extraordinary finance transaction (TLTRO 3) promoted by the ECB, thereby obtaining medium/long-term financing at a competitive cost.

In February 2020 (pre-pandemic), a bond issue was made as envisaged by the funding plan.

In line with the strategy described in terms of management and risk appetite, despite the exceptional nature of the pandemic, during FY 2020, no violations were seen to the risk thresholds assigned internally.

In 2020, a methodological and technological improvement project was started regarding, amongst others, the measurement and control of the liquidity risk, and which envisages the adoption by the departments concerned of a suite of ALMs supplied by an external vendor.

Quantitative information**1. Breakdown by residual contractual duration of financial assets and liabilities - Currency: Euro**

Items/Duration	on demand	over 1 to 7 days	over 7 to 15 days	over 15 days to 1 month	over 1 to 3 months	over 3 to 6 months	over 6 months to 1 year	over 1 to 5 years	Over 5 years	indefinite life
On-balance-sheet assets										
A.1 Government bonds	376	-	380	-	1.029	190.910	6.581	1.122.500	470.000	-
A.2 Other debt securities	537	-	-	110	218	4.620	4.675	99.146	141.790	-
A.3 UCITS units	58.553	-	-	-	-	-	-	-	-	-
A.4 Loans	1.305.447	46.767	172.117	343.937	1.202.546	473.950	716.236	2.745.831	967.535	714.975
- banks	180.589	9.500	1	7.279	61.003	99	198	270	-	690.570
- customers	1.124.858	37.267	172.116	336.658	1.141.543	473.851	716.038	2.745.561	967.535	24.405
On-balance-sheet liabilities										
B.1 Deposits and current accounts	1.297.925	27.715	80.540	121.657	1.244.638	310.781	614.861	1.859.394	-	-
- banks	39.850	-	20.000	5.000	3.000	23.000	6.000	188.000	-	-
- customers	1.258.075	27.715	60.540	116.657	1.241.638	287.781	608.861	1.671.394	-	-
B.2 Debt securities	184	-	-	4	41.990	13.694	18.043	628.545	400.000	-
B.3 Other liabilities	34.463	268	3.664	631	37.800	38.514	1.168.022	2.643.682	249.414	-
Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of underlying assets										
- long positions	-	-	-	-	-	-	82	-	-	-
- short positions	-	-	-	-	232	-	-	-	-	-
C.2 Financial derivatives without exchange of underlying assets										
- long positions	19.236	-	-	-	-	-	-	-	-	-
- short positions	18.551	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Commitments to disburse funds										
- long positions	17.942	-	6.600	186	1.673	3.596	13.000	54.687	36.430	-
- short positions	74.064	-	3.200	-	182	265	1.000	35.212	20.192	-
C.5 Financial guarantees granted	-	-	-	-	-	-	81.769	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of underlying assets										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of underlying assets										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

1. Breakdown by residual contractual duration of financial assets and liabilities - Currency: Other currencies

Items/Duration	on demand	over 1 to 7 days	over 7 to 15 days	over 15 days to 1 month	over 1 to 3 months	over 3 to 6 months	over 6 months to 1 year	over 1 to 5 years	Over 5 years	indefinite life
On-balance-sheet assets										
A.1 Government bonds	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3 UCITS units	22.926	-	-	-	-	-	-	-	-	-
A.4 Loans	38.209	61.584	25.688	11.259	71.945	5.177	4.353	12.391	-	-
- banks	20.081	39.117	-	-	-	-	-	-	-	-
- customers	18.128	22.467	25.688	11.259	71.945	5.177	4.353	12.391	-	-
On-balance-sheet liabilities										
B.1 Deposits and current accounts	8.298	1.841	28.436	73.847	1.419	-	41	-	-	-
- banks	-	1.841	28.436	73.847	1.419	-	41	-	-	-
- customers	8.298	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	122.263	-	12.242	-	-	-	-	-	-
Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of underlying assets										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of underlying assets										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Commitments to disburse funds										
- long positions	81	-	-	-	-	-	-	90	-	-
- short positions	171	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees granted	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of underlying assets										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of underlying assets										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

Self-securitisation transactions

In December 2016, the Banca Ifis Group, through the merged company, the former Ifis Leasing S.p.A. (originator) finalised a securitisation that involved selling a portfolio of performing loans totalling 489 million Euro to the special purpose vehicle Indigo Lease S.r.l.

The transaction was rated by Moody's and DBRS. The same agencies will carry out annual monitoring throughout the transaction.

The initial purchase price of the assigned receivables portfolio, equal to 489 million Euro, was paid by the vehicle to the merged entity, the former Ifis Leasing S.p.A. using funds raised from the issue of senior notes for an amount of 366 million Euro. These received an AA3 (sf) rating from Moody's and an AA (sf) rating from DBRS, and their redemption is connected to the collections realised on the receivables portfolio. The vehicle also issued junior securities purchased by the former Ifis Leasing S.p.A. (now merged into Banca Ifis S.p.A.), which has not been assigned a rating, for a value of 138 million Euro. In addition, the latter received a specific servicing mandate to collect and manage the receivables.

During 2017, following the transaction restructuring, a revolving system was launched involving monthly assignments of new credit to the SPV, until July 2021. At the same time, the maximum nominal amount of the senior and junior notes was increased respectively to 609,5 and 169,7 million Euro. In the same period, the parent company Banca Ifis S.p.A. acquired all the senior notes issued by the vehicle. Following the May 2018 merger of the former Ifis Leasing S.p.A., Banca Ifis also became the subscriber of the junior notes.

At 31 December 2020 the Banca Ifis Group had therefore subscribed for all the notes issued by the vehicle.

It should be noted that, pursuant to the terms and conditions of the operation, there is no substantial transfer of all the risks and rewards relating to the transferred assets (receivables).

Securitisation transactions

As for the securitisations outstanding at 31 December 2020 and their purpose, see the comments in the section on credit risks.

1.5 Operational risks

Qualitative information

A. General aspects, management procedures and measurement methods concerning operational risk

Operational risk is the risk of losses arising from inadequate or dysfunctional processes, human resources, internal systems or external events. This definition does not include strategic risk and reputational risk, but it does include legal risk (i.e. the risk of losses deriving from failure to comply with laws or regulations, contractual or extra-contractual liability, or other disputes), IT risk, risk of non-compliance, fraud risk, risk of money laundering and terrorist financing, and the risk of financial misstatement.

The main sources of operational risk are operational errors, inefficient or inadequate operational processes and controls, internal and external frauds, the lack of compliance of internal regulations to the external regulations,

the outsourcing of business functions, the quality of physical and logical security, inadequate or unavailable hardware or software systems, the growing reliance on automation, staff below strength relative to the size of the business, and inadequate human resources management and training policies.

The Banca Ifis Group has adopted for a while now - consistently with the relevant regulatory provisions and industry best practices - an operational risk management framework. This consists in a set of rules, procedures, resources (human, technological and organisational), and controls aiming to identify, assess, monitor, prevent or mitigate all existing or potential operational risks in the various organisational units, as well as to communicate them to the competent levels. The key processes for correct operational risk management therefore consist of loss data collection, prospective self-assessment of exposure to the operational risk identified at the level of areas/services (risk self-assessment) and self-assessment of the degree of exposure to the model risk, i.e. the risk of incurring financial losses or incorrect strategic decisions deriving from an improper or incorrect use of the results and reports produced by the models used (Model Risk Self Assessment).

The Loss Data Collection process has now been consolidated, also thanks to Risk Management's constant efforts to disseminate a culture of pro-actively managing operational risks among the various structures, and therefore to raise awareness about the Loss Data Collection process.

In the first half of 2020, the periodic Risk Self Assessment campaign launched in the final quarter of 2019 was completed, which included the scope at the end of the year, with the exception of the subsidiary Ifis Npl Servicing S.p.A. (formerly Fbs S.p.A.). Following this campaign, the main operational issues were identified and specific mitigation measures to bolster operational risk controls were subsequently defined and launched.

The same period also saw conclusion of the Model Risk Self Assessment campaign, carried out considering the organisational units as Model Owners present at the Parent company and the Subsidiary Ifis Npl, insofar as the responsibility for the development and maintenance of the models is attributed to the Parent company Risk Management. Following the campaign, the models most exposed to the risk were identified and reported to the Validation department in order to define the suitable mitigating actions.

In addition, according to its operational risk management framework, the Group defines a set of risk measures that can promptly identify the presence of vulnerabilities in the exposure of the Bank and its subsidiaries to operational risks. These measures are continuously monitored and disclosed in periodic reports that are shared with the competent structures and bodies: events such as the breach of certain thresholds or the emergence of anomalies trigger specific escalation processes aimed at defining and implementing appropriate mitigation actions.

In order to prevent and manage operational risk, the Parent company's Risk Management department, in collaboration with the other corporate functions, is involved in assessing the outsourcing of operational functions and in assessing the risks associated with the introduction of new products and services. Finally, it helps monitor IT risk as well as the effectiveness of the measures intended to protect ICT resources.

Concerning the companies of the Banca Ifis Group, please note that currently the management of operational risks is guaranteed by the strong involvement of the Parent company, which makes decisions in terms of strategies and risk management.

To calculate capital requirements against operational risks, the Group adopted the Basic Indicator Approach.

Alongside operational risk, reputational risk is also managed.

Reputational risk represents the current or prospective risk of a decrease in profits or capital deriving from a negative perception of the Group's image by customers, counterparties, shareholders, investors or the Supervisory Authorities.

Reputational risk is considered a second-level risk, as it is generated by the manifestation of other types of risk, such as the risk of non-compliance, strategic risk and in particular operational risks.

As in the case of operational risk, reputational risk management is ensured by the Parent company's Risk Management, which defines the Group's overall framework - in line with specific regulatory requirements and segment best practices - for managing reputational risk aimed at identifying, assessing and monitoring reputational risks assumed or to be assumed by the various Group companies and organisational units. The framework involves collecting reputational risk events as they occur, conducting a forward-looking Reputational Risk Self-Assessment, and monitoring a set of risk measures over time.

In the first half of 2020, the periodic Risk Self Assessment campaign was completed. It had been launched in the final quarter of 2019. Following the campaign, together with the work carried out in the area of operational risk, the areas most exposed to reputational risk were identified and, as a result, specific mitigation measures were defined and started in order to further strengthen the existing controls.

Impacts deriving from the Covid-19 pandemic

With reference to the impacts of the Covid-19 emergency, the operational and reputational risk management strategies have changed, both following specific requests in this respect by the regulator and in order to recalibrate the internal control system in order to make the monitoring activities more in line with the altered procedures for carrying out certain types of business following the restrictions imposed. More specifically, initiatives have been taken to minimise the impacts on ordinary operations and reduce the risks of interruption to or poor quality customer service. To this end, the procedures for monitoring and reporting under the scope of loss data collection have been revised and supplemented (including the impacts on the Group's computer systems), as well as the complaints management procedure. For both areas, the scope of analysis has been circumscribed and the scope of the relevant application investigated in greater depth, considering and providing a specific disclosure on the consequences deriving from the health emergency in terms of operating losses and complaints received.

In addition, the frequency of recordings and sharing of results has been significantly increased. The frequency of monitoring has, in fact, gone from quarterly to fortnightly, enabling timely intervention with specific mitigating actions if specific critical situations should arise in connection with the current emergency.

