Gruppo Cassa Centrale

Consolidated Half-Yearly Financial Report

as at 30 June 2021

GRUPPO CASSA CENTRALE
CREDITO COOPERATIVO ITALIANO

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Cassa Centrale Banca Credito Cooperativo Italiano
Cooperative Banking Group

Consolidated Half-Yearly Financial Report

as at 30 June 2021

This “Consolidated Half-Yearly Financial Report” (hereinafter also the “Half-Yearly Report”) consists of the interim report on operations (hereinafter also the “Report on Consolidated Operations”) and the condensed consolidated half-yearly financial statements (hereinafter also the “Consolidated Financial Statements”). The “Explanatory Notes” contained in the half-yearly report have been prepared with reference to the structure of the Explanatory Notes set forth in Circular no. 262 issued by the Bank of Italy on 22 December 2005, as amended, for the consolidated financial statements, albeit with limited disclosure as they are condensed half-yearly financial statements.

For ease of reading, the numbering set out in the aforementioned Circular has been maintained, although some parts, sections or tables may be omitted for the reasons explained above.

The consolidated financial statements provide, in addition to the accounting data as at 30 June 2021, comparative information for the corresponding period of the previous year, except for the consolidated balance sheet which is compared with the last approved financial statements as at 31 December 2020.

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BANCA DI CREDITO COOPERATIVO DI CASTAGNETO CARDUCCI - Cooperative Company

BANCA DI CREDITO COOPERATIVO DI CHERASCO - Cooperative Company

BANCA DI CREDITO COOPERATIVO DI CONVERSANO - Cooperative Company

BANCA DI CREDITO COOPERATIVO DI FLUMERI - Cooperative Company

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BANCA DI CREDITO COOPERATIVO DI SAN GIOVANNI ROTONDO - Cooperative Company

BANCA DI CREDITO COOPERATIVO DI SAN MARZANO DI SAN GIUSEPPE - TARANTO - Cooperative Company

BANCA DI CREDITO COOPERATIVO DI SARSINA - Cooperative Company

BANCA DI CREDITO COOPERATIVO DI SPELLO E BETTONA - Cooperative Company

BANCA DI CREDITO COOPERATIVO DI TURRIACO - Cooperative Company

BANCA DI CREDITO COOPERATIVO LA RISCOSSA DI REGALBUTO - Cooperative Company

BANCA DI CREDITO COOPERATIVO LAUDENSE - LODI - Cooperative Company

BANCA DI CREDITO COOPERATIVO SANGRO TEATINA DI ATESSA - Cooperative Company

BANCA DI CREDITO COOPERATIVO VALDOSTANA - COOPERATIVE DE CREDIT VALDOTAINE - Cooperative Company

BANCA LAZIO NORD CREDITO COOPERATIVO - Cooperative Company

BANCA MALATESTIANA - CREDITO COOPERATIVO - Cooperative Company

BANCA MONTE PRUNO - CREDITO COOPERATIVO DI FISCIANO, ROSCIGNO E LAURINO - Cooperative Company

BANCA PREALPI SAN BIAGIO CREDITO COOPERATIVO - Cooperative Company

BANCA SICANA CREDITO COOPERATIVO DI SOMMATINO, SERRADIFALCO E SAMBUCA DI SICILIA - Cooperative Company

BANCATER CREDITO COOPERATIVO FVG - Cooperative Company

BANCO MARCHIGIANO Credito Cooperativo - Cooperative Company

BCC FELSINEA - BANCA DI CREDITO COOPERATIVO DAL 1902 - Cooperative Company

BENE BANCA CREDITO COOPERATIVO DI BENE VAGIENNA (CUNEO) - Cooperative Company

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

CASSA PADANA BANCA DI CREDITO COOPERATIVO - Cooperative Company

CASSA RAIFFEISEN DI SAN MARTINO IN PASSIRIA - RAIFFEISENKASSEN ST. MARTIN IN PASSEIER - Cooperative Company

CASSA RURALE ALTA VALLAGARINA - LIZZANA BANCA DI CREDITO COOPERATIVO - Cooperative Company

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

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

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

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

CASSA RURALE DOLOMITI - BANCA DI CREDITO COOPERATIVO - Cooperative Company

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

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

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

CASSA RURALE RENON - RAIFFEISENKASSE RITTEN -Cooperative Company

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

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

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

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

CASSA RURALE VALLAGARINA - BANCA DI CREDITO COOPERATIVO - Cooperative Company

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

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

CON.SOLIDA - Social Cooperative Company

CONSORZIO LAVORO AMBIENTE - Cooperative Company

CONSORZIO MELINDA - Agricultural Cooperative Company

CORTINABANCA - CREDITO COOPERATIVO - Cooperative Company

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

CREDITO COOPERATIVO CENTRO CALABRIA - Cooperative Company

CREDITO ETNEO - BANCA DI CREDITO COOPERATIVO - Cooperative Company

DZ BANK AG DEUTSCHE ZENTRALGENOSSENSCHAFTSBANK FRANKFURT AM MAIN

FEDERAZIONE DEL NORD EST CREDITO COOPERATIVO ITALIANO - Cooperative Company

FEDERAZIONE DELLE BCC DEL FRIULI VENEZIA GIULIA - Cooperative Company

FEDERAZIONE TRENTINA DELLA COOPERAZIONE - Cooperative Company

FONDO COMUNE DELLE CASSE RURALI TRENTINE - Cooperative Company

FRIULOVEST BANCA - CREDITO COOPERATIVO - Cooperative Company

LA CASSA RURALE - CREDITO COOPERATIVO ADAMELLO GIUDICARIE VALSABBIA PAGANELLA - Cooperative Company

PRIMACASSA - CREDITO COOPERATIVO FVG - Cooperative Company

PROMOCOOP TRENTINA - S.p.A.

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

SAIT CONSORZIO DELLE COOPERATIVE DI CONSUMO TRENTINE - Cooperative Company

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

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

Preference shareholders

BANCA IFIS - S.p.A.

BANCA POPOLARE ETICA - Cooperative Company

CAMERA DI COMMERCIO INDUSTRIA AGRICOLTURA E ARTIGIANATO - TRENTO

CASSA RAIFFEISEN BASSA VENOSTA - Cooperative Company

CASSA RAIFFEISEN DELLA VAL PASSIRIA - Cooperative Company

CASSA RAIFFEISEN DI SAN MARTINO IN PASSIRIA - Cooperative Company

COOPERATIVA PROVINCIALE GARANZIA FIDI - Cooperative Company

DZ BANK AG DEUTSCHE ZENTRALGENOSSENSCHAFTSBANK FRANKFURT AM MAIN

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

PROMOCOOP TRENTINA - S.p.A.

PROVINCIA AUTONOMA DI TRENTO

Corporate officers and independent auditors

Board of Directors

Giorgio Fracalossi	CHAIRPERSON
Mario Sartori	CHIEF EXECUTIVE OFFICER
Carlo Antiga	ACTING DEPUTY CHAIRPERSON
Giuseppe Spagnuolo	DEPUTY CHAIRPERSON
Paola Brighi	DIRECTOR
Enrica Cavalli	DIRECTOR
Maria Luisa Di Battista	DIRECTOR
Giuseppe Graffi Brunoro	DIRECTOR
Amelio Lulli	DIRECTOR
Enrico Macrì	DIRECTOR
Giorgio Pasolini	DIRECTOR
Paolo Piscazzi	DIRECTOR*
Claudio Ramsperger	DIRECTOR
Livio Tomatis	DIRECTOR
Paola Vezzani	DIRECTOR

* appointed by the Shareholders' Meeting of 16.06.2021

Board of Statutory Auditors

Elisabetta Caldirola	CHAIRPERSON
Mariella Rutigliano	STANDING AUDITOR
Claudio Stefenelli	STANDING AUDITOR
Clara Carbone	ALTERNATE AUDITOR
Maurizio Giuseppe Grosso	ALTERNATE AUDITOR

General Management

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

Independent Auditors

DELOITTE & TOUCHE S.p.A.	Appointment resolved on by the Shareholders' Meeting of 16.06.2021

Executive Committee

Mario Sartori	CHAIRPERSON
Enrica Cavalli	MEMBER
Amelio Lulli	MEMBER
Claudio Ramsperger	MEMBER

Risks Committee

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

Appointments Committee

Enrico Macrì	CHAIRPERSON
Maria Luisa Di Battista	MEMBER
Giuseppe Graffi Brunoro	MEMBER

Remuneration Committee

Paola Vezzani	CHAIRPERSON
Enrico Macrì	MEMBER
Livio Tomatis	MEMBER

Independent Directors Committee

Paola Brighi	CHAIRPERSON
Maria Luisa Di Battista	MEMBER
Enrico Macrì	MEMBER

Sustainability and Identity Steering Committee

Enrica Cavalli	CHAIRPERSON
Paola Brighi	MEMBER
Giuseppe Graffi Brunoro	MEMBER
Giuseppe Spagnuolo	MEMBER
Livio Tomatis	MEMBER
Paola Vezzani	MEMBER

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

Report on Consolidated Operations of the Cassa Centrale Group

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

Reform of Cooperative Credit

On 2 August 2018, the Bank of Italy accepted the request of Cassa Centrale Banca - Credito Cooperativo Italiano S.p.A. (hereinafter also "Cassa Centrale Banca", "CCB", the "Parent Company" or the "Bank") to establish the Cassa Centrale Banca Credito Cooperativo Italiano Cooperative Banking Group (hereinafter also referred to as "Cassa Centrale Group", the "Group", "Cooperative Banking Group" or "GBC") and by resolution of the Directorate of 18 December 2018, the Supervisory Authority ordered the registration of the Cooperative Banking Group in the Register of Banking Groups, with effect from 1 January 2019.