With reference to the Npl Segment, and in particular the amicable collection procedures of debt, during the health emergency, collection activities were strengthened by telephone collection, due to the temporary suspension of door-to-door work by the network of agents. Specific Key Risk Indicators have been defined to monitor compliance with the maximum customer/debtor threshold assigned to each individual collection agent. Following the pandemic, this threshold was raised in view of the fact that the monthly workloads entrusted to officers of the internal network were integrated with positions for which telephone collection was possible, leaving door-to-door collection situations on hold (without revocation).

Section 4 - Risks of the other entities

Qualitative information

There were no additional material risks for the other entities included in the scope of consolidation that are not part of the Banking Group other than those reported in the section dedicated to the Banking Group.

4.6 Part F - Consolidated equity

Section 1 - Consolidated Equity

A. Qualitative information

Managing equity concerns a set of policies and decisions necessary to establish capital levels that are consistent with the assets and risks taken by the Group. The Banca Ifis Group is subject to the capital adequacy requirements established by the so-called Basel Committee (CRR/CRD IV).

The Board of Directors constantly monitors that the Bank meets the minimum supervisory requirements, and therefore the capital adequacy ratios, as well as complies with the capital limits set out in the Risk Appetite Framework (RAF).

Furthermore, also in accordance with the European Central Bank's recommendation of 28 January 2015, the Bank ensures compliance with capital adequacy ratios through a pay-out policy linked to the achievement of the above minimum capital requirements, as well as the careful assessment of the potential impact of extraordinary financial operations (share capital increases, convertible loans, etc.).

The Group's capital adequacy is further assessed and monitored every time an extraordinary operation is planned. In these cases, based on available information regarding said operations, the Bank estimates the impact on capital adequacy ratios as well as the RAF, and considers any measures necessary to meet the requirements.

On 16 December 2020, given the continued Covid-19 pandemic, the Bank of Italy - in line with the ECB - chose to maintain an extremely prudent approach, so as to safeguard the banks' capacity to absorb losses and grant loans to support the real economy, recommending that until 30 September 2021, the less significant Italian banks abstain from recognising or paying dividends or limit the relevant amount to the lesser of 15% of accumulated profits for 2019-20 or 20 basis points of the CET1 coefficient.

In compliance and within the limits of the above-specified Bank of Italy recommendation, Banca Ifis will propose to the shareholders' meeting the distribution of a 2020 dividend of 25.126.044 Euro, corresponding to 0,47 Euro per share, consequently deducted from own funds at 31 December 2020. As regards the dividends resolved and not distributed in respect of 2019, the Bank will continue to maintain them as a reduction of the Group's equity and to book them amongst other liabilities, at least until 30 September 2021, as envisaged by the Bank of Italy Recommendation of 16 December 2020.

Transactions on treasury shares

At 31 December 2019, Banca Ifis held 359.144 treasury shares recognised at a market value of 3,0 million Euro and a nominal amount of 359.144 Euro.

During the year, Banca Ifis, as variable pay for the 2016 financial results, awarded the Top Management 7.717 treasury shares at an average price of 35,03 Euro, for a total of 270 thousand Euro and a nominal amount of

7.717 Euro, making profits of 206 thousand Euro that, in compliance with IAS/IFRS standards, were recognised under the premium reserve.

The remaining balance at the end of the year was 351.427 treasury shares with a market value of 2,9 million Euro and a nominal amount of 351.427 Euro.

B. Quantitative information

B.1 Consolidated equity: breakdown by type of entity

Equity items	Prudential consolidation	Insurance firms	Other entities	Consolidation elimination s & adjustments	Total
1. Share capital	78.608	-	9.539	(9.539)	78.608
2. Share premiums	102.491	-	-	-	102.491
3. Reserves	1.331.398	-	151.297	(160.755)	1.321.940
4. Equity instruments	-	-	-	-	-
5. (Treasury shares)	(2.948)	-	-	-	(2.948)
6. Valuation reserves:	(19.237)	-	(34)	-	(19.271)
- Equity securities measured at fair value through other comprehensive income	(12.524)	-	-	-	(12.524)
- Hedging of equity securities measured at fair value through other comprehensive income	-	-	-	-	-
- Financial assets (other than equity securities) measured at fair value through other comprehensive income	1.791	-	-	-	1.791
- Property, plant and equipment	-	-	-	-	-
- Intangible assets	-	-	-	-	-
- Foreign investment hedges	-	-	-	-	-
- Cash flow hedges	-	-	-	-	-
- Hedging instruments [non-designated items]	-	-	-	-	-
- Exchange differences	(8.156)	-	(19)	-	(8.175)
- Non-current assets under disposal	-	-	-	-	-
- Financial liabilities measured at fair value through profit or loss (changes in own credit risk)	-	-	-	-	-
- Actuarial gains (losses) on defined benefit pension plans	(348)	-	(15)	-	(363)
- Share of valuation reserves of equity accounted investments	-	-	-	-	-
- Specific revaluation laws	-	-	-	-	-
7. Profit (loss) for the year (+/-) of the Group and non-controlling interests	59.650	-	9.492	-	69.142
Total	1.549.962	-	170.294	(170.294)	1.549.962

The above table shows the components of equity, combining those of the Group and those of third parties, broken down by type of businesses included in the scope of consolidation. More specifically, the column referring to Prudential Consolidation shows the amount resulting from the consolidation of the entities that form part of the Banking Group, excluding the effect of the prudential consolidation in the parent company La Scoglieria and including the economic effects of transactions carried out with other entities included in the scope of consolidation. The column Other entities shows the amounts resulting from the consolidation, including the economic effects of transactions carried out with entities that form part of the Banking Group. The column “Consolidation eliminations and adjustments” shows the adjustments necessary to obtain the reported amount.

B.2 Valuation reserves for financial assets measured at fair value through other comprehensive income: breakdown

Assets/Amounts	Prudential consolidation		Insurance companies		Other entities		Consolidation eliminations & adjustments		Total	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	1.795	(4)	-	-	-	-	-	-	1.795	(4)
2. Equity securities	459	(12.983)	-	-	-	-	-	-	459	(12.983)
3. Loans	-	-	-	-	-	-	-	-	-	-
Total 31.12.2020	2.254	(12.987)	-	-	-	-	-	-	2.254	(12.987)
Total 31.12.2019	5.154	(2.417)	-	-	-	-	-	-	5.154	(2.417)

B.3 Valuations reserves for financial assets measured at fair value through other comprehensive income: annual changes

	Debt securities	Equity securities	Loans
1. Opening balance (31.12.2019)	(416)	3.153	-
2. Increases	16.062	5.757	-
2.1 Fair value gains	13.335	413	-
2.2 Credit risk losses	-	X	-
2.3 Reclassification to profit or loss of negative reserves from sale	2.496	X	-
2.4 Transfers to other components of equity (equity securities)	-	3.655	-
2.5 Other changes	231	1.689	-
3. Decreases	13.855	21.434	-
3.1 Fair value losses	2.465	21.234	-
3.2 Reversals of credit risk losses	608	-	-
3.3 Reclassification to profit or loss of positive reserves from sale	9.159	X	-
3.4 Transfers to other components of equity (equity securities)	-	-	-
3.5 Other changes	1.623	200	-
4. Closing balance	1.791	(12.524)	-

B.4 Valuation reserves for defined benefit plans: annual changes

Valuation reserves for defined benefit plans show a negative balance at 31 December 2020 of 363 thousand Euro, comprising a negative balance of 429 thousand Euro pertaining to the Parent and a positive balance of 66 thousand Euro pertaining to minorities. The reduction in the item as compared with the negative value of 56 thousand Euro at the end of the previous year, derives from the net actuarial losses accrued during 2020 on the Group companies' severance indemnity.

Section 2 - Own funds and prudential ratios

Pursuant to Circular 262 - 6th update - the section on own funds and capital ratios is replaced by a reference to the "Pillar 3" disclosures, which contain similar information.

That said, below are the highlights about own funds and capital ratios.

Consolidated own funds, risk-weighted assets and prudential ratios at 31 December 2020 were calculated based on the regulatory principles set out in Directive no. 2013/36/EU (CRD IV) and (EU) Regulation no. 575/2013 (CRR), which were transposed in the Bank of Italy's Circulars no. 285 and no. 286. In particular, Article 19 of the CRR requires to include the unconsolidated Holding of the Banking Group in prudential consolidation.

	31.12.2020	31.12.2019
A. Common Equity Tier 1 (1) (CET1) before application of prudential filters	1.175.825	1.209.026
of which CET1 instruments subject to transitional provisions	-	-
B. CET1 prudential filters (+/-)	(954)	(1.337)
C. CET1 gross of items to be deducted and the effects of the transitional regime (A+/-B)	1.174.871	1.207.689
D. Items to be deducted from CET1	148.837	200.273
E. Transitional regime - Impact on CET1 (+/-), including minority interests subject to transitional provisions	12.681	1.449
F. Total Common Equity Tier 1 (CET1) (C-D+/-E)	1.038.715	1.008.865
G. Additional Tier 1 Capital (AT1) gross of items to be deducted and the effects of the transitional regime	53.142	55.659
of which AT1 instruments subject to transitional provisions	-	-
H. Items to be deducted from AT1	-	-
I. Transitional regime - Impact on AT1 (+/-), including instruments issued by subsidiaries that are given recognition in AT1 pursuant to transitional provisions	-	-
L. Total Additional Tier 1 Capital (AT1) (G-H+/-I)	53.142	55.659
M. Tier 2 Capital (T2) gross of items to be deducted and the effects of the transitional regime	274.563	277.545
of which T2 instruments subject to transitional provisions	-	-
N. Items to be deducted from T2	-	-
O. Transitional regime - Impact on T2 (+/-), including instruments issued by subsidiaries that are given recognition in T2 pursuant to transitional provisions	-	-
P. Total Tier 2 Capital (T2) (M-N+/-O)	274.563	277.545
Q. Total own funds (F+L+P)	1.366.421	1.342.069

Categories/Amounts	Non-weighted amounts		Weighted amounts /	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
A. RISK ASSETS				
A.1 Credit risk and counterparty risk	12.636.358	10.905.705	8.272.314	8.220.558
1. Standardised approach	12.557.383	10.896.989	8.193.252	8.209.057
2. Approach based on internal ratings	-	-	-	-
2.1 Basic indicator approach	-	-	-	-
2.2 Advanced measurement approach	-	-	-	-
3. Securitisation programmes	78.975	8.716	79.062	11.502
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit risk and counterparty risk			661.785	657.645
B.2 Rischio di aggiustamento della valutazione del credito e di controparte			351	1.264
B.3 Regulatory risk			-	-
B.4 Market risks			4.606	6.887
1. Standard method			4.606	6.887
2. Internal models			-	-
3. Concentration risk			-	-
B.5 Operational risk			69.576	71.145
1. Basic indicator approach			69.576	71.145
2. Standardised approach			-	-
3. Advanced measurement approach			-	-
B.6 Other calculation factors			-	-
B.7 Total prudential requirements			736.318	736.492
C. RISK ASSETS AND CAPITAL REQUIREMENT RATIOS				
C.1 Risk-weighted assets			9.203.971	9.206.155
C.2 Common Equity Tier 1 capital / Risk-weighted assets (CET1 Capital ratio)			11,29%	10,96%
C.2 Tier 1 Capital / Risk-weighted assets (Tier 1 capital ratio)			11,86%	11,56%
C.4 Total own funds / Risk-weighted assets (Total capital ratio)			14,85%	14,58%

When comparing the results, please note that the Bank of Italy, following the Supervisory Review and Evaluation Process (SREP) to review the capitalisation targets of the system's largest intermediaries, required the Banca Ifis Group to meet the following consolidated capital requirements in 2019, including a 2,5% capital conservation buffer:

- Common Equity Tier 1 (CET1) capital ratio of 8,12%, with a required minimum of 5,62%;
- Tier 1 Capital Ratio of 10,0%, with a required minimum of 7,5%;
- Total Capital Ratio of 12,5%, with a required minimum of 10,0%.

4.7 Part G - Business combinations

Section 1 - Transactions carried out during the year

1.1 Business combinations

On 27 November 2020, the Banca Ifis Group finalised the acquisition of control over Farbanca S.p.A., an operator specialising in pharmacy lending. The transaction concerned 70,77% of Farbanca's capital, for an equivalent value of 32,52 million Euro. A price adjustment mechanism was applied (i.e. price adjusted on the basis of the greater stock of Npe of Farbanca at 31 July 2020 versus the stock at 31 December 2019), which, however, led to no change in the price of the transaction in question.

IFRS 3 requires that at the reference date of the business combination, the cost of the combination is identified and allocated subsequently to the assets, liabilities and contingent liabilities of the acquired party that can be identified at the purchase date and measured at their respective fair values.

Taking into account the fact that the requirements of IFRS 3 were not met by the transaction in question and that the purchase contract did not envisage any Contingent Consideration, as defined by IFRS 2, paragraph 39-40, the cost incurred for the acquisition of Farbanca is defined as 32,52 million Euro, equal to the price paid. Considering that the last accounting position closed by Farbanca is that at 30 November 2020, the date of acquisition designated in order to record the business combination has been identified as 30 November 2020, with no significant effects on the accounting balances, as permitted by IFRS 3.BC110.

Company Name	Transaction date	(1)	(2)	(3)	(4)
Farbanca S.p.A.	27 November 2020	32.520	70,77%	14.470	4.518

Key:

(1) = Cost of the transaction

(2) = Percentage interest acquired carrying voting rights in the annual general meeting

(3) = Total group revenues.

(4) = Group net profit/loss

As regards the purchase price allocation ("PPA") of the aggregation to assets, liabilities and potential liabilities of the subject acquired, as can be identified at the purchase date and measured at their respective fair values, a preventive mapping has been carried out of all the assets and liabilities for which it was considered likely to encounter significant differences in value between the fair value and the respective carrying amount.

In particular, the fair values identified for the performing portfolio were determined on the basis of the discounted cash flow method or by discounting the forecast cash flows from the portfolio valued. To this end, cash flows and discounting rates to be applied to such, needed to be identified on the basis of the following assumptions.

Cash flows of the performing portfolio were determined on the basis of the amortisation plan for each line of finance using the contractual rate applied by Farbanca for the fixed-rate ones and the Euribor 3M recorded at each repayment date plus the spread applied by Farbanca for the variable rate. Flows were netted:

- of the average annual costs of servicing estimated on the basis of that observed under the scope of the market securitisation transactions with underlying Residential Mortgage-Backed Security (RMBS);

- of the expected credit loss determined in a lifetime and using the annual PDs applied by Farbanca, differentiated according to segment (private customers and small businesses) and overshoot brackets. The LGD parameter used is that applied by Farbanca to all loan facilities.

As regards the non-performing portfolio, the related fair values have been identified using the average prices recorded on the market in sales of impaired loans. More specifically, the sale price of the non-performing exposures was used, as recorded by the Bank of Italy in the December 2019 document “Financial stability and supervisory notes”, of 23%. For performing exposures, the probability of a switch to non-performing status was first estimated.

As regards the determination of the discounting rate to be applied to cash flows, an interest rate has been identified that represents the returns expected by the market in connection with exposures with similar characteristics and taking into account the information present at the date of acquisition.

The fair value measurement of the loan portfolio of Farbanca has not resulted in any significant differences with respect to the book value at the date of acquisition.

As instead regards tax assets and liabilities and any intangible assets not booked by Farbanca and potentially able to be recorded during the business combination (e.g. trademarks, customers and contracts), the analyses carried out on such did not reveal any values that can be represented for IFRS 3 purposes.

In conclusion, the fair valuation of Farbanca has not revealed any liabilities or potential liabilities acquired or capital gains/losses that should be allocated in PPA terms, with respect to the carrying amounts of the various assets.

The table below gives the main equity details on the assets and liabilities acquired by the subsidiary Farbanca S.p.A. at the aggregation date.

Description (in thousands of Euro)	Assets and liabilities acquired at 30.11.2020
Cash and cash equivalents	14
Financial assets measured at fair value through profit or loss	21
Financial assets measured at amortised cost	683.886
Property, plant and equipment	1.155
Tax assets	2.598
Other assets	5.394
Assets acquired	693.068
Financial liabilities at amortised cost	(583.768)
Tax liabilities	(1.052)
Other liabilities	(37.760)
Post-employment benefits	(165)
Provisions for risks and charges	(645)
Liabilities assumed	(623.390)
Net assets (A)	69.678
Price of the acquisition, disbursed using liquid funds (B)	32.520
Non-controlling interests (C)	20.367
Negative value difference (gain on bargain purchase) from the acquisition (D=B+C-A)	(16.791)
Analysis of acquisition cash flow	
Price of the acquisition, disbursed using liquid funds	(32.520)
Costs of the purchase (included in cash flows from operations)	14
Net funds acquired with the subsidiary (included in cash flows of investments)	(32.506)
Net cash flow from acquisition	(32.520)

The purchase price allocation process described previously revealed a negative difference between the aggregation price and the fair value of the identifiable assets acquired, liabilities assumed and contingent liabilities, net of the related tax effects. This difference, which came to 16,8 million Euro, has been entered as “gain on bargain purchase” on the Consolidated financial statements of the Banca Ifis Group and entered under “Other operating income”.

Finally, the Group calculated the value to allocate to non-controlling interests, corresponding to the 29,23% investment in Farbanca S.p.A., by estimating the fair value based on the purchase price.

Section 2 - Transactions carried out after the end of the year

The Banca Ifis Group did not carry out any business combination between the end of the year and the date of preparation of this document.

Section 3 - Retrospective adjustments

During the year ended 31 December 2020, no retrospective adjustments were made.

4.8 Part H - Related-party transactions

In compliance with the provisions of Consob Resolution no. 17221 of 12 March 2010 and subsequently amended, as well as the prudential Supervisory provisions for banks in Circular no. 285 of 17 December 2013 of the Bank of Italy, part three, chapter 11 (on "Risk activities and conflicts of interest towards related parties"), any transactions with related parties and relevant parties are authorised pursuant to the procedure approved by the Board of Directors.

This document is publicly available on Banca Ifis's website, www.bancaifis.it, in the "Corporate Governance" Section.

During 2020, no significant transactions with related parties were undertaken outside the scope of the consolidated financial statements.

At 31 December 2020, the Banca Ifis Group was owned by La Scogliera S.p.A. and consisted of the Parent company Banca Ifis S.p.A., the wholly-owned subsidiaries Ifis Finance Sp. z o.o., Ifis Rental Services S.r.l., Ifis Npl S.p.A., Cap.Ital.Fin. S.p.A., Ifis Npl Servicing S.p.A. (formerly Fbs S.p.A.), Ifis Real Estate S.p.A. (formerly Fbs Real Estate S.p.A.) and Gemini S.p.A., the newly-established Ifis Finance IFN S.A. 99,99% owned, the subsidiary held at 70% Credifarma S.p.A. and the newly-acquired Farbanca S.p.A., held 70,77%.

In 2020, in addition to the acquisition of 70,77% of Farbanca's shares, the residual 0,72% was also acquired of the capital of Ifis Real Estate S.p.A. (formerly Fbs Real Estate S.p.A.), the companies Gemini S.p.A. and Ifis Finance IFN S.A. were established and ownership of the company Elipso Finance S.r.l., held jointly at 50% each, was sold.

The types of related parties, as defined by IAS 24, that are relevant for the Banca Ifis Group include:

- the parent company;
- key management personnel;
- close relatives of key management personnel and the companies controlled by (or associated to) them or their close relatives.

Here below is the information on the remuneration of key management personnel as well as transactions undertaken with the different types of related parties.

1. Information on the remuneration of key management personnel

The definition of key management personnel, as per IAS 24, includes all those persons having authority and responsibility for planning, directing and controlling the activities of Banca Ifis, directly or indirectly, including the Bank's directors (whether executive or otherwise).

In compliance with the provisions of the Bank of Italy's Circular no. 262 of 22 December 2005 (6th update of 30 November 2018), key management personnel also include the members of the Board of Statutory Auditors.

Key management personnel in office at 31 December 2020

Short-term employee benefits	Post-employment benefits	Other long-term benefits	Termination benefits	Share-based payments
7.709	-	56	199	138

The above information includes fees paid to Directors (4,0 million Euro, gross amount) and Statutory Auditors (349 thousand Euro, gross amount).

On 11 February 2021, the CEO in office resigned early, ahead of the natural expiry of his mandate (approval of the 2021 financial statements) and, consequently, will cease office upon conclusion of the Shareholders' Meeting to be held this coming April to resolve on the 2020 financial statements.

The Chief Executive Officer has waived the entire amount of variable remuneration due him for FY 2020, as part of the agreement relative to the cessation of his contracts. This agreement, which is in line with the Bank's approved 2020 Remuneration Policy, establishes that the CEO will be paid his remuneration for the office until the date on which he effectively leaves office, as well as the deferred components of the bonus already accrued and recognised for FY 2019. At the date on which he leaves office, the CEO will receive severance indemnity equal to the fixed and variable remuneration envisaged for the residual term of the three-year mandate originally conferred upon him (12 months of recurring remuneration), to be paid in accordance with the terms and conditions of the 2020 Remuneration Policy (and, therefore, 50% in financial instruments, with a deferral period, of a portion of 40% of the indemnity, of 3 years, without prejudice, in any case, to the application of the malus and clawback clauses). The agreement also establishes that Mr Colombini shall continue to hold certain positions in the Group until the date on which the financial statements at 31 December 2021 are approved, each time receiving the relevant salary. No non-competition obligations are envisaged.

2. Information on related-party transactions

Here below are the assets, liabilities, guarantees and commitments outstanding at 31 December 2020, broken down by type of related party pursuant to IAS 24.