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

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

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

With respect to that initially defined with the reform, the legislator intervened at a later date with a further Law Decree (Law Decree no. 91 of 25 July 2018, converted into Law no. 108 of 21 September 2018) with which it aimed to further enhance the territorial and mutualistic outlook of the BCC-CR-RAIKAs. Pursuant to the above law, Art. 37-bis of the TUB has been amended to require the Parent Company to ensure the active participation of the Affiliated Banks in the management of the Cooperative Banking Group through local shareholders' meetings of the Banks themselves, as well as the potential establishment of special committees, with an advisory and proposing role, in particular in the following areas:

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

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

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

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

In the first two years of activity, the Cooperative Banking Group has actually operated within the framework of the new regulations with the aim of achieving progressive industrial efficiency and strengthening the cooperative spirit.

The Cohesion Contract

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

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

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

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

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

The Cohesion Contract deploys the respective and reciprocal rights and duties of the members of the Group and also acknowledges all the management and coordination powers attributed to the Parent Company.

These powers are exercised, in particular, in matters and areas such as corporate governance, strategic planning, risk management, internal control systems, information systems and joint and several guarantees.

The Guarantee Agreement

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

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

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

In particular, each party to the Guarantee Agreement, in order to ensure a prompt availability of the funds and the financial means necessary to carry out the guarantee interventions, constitutes the so-called “readily available financial funds” within the Parent Company, represented by a pre-established portion (the ex ante portion) and a portion that can be called up by the Parent Company if needed (the ex post portion), through the execution of contributions with the technical forms envisaged by the Guarantee Agreement. The Parent Company periodically checks the ex ante and ex post portions and the related capacity through stress tests.

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

Support initiatives may consist of:

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

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

The organisational structure of the Group

The reform of Cooperative Credit allowed to further strengthen the role of local banks typical of Cooperative Credit Banks. The Parent Company's coordination role has made it possible to resolve certain cases of weakness in terms of capital or business model that arose well before the Group's operational start-up. The new organisational set-up has undoubtedly contributed to the immediate and positive response that the Affiliated Banks have provided to the economic fabric of reference in the particular context linked to the Covid-19 health crisis.

The corporate governance system of the Parent Company Cassa Centrale Banca is based on the central role played by the Board of Directors, which is responsible for defining the Group's strategic guidelines, on the transparency and collegial nature of management decisions, the effectiveness of the internal control system and the strict governance of potential conflicts of interest.

The Board of Directors consists of 15 directors, of which 10 members of the Cooperative Credit Banks, 4 independent and one non-member of the Italian Cooperative Credit.

With reference to the regulation of potential conflicts of interest, specific documents and processes (regulations, Group policies, line controls, second-level controls, etc.) were introduced in order to monitor the various types of risks involved in this case, the scope of which is particularly broad due to the particular structure of the Cooperative Banking Group where the Affiliated Banks, controlled by virtue of the Cohesion Contract, are at the same time shareholders of the Parent Company.

The Group structure

As at 30 June 2021, the Cassa Centrale Group was composed of:

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

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

Corporate governance

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

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

Shareholders' Meeting

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

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

The Board of Directors

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

Chairperson of the Board of Directors

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

The Shareholders' Meeting held on 16 June 2021 elected Mr Paolo Piscazzi, Chairman of BCC di Cassano delle Murge e Tolve, as the new member of the Board of Directors of Cassa Centrale to replace the late Director Giuseppe D'Orazio.

Executive Committee

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

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

At the Board meeting of 30 June 2021, the Board of Directors identified the newly elected Director Piscazzi as the new member of the Executive Committee, with subsequent appointment on 8 July 2021.

Chief Executive Officer

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

Board Committees

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

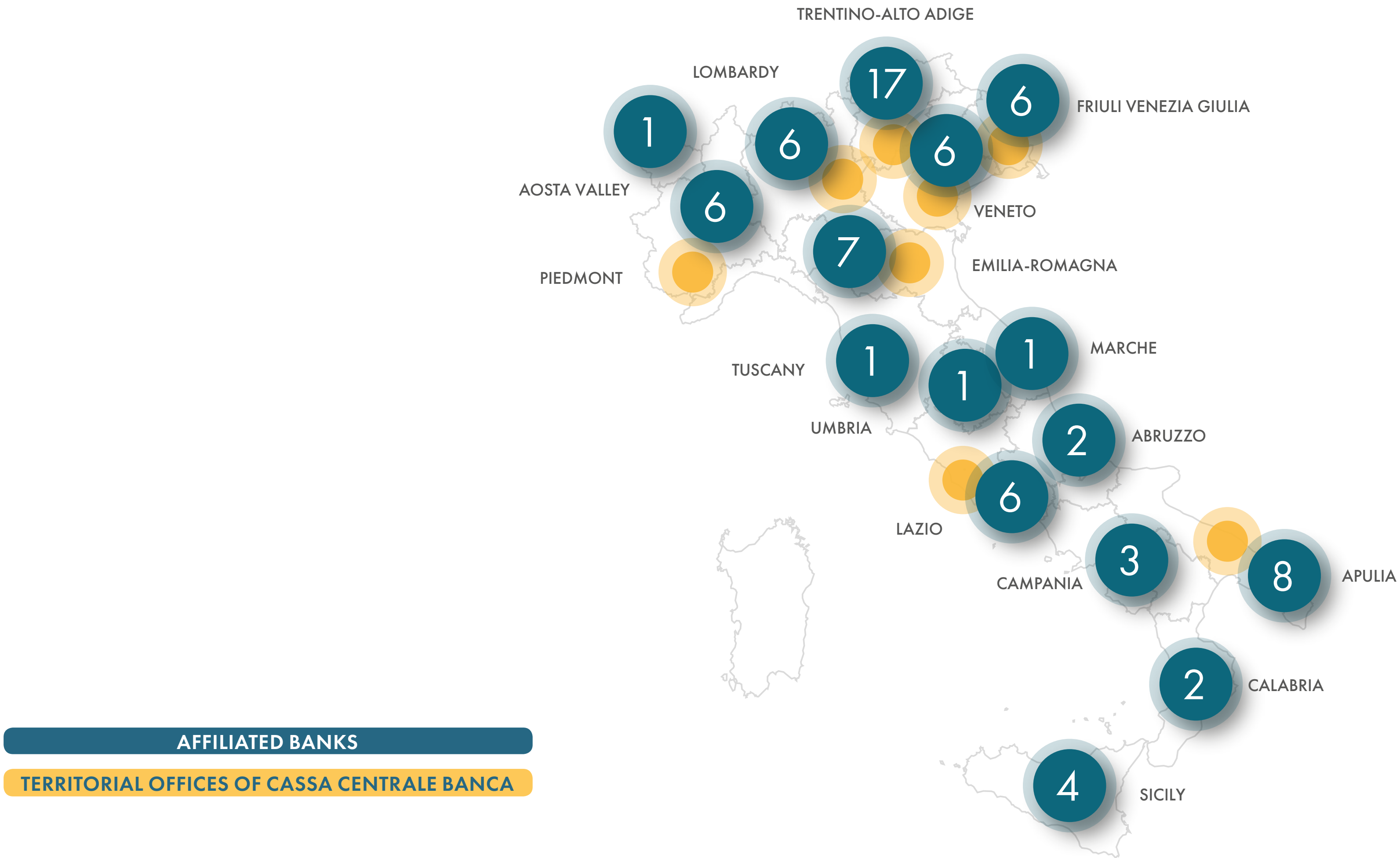
- the Risks Committee performs support functions for the Parent Company's corporate bodies with regard to risks and the internal control system, paying particular attention to all activities that are instrumental and necessary for the Parent Company's Board of Directors to arrive at a correct and effective determination of the Risk Appetite Framework (RAF) and risk management policies;
- the Appointments Committee performs investigative and advisory functions in support of the Board of Directors with regard to the appointment of members and the composition of the Board of Directors of the Parent Company and, where applicable, of the Affiliated Banks when such appointment is the responsibility of the Board itself;
- the Remuneration Committee has propositional and advisory functions with regard to the remuneration and incentive systems to be adopted by the Parent Company and, where applicable, by the Affiliated Banks;
- the Independent Directors Committee, consisting of three independent directors chosen from among the members of the Board of Directors, intervenes in the negotiation and preliminary phases of transactions with associated parties, formulating reasoned and binding opinions;
- the Sustainability and Identity Committee, made up of six Directors, four of whom chosen from among the members of the Board of Directors representing BCC affiliates and two independent Directors. The Committee performs investigative, propositional and advisory functions in assessing and deciding on issues relating to cooperative sustainability and identity.

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

Presence on the territory

Even before taking on the role of Parent Company, since its establishment Cassa Centrale Banca has been a reference partner for Cooperative Credit and a number of small and medium-sized banks not belonging to banking groups, sharing their values, culture, strategies and reference model.

Acting as a second-level bank, it provided support and impetus to the activities of the BCC-CR-RAIKA members and customers, with an offer that they themselves recognised as innovative, competitive and of quality. The role of provider of high added value advisory services in sectors such as wealth management, structured finance, public treasury management, etc. was also significant.



The presence of the Cooperative Banking Group, with the consequent transition from a network integration to a group approach, allows the Affiliated Banks to further strengthen their primary role as local banks at the service of the territory and communities. The current Covid-19 health crisis with the related economic impacts represented a test of the validity of the new organisation. In fact, the Affiliates were able, precisely because they are part of a solid and organised Group, to demonstrate resilience and reactivity. The Group's organisation is based on a business model that envisages a widespread presence in the territory characterised by a strong focus on relations with customers (typically families and small economic operators), the territory and local institutions.

The geographical organisation of the Group, as at 30 June 2021, is characterised by the presence of 77 Affiliated Banks with 1,484 branches spread throughout Italy and 10 local sites of the Parent Company.

PRESENCE ON THE TERRITORY	30/06/2021					Total 30/06/2021	Total 31/12/2020	Change
	Trentino-Alto Adige	North East	North West	Central	South and the			
REGISTERED OFFICES								
Parent Company	3	2	2	2	1	**10**	**10**	**0**
Affiliated Banks	17	12	13	18	17	**77**	**77**	**0**
BRANCHES *								
Parent Company	1	0	0	0	0	**1**	**1**	**0**
Affiliated Banks	262	368	352	323	179	**1,484**	**1,482**	**+2**

*Data referring to branches with CAB code

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

As can be seen from the table below, the number of shareholders at 30 June 2021 is approximately 447 thousand, mostly concentrated in the central-north area of the country, down by 1,690 units compared to December 2020.

AREA	31/12/2020					Total 30/06/2021	Total 31/12/2020	Variazione
	Trentino-Alto Adige	North East	North West	Central	South and Islands			
No. of Shareholders	127,763	94,775	99,077	95,110	31,008	**447,733**	**449,423**	**-1,690**
% of total	28.54%	21.17%	22.13%	21.24%	6.93%	**100.00%**		

Mission, values and business model of the Affiliated Banks and the Group

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

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

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

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

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

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

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

Code of Ethics

With the approval resolution passed by the Board of Directors of the Parent Company on 28 April, the updating of the Code of Ethics was completed.

After the operational start-up of the Group, the issue of harmonising the pre-existing Codes of Ethics and aligning them to the Cooperative Banking Group was addressed to ensure that each Company of the Group could uniformly adopt them.

The premises for updating the Code were therefore as follows:

- harmonisation of the values of the Codes of Ethics in force at the individual Group Companies and updating to the new context;
- uniformity of the Code, based on principles and values that apply to all Group companies;
- greater efficiency in future updates;
- need to ensure constant consistency with other governance documents, with the 231 Organisational Model and with the "Guidelines on the administrative liability of entities within the Group" and the other value policies already adopted;
- presence, also given the regulatory function covered by the Code itself, of references to specific policies in force, disciplinary regulations and external legislation/regulations.

The Code aims to inspire and govern the behaviour of the recipients, i.e. representatives, employees and collaborators. The values and principles contained in the Code supplement the rules of conduct which the recipients are required to respect by virtue of existing regulations and employment contracts, as well as the procedures, regulations and provisions that the Companies of the Group have issued or intend to issue internally.

The Group illustrates its values and principles in the Code and guides individual behaviours in coherence with the same, also in the awareness that the consideration of social and environmental demands contributes to minimising the exposure to risks inherent in banking activity and in activities instrumental to it and to compliance risks as well as to enhance reputation.

The Code also contains references to the composition of the Group, the Articles of Association, the cooperative principles and sustainability. It is structured in chapters, which refer to the different areas of application and help to define the Group's value approach; they represent one of the prerequisites for internal control and risk management, including in the non-financial areas.

The Code is the same for all Group Companies, due to the need to coordinate and provide common rules to the entire perimeter, and therefore to the Parent Company, the Affiliated Banks and the financial, instrumental and non-instrumental Companies directly or indirectly controlled by the Parent Company.

Economic background

International scenario and Italian context

More than a year after the outbreak of the Covid-19 pandemic, despite the fact that the vaccination campaign is having a positive impact in improving the general level of confidence of economic operators, the global economic prospects still remain uncertain due to their correlation with the evolution of the pandemic. The estimates of the International Monetary Fund (hereinafter "IMF") show a stronger recovery for the global economy compared to the January data, with a forecast growth of the Gross Domestic Product (hereinafter also "GDP") of 6% in 2021 and an estimated progress of 4.4% in 2022, after the contraction of -3.3% recorded in 2020.

An uneven recovery of the global economy is expected, with the United States leading the way, while the Eurozone will struggle more and will return to pre-pandemic levels at an heterogeneous pace and different timing. The IMF estimate is forecasting a 6.4% growth in the US GDP in 2021, while for the Eurozone it sees a 4.4% increase in GDP in 2021 and 3.8% in 2022, mainly reflecting a slower recovery for factors linked to the performance of the vaccination campaigns and the launch of the Recovery Fund.

The uncertainty that characterizes the outlook for the Eurozone also affected inflation, with the IMF forecasts for 2021 at 1.4% and for 2022 at 1.2%. According to Eurostat estimates, employment trends are still far from pre-pandemic levels, with the seasonally adjusted unemployment rate in the Eurozone at 8.1%, compared to 7.1% in March 2020. while in the United States the rate remains lower at 6.0%, although it is higher than the pre-crisis level, when this value had reached 3.5%.

As regards the Italian economy, ISTAT expects the GDP to grow both in 2021 (+4.7%) and in 2022 (+4.4%), in a scenario that incorporates the effects of the gradual introduction of the interventions foreseen in the National Recovery and Resilience Plan. As regards the Italian labour market, ISTAT forecasts that the trend in the unemployment rate will reflect a gradual return to the pre-pandemic situation, with a rate increase in 2021 to 9.8%, following the gradual easing of support measures during the year, and then a slight fall to 9.6% in 2022.

The IMF estimate of Italian inflation, measured by the annual change in the national consumer price index, expects an increase in the growth rate of 0.8% for 2021 (compared to -0.1% in 2020). The May survey carried out by ISTAT showed a trend change in the index of +1.3%, whose acceleration is mainly due to the prices of energy goods.

Financial and currency markets

In the first half of 2021, the Governing Council of the European Central Bank reconfirmed its expansionary monetary policy stance, in particular to avoid that the transmission of the rise in yields observed in international markets and the first temporary increases in inflation would result in a premature tightening of financial conditions in the area.

At the meeting of 11 March 2021, the Governing Council decided to significantly increase, starting from the second half of March and also in the second quarter of 2021, the pace of monthly net purchases under the programme for the purchase of public and private securities for the pandemic emergency (so-called PEPP) compared to what was recorded in the first months of the year. Net purchases under the PEPP, with a total budget of EUR 1,850 billion, will continue with flexibility among the different types of financial instruments and issuing countries until at least March 2022 and, in any case, until the health emergency is over; the time horizon for reinvesting the capital repaid on maturing securities is set at least until the end of 2023.

Again as part of the measures introduced by the European Central Bank to preserve favourable financing conditions and support bank lending to businesses and households, on 24 March and 24 June the seventh and eighth auctions of the third set of targeted longer-term refinancing operations were settled (known as TLTRO-III), in which EUR 331 and 110 billion respectively were allocated. The total amount of funds disbursed to banking counterparties in the Area as part of this series of transactions thus rose to a total of EUR 2,190 billion.

With regard to the United States, the Federal Reserve has confirmed its monetary policy directives in the first meetings of 2021, keeping the target range for the Federal Funds rate unchanged at 0.00% - 0.25% and the monthly bond purchase plan at USD 120 billion. Economic growth forecasts were revised upwards in the wake of the Biden plan.

Concurrently with the approval of the new fiscal stimulus package in the United States, there was a trend of general strengthening of the Dollar against the Euro on the currency markets, in a context characterised by significant volatility. The EUR/USD cross actually dropped from the 1.2270 area to a low of 1.1700 at the end of March, but then closed at 1.1880 area (-3.18%) at the end of the half-year.

In the first half of 2021, there was a general increase in yields for the main European government bonds: the yield on the ten-year Bund rose from -60 basis points to a maximum of -10 basis points in May. In the same month, the ten-year Btp recorded a return of 1.10%, the highest since the beginning of the year when the benchmark was in the 0.55% area.

The trend is mainly attributable to the upward revision of inflation expectations that originated in the United States and also extended to Europe due to some external factors such as the consistent rise in commodity prices: European inflation expectations in 5 years for the next 5 years increased by 30 basis points from the beginning of the year.

In particular, inflation-linked securities and stock markets benefited from this scenario, while the spread between German and Italian securities with the same maturity did not change significantly since the beginning of the year. After exceeding 120 basis points in February, coinciding with the crisis of the Conte government and the birth of the new Draghi government, the spread stabilised at around 100 basis points in June.

The economic recovery and the progress in the vaccination campaign have pushed up the global stock markets. All major indices showed double-digit price gains and in some cases updated new all-time highs: the main Italian index touched 26,000 points in June, a level not seen since the 2008 financial crisis. The prospects for a solution to the pandemic emergency also encouraged strong sector rotation, with banking stocks in the automotive and construction sectors up 20% or more, outperforming their respective markets.

Italian banking system

The economic recovery recorded in Italy in the first half of the year also had a positive effect on loans to the private non-financial sector and on the banking system in general. In fact, loans to households grew, mainly driven by the increase in home loans and consumer credit, and the growth rate of loans to businesses remained strong, also thanks to an increase in investments.

At June, based on data published by ABI[1], loans to residents in Italy (including the private sector and public administrations) amounted to EUR 1,726.5 billion, marking an annual increase of 3.5%[2] (+1% compared to December 2020). Specifically, loans to the private sector recorded an annual acceleration of 3.5% (+ 0.3% compared to December 2020), while the year-on-year change in loans to non-financial companies in June 2021 was a positive 3.4%[3].

An analysis of credit distribution shows that in the first half of 2021 , manufacturing, mining and services accounted for around 58.4% of total lending (manufacturing alone accounted for 27.8%). This is followed by trade and accommodation and catering activities with around 22.6% (sectors among the most affected by the crisis), the construction sector with 9.7%, and the agricultural sector with 5.4% and, lastly, residual activities with approximately 4.4%.