Items	Parent company	Key management personnel	Other related parties	Total	As a % of the item
Financial assets measured at fair value through other comprehensive income	-	-	1.437	1.437	0,2%
Receivables due from customers measured at amortised cost	-	639	21.290	21.930	0,2%
Other assets	83.315	-	-	83.315	26,2%
Total assets	83.315	639	22.728	106.682	0,9%
Payables due to customers measured at amortised cost	-	132	6.702	6.834	0,1%
Other liabilities	17.309	-	-	17.309	3,9%
Reserves	-	-	(6.129)	(6.129)	(0,5)%
Total liabilities	17.309	132	573	18.014	0,1%
<i>Commitments and guarantees granted</i>	-	423	-	423	<i>n.a.</i>

Items	Parent company	Key management personnel	Other related parties	Total	As a % of the item
Interest receivable and similar income	-	-	945	945	0,2%
Interest due and similar expenses	-	(2)	(1)	(3)	0,0%

The transactions stipulated between Banca Ifis, Ifis Rental Services, Ifis Npl, Cap.Ital.Fin., Ifis Npl Servicing and Gemini with the parent company La Scogliera concern the application of group taxation (tax consolidation) in accordance with Articles 117 and following of Italian Presidential Decree no. 917/86. Transactions between these companies were regulated by means of a private written agreement between the parties. This agreement will lapse after three years. For tax purposes, the consolidated companies have an address for the service of notices of documents and proceedings relating to the tax periods for which this option is exercised at the office of La Scogliera, the consolidating company. Under this tax regime, the taxable income of Banca Ifis, Ifis Rental Services, Ifis Npl, Cap.Ital.Fin. and Gemini is transferred to La Scogliera, which is responsible for calculating the overall group income. Following the exercise of the option, Banca Ifis recorded a net receivable at 31 December 2020 from the parent company of 80,1 million Euro, Ifis Rental Services of 2,4 million Euro, Cap.Ital.Fin. of 0,8 million Euro and Gemini of 3 thousand Euro, while Ifis Npl and Ifis Npl Servicing recorded a net payable at 31 December 2020 to the parent company respectively of 16,4 million Euro and 0,9 million Euro.

Transactions with key management personnel relate almost entirely to Rendimax or Contomax savings accounts as well as mortgages.

Transactions with other related parties that are part of Banca Ifis S.p.A.'s ordinary business are conducted at arm's length.

At 31 December 2020, there was also a transaction in which Banca Ifis owns an equity interest of more than 20% and recognised as financial assets measured at fair value through other comprehensive income, amounting to 1,0 million Euro. This transaction is related to 12,8 million Euro worth of loans.

4.9 Part I - Share-based payments

Qualitative information

1. Description of share-based payment agreements

Access to the variable part for all personnel is subject to compliance with the thresholds envisaged by the following indicators recorded at year end:

- Ratio of the final Return On Risk-Adjusted Capital (RORAC) with the provisional one approved by the Board of Directors (RORAC*), no less than 80%;
- meeting the minimum Liquidity Coverage Ratio (LCR) requirement applicable from time to time to the Group;
- meeting the minimum Net Stable Funding Ratio (NSFR) requirement applicable from time to time to the Group;
- the consolidated Total Own Funds Capital Ratio exceeding the Overall Capital Requirement announced by the Supervisory Body as part of the “Capital Decisions” following the periodic Supervisory Review and Evaluation Process (SREP);
- gross Npe ratio and net Npe ratio below the thresholds of attention set internally.

Failure to achieve more than one of the above parameters in two different areas, with the exception of capital solvency (i.e. consolidated ratio of total own funds) and failure to respect the regulatory minimums, which must be respected at all times, will prevent payment of the variable component.

Without prejudice to the opening of gates to access payment of the variable remuneration described above, the CEO, the General Manager and additional key personnel if variable remuneration exceeds 70.000 Euro, have the possibility of accruing not only a fixed recurring annual emolument and additional benefits (in line with existing corporate policies and practices), but also an annual variable emolument with a target of up to 60% of the gross annual remuneration, subject to verification by the Board of Directors of achievement by the RORAC/RORAC* indicator of a value falling between 80% and 100%. In this case, the variable emolument accrued will be equal to between 60% and 100% of the target emolument, according to the ratio calculated previously.

60% of this variable component is awarded with an upfront payment, and the remaining 40% is deferred for three years from the date it was promised.

The deferred portion of variable remuneration (amounting to 40%) shall be paid as follows:

- 50% in the form of shares in the Parent to be awarded after the end of the three-year vesting period (the period after which the shares may be awarded) and that may be exercised following a retention period (during which the shares cannot be sold) of one additional year;
- the remaining 50% of deferred variable remuneration shall be paid in cash after three years and is subject to annual revaluation at the legal interest rate applicable from time to time.

The variable component paid upfront (the remaining 60%) shall be paid as follows:

- 50% in cash;
- and the remaining 50% in the form of shares in the Parent that may be exercised following a three-year retention period, in line with the strategic planning time horizon.

Variable pay is paid 50% in cash and 50% in the form of shares in the Parent. This applies to both upfront and deferred variable pay.

Starting FY 2020, the number of shares to be awarded is calculated by relying on the average share price for the three months before the variable pay for the period is determined – which shall occur at the date of the Meeting convened for the approval of the Financial Statements – as the fair value of the share.

Variable pay is subject to malus/clawback mechanisms that may cause the amount to be reduced to as low as zero if certain conditions are met.

Quantitative information

The table on annual changes is not presented here, since for the Banca Ifis Group share-based payment agreements do not fall within the category concerned by said table.

2. Other information

If a result is achieved that equals or exceeds 100% of the annual targets assigned, the variable component of Senior Management will be considered as accrued in the amount of 100% of its value; the number of shares to be attributed will be in any case calculated as described above.

4.10 Part L - Segment reporting

Reclassified data: net impairment losses/reversals on receivables of the Npl Segment were entirely reclassified to Interest receivable and similar income to present more fairly this particular business and because they represent an integral part of the return on the investment.

In line with the new structure used by Management to analyse the Group's results, the information by segment is therefore broken down as follows:

- Commercial & Corporate Banking Segment, represents the commercial offer of the Group dedicated to companies and consists of the Business Factoring, Leasing and Corporate Banking & Lending Areas. The Operating Segment's results include the investee company Farbanca S.p.A. as from the date of acquisition of 27 November 2020.
- Npl Segment, dedicated to non-recourse acquisition and managing distressed retail loans. The Segment's results from 7 January 2019 also include the contribution of the former Fbs Group's business, which is mainly specialised in servicing and the management of non-performing secured loans.
- Governance & Non-Core Services Segment, which provides the segments operating in the Group's core businesses with the financial resources and services necessary to perform their respective activities. The Segment includes treasury and proprietary securities desk activities, the disbursement of salary- or pension-backed loans and some portfolios of personal loans, as well as some corporate loans portfolio assigned for run-off insofar as held to be non-strategic to the Group's growth.

The Segments of the economic-equity numericals are attributed on the basis of homogeneous allocation criteria in order to take into account both the specificity of the various segments and the need to guarantee effective monitoring of business performance over time.

STATEMENT OF FINANCIAL POSITION DATA (in thousands of Euro)	COMMERCIAL & CORPORATE BANKING SEGMENT				NPL SEGMENT	GOVERNANCE & NON-CORE SERVICES SEGMENT	CONS. GROUP TOTAL
	TOTAL COMMERCIAL & CORPORATE BANKING SEGMENT	of which: FACTORING AREA	of which: LEASING AREA	of which: CORPORATE BANKING & LENDING AREA			
Other financial assets mandatorily measured at fair value through profit or loss							
Amounts at 31.12.2020	66.441	-	-	66.441	9.524	61.013	136.978
Amounts at 31.12.2019	39.764	-	-	39.764	10.193	62.828	112.785
% Change	67,1%	-	-	67,1%	(6,6)%	(2,9)%	21,5%
Financial assets measured at fair value through other comprehensive income							
Amounts at 31.12.2020	2.322	-	-	2.322	-	772.233	774.555
Amounts at 31.12.2019	6.733	-	-	6.733	-	1.167.075	1.173.808
% Change	(65,5)%	-	-	(65,5)%	-	(33,8)%	(34,0)%
Receivables due from customers ⁽¹⁾							
Amounts at 31.12.2020	5.992.591	2.854.272	1.414.055	1.724.264	1.405.603	1.737.208	9.135.402
Amounts at 31.12.2019	5.425.270	3.229.347	1.448.463	747.460	1.280.332	945.624	7.651.226
% Change	10,5%	(11,6)%	(2,4)%	130,7%	9,8%	83,7%	19,4%

(1) In the Governance & Non-Core Services Segment, at 31 December 2020, there were government securities amounting to 1.095,3 million Euro (213,0 million Euro at 31 December 2019).

INCOME STATEMENT DATA (in thousands of Euro)	COMMERCIAL & CORPORATE BANKING SEGMENT				NPL SEGMENT	GOVERNANCE & NON-CORE SERVICES SEGMENT	CONS. GROUP TOTAL
	TOTAL COMMERCIAL & CORPORATE BANKING SEGMENT	of which: FACTORING AREA	of which: LEASING AREA	of which: CORPORATE BANKING & LENDING AREA			
Net banking income							
Amounts at 31.12.2020	222.680	149.214	49.155	24.311	162.942	82.178	467.800
Amounts at 31.12.2019	243.560	164.589	53.046	25.925	244.924	69.849	558.333
% Change	(8,6)%	(9,3)%	(7,3)%	(6,2)%	(33,5)%	17,7%	(16,2)%
Net profit (loss) from financial activities							
Amounts at 31.12.2020	150.198	118.991	33.533	(2.326)	162.942	63.301	376.441
Amounts at 31.12.2019	191.939	128.741	42.796	20.402	244.924	34.287	471.150
% Change	(21,7)%	(7,6)%	(21,6)%	(111,4)%	(33,5)%	84,6%	(20,1)%
Profit for the year							
Amounts at 31.12.2020	22.715	25.085	6.713	(9.083)	17.926	28.501	69.142
Amounts at 31.12.2019	56.778	29.860	16.755	10.163	61.500	4.910	123.188
% Change	(60,0)%	(16,0)%	(59,9)%	(189,4)%	(70,9)%	480,5%	(43,9)%

QUARTERLY INCOME STATEMENT DATA (in thousands of Euro)	COMMERCIAL & CORPORATE BANKING SEGMENT				NPL SEGMENT	GOVERNA NCE & NON-CORE SERVICES SEGMENT	CONS. GROUP TOTAL
	TOTAL COMMERCIAL & CORPORATE BANKING SEGMENT	of which: FACTORING AREA	of which: LEASING AREA	of which: CORPORATE BANKING & LENDING AREA			
Net banking income							
Fourth quarter 2020	63.136	41.579	12.695	8.862	46.219	36.742	146.097
<i>Fourth quarter 2019</i>	<i>62.080</i>	<i>41.292</i>	<i>13.123</i>	<i>7.665</i>	<i>80.681</i>	<i>24.329</i>	<i>167.090</i>
% Change	1,7%	0,7%	(3,3)%	15,6%	(42,7)%	51,0%	(12,6)%
Net profit (loss) from financial activities							
Fourth quarter 2020	20.863	18.592	12.746	(10.475)	46.219	35.512	102.594
<i>Fourth quarter 2019</i>	<i>42.674</i>	<i>28.585</i>	<i>11.201</i>	<i>2.888</i>	<i>80.681</i>	<i>5.566</i>	<i>128.921</i>
% Change	(51,1)%	(35,0)%	13,8%	(462,7)%	(42,7)%	538,0%	(20,4)%
Profit for the period							
Fourth quarter 2020	(11.644)	(6.530)	5.012	(10.126)	5.142	23.182	16.680
<i>Fourth quarter 2019</i>	<i>11.568</i>	<i>6.530</i>	<i>4.457</i>	<i>581</i>	<i>24.763</i>	<i>2.804</i>	<i>39.135</i>
% Change	(200,7)%	(200,0)%	12,5%	(1842,9)%	(79,2)%	726,7%	(57,4)%