Looking at the risk profile, the trend of improving credit quality continued in the first half of 2021. In fact, non-performing bank loans (net of write-downs and provisions made) decreased to approximately EUR 17.6 billion at June 2021 (-29.4% year-on-year and -15.6% compared to December 2020), with a ratio of net non-performing loans to total loans of 1.02% (1.45% at

[1] ABI Monthly Outlook Economy and Financial-Credit Markets – July and September 2021.

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

[3] Data taken from Bank of Italy, Banks and money: national series, June 2021.

June 2020 and 1.21% in December 2020).

Total funding from customers of banks in Italy (resident customer deposits and bonds net of those repurchased by banks) rose to EUR 1,992.5 billion at June 2021, with an increase of 7% on an annual basis. More specifically, deposits (EUR 1,782.1 billion) recorded an annual growth of 9%; on the other hand, bonds were down to EUR 210.5 billion, with a 6.8% decrease compared to June 2020.

With reference to the trend in interest rates, in relation to the segment of households and non-financial companies, the average rate of bank funding from customers calculated by ABI (figure which includes the return on deposits, bonds and repurchase agreements in Euro) fell to 0.46% at June 2021 (0.55% at June 2020 and 0.49% at December 2020). In the same month, the weighted average rate on loans continued its decline, reaching a new all-time low of 2.20% (2.37% at June 2020 and 2.28% at December 2020).

Significant events in the first half of the year

The following are the main events of the six-month period ended 30 June 2021.

Business combinations between Affiliated Banks

During the first half of 2021, there were four business combinations among Affiliated Banks. The number of Affiliated Banks therefore fell from 77 at the beginning of 2021 to 73, effective from 1 July 2021.

Details of the business combinations carried out in the first half of 2021 are provided below:

- Cassa Rurale Alto Garda and Cassa Rurale di Rovereto: new name Cassa Rurale Alto Garda - Rovereto - Banca di Credito Cooperativo - Soc. Coop., effective from 1 July 2021, Trentino-Alto Adige region;
- Banca Alto Vicentino and CRA di Vestenanova: new name Banche Venete Riunite - Banca di Credito Cooperativo - Soc. Coop., effective from 1 July 2021, Veneto region;
- Cassa Rurale FVG and BCC di Turriaco: new name Cassa Rurale del Friuli Venezia Giulia - Banca di Credito Cooperativo - Soc. Coop., effective from 1 July 2021, Friuli Venezia Giulia region;
- BCC di Alberobello e Sammichele di Bari and BCC di Monopoli: new name BCC di Alberobello, Sammichele e Monopoli - Banca di Credito Cooperativo - Soc. Coop., effective 1 July 2021, Puglia region.

These business combinations are part of the process of rationalising the territorial coverage outlined in the Group Strategic Plan, aimed at pursuing competitiveness and efficiency objectives. These transactions had no impact on the consolidated balance sheet as they are mergers between entities under common control. During the year under review, three further combination processes were activated, which may lead to a further rationalisation of the territorial presence of the Cooperative Banking Group, once the authorisation process and approval by the Shareholders' Meetings of the Affiliated Banks involved are completed.

2021-2024 Strategic Plan

On 29 June 2021, the Board of Directors of Cassa Centrale Banca approved the Group's Strategic Plan (hereinafter also referred to as "SP") with a 2021-2024 horizon, which updates the 2020-22 SP approved last year.

The Plan was defined with the full involvement of the Affiliated Banks as required by the Cohesion Contract, in a process that saw each legal entity of the Group define its own individual SP, which was then merged into the Group's consolidated SP.

The Plan includes a number of strategic development initiatives that can be traced back to three macro-themes:

- commercial development based on the service model of the local bank;
- increased efficiency of the business model;
- management of capital and risk profiles.

The path towards achieving the Plan's initiatives is based on the enhancement of the enabling factors necessary for its implementation: human resources and technology.

The economic-financial and equity projections define an evolution, in the period of reference of the Plan, that sees the Group strengthen its ability to achieve revenues, pursue a containment of operating costs and adopt prudent provisioning policies against the uncertainties arising from the impact that the health emergency will have on the real economy.

The Group has adopted a "rolling" approach in the strategic planning process, which provides for an annual review of the Plan. This rationale was adopted taking into account that the Group has been operating for two years and that it is operating in a market and regulatory context in continuous and rapid evolution, all the more so in an economic environment in which the effects of the current health emergency have not yet fully manifested themselves.

During the first half of 2021, given the persisting conditions of uncertainty under the macroeconomic profile and the dynamics of the financial markets, with particular reference to the upward revision of inflation expectations, a derisking manoeuvre was also initiated in relation to the interest rate risk exposure of the Banking Portfolio.

The manoeuvre resulted in a review of certain strategic guidelines for the management of the proprietary portfolio, with a progressive reduction to a share of 70% of the total portfolio value in financial instruments attributable to the Hold to Collect business model and a parallel reduction in the duration of the same business model.

Impaired asset management and Group NPE strategy

During the first half of 2021, in a context characterised by the persistence of the Covid-19 health emergency, the Cassa Centrale Banca Group, through the dedicated structures present in the Parent Company and in the Affiliated Banks, continued to monitor the quality of the Group's loan portfolio and the management and reduction of impaired assets.

In this context, the Parent Company prepared the new NPE Strategy and the related Group Operating Plan, with a 2021-2023 time frame, also incorporating the impacts deriving from the ongoing health emergency. On 31 March 2021, the NPE Strategy and Operating Plan were submitted to the Board of Directors of the Parent Company for approval and subsequently sent to the ECB.

The NPE strategy has been defined following a prudent approach that envisaged, on the one hand, the adoption of a significant default rate, incorporating Prometeia's estimates according to the "severe but plausible" scenario (level 3 of 4 on a severity scale), and, on the other hand, envisaging a percentage reduction in the estimates of collections and performing remittances compared to the trend historically recorded by the Group prior to the health emergency. Following the above-mentioned logic, the Group NPE Strategy therefore envisaged, for the years 2021 and 2022, a substantial stability of the gross NPL ratio (6.8%) and, for the year 2023, the resumption of a new downward trend in the index with an estimated landing value at 6.3%. On the other hand, with regard to coverage levels, the aforementioned NPE Strategy, on the strength of the coverage levels (64%) that the Cassa Centrale Group had reached by the end of the 2020 financial year, forecasts a slight decrease in the index, which will nevertheless remain in the 60% area, thus confirming the Group, at the end of the plan, among the leading banking groups in terms of coverage levels.

The accounting data as at 30 June 2021 show better results than the forecasts formulated in the NPE strategy approved in March 2021. More specifically, an NPL ratio of 6.1% was recorded, which is approximately 70 Bp compared to the figure assumed in the strategy for the end of 2021. The achievement of this level of NPL ratio is the result of a default rate of the first half of 2021 significantly lower than the estimates and better than expected recovery performance on non-performing loans. Both factors are the result of more positive macroeconomic data than those used for the development of the NPE strategy.

Carige S.p.A. Cassa di Risparmio di Genova e Imperia

During the first quarter of 2021, Cassa Centrale Banca completed the process of assessing the exercise of the call option pursuant to the contract signed on 9 August 2019. It should be noted that, with this contract, the Interbank Deposit Protection Fund (FITD) and the Voluntary Intervention Scheme (SVI) had granted Cassa Centrale Banca an irrevocable call option on the Carige shares held by the former following the execution of the capital increase resolved by the shareholders' meeting of 20 September 2019.

Following the resolution of the Board of Directors of 15 March 2021, Cassa Centrale Banca communicated to FITD and SVI its negative prognosis regarding the exercise of the irrevocable option within the terms originally agreed. It also considered that, given the degree of uncertainty of the pandemic on the market and its unforeseeable evolution, there were no conditions for negotiating the option on a different basis. These decisions were taken urgently and in advance with respect to the provisions of the existing contracts, to allow FITD and SVI to negotiate, if necessary, with other market players and/or find an alternative solution/partnership in the general interest and Carige.

In this direction, Cassa Centrale Banca decided to negotiate in good faith with FITD and SVI the consensual termination of option contracts and related agreements. As of 30 June 2021, there is still no definition.

Following the communication to FITD/SVI of 15 March, the Interbank Fund, as per the press release of 2 April, appointed its advisors to manage the process of selling its stake in Banca Carige.

Complaints and disputes

On 16 January 2020, the financial holding company Malacalza Investimenti S.r.l. (hereinafter also "Malacalza Investimenti") brought a civil action against Carige, FITD, SVI and Cassa Centrale Banca, contesting the validity of the resolution to increase the share capital by EUR 700 million approved by the shareholders of Banca Carige in the Shareholders' Meeting of 20 September 2019 and submitting a claim for damages of over EUR 480 million (subsequently increased to approximately EUR 539 million), on account of the alleged hyperdilutive nature of the resolution (reducing Malacalza Investimenti's shareholding from 27.555% to 2.016%).

The contested invalidity of the shareholders' meeting resolution (which can no longer be annulled as it has already been executed, with the subscription by Cassa Centrale Banca of the capital increase and the acquisition of an 8.34% shareholding) is based on the allegedly unlawful exclusion of the option right, failure to comply with the principle of accounting parity and the determination of the issue price of the new shares in breach of the criteria laid down by company law.

The same defendants, including Cassa Centrale Banca, were then sued in two further disputes by the shareholder Vittorio Malacalza and 42 other shareholders of Carige, with a claim for a further approximate total of EUR 11.4 million, plus revaluation and interest, based on assumptions and arguments coinciding with those put forward by Malacalza Investimenti.

The proceedings were joined and are currently pending before the Court of Genoa. Cassa Centrale Banca, like the other defendants, filed a statement of appearance and response seeking a declaration of Cassa Centrale Banca's lack of legal standing and the rejection of all claims made against it by the plaintiffs. At the hearing on 17 May 2021 for the definition of the conclusions, the case was adjourned, and time was granted for the filing of closing statements.

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

On 23 February 2021, Agricola Strom S.r.l. filed a claim against Cassa Centrale contesting the validity and correct application of the contractual clauses relating to certain transactions in progress with Cassa Centrale, including a mortgage loan agreement entered into in 2011, making a claim for damages of approximately EUR 560,000, plus revaluation and interest. The complaint was rejected, with communication of 23 April 2021, due to the groundlessness of the arguments contained therein.

MREL requirement

As part of the regulatory framework relating to the recovery and resolution of credit institutions and investment companies (so-called Bank Recovery and Resolution Directive - BRRD), the activities started for the definition of the MREL[4] (Minimum Requirement of Eligible Liabilities) target to be assigned to the Group were initiated with the SRB (Single Resolution Board). In March 2021, the Minimum Requirement of Own Funds and Eligible Liabilities (MREL), formulated in accordance with Article 12a, paragraph 2), letters a) and b), of Regulation no. 806/2014, defined as a percentage of the total

[4] Specifically, the MREL requirement allows each intermediary, in the event of a resolution, to have an adequate amount of capital resources and other liabilities able to absorb losses and replenish capital. It aims to preserve financial stability by promoting an orderly and effective crisis management system. Failure to comply with the MREL requirement may have a negative impact on the capacity to absorb losses and on the recapitalisation of institutions, as well as on the overall effectiveness of the resolution.

risk exposure amount (MREL-TREA) and as a percentage of the leverage ratio exposure[5] (MREL-LRE), was communicated by the Single Resolution Committee.

The MREL requirement, expressed in the two metrics above, was determined on a consolidated basis and in consideration of the single-point-of-entry (SPE) resolution strategy defined by the Supervisory Authority for the Group, according to which resolution tools and powers would be applied exclusively to the Parent Company.

Given the general-hybrid approach adopted by the Single Resolution Committee, own funds on a consolidated basis shall be considered suitable to meet the consolidated MREL requirement, while the only eligible liabilities will be those issued directly by the Parent Company Cassa Centrale Banca (as the "central entity" of the Resolution Group) and that will comply with the eligibility conditions set out in Regulation no. 877/2019 ("SRMR2").

The minimum requirement of own funds and eligible liabilities on a consolidated basis (which the Parent Company complies with) is 21.36% of the TREA and 5.91% of the LRE. The Parent Company is required to meet the above requirements by 1 January 2024. There is an interim requirement to be met as at 1 January 2022 of 18.19% TREA and 5.91% LRE.

Rating

During the first half of 2021, the rating agency Moody's updated the outlooks of several Italian banks. More specifically, as announced on 12 May 2021, the outlook of Cassa Centrale Banca's ratings, respectively Baa1 on long-term deposits and Ba1 on long-term issuers, was changed from negative to stable. The BCA, equal to Ba1, as well as all the other ratings, were confirmed.

Informativa Centrale Trading S.r.l.

In the meeting of 10 March 2021, the Board of Directors of Cassa Centrale Banca approved the acquisition of a 10% share in the Company Centrale Trading S.r.l., at the price of EUR 40,846.

Following this acquisition, Cassa Centrale will own 42.50% of the Company: an interest which, added to the 10% already held by the subsidiary Allitude, will lead to the assumption of control of the Company with a total interest of 52.50%.

Inspection by the Bank of Italy on Anti-Money Laundering and Transparency

The Cassa Centrale Group was subject to an inspection by the Bank of Italy, aimed at assessing compliance with regulations on the transparency and fairness of transactions with customers and on combating money laundering and terrorist financing. The inspection started on 12 April 2021 and was still in progress as at 30 June 2021.

Significant regulatory events in the first half of the year

The reference regulatory context in which the Group operates, also following its recognition as a significant supervised entity, is broad and articulated and has led, over time, to a process of organisational and procedural adjustment. In the first half of 2021, several pieces of legislation with an impact on the banking sector took effect. In addition, further legislation was enacted to address the economic impacts of the Covid-19 emergency on bank customers (see related section in this chapter for legislative and regulatory aspects).

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

Transparency

In the Official Gazette no. 67 of 18 March 2021, the Decree of the Ministry of Economy and Finance of 22 December 2020 containing the "Regulation of websites for comparing offers for payment accounts" was published.

[5] Exposure to the leverage ratio" is the measure of total exposure calculated pursuant to Articles 429 and 429 bis of EU Regulation 575/2014.

The Decree implements Article 126-terdecies of the Consolidated Banking Act (TUB), introduced by Legislative Decree no. 37 of 15 March 2017 (by which Directive 2014/92/EU - the so-called PAD Directive was transposed) and paragraphs 132, 133 and 134 of Article 1 of Law no. 124 of 4 August 2017, on the regulation of websites for the comparison of expenses charged by payment service providers.

More precisely, Article 126-terdecies of the TUB, which governs comparison websites, provides that payment service providers offering payment accounts to consumers must participate in one or more websites for the purpose of comparing offers relating to payment accounts. The regulation requires that, upon joining the website, the website operator must request the necessary data from the banks to compare offers. The bank must comply with this request within 15 days of the request, by sending the data via certified e-mail. The banks must also send to the owner of the website, promptly and in any case within 15 days from the change in the contractual conditions, by means of certified e-mail or other method having legal value, any changes to the data already provided for comparison. The relevant legislation lays down specific requirements for comparison websites, which are subject to particular discipline.

However, at present, there are no comparison websites (public or private) that meet the requirements of the PAD and the relative transposition legislation in which banks can participate in accordance with the provisions of the same legislation (Article 126-terdecies of the TUB).

The activities necessary for this adjustment will be resumed as soon as there are websites at national level that meet the requirements of the standard. In this regard, it should be noted that discussions are underway with ABI itself.

On 8 April 2021, the Bank of Italy published the amendment to Article 8 of its Regulation of 29 January 2002 on the Centrale di Allarme Interbancaria - CAI (Interbank Alert Centre).

This amendment is aimed at implementing the provision, introduced by Legislative Decree no. 218 of 15 December 2017, pursuant to Article 10-ter, paragraph 2, of Law no. 386/1990, which requires intermediaries issuing payment cards to report to the CAI any full payment of the debt (by the day after payment) against which a person has previously been reported in the "CARTER" segment.

The new reporting obligation took effect on 8 May 2021 and the change involved an adjustment of the IT systems to enable the banks to fulfil the new obligation.

Granting and monitoring of credit

On 29 May 2020, the European Banking Authority (EBA) issued the "Guidelines on the granting and monitoring of loans", which report the indications and expectations of the EBA regarding the behaviours and practices that banks must adopt when granting loans and monitoring credit, in order to ensure that they have solid and prudent standards for the assumption, management and monitoring of credit risk and that newly established loans also maintain good credit quality levels in subsequent life phases.

The EBA guidelines apply from 30 June 2021 with reference to new loans disbursed and to the valuations, monitoring and revaluation of guarantees carried out after that date. The guidelines regarding the procedures for the granting of loans and the setting of pricing also apply to loans disbursed before 30 June 2021, in the event of changes to the contractual terms and conditions made as from 30 June 2022.

In order to implement the organisational and procedural measures envisaged by the EBA guidelines, the Parent Company has prepared an update of the Group Credit Regulations.

However, the updating of the Regulation does not end the work for ensuring alignment with the guidelines. In fact, there are still some organisational and process measures that still have to be implemented and transposed in the Group regulations, at the IT level, also within the functionalities of the departmental system for the management of credit procedures.

The guidelines that have not yet been incorporated in the Regulation will be implemented through the gradual adoption of new internal regulations or through the updating of pre-existing Group regulations, according to a specific timeline provided by the Credit Department which envisages a multi-year process.

Anti-Money Laundering

The regulatory framework on anti-money laundering and countering the financing of terrorism has been supplemented by the Bank of Italy

Provisions on the storage and provision of documents of 24 March 2020, which became effective on 1 January 2021, and by the FIU Provision on sending Aggregated Anti-Money Laundering Reports of 25 August 2020 (applicable starting from the reports referring to transactions relating to January 2021). Following the closure of the public consultation on the draft Decree implementing the provisions on the register of beneficial ownership of companies with legal personality, private legal persons, trusts and similar legal entities and institutions, the publication of a final regulatory document is still pending. In order to ensure compliance with the reference regulations, with particular regard to the Banks affiliated to the Cooperative Banking Group, the Parent Company coordinated the preparatory activities for the release of dedicated IT interventions and oversaw the updating of the relevant internal regulations in view of the evolution of the reference regulatory framework and the plan of defined interventions.

Investment Services

In order to regulate the distribution of insurance-based investment products (so-called IBIPs) consistent with the rules established by the MiFID II and IDD Directives and related implementing legislation in Italy, Consob - with Resolution no. 21466 of 29 July 2020 - fully replaced Book IX of the Intermediaries Regulation containing "Information obligations and rules of conduct for the distribution of insurance investment products". The measures set forth in the new Book IX entered into force on 31 March 2021. The Parent Company has made the necessary adjustments in order to extend the controls envisaged by the Group Model for the provision of investment services referred to in the distribution of IBIPs.