SEGMENT KPIs (in thousands of Euro)	COMMERCIAL & CORPORATE BANKING SEGMENT				NPL SEGMENT	GOVERNANCE & NON-CORE SERVICES SEGMENT ⁽¹⁾
	TOTAL COMMERCIAL & CORPORATE BANKING SEGMENT	of which: FACTORING AREA	of which: LEASING AREA	of which: CORPORATE BANKING & LENDING AREA		
Cost of credit quality ⁽²⁾						
Amounts at 31.12.2020	1,38%	1,05%	1,11%	2,69%	n.a.	4,72%
Amounts at 31.12.2019	0,95%	1,11%	0,72%	0,74%	n.a.	8,47%
% Change	0,43%	(0,06)%	0,39%	1,95%	n.a.	(3,75)%
Net bad loans/Receivables due from customers						
Amounts at 31.12.2020	0,7%	1,3%	0,2%	0,3%	74,1%	0,9%
Amounts at 31.12.2019	0,8%	1,2%	0,2%	0,1%	75,3%	4,4%
% Change	(0,1)%	0,1%	(0,0)%	0,2%	(1,2)%	(3,5)%
Coverage ratio on gross bad loans						
Amounts at 31.12.2020	72,7%	73,6%	85,0%	27,4%	-	29,1%
Amounts at 31.12.2019	79,6%	79,8%	81,0%	51,5%	-	15,0%
% Change	(6,9)%	(6,2)%	4,0%	(24,1)%	-	14,1%
Net non-performing exposures/Net receivables due from customers						
Amounts at 31.12.2020	2,7%	4,1%	0,8%	1,9%	98,3%	2,9%
Amounts at 31.12.2019	4,2%	6,1%	1,2%	1,6%	99,3%	11,3%
% Change	(1,5)%	(2,0)%	(0,4)%	0,3%	(1,0)%	(8,4)%
Gross non-performing exposures/Gross receivables due from customers						
Amounts at 31.12.2020	5,9%	9,0%	2,9%	3,1%	98,3%	4,3%
Amounts at 31.12.2019	8,5%	12,1%	3,2%	2,2%	99,3%	15,4%
% Change	(2,6)%	(3,1)%	(0,3)%	0,9%	(1,0)%	(11,1)%
RWAs ⁽³⁾						
Amounts at 31.12.2020	5.144.914	2.427.843	1.309.416	1.407.655	2.211.695	915.705
Amounts at 31.12.2019	5.222.610	2.945.792	1.398.434	878.384	2.039.840	958.110
% Change	(1,5)%	(17,6)%	(6,4)%	60,3%	8,4%	(4,4)%

(1) In the Governance & Non-Core Services Segment, at 31 December 2020, there were government securities amounting to 1.095,3 million Euro (213,0 million Euro at 31 December 2019), which for the purpose of calculating the cost of credit quality, were not considered.

(2) This indicator is calculated comparing the value of net write-downs/write-backs for credit risk at the end of the year over the annual average loans to customers (calculated quarterly)

(3) Risk Weighted Assets; the amount only relates to the credit risk.

For a more detailed analysis of the results of the business segments, please refer to the Group Report on Operations.

4.11 Part M - Leasing disclosure

Section 1 - Lessee

Qualitative information

As lessee, the Group companies stipulate lease contracts on properties mainly to be used instrumentally. They are therefore leases of properties intended to host internal offices. As the lease business is correlated to the Group's need to offshore its offices, particularly close attention is paid to identifying the most suitable properties for use, designated in line with the economic criteria established by the company.

At 31 December 2020, there are 64 passive lease contracts for buildings and 11 for car parking spaces, the related right of use booked at 31 December 2020 is 11,7 million Euro, whilst the corresponding lease liabilities come to 12,0 million Euro. The Group also has a property in Florence, financially leased as described in Part B - Information on the Consolidated Statement of Financial Position of this document.

As regards the contracts for cars, the Group has passive contracts for 267 cars at 31 December 2020, which are mainly long-term hires of structure cars and fringe benefits for employees. The related rights of use at 31 December 2020 are 1,6 million Euro while the corresponding liabilities for leasing also come to 1,6 million Euro.

The Group is not exposed to outgoing cash flows, which are not already reflected in the measurement of the leasing liabilities. In greater detail, exposure deriving from the extension options are included in lease liabilities booked, insofar as the Group considers the first renewal as certain; the other situations recalled by the standard (variable payments connected with leasing, guarantees of residual value, lease commitments that are not yet operative) are not present for the contracts stipulated as lessee.

The Group books the following costs:

- short-term leases in the event of assets such as properties and technologies (in particular, the mainframe hardware), when the related contracts have a maximum term of twelve months and have no option for extension.
- leases of assets of modest value, i.e. characterised by a new value of less than 5 thousand Euro, mainly for mobile telephony.

Quantitative information

The table below provides indication on the amortisation/depreciation cost for assets consisting of the right of use, broken down by classes of underlying asset.

AMORTISATION/DEPRECIATION COSTS FOR ASSETS COMPRISING THE RIGHT OF USE (in thousands of Euro)	31.12.2020	31.12.2019
a) Land	-	-
b) Buildings	2.445	2.085
c) Furniture	-	-
d) Electronic equipment	308	188
e) Other	941	982
Total	3.694	3.255

Section 2 - Lessor

Qualitative information

The Group offers fixed or variable-rate financial leasing solutions for vehicles (cars, commercial and industrial vehicles) and instrumental assets (industrial machinery, medical equipment, technological assets) to both private customers and small and medium enterprises through an internal commercial structure and a network of selected agents in financial assets throughout the whole of national territory. The leasing of instrumental assets is also distributed through relations with manufacturers, distributors and retailers.

As lessor, the Parent company does not stipulate lease contracts for properties for commercial use or accommodation with third parties or other group companies.

In referring to the greater detail given in the Report on Operations to these financial statements, section 2.9 Contribution of operating segments to Group results, it is there pointed out that the lease agreements stipulated with customers enable the management of risk on the underlying assets in line with the Group's policy, as there is no provision for buy-back agreements, guarantees on residual value or variable payments. The Group therefore books the financial lease in accordance with accounting standard IFRS 16 and classifies the transactions amongst financial assets measured at amortised cost.

Quantitative information

1. Information from the statement of financial position and income statement

For information on loans connected with financial lease transactions, reference is made to the contents of Section 4, Assets, of Part B - Consolidated Statement of Financial Position of this document. As regards interest income on lease loans, reference is made to the contents of Section 1 of Part C - Consolidated Income Statement of this document; for commission, refer to Section 2 of Part C and, finally, for other operating income, refer to Section 16, against of Part C.

2. Finance leases

2.1. Classification by time frames of payments to be received and reconciliation with the leasing loans entered under assets

Time frames	31.12.2020	31.12.2019
	Payments to be received for leasing	Payments to be received for leasing
Up to 1 year	419.847	458.737
Over 1 to 2 years	354.218	377.428
Over 2 to 3 years	282.181	283.621
Over 3 to 4 years	196.623	175.002
Over 4 to 5 years	91.229	73.783
Over 5 years	11.241	9.618
Total payments to be received for leasing	1.355.339	1.378.184
RECONCILIATION WITH LOANS		
Financial gains not accrued (-)	(104.983)	(132.288)
Residual value not guaranteed (-)	-	-
Financing for leasing	1.250.356	1.245.896

The table shows the classification by time frame of payments receivable for leasing and the reconciliation of such payments and lease loans as lessor. The table does not show impairment losses totalling 20,0 million Euro at 31 December 2020 (26,4 million Euro in 2019).

Venice - Mestre, 11 March 2021

For the Board of Directors

The C.E.O.

Luciano Colombini

5.

Country-by-country reporting



Reference date 31 December 2020

Pursuant to the supervisory provisions for banks

Bank of Italy Circular no. 285/2013 - Part I - Title III - Chapter 2

In order to increase the EU public's trust in the financial sector, here below is the information as per the Annex A of Part I, Title III, Chapter 2 of Bank of Italy's Circular no. 285.

The information refers to the situation at 31 December 2020.

INFORMATION/GEOGRAPHIC AREA		ITALY	POLAND	ROMANIA	OTHER CONSOLIDATION RECORDS	GROUP
a)	Company name	Banca Ifis S.p.A. Cap. Ital. Fin. S.p.A. Credifarma S.p.A. Farbanca S.p.A. Gemini S.p.A. Ifis Npl S.p.A. Ifis Npl Servicing S.p.A. Ifis Real Estate S.p.A. Ifis Rental Services S.r.l.	Ifis Finance Sp. z o.o.	Ifis Finance IFN S.A.	-	Banca Ifis Group
	Nature of business	Collecting savings from the public and lending. The Group specialises in the segment of trade receivables, medium/long-term corporate lending and structured finance, leasing, distressed retail loans and tax receivables.	The company provides financial support and credit management services to businesses.	The company provides financial support and credit management services to businesses.	-	Collecting savings from the public and lending. The Group specialises in the segment of trade receivables, medium/long-term corporate lending and structured finance, leasing, distressed retail loans and tax receivables.
b)	Turnover ⁽¹⁾ (in thousands of Euro)	496.547	3.825	-	(75.036)	425.336
c)	Number of full-time equivalents ⁽²⁾	1.740	18	-	-	1.758
d)	Pre-tax profit or loss (in thousands of Euro)	140.451	2.556	-	(51.130)	91.877
e)	Income tax (in thousands of Euro)	(24.270)	(475)	-	2.010	(22.735)
f)	Government grants received (in thousands of Euro)	181	-	-	-	181

(1) Turnover corresponds to the Net Banking Income as per item 120 of the Consolidated Income Statement at 31 December 2020.

(2) The "Number of full-time equivalents" is calculated, in accordance with the relevant Provisions, as the ratio of total hours worked by all employees (including overtime) and the total contract work hours per year of a full-time employee (i.e. the total available work hours in a year excluding 20 days of annual leave).

6.

Certifications



6.1 Certification of Manager charged with preparing the Company's financial reports

Certification of the consolidated financial statements pursuant to the provisions of art. 154-bis, paragraph 5, of the legislative decree 58 of February 24, 1998 and art. 81 ter of Consob Regulation no. 11971 of 14 May 1999 as amended

1. We, the undersigned, Luciano Colombini – CEO and Mariacristina Taormina – in her capacity as Manager charged with preparing the financial reports of Banca Ifis S.p.A., having also taken into account the provisions of Art. 154-bis, paragraphs 3 and 4, of the Italian Legislative Decree no.58 dated 24 February 1998, hereby certify:
 - i. the adequacy in relation to the characteristics of the Company;
 - ii. the effective implementation of the administrative and accounting procedures
 for the preparation of Banca Ifis's consolidated financial statements, over the course of the period from January 1st, 2020 to December 31st, 2020.
2. The adequacy of the administrative and accounting procedures in place for preparing the consolidated financial statements as at December 31st, 2020 has been assessed through a process established by Banca Ifis S.p.A. on the basis of the guidelines set out in the *Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (CoSO)*, an internationally accepted reference framework.
3. The undersigned further confirm that:
 - 3.1 the consolidated financial statements as at December 31st, 2020:
 - a) are prepared in compliance with International Accounting Standards, endorsed by the European Commission as for European regulation no. 1606/2002 of the European Parliament and Council of July 19th, 2002;
 - b) correspond to the related books and accounting records;
 - c) provide a true and correct representation of the financial position of the issuer and the group of companies included in the scope of consolidation.
 - 3.2 The management report contains a reliable analysis of the business outlook and management result, the financial position of the issuer and group of companies included in the scope of consolidation and a description of the main risks and uncertainties they are exposed to.