By Consob Resolution no. 21755 of 10 March 2021, the regulation of the expertise and skills of personnel authorised to provide information/ advice for MiFID purposes was amended (Title IX, Part II, Book III of the Intermediaries Regulation) and substantially revised according to a principle-based approach. With this review, intermediaries are required to assess how to set up the most suitable internal organisational processes to ensure quality training and professional development for their employees. In this way, the Authority intends to allow greater flexibility in the organisational safeguards of each intermediary based on the principle of proportionality and the reference to the standards contained in the ESMA/2015/1886 Guidelines of 22 March 2016. The amendments to the Intermediaries Regulation entered into force on 31 March 2021. The Parent Company started the analysis and adjustment of the Group regulations.

ESMA published on 6 April 2021 the translation into the official languages of the European Union of the "Guidelines on certain aspects of the MiFID II compliance function requirements". The Parent Company started the analysis and alignment of the Group model.

IDD - Insurance Distribution Directive

To complete the transposition of the IDD Directive which regulates the insurance distribution activities carried out by insurance distributors at European level, with Measure no. 97 of 4 August 2020 and with Regulation no. 45 of 4 August 2020, IVASS has respectively:

- amended the implementing regulations on insurance distribution with specific rules regarding the distribution of IBIPs;
- set out specific requirements regarding the governance and control of insurance products.

The new regulatory provisions have entered into force on 31 March 2021. The Parent Company has carried out the analysis and alignment of the Group model for the distribution of insurance contracts, taking into account the indications provided by IVASS in the two FAQ documents of 23 March 2021.

Usury

On 20 May 2020, the Bank of Italy put out for consultation the amendments to the Instructions for the collection of TEGMs under the Usury Law. The consultation ended on 20 July, but the final regulation has not yet been issued. The Supervisory Authority has decided to submit these amendments for consultation in view of the doubts that have emerged as to their interpretation and the evolution of the market, with the aim of increasing the clarity of the Instructions and ensuring uniform conduct on the part of reporting entities.

Pending the release of the definitive regulation by the Bank of Italy, an analysis was carried out on the impacts of the regulation under consultation to identify the main alignment aspects.

As soon as the definitive regulation is issued, the alignment activities will be carried out, including the preparation of the Group regulations on this matter (currently underway). Internal rules will also govern the Group's IT controls for the implementation of the guidelines set out in the Court of Cassation's ruling on the relevance of default interest for usury purposes (see ruling no. 19597/2020).

New default definition

As of 1 January 2021, the new European rules on the definition of default apply, as provided for in Article 178 of the European Regulation on prudential requirements for credit institutions and investment firms (known as CRR). The new rules have affected the methods of classification of credit exposures within the Banking Group and required the implementation of organisational and IT procedures (present in the Group IT system), which have resulted in the setting up of procedural automatisms that allow constant monitoring of credit exposure classifications within the Group.

This led to the updating of the Group Policy for the classification and valuation of loans, which aims to describe criteria and rules common to all Group Banks and Group Companies that provide loans (Prestipay and Claris Leasing), for the classification – for management, accounting and regulatory purposes – of credit exposures and for their valuation in compliance with supervisory provisions.

Sustainable growth

With a view to fostering the transition to a low environmental impact economy, in the wake of the path outlined by the European Union with the "European Green Deal", which aims to make Europe the first climate-neutral continent, the following recent publications, inter alia, should be noted in the context of the various legislative initiatives following the European Commission's communication on the "Action Plan to finance sustainable growth" of 8 March 2018:

- the consultation document on public disclosure on ESG factors published jointly by ESMA, EBA, EIOPA and the Joint Committee of the European Supervisory Authorities of 22 April 2020;
- the EBA consultation document on the management and supervision of ESG risks for credit institutions and investment firms of 30 October 2020;
- the ECB guide on environmental and climate risks of 27 November 2020.

With reference to the specific area of sustainable finance, EU Regulation 2019/2088 (known as SFDR) which establishes transparency obligations towards investors for financial market participants and financial advisors, was applied in 2021. In particular, it requires the adoption of appropriate safeguards, to be disclosed to clients, in order to integrate sustainability risks and consider adverse sustainability effects in their investment and advisory processes in financial products.

In order to implement the provisions of the SFDR through the definition of appropriate organisational controls at Group level, the Parent Company has prepared a specific Policy, which the Parent Company and the Affiliated Banks adopt in their capacity as financial market participants and/or financial advisors and which identifies and formalises the controls provided for in order to comply with the regulatory provisions.

Remuneration policies

With effect from 10 March 2021, Regulation (EU) 2088/2019 of 27 November 2019 on sustainability-related disclosures in the financial services sector became applicable. Compliance with Article 5 on the subject of transparency of remuneration policies in relation to the integration of sustainability risks took place through the adoption by the Board of Directors on 31 March 2021 of the Group 2021 Remuneration and Incentive Policies, approved by the Shareholders' Meeting on 16 June 2021.

On 14 June 2021, the European Commission Delegated Regulation (EU) 923/2021 of 25 March 2021 also came into force, supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards setting out the criteria to define managerial responsibility, control functions, material business units and a significant impact on a material business unit's risk profile, and setting out criteria for identifying staff members or categories of staff whose professional activities have an impact on the institution's risk profile that is comparably as material as that of staff members or categories of staff referred to in Article 92(3) of that Directive.

Cassa Centrale Banca has started the assessment of the impacts of the new regulations and the consequent alignment therewith that will be completed in the second half of the year or in any case within the terms that will be envisaged by the update of the *EBA Guidelines on sound remuneration policies* and the Bank of Italy Circular no. 285 of 17 December 2013 and subsequent updates after consultation of the related supervisory provisions on remuneration and incentive policies and practices has been completed.

Privacy

In relation to the health emergency caused by the pandemic linked to the spread of COVID-19, in the first quarter of 2021 the Guarantor published a FAQ document regarding employee vaccinations. The Data Protection Service therefore provided its support to both the Parent Company and the Banks with regard to the methods and limits within which the employer can process the particular data relating to the vaccination.

With regard to the new definition of Default, described above, the Data Protection Service advised on the preparation of a specific privacy impact assessment relating to an IT implementation aimed at allowing the exchange of data of so-called "multi-credit" clients, among the Group banks, in order to take preventive action by regularising the debt position and avoiding a higher risk classification at Group level.

In order to guarantee the principle of transparency set forth in the GDPR, disclosure to customers has been revised to indicate the activity in question and posted on the websites of the Affiliated Banks.

On 26 May 2021, the Resolution of the Authority for the Protection of Personal Data of 29 April 2021 was also published in the Official Gazette with which Measure no. 181 of 29 April 2021, "Approval of the code of conduct for the processing of personal data for commercial information purposes", was adopted. Therefore, verification activities were launched to identify any impacts of this measure on the companies of the Cooperative Banking Group.

Main legislative and regulatory interventions related to the Covid-19 pandemic

In order to increase the tools with which to cope with the economic crisis resulting from the Covid-19 pandemic, the Government has adopted new economic support measures contained in the Support Decree (Law Decree no. 41 of 22 March 2021) and the Support Decree-bis (Law Decree no. 73 of 25 May 2021).

With these measures, further measures were introduced to support businesses and third sector operators, as well as employment and the fight against poverty, health and safety. The measures represented important steps out of the emergency measures (in particular with regard to public guarantee schemes for loans and moratoria).

With reference to the issue of legislative moratoria, the Support Decree-bis extended until the end of 2021 the measures concerning public guarantees and the moratorium on loans to businesses, reshaping them to favour a gradual exit from the facilities. Among other things, the conditions of access have been modified, the coverage rates for loans guaranteed by the Central Guarantee Fund for Small and Medium-sized Enterprises have been reduced, and the extension of the moratorium on mortgages has been limited to the capital portion of instalments.

The Parent Company has constantly informed the Group Banks of the new regulations introduced, guiding the IT implementations that became necessary for alignment with the new legislative provisions.

Operating performance of the Cassa Centrale Group

Performance Indicators of the Group

The key performance indicators for the six-month period ended 30 June 2021 are set out below:

RATIOS	30/06/2021	31/12/2020	% change
STRUCTURAL RATIOS			
Loans to customers * / Total assets	49.4%	50.3%	(1.7%)
Direct funding / Total assets	68.1%	69.6%	(2.2%)
Equity / Total assets	7.6%	7.7%	(1.7%)
Net loans / Direct funding from customers	72.6%	72.2%	0.5%
PROFITABILITY RATIOS			
Net profit / Equity (ROE)	8.8%	3.6%	141.4%
Net profit / Total assets (ROA)	0.7%	0.3%	n.s.
Cost / Income **	61.0%	60.8%	0.2%
Interest margin / Net interest and other banking income	56.4%	55.0%	2.5%
Net commissions / Net interest and other banking income	28.6%	29.0%	(1.5%)
Net interest and other banking income / Total assets	2.6%	2.6%	(1.04%)
OPERATIONAL EFFECTIVENESS RATIOS			
Operating costs / Traded volumes ***	1.0%	1.0%	0.0%
Traded volumes per employee (mln) ****	12.3	11.9	3.4%

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

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

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

**** The number of employees of the Group is taken from the figure on the reference date.

The indicators shown provide a representation of the main operating trends relating to the Cassa Centrale Group as at 30 June 2021.

With regard to structural ratios, loans to customers represent 49.4% of the total consolidated assets of the Cassa Centrale Group, confirming the predominant activity of the Affiliated Banks aimed at financing the reference territory, households and small economic operators in the context of their business activities. The decline in the ratio, compared to December 2020, is a direct consequence of the strong growth in financial assets, and in particular in loans and advances to banks to take advantage of tiering.

Direct funding from customers is confirmed as the main source of funding for the Group, with an incidence on total assets of 68.1%. The trend in direct funding, which rose in the first half of 2021, reflects the high capacity of the Cassa Centrale Group, through the Affiliated Banks, to attract depositing customers in a context still strongly affected by the uncertainty linked to the health emergency.