Venice, March 11th, 2021

CEO

Manager charged with preparing the
Company's financial reports

Luciano Colombini

Mariacristina Taormina

This report has been translated into the English language solely for the convenience of international readers.

6.2 Board of Statutory Auditors' report

REPORT of the BOARD OF STATUTORY AUDITORS to the FINANCIAL STATEMENTS as of 31 December 2020

(Translation from the original Italian text)

Dear Shareholders,

with this report – prepared pursuant to Art. 153 of Legislative Decree 58/1998 and Art. 2429, paragraph 2, Italian Civil Code – the Board of Statutory Auditors of Banca Ifis S.p.A. hereby informs you of the supervisory and control activities carried out in the performance of their duties, during the year ended 31 December 2020.

Introduction

The activity carried out by the Board during the year was affected by the pandemic which made it necessary, for most of the year, to resort to the use of remote connection systems for the organisation of meetings. The tasks and functions assigned by the reference legislation to the Supervisory Body have always been carried out in compliance with the legal and corporate provisions issued to control the health emergency.

1. Activity of the Board of Statutory Auditors

During financial year 2020, the Board of Statutory Auditors carried out its institutional tasks in accordance with the rules of the Italian Civil Code and with Legislative Decrees 385/1993 (Consolidated Banking Law), 58/1998 (Consolidated Law on Finance), 39/2010, the By-Laws, in addition to being in compliance with those issued by the public Authorities that exercise activities of supervision and control, also taking into account the standards of conduct recommended by the National Council of Chartered Accountants in the document dated April 2018.

During the year, the Board of Statutory Auditors performed its duties, holding 26 meetings, of which 5 were held jointly with the Risk Management and Internal Control Committee and 1 held jointly with the Boards of Statutory Auditors of the subsidiaries.

The Board also took part in all the 18 meetings held by the Board of Directors.

The Board of Statutory Auditors or single Auditors also took part in the meetings of the Risk Management and Internal Control Committee, of the Appointments Committee and of the Remuneration Committee.

The minutes of the Board of Statutory Auditors' meetings, which sometimes contain explicit recommendations to rapidly resolve difficulties that have come to light, are sent in their entirety to the CEO and to the General Manager. The Chairman of the Risk Management and Internal Control Committee is constantly invited to attend meetings of the Board of Statutory Auditors. It is believed that such attendance will ensure an adequate flow of information between the committees within the Board of Directors.

The Head of Internal Auditing also attends the meetings of the Board of Statutory Auditors, as a permanent invitee for the continuous interaction with the corporate function of third-level control.

2. Significant events and operations

2.1 Events and operations of the year

On carrying out the activities of supervision and control, the Board of Statutory Auditors obtained periodically from the Directors, including through the participation in meetings of the Board of Directors, information on the activities carried out and on the most important economic, financial and equity transactions approved

and implemented by the Bank and by its subsidiaries, also pursuant to Art. 150, paragraph 1 of the Consolidated Law on Finance.

Referring to what is described in the Management Report on significant events that occurred during the year, it is therefore considered appropriate to mention, among others, the following.

On 19 March 2020, this Board of Statutory Auditors received the resignation of the director Alessandro Csilaghy effective as of 31 March 2020. The Board decided not to proceed with the co-opting of a new director considering the compliance with the statutory provisions.

In November 2020 Banca Ifis finalised the acquisition of control of Farbanca S.p.A. Under the deal, Banca Ifis acquired 70.77% of Farbanca for 32.52 million euros.

In addition, the companies Gemini S.p.A. and Ifis Finance IFN S.A - Romania were set up during the year.

2.2 Events and operations after the end of the financial year

The Bank completed the corporate and organisational restructuring of the NPL hub.

On 1 January 2021, as illustrated in more detail in the Management Report, the following operations were completed:

- the company Ifis Npl S.p.A. was renamed Ifis Npl Investing S.p.A
- the company Ifis Npl Servicing S.p.A. was merged by incorporation into Ifis Npl Investing S.p.A.
- Gemini S.p.A. was renamed Ifis Npl Servicing S.p.A.
- Ifis NPL Investing conferred the business unit relating to management and recovery activities to Ifis NPL Servicing

The NPL hub is made up of:

- Ifis NPL Investing Spa (100% owned by Banca Ifis Spa),
- Ifis NPL Servicing (100% owned by Ifis NPL Investing Spa)
- Ifis Real Estate Spa (100% owned by Ifis NPL Servicing Spa).

Director Divo Gronchi resigned on 14 January 2021 and the Board of Directors, during the meeting held on 11 February 2021, with the favourable opinion of the Appointments Committee and the Board of Statutory Auditors, co-opted Frederik Geertman.

On 11 February 2021 Luciano Colombini, CEO and director, announced his resignation from both offices with effect from the date of the Shareholders' Meeting on the approval of the financial statements for the year 2020. On the same date, the Bank signed an agreement with Luciano Colombini relating to the conditions for his departure, with the favourable opinion of the Remuneration Committee.

Also during the meeting of 11 February 2021, the Board of Directors approved the Management Agreement for the new CEO with the favourable opinion of the Remuneration Committee.

The Board verified the correctness of the process and criteria adopted by the Bank, including consistency with the relevant legislation, thus issuing its favourable opinions to the Board of Directors.

3. Supervisory activities

3.1 – Supervisory activities on the observance of the law, the By-Laws, and the Self-Regulation Code for listed companies

On the basis of the information obtained through its own supervisory activities, the Board of Statutory Auditors was not made aware of any transactions that had not been conducted in compliance with the principles of correct management and that had not been approved and implemented in accordance with the law and with the By-Laws, which were contrary to the interests of the Bank, that were in contrast with the resolutions passed by the Shareholders' Meeting, that were imprudent or risky or were such as to compromise the integrity of corporate assets.

The Board of Statutory Auditors was not made aware of any transactions that could pose conflicts of interest.

The Board of Statutory Auditors monitored compliance of the Procedure for transactions with subjects related to the law in force and its correct application.

In particular, as provided for by the relevant rules, the Chairman and/or the other Statutory Auditors participated in the meetings of the Risk Management and Control Committee to discuss transactions with related parties; the Board of Statutory Auditors periodically received information relating to the progress of their positions.

The Board of Statutory Auditors assessed that the Board of Directors, in the Management Report and in the Notes, had provided adequate information on the transactions with related parties, taking into account the provisions of regulations in force. To the knowledge of the Board of Statutory Auditors, there are no intra-group transactions and no transactions with Related Parties being implemented in 2020 that were contrary to the interests of the company.

In the year 2020, the Bank did not perform any atypical or unusual transactions. With regard to transactions of particular importance, these respect the principles of prudence, do not contravene the resolutions of the Board of Directors' Meetings, and do not prejudice company assets.

Regarding the outsourcing of Bank activities, and in particular of the Important Operational Functions, the Board of Statutory Auditors acknowledged the report prepared by Internal Audit and expressed its opinion and recommendations in the Board of Directors' meeting of 26 June 2020, as requested by the Supervisory Authority.

The Board of Statutory Auditors, on acknowledging the accession of Banca Ifis S.p.A. to the Self-Regulation Code for listed companies, verified the requirements of independence of its members, in addition to the correct application of the criteria and procedures of verification adopted by the Board of Directors to assess the independence of directors.

3.2 – Supervisory activities on the adequacy of the internal audit system, of the risk management systems and of the organisational structure

The Board of Statutory Auditors monitored the suitability of internal monitoring systems and risk management through:

- meetings with the management of the Bank;
- regular meetings with the Audit Functions - Internal Audit, Compliance, Anti-money laundering (AML) and Risk Management and the Financial Reporting Officer - in order to evaluate the methodology for the planning of operations, based on the identification and evaluation of the principal risks present in the organisational processes and units;
- examination of the periodical reports from the Audit Functions and the periodical information regarding the results of monitoring activities;

- acquired information from the managers of corporate functions;
- discussion of the results of the work carried out by the external auditing firm;
- participation in the work of the Risk Management and Control Committee and, when the topics so required, in their joint examination with the Committee.

In the execution of its monitoring duties, the Board of Statutory Auditors maintained continuous relations with the Audit Function.

The Board carefully followed the organisational structure of the control functions, aimed at managing risks in the context of the changes concerning the banking group, for which it was decided to perform centralisation, for the entire banking group, of the second and third level control functions at the parent company.

The Board of Statutory Auditors acknowledges that the annual Reports from the Control Functions conclude with a substantially favourable judgement of the internal control system.

The Board monitored the initiatives underway to improve the processes for monitoring and controlling risks.

As regards the risks associated with liquidity (including mismatching and funding gaps), it took note of the progress of the ALM project and its expected completion in 2021.

Also, related to developments in implementing the group's IRB system, for management purposes, the Board of statutory Auditors took note of its conclusions and recalled the need for it to be implemented in full for the various credit processing stages, and took the opportunity as a reminder to strengthen the pricing policies.

The Board took note of the implementation of the new risk-based methodologies for the planning and execution of Internal Audit activities that will be fully implemented in the year 2021.

Over the course of 2020, the Board of Statutory Auditors supervised the suitability and effects of the entire ICAAP and ILAAP 2020 processes on the requirements set out by regulations, underscoring the usefulness of appropriate data aggregation, integration, and validation processes to maintain the aforementioned documents. In consideration of the economic context, the Bank suspended the industrial plan approved by the Board on 13 January 2020 and, on 26 June 2020, the Board of Directors approved the new forecasts for 2020 and the projections for 2021 and 2022 for internal drafting of the ICAAP-ILAAP.

Action plans were provided with reference to the activities and to areas for improvement identified, whose timely implementation is judged by the Board of Statutory Auditors as essential and that require special attention by the Management Body.

On the basis of activities carried out and the results of audits conducted by Internal Audit – also in relation to the continuous evolution of the Bank and the group – the Board of Statutory Auditors believes that, while there are certain areas for further improvement, there are no elements that are sufficiently critical to invalidate the internal control system and risk management.

3.3 – Supervisory activities on the administrative-accounting system and on the financial reporting and non-financial disclosure processes

The Board of Statutory Auditors, in its role as Committee for internal control and auditing, monitored the process and the efficiency of internal monitoring systems and risk management with regards to financial reporting.

The Board of Statutory Auditors periodically met the Financial Reporting Officer for the exchange of information regarding the administrative-accounting system and its reliability, in order to have an accurate presentation of management-related issues.