In light of the trend in lending activities, the ratio of net loans to direct funding from customers, at June 2021, stood at 72.6%, up compared to the figure at the end of the year 2020, confirming the high level of liquidity of the Cassa Centrale Group.

With reference to profitability ratios, the ROE, calculated as the ratio of annualised net profit to shareholders' equity, was 8.8%, while ROA[6], calculated as the ratio of annualised net profit to total assets, was 0.7%.

Productivity, measured through the index of traded volumes per employee, grew to EUR 12.3 million at June 2021, confirming the path undertaken by the Cooperative Banking Group aimed at progressively increasing industrial efficiency, while the incidence of operating costs on volumes traded amounted to 1%, in line with the figure of December 2020.

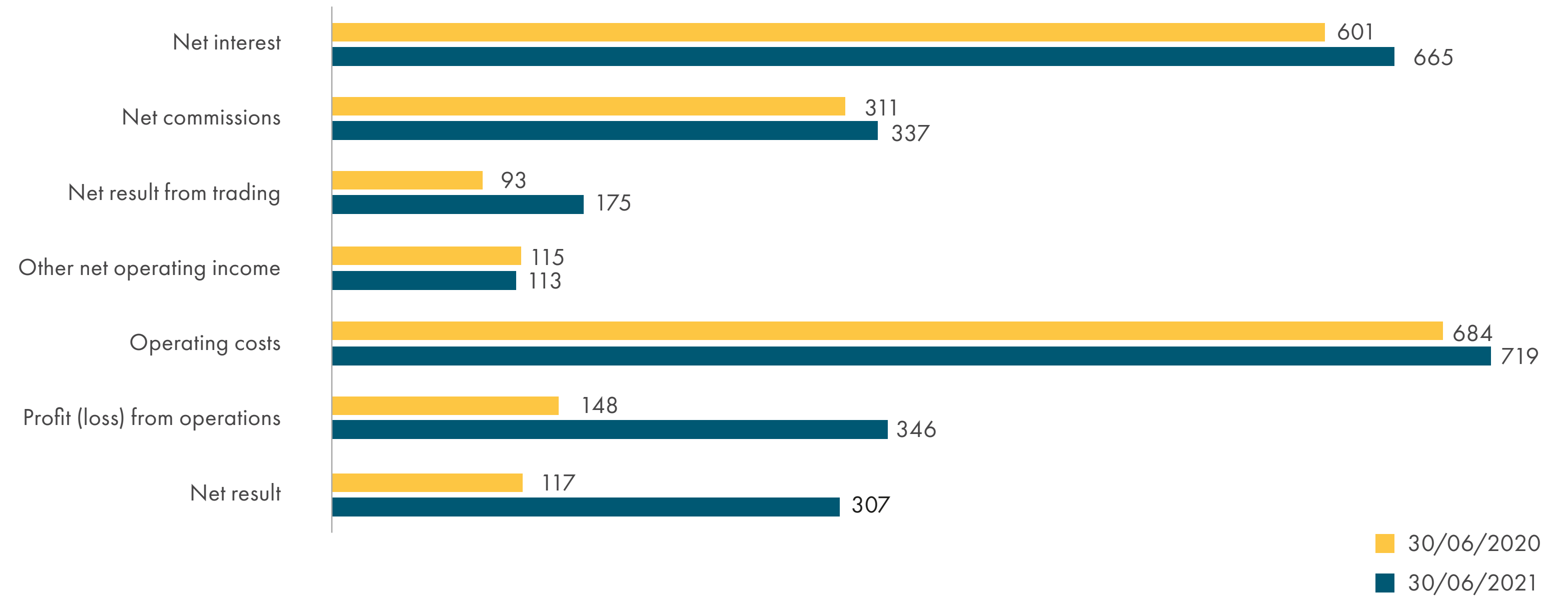
The following paragraphs provide a brief description of the Group's main consolidated income statement and balance sheet aggregates, together with further management evidence commenting on the indicators previously reported.

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

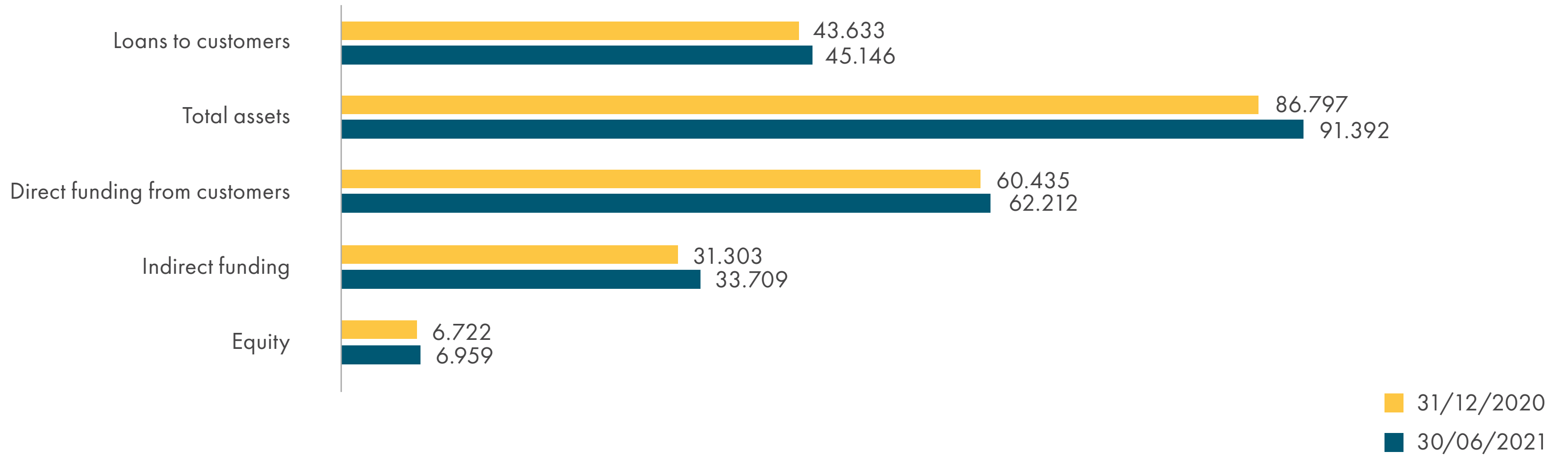
Summary of results

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

Consolidated income statement figures (millions of euro)



Consolidated balance sheet figures (millions of euro)



Economic results

Reclassified consolidated income statement[7]

(Figures in millions of euro)	30/06/2021	30/06/2020	Change	% change
Interest margin	**665**	**601**	**64**	**10.7%**
Net commissions	337	311	26	8.4%
Dividends	2	1	1	100.0%
Net trading revenues	175	92	83	90.2%
Net interest and other banking income	**1,179**	**1,005**	**174**	**17.3%**
Net value adjustments/write-backs	(113)	(174)	61	(35.1%)
Income from financial activities	**1,066**	**831**	**235**	**28.3%**
Operating charges *	(825)	(763)	(62)	8.1%
Net allocations to provisions for risks and charges	(5)	(36)	31	(86.1%)
Other income (charges)	111	115	(4)	(3.5%)
Profit (loss) from disposal of investments and equity investments	(1)	1	(2)	n.s.
Gross current result	**346**	**148**	**198**	**133.8%**
Income tax	(40)	(31)	(9)	29.0%
Profit (loss) for the year for minority interests	1	-	1	100.0%
Net result of the Parent Company	**307**	**117**	**190**	**162.4%**

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

As at 30 June 2021, the net interest and other banking income of the Cassa Centrale Group stood at EUR 1.18 billion, up by EUR 174 million compared to the first six months of 2020. The Group's margins are mainly attributable to the interest margin, up by EUR 64 million, reflecting the prevailing traditional banking activity, which to a large extent characterises the Affiliated Banks, and the growing contribution from the own securities portfolio and transactions with the Eurosystem.

Net commissions rose to EUR 337 million, albeit in a context still affected by the pandemic, and represent 29% of the net interest and other banking income, confirming the growing focus of the Cassa Centrale Group on the development of the service margin.

Net trading revenues rose sharply to EUR 175 million, mainly reflecting higher capital gains on the own securities portfolio compared to the same period of 2020.

Net value adjustments, at June 2021, amounted to EUR 113 million, confirming the high coverage of credit risk, with total provisions on impaired loans of 66%, up compared to 64% in December 2020.

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

The growth in operating charges (+8.1%) compared to the first half of 2020 reflects the higher administrative expenses and the increase in operating amortisation, as shown in the following paragraphs.

Profit before tax amounted to EUR 346 million, up sharply compared to June 2020, with the net profit pertaining to the Parent Company standing at EUR 307 million.

Interest margin

(Figures in millions of euro)	30/06/2021	30/06/2020	Change	% change
Financial assets measured at amortised cost not comprising loans	112	87	25	28.7%
Other financial assets and liabilities measured at FVTPL	2	-	2	n.s.
Other financial assets measured at FVOCI	16	16	-	0.0%
Financial instruments	**130**	**103**	**27**	**26.2%**
Net interest to customers (loans)	489	494	(5)	(1.0%)
Debt securities in issue	(23)	(35)	12	(34.3%)
Customer relations	**466**	**459**	**7**	**1.5%**
Net interest to banks	**6**	**10**	**(4)**	**(40.0%)**
Differentials on hedging derivatives	**(4)**	**(3)**	**(1)**	**33.3%**
Other net interest	**67**	**32**	**35**	**109.4%**
Total interest margin	**665**	**601**	**64**	**10.6%**

The interest margin in the first half of 2021 stood at EUR 665 million, recording a growth of 10.6% compared to June 2020, equal to EUR 64 million.