During these meetings, there were no indications of any significant short-comings in the operational and auditing processes that could invalidate the opinion of the adequacy and effective application of administrative accounting procedures.

The Board of Statutory Auditors examined the Report of the Financial Reporting Officer for the 2020 financial statements, which contains the results of tests on the controls carried out as well as the main problems identified in application of the relevant legislation and the methodologies used and identifies the appropriate remedies.

The Board of Statutory Auditors also examined declarations, issued on 11 March 2021 by the CEO and by the Financial Reporting Officer, in accordance with the provisions contained in Article 154 bis of the Consolidated Law on Finance and in Article 81 ter of the Italian Securities and Exchange Commission Regulation 11971/1999, from which no failings emerged that might affect the opinion of the adequacy of the administrative-accounting procedures.

The Board of Statutory Auditors then acknowledged the monitoring systems developed by the Financial Reporting Officer regarding the subsidiaries in the group of consolidated companies that do not show any significant criticality profiles.

The external Auditing Firm, EY S.p.a., during periodical meetings and in the light of the Additional report — pursuant to Art. 11 of EU Regulation 537/2014 and issued on 30 March 2021, did not report any critical situations to the Board of Statutory Auditors that could affect the internal control system relating to the administrative and accounting procedures, nor did it ever highlight facts that were deemed reprehensible or any irregularities that would require reporting pursuant to Art. 155, paragraph 2, of the Consolidated Law on Finance.

The Board of Directors prepared, in accordance with the law, the consolidated financial statements as of 31 December 2020 of the Banca Ifis Group that were submitted for audit by the external auditing firm EY S.p.A. The group of consolidated companies, as previously mentioned, was modified following corporate changes that occurred during 2020. The Board of Statutory Auditors acknowledged the preparation of instructions provided to the subsidiaries for the process of consolidation.

With regard to the consolidated financial statements – as required by the rules of conduct recommended by the National Council of Chartered Accountants in the document dated April 2018 – the Board of Statutory Auditors monitored compliance with the procedural rules concerning the formation and layout of the same and of the management report.

With regard to the above, no elements emerged to conclude that activities had not been carried out in accordance with the principles of correct administration or that the organisational structure, the internal audit and accounting and administrative systems were not, in their entirety, substantially adequate to the needs and size of the company.

The Bank has prepared the Non-Financial Disclosure (hereinafter NFD): the obligation to prepare the NFD was introduced by Legislative Decree 254/2016 and regulatory indications were completed by the “Implementation regulation of Legislative Decree 254 of 30 December 2016” published on 18 January 2018 by the Consob through Resolution 20267 and by the Call for attention no. 1 issued by the Consob on 28 February 2019. Finally, the 2020 NFD took into consideration the information in the Warning Notice no. 1/21 of 16

February 2021 issued by Consob relating to the impact of the pandemic on non-financial issues.

The Bank prepared the NFD as an independent document, on a consolidated basis and this Board of Statutory Auditors, in the light of the provisions of Article 3, paragraph 7 of Legislative Decree 254/2016, checked the document - also in the light of what was declared by the external auditing firm in its report pursuant to Article 3, paragraph 10 of Legislative Decree 254/2016 issued on 30 March 2021 - with regards to its completeness and correspondence to regulations and according to the preparation criteria illustrated in the Methodology Notes for the Non-Financial Disclosure, without identifying elements which require mention in this report.

The NFD was also audited by the external auditing firm EY, which issued its report on 30 March 2021 without identifying any elements that could indicate that the NFD was not drafted in compliance with laws in force.

3.4 – Supervisory activities pursuant to Legislative Decree 39/2010

The Board of Statutory Auditors, as the "Committee for internal audit and for general auditing", supervised the Auditing Firm's operations, as provided for by Art. 19 of Legislative Decree 39/2010.

During the year, the Board of Statutory Auditors met with the external Auditing Firm EY S.p.A. several times, as already stated, pursuant to Art. 150 of the Consolidated Law on Finance, in order to exchange information concerning the activities carried out in implementation of their respective duties.

The external auditing firm

- issued, on 06 August 2020, the report on the limited audit of the abbreviated six-month consolidated financial statements with no exceptions being highlighted;
- issued, on 30 March 2021 - pursuant to Art. 14 of Italian Legislative Decree 39/2010 and Art. 10 of EU Regulation 537 of 16 April 2014 - the certification reports from which it is evident that the financial statements and consolidated financial statements, closed on 31 December 2020, were drawn up clearly and represent in a truthful and correct manner the financial and asset situation, the operating result and the cash flows of Banca Ifis S.p.A. and of the Group for the year ended on that date. In the opinion of the external Auditing Firm, the Management Report on the financial statements and consolidated financial statements as of 31 December 2020 and the information of the "Report on corporate governance and shareholder structure" are consistent with the annual financial statements and consolidated financial statements as of 31 December 2020.

Still on 30 March 2021, the Auditing Firm presented the Board of Statutory Auditors with the Additional Report, provided for in Article 11 of EU Regulation 537/2014, which this Board of Statutory Auditors will submit to the attention of the upcoming meeting of the Board of Directors on 22 April 2021.

The Additional Report does not present any significant shortfalls in the internal auditing system with regards to the financial reporting process which would merit being brought to the attention of those responsible for governance.

In the Additional Report, the external Auditing Firm presented the Board of Statutory Auditors with the declaration regarding independence pursuant to Article 6 of EU Regulation 537/2014, from which no situations emerge that might compromise independence.

Lastly, the Board of Statutory Auditors acknowledged the Transparency Report of 30 June 2020 prepared by the external auditing firm and published on its website pursuant to Legislative Decree 39/2010.

Lastly, as previously mentioned, the Board of Statutory Auditors examined the content of the report by EY S.p.A. regarding the Non-financial Disclosure issued pursuant to Article 3, paragraph 10 of Legislative Decree 254/2016 on 30 March 2021.

The Board of Statutory Auditors reports that over the course of 2020, as well as auditing the individual financial statements, consolidated financial statements, and the financial statements of the subsidiaries, EY S.p.A., with the approval of this Board of Statutory Auditors, was entrusted with the following tasks:

- Profit verification 31/12/2020 BANCA Ifis individual and consolidated for €42,000
- Comfort Letter on EMTN Program renewal for 2020 for €45,500
- Comfort Letter on the 2020 bond issue for € 35,000
- Agreed Upon procedures on the Servicer Reports of Indigo Lease for €25,000
- Agreed Upon procedures on the Ifis ABCP Program vehicle servicer for €25,500
- Limited revision of the NFD for €28,000
- Agreed Upon procedures on GACS for €35,000
- 2020 Risk Gaap Assessment proposal for €105,000

In summary, the appointments conferred on the auditing company concerned:

- certification services for €236,000
- other services for €105,000

The external Auditing Firm also confirmed to the Board of Statutory Auditors that, during the year and in the absence of the conditions for their release, it did not issue opinions pursuant to the law.

3.5 – Relations with the Supervisory Body

The Board of Statutory Auditors has read the minutes of meetings held by the SB and the exchange of information was also guaranteed by the discussion had within the Board of Statutory Auditors with the auditor member of the SB, without receiving reports and/or notes requiring a mention. During the year, the Bank and the Group are performing a general review of the Management and Organisation Model and the latter is also being updated to include the new predicate offences.

4. Remuneration policies

As illustrated in more detail in the document "Report on the remuneration policy and remuneration paid", the Board has made updates and changes in relation also to the provisions of the revised Article 123-ter of the Consolidated Law on Finance.

The Board monitored the updates and deemed it useful to recall the following changes, among others, covered in detail in the aforementioned document:

- a) the identification of "exceptional circumstances" enabling derogation to the Remuneration Policy approved by shareholders
- b) the introduction of the additional cost/income indicator for the purpose of determining the variable remuneration of the CEO and GM
- c) with regard to the Golden Parachutes system, the maximum amount resulting from application was indicated specifically in addition to the limit fixed in terms of fixed remuneration years

During the session of 24 March 2021 of the Risk Management and Internal Control Committee, the Board of Statutory Auditors furthermore acknowledged, thus agreeing with its comments, the audits carried out by the Internal Audit function and presented in its document on "Compliance of remuneration policies with the internal policies and regulatory framework"; audits which led to a satisfactory outcome.

By taking part in the Remuneration Committee meetings, the Board of Statutory Auditors acknowledged allocation of the variable remuneration for 2020 - of which a part in treasury shares of the Bank - to the General Manager and key personnel in general, in accordance with the policies approved by the Shareholders' Meeting of 23 April 2020 and the operating procedure approved by the Board of Directors.

In general, in light of the provisions issued by the Supervisory Authorities on remuneration and incentive systems, the Board of Statutory Auditors monitored, in close connection with the Remuneration Committee, correct application of the rules governing the remuneration of the CEO, the managers of the Audit Functions and of the Manager Responsible and the communication of remuneration policies for the 2021 financial year to the companies belonging to the Group.

The Board of Statutory Auditors is not aware, in addition to what was illustrated above, of facts or details that need to be submitted to the Shareholders' Meeting.

During 2020, the Board of Statutory Auditors did not receive complaints from Shareholders pursuant to Art. 2408 of the Italian Civil Code.

Finally, with reference to the COVID-19 epidemiological emergency, the Board of Statutory Auditors recalls the information stated by the Board of Directors in its Directors' Report and Explanatory Notes, accompanying the 2020 financial statements.

In the course of the activity performed and on the basis of the information obtained, no omissions, reprehensible facts, irregularities or in any case other significant circumstances were detected that would require reporting to the Supervisory Authorities or mention in this report.

Due to the ongoing Covid-19 pandemic, the Bank of Italy deemed it appropriate to issue, on 16 December 2020, specific information on the possible determination and payment of dividends.

The Board, in accordance with and within the limits set out in the recommendation of the Bank of Italy of 16 December 2020 and subsequent discussions with it, proposed to the shareholders' meeting to pay a 2020 dividend equal to 25,126,044 euros, corresponding to 0.47 euro per share, consequently deducted from its own funds at 31 December 2020.

With regard to the dividends approved and not distributed as of 2019, the Bank will continue to keep them as a decrease in the Bank's Net Equity and to account for them under Other Liabilities at least until 30 September 2021, as required by the Bank of Italy Recommendation of 16 December 2020.

In conclusion, the Board of Statutory Auditors - taking into account the specific tasks conferred on the external Auditing Firm regarding auditing of the accounts and the reliability of the financial statements that issued its opinion with no reserves, and in light of the statements issued pursuant to Art. 154 of Legislative Decree 58/1998 by the Financial Reporting Officer and the Chief Executive Office - has no comments to make to the Shareholders' Meeting, pursuant to Art. 153 of the Consolidated Law on Finance, related to approval of the financial statements for the years as of 31 December 2020, accompanied by the Management Report and Explanatory Note, as presented by the Board of Directors, and therefore has no objections to the approval of the financial statements, and invites the Shareholders' Meeting to take into due consideration

the recommendation of the Bank of Italy, for the purposes of the proposed allocation of the operating profit or to distribution of dividends.

Venice-Mestre, 31 March 2021.

for the Board of Statutory Auditors.
The Chairman

Giacomo Bugna

6.3 Independent auditors' report on the consolidated financial statements

Banca IFIS S.p.A.

Consolidated financial statements as at December 31, 2020

Independent auditor's report pursuant to article 14 of
Legislative Decree n. 39, dated January 27, 2010, and
article 10 of EU Regulation n. 537/2014

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 IFIS S.p.A.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Banca IFIS Group ("the Group"), which comprise the statement of financial position as at December 31, 2020, and the income statement, the statement of comprehensive income, the statement of changes in equity and the cash flows statement for the year then ended, 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 Banca IFIS Group as at December 31, 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing article 9 of Legislative Decree n. 38/2005 and article 43 of Legislative Decree n. 136/2015.

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 Banca IFIS S.p.A. in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We identified the following key audit matters:

Key Audit Matter	Audit Response
<p>Accounting for the business combination of Farbanca S.p.A.</p> <p>On November 27, 2020, the Parent Company Banca IFIS S.p.A. finalized the acquisition of 70,77% of the share capital of Farbanca S.p.A. (hereinafter, the "Transaction").</p> <p>The Transaction is accounted for in the consolidated financial statements in accordance with the provisions of the international accounting standard IFRS 3 "Business combinations". The determination and allocation of the acquisition cost ("purchase price allocation"), activities for which the Company management was supported by an external consultant, gave rise to the recognition of "gain on bargain purchase" of Euro 16,8 million included in the caption Other gains and losses.</p> <p>We considered the accounting for the Transaction a key aspect of the audit, due to the subjectivity of the assumptions made by company management for the purpose of carrying out the purchase price allocation, as well as the valuations obtained from the external consultant, with particular reference to:</p> <ul style="list-style-type: none"> • the estimate of the fair value of the financial assets acquired; • the recognition and valuation of a gain on bargain purchase; • the recognition of deferred taxation on the temporary differences between the book values determined in the purchase price allocation and the related tax values. <p>The disclosure on the Transaction is provided in Part A - Accounting Policies and</p>	<p>Our audit procedures in response to the key aspect included, inter alia:</p> <ul style="list-style-type: none"> • analysis of the agreements stipulated relating to the Transaction and the minutes of the meetings of the corporate bodies of the Parent Company during which the same Transaction was discussed and approved, in order to understand the relevant terms and conditions; • analysis of the report prepared by the external consultant appointed by Company management; • assessment of the appropriateness of the methodology used and the reasonableness of the assumptions made by the Directors in relation to the purchase price allocation process with the support of our experts in business combinations, as well as the verification of the mathematical accuracy of the related calculations. <p>Finally, we examined the adequacy of the disclosure provided in the notes to the consolidated financial statements in relation to the business combination.</p>

in Part G - Business Combinations concerning companies or business branches, of the notes to the consolidated financial statements.

Goodwill impairment test

Goodwill recorded in the caption Item 100 of the Balance Sheet of the consolidated financial statements at December 31, 2020 amounts to Euro 38.8 million, is mainly allocated to the cash generating unit (CGU) of operating segment ("NPL Sector"), dedicated to the acquisition without recourse, management and collection of mainly unsecured loans that are difficult to collect. Goodwill, as required by the international accounting standard IAS 36 "Impairment of assets", is not subject to systematic amortization but is subject, at least annually, to the impairment test by comparing the carrying values of the CGUs, inclusive of goodwill, and the related recoverable amount.

Parent Company management identified the so-called "Value in use", which is the recoverable value configuration of the CGUs to be used for the impairment test, determined through a procedure that provides for the discounted cash flows and assumptions which by their nature imply the judgments of the Directors, supported by an external consultant.

In this context, for the purpose of estimating future cash flows, the Company management used the data contained in the 2021 Budget and the inertial prospects relative to the period 2022 to 2023 as approved by the Directors in January, in the context of the uncertainties deriving from the spread of the Covid-19 pandemic.

In consideration of the significant amount of goodwill in the consolidated financial

Our audit procedures in response to the key aspect included, inter alia:

- understanding the methods for determining the recoverable value adopted by the Parent Company as part of the impairment test process approved by the Board of Directors, and the related key controls;
- assessment of the report produced by the management's third-party specialists, as well as the assessment of their competency, capability and objectivity;
- the comparison between the data used for conducting the impairment test and those presented in the 2021 Budget and the inertial prospects relative to the period 2022 to 2023, in order to assess their alignment;
- analysis of the reasonableness of the economic forecasts included in the "Strategic Plan" for the period 2020-2022 and used as part of the goodwill impairment test;
- with the support of our experts in business combinations, the assessment of the appropriateness of the methodology and the reasonableness of the assumptions used by the Directors for the determination of the recoverable value, as well as the verification of the mathematical accuracy of the calculations and sensitivity analysis on key assumptions.

statements, as well as the subjectivity of the assumptions adopted by the Directors in the process of estimating the recoverable value of the CGU, we considered the impairment test of goodwill a key aspect of the audit.

The disclosure on the impairment test is provided in Part A - Accounting Policies and in Part B - Information on the balance sheet of the notes to the consolidated financial statements, in particular in section 10.3.

Finally, we examined the adequacy of the disclosures provided in the notes to the consolidated financial statements.

Classification and Valuation of Loans to Customers

Loans to customers of the Commercial e Corporate Banking and Governance & Services Non Core Sectors amount respectively to Euro 5,993 million and Euro 1,737 million, net of analytical and collective impairment provisions for Euro 270 million and Euro 35 million respectively, and represent 64% of total assets at December 31, 2020.

The process of classifying and valuing loans to customers in the various risk categories and the calculation of the loan impairments are relevant for the audit due to the significant value of the loans in the financial statements and due to the use of estimates that present a high degree of complexity and subjectivity.

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.

In this context it is of particular importance:

- the identification and calibration of the parameters relating to the significant increase in credit risk for the purposes of the stage allocation of performing credit exposures (Stage 1 and Stage 2);

Our audit procedures in response to the key aspect, considering the revisions made to the estimation processes regarding collective impairment provisions to reflect the heightened uncertainty deriving from the spread of the Covid-19 pandemic, included inter alia:

- understanding and analysis of the main choices regarding policies and processes carried out by the Company with reference to the classification and valuation of loans to customers and performing compliance procedures over key controls
- carrying out portfolio comparative analyses to understand, also through discussion with Company management, the main changes and the relative coverage levels by risk category;
- performing substantive procedures to verify the proper classification of credit positions;
- verification on a sample basis of the proper application of Company policies for estimating expected credit losses on exposures analytically assessed;
- understanding, also through the support of our risk management and information systems experts, of the methodology used for the stage allocation and to estimate, at the balance sheet date, the expected credit losses on collectively assessed exposures, as well as

- the estimate of the values to be attributed to the PD (Probability of Default), LGD (Loss Given Default) and EAD (Exposure at Default) as inputs to the expected credit loss model (Expected Credit Loss), on the basis of historical observation of the data for each risk class and forward looking factors, including macroeconomic factors;
- the identification of objective evidence of increased credit risk for the classification of non-performing credit exposures (Stage 3), and the determination of the related recoverable cash flows.

performing compliance and substantive procedures to verify the completeness of the databases used and the related calculations.

Finally, we examined the adequacy of the disclosures provided in the notes to the consolidated financial statements.

The disclosure on the evolution of the quality of the portfolio of loans to customers, and the classification and evaluation criteria adopted is provided in Part A - Accounting Policies, in Part B - Information on the balance sheet, in Part C - Information on the income statement and in Part E - Information on risks and related hedging policies of the notes to the financial statements.

Valuation of NPL Sector Loans

The Group operates with the NPL Sector dedicated to the acquisition without recourse, management and collection of mainly unsecured loans that are difficult to collect (Stage 3), which contributes 34,8% of the reclassified consolidated brokerage margin equivalent to Euro162,9 million.

This activity is relevant for the audit due to the related significant economic effects in the financial statements, and to the methods of representation and evaluation adopted by the Group which are characterized by complexity profiles and by the use of assumptions and hypotheses in the specific evaluation methods and models.

These methods and models, in compliance with IFRS 9, provide for the application of the amortized cost method which is based on specific recovery forecasts, where available, or

Our audit procedures in response to the key aspect, considering the revisions made to the estimation processes regarding collective impairment provisions to reflect the heightened uncertainty deriving from the spread of the Covid-19 pandemic included, inter alia:

- understanding of the policies, processes and controls put in place by the Group for the acquisition, recognition and periodic valuation of NPL Sector credits, based on the evolution of the recovery estimate, and the performance of compliance procedures on controls considered key among those detected;
- understanding, also through the support of our risk management experts, of the methodology used for estimating and / or identifying the cash flows underlying the

on estimates of expected cash flows resulting from the historical experience gained and articulated by homogeneous clusters, updated on the basis of judicial or extrajudicial recovery activities. 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 part of the accounting policies reported in part A of the notes to the consolidated financial statements, the criteria for the recognition and valuation of NPL sector receivables are described, as well as the risks and uncertainties associated with the use of the estimates underlying the evaluation process and in Part E - Information on the risks and related hedging policies of the notes to the consolidated financial statements.

methods and models defined by the Group, as well as performing compliance and substantive procedures to verify the completeness of the databases used and, through portfolio analysis techniques, of the consistent application of the methods and models themselves;

- performing on a sample basis of substantive procedures to verify the correctness of the significant valuation assumptions both as regards expected cash flows and as regards the estimated timing for their recovery;
- performing procedures for comparative analysis of the loan portfolio of the NPL Sector through the correlation, for each method of recovery and evaluation, of balance sheet data with the respective economic effects and with the related cash flows collected, as well as analysis and discussion with the company management on the most significant deviations.

Finally, we examined the adequacy of the disclosures provided in the notes to the consolidated financial statements.

Responsibilities of Directors and Board of Statutory Auditors for the Consolidated Financial Statements

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing article 9 of Legislative Decree n. 38/2005 and article 43 of Legislative Decree n. 136/2015, 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.

In preparing the financial statements, the Directors are responsible for assessing Banca IFIS Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Statutory Auditors ("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 Banca IFIS 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 Banca IFIS 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 modify 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 Banca IFIS Group to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities or the business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and

are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of Banca IFIS S.p.A., in the general meeting held on April 17, 2014, engaged us to perform the audits of the separate and consolidated financial statements for each of the years ending December 31, 2014 to December 31, 2022.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of Banca IFIS S.p.A. 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 Board of Statutory Auditors ("Collegio Sindacale") in their capacity as audit committee, prepared in accordance with 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 IFIS S.p.A. are responsible for the preparation of the Report on Operation and of the Report on Corporate Governance and Ownership Structure of Banca IFIS Group as at December 31, 2020, including their consistency with the related consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated February 24, 1998, with the consolidated financial statements of Banca IFIS Group as at December 31, 2020 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operation and the above-mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the consolidated financial statements of Banca IFIS Group as at December 31, 2020 and comply with the applicable laws and regulations.

With reference to the statement required by article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated January 27, 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated December 30, 2016

The Directors of Banca IFIS S.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated December 30, 2016. We have verified that non-financial information have been approved by the Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated December 30, 2016, such non-financial information are subject to a separate compliance report signed by us.

Verona – March 30, 2021

EY S.p.A.

Signed by: Marco Bozzola, Partner

This report has been translated into the English language solely for the convenience of international readers.

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