This growth is mainly due to the contribution of financial instruments and funding transactions at negative rates with institutional counterparties, while the contribution deriving from transactions with customers showed an increase of +1.5% compared to June 2020.

With regard to customer relations, with reference to direct funding, a decrease in the related average cost at Group level was offset by the strong growth in volumes, as a result of the continuing climate of uncertainty related to the economic health situation. In terms of the composition of direct funding, the decrease in fixed-term deposits continues, in terms of volumes and interest, according to a trend that has been underway since the establishment of the Cassa Centrale Group.

In terms of loans, if transactions with customers on the one hand benefited from the increase in volumes disbursed, also due to the government and local measures resulting from the Covid-19 emergency, on the other hand it had to face a contraction of the average unit yield, as a consequence of the new conditions linked to the support measures and of a persistent competitive pressure on the reference markets.

In response to the exceptional circumstances resulting from the Covid-19 emergency, the Cassa Centrale Group updated its portfolio management strategy, guaranteeing the use of refinancing transactions with the Eurosystem and the diversification of the owned portfolio.

The own securities portfolio contributes to the growth of the Group's comprehensive income, with a significant increase in revenues from financial assets measured at amortised cost (EUR +25 million) compared to the comparison period.

The item other net interest, which shows an annual positive increase of approximately EUR 35 million, mainly includes interest income accrued on funding transactions at negative rates with institutional counterparties and TLTRO-III and PELTRO refinancing transactions.

Net commissions

(Figures in millions of euro)	30/06/2021	30/06/2020	Change	% change
Commission income	**380**	**346**	**34**	**9.8%**
Management, trading and consulting services	132	114	18	15.8%
Collection and payment services	98	87	11	12.6%
Current account maintenance and management	129	121	8	6.6%
Guarantees issued	8	7	1	14.3%
Other banking services	13	17	(4)	(23.5%)
Commission expenses	**(43)**	**(35)**	**(8)**	**22.9%**
Management and trading services	(8)	(8)	-	0.0%
Collection and payment services	(21)	(18)	(3)	16.7%
Other banking services	(14)	(9)	(5)	55.6%
Total net commissions	**337**	**311**	**26**	**8.4%**

Net commissions, as at 30 June 2021, stood at EUR 337 million, up 8.4% compared to the first half of 2020, albeit in a context affected by the continuation of the Covid-19 pandemic and the consequent restrictive measures.

The comparison of the first half of 2021 with the same period of 2020 shows the growing contribution of management, trading and consulting services, driven by the growing contribution of the managed assets and insurance segment, reflecting the significant overall growth in indirect funding. The growth of the collection and payment services segment is compared with a 2020 figure strongly affected by pandemic-related restrictions.

Net result from financial operations

(Figures in millions of euro)	30/06/2021	30/06/2020	Change	% change
Financial assets and liabilities held for trading	4	2	2	100.0%
- Equities	-	-	-	-
- Debt securities	-	-	-	-
- UCITS units	-	-	-	-
- Derivative instruments	4	1	3	n.s.
- Other	-	1	(1)	(100.0%)
Net result from the sale of financial assets and liabilities	160	100	60	60.0%
Net result from hedging activities	1	(1)	2	n.s.
Dividends and similar income	2	1	1	100.0%
Net change in value of other financial assets and liabilities	10	(9)	19	n.s.
Total net result from financial operations	**177**	**93**	**84**	**90.3%**

The net result from financial operations at June 2021 amounted to EUR 177 million, up sharply compared to the previous year. This change is mainly due to the sale of financial assets and the consequent realisation of capital gains on government securities as part of the Group's portfolio management strategy.

Operating costs

(Figures in millions of euro)	30/06/2021	30/06/2020	Change	% change
Administrative expenses	(765)	(707)	(58)	8.2%
- personnel costs	*(435)*	*(413)*	*(22)*	*5.3%*
- other administrative expenses	*(330)*	*(294)*	*(36)*	*12.2%*
Operating amortisation/depreciation	(60)	(56)	(4)	7.1%
Other provisions (excluding credit risk adjustments)	(5)	(36)	31	(86.1%)
- of which on commitments and guarantees	-	*(9)*	*9*	*(100.0%)*
Other operating charges/income	111	115	(4)	(3.5%)
Total operating costs	**(719)**	**(684)**	**(35)**	**5.1%**

Operating costs, in the first half of 2021, amounted to EUR 719 million, up by approximately EUR 35 million on an annual basis.

Personnel costs of EUR 435 million were higher than in the same period of 2020 (+5.3%), reflecting higher costs for wages and salaries (EUR +13.6 million), including the extraordinary leaving incentive component, which was also higher than in the first six months of 2020 (EUR +6.3 million).

The Group recorded an increase in other administrative expenses of EUR 36 million compared to the comparison period, mainly due to higher contributions (EUR +25.6 million) paid to the DGS [Deposit Guarantee Schemes] and SRF [Single Resolution Fund] funds and higher costs (EUR +6.9 million) for professional services.

The amortisation/depreciation component, amounting to EUR 60 million, was up slightly compared to the first half of 2020, while other operating income and charges amounted to a total of EUR 111 million, with a decrease of 3.5% mainly linked to lower revenues of the companies instrumental to third parties to the Cassa Centrale Group.

The decrease in the item other provisions offsets the higher contributions paid in 2021 to the DGS and SRF funds: these were prudently allocated to the first half of 2020, while in the current financial year, as mentioned, they were fully paid and charged to other administrative expenses.

As at 30 June 2021, the Group's Cost Income, calculated as the ratio of operating costs to net interest and other banking income, stood at 61%, substantially in line with the figure at the end of 2020.

Net value adjustments/write-backs to financial assets

(Figures in millions of euro)	30/06/2021	30/06/2020	Change	% change
Loans to customers	(115)	(164)	49	(29.9%)
- of which write-offs	*(4)*	*(12)*	*8*	*(66.7%)*
Loans to banks	2	(2)	4	n.s.
OCI debt securities	-	(5)	5	(100.0%)
Contractual changes without derecognitions	-	(3)	3	(100.0%)
(Net value adjustments)/write-backs	**(113)**	**(174)**	**61**	**(35.1%)**

The uncertainty linked to the continuation of the Covid-19 pandemic, which has already profoundly affected the results of 2020, was accompanied in the first six months of 2021 by the maintenance of prudential levels of provisions against the risks associated with a potential deterioration of credit exposures.

In the first half of 2021, adjustments were made to loans to customers totalling EUR 115 million, a lower figure than in the first six months of 2020, when uncertainty had led to an even higher degree of prudence. Total adjustments to loans stood at EUR 113 million.

Financial position aggregates

Reclassified consolidated balance sheet [8]

(Figures in millions of euro)	30/06/2021	31/12/2020	Change	% change
ASSETS				
Cash and cash equivalents	595	614	(19)	(3.1%)
Exposures to banks	6,089	2,671	3,418	128.0%
Exposures to customers	45,146	43,633	1,513	3.5%
of which at fair value	*284*	*288*	*(4)*	*(1.4%)*
Financial assets	36,476	36,813	(337)	(0.9%)
Equity investments	70	75	(5)	(6.7%)
Tangible and intangible assets	1,344	1,352	(8)	(0.6%)
Tax assets	806	849	(43)	(5.1%)
Other asset items	866	790	76	9.6%
Total assets	**91,392**	**86,797**	**4,595**	**5.3%**
LIABILITIES				
Due to banks	19,010	17,438	1,572	9.0%
Direct funding	62,212	60,435	1,777	2.9 %
- Due to customers	*57,953*	*55,447*	*2,506*	*4.5%*
- Debt securities in issue	*4,259*	*4,988*	*(729)*	*(14.6%)*
Other financial liabilities	44	81	(37)	(45.7%)
Provisions (Risks, charges and personnel)	442	469	(27)	(5.8%)
Tax liabilities	74	81	(7)	(8.6%)
Other liability items	2,651	1,572	1,079	68.6%
Total liabilities	**84,433**	**80,076**	**4,357**	**5.4%**
Third party minority interests	4	1	3	n.s.
Group equity	6,955	6,721	234	3.5%
Consolidated equity	**6,959**	**6,722**	**237**	**3.5%**
Total liabilities and equity	**91,392**	**86,797**	**4,595**	**5.3%**

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

As at 30 June 2021, the Cassa Centrale Group's assets amounted to approximately EUR 91.4 billion (+5.3% compared to EUR 86.8 billion at December 2020) and consisted mainly of exposures to customers which included loans measured at amortised cost and at fair value totalling EUR 45.1 billion, accounting for approximately 50% of total assets. Financial assets were up sharply compared to the end of 2020, with loans to banks amounting to EUR 6.1 billion to leverage the benefit of tiering and the portfolio of own securities that stood at EUR 36.5 billion, equal to 40% of total assets.

Liabilities are mainly made up of direct funding from customers which, at June 2021, stood at EUR 62.2 billion (+ 2.9% compared to EUR 60.4 billion in December 2020) and whose details are shown in the following table. Due to banks rose, at June 2021, to EUR 19.0 billion (EUR +1.6 billion compared to the end of the previous year), while the Group's shareholders' equity stood at EUR 7.0 billion, including the profit realised in the period, up by + 3.5% compared to December 2020).

Total customer funding

(Figures in millions of euro)	30/06/2021	% impact	31/12/2020	Change	% change
Current accounts and deposits on demand	54,230	87%	51,602	2,628	5.1%
Fixed-term deposits	2,665	4%	2,582	83	3.2%
Repos and securities lending	248	0%	506	(258)	(51.0%)
Bonds	1,436	2%	1,952	(516)	(26.4%)
Other funding	3,633	6%	3,793	(160)	(4.2%)
Direct funding	**62,212**	**100%**	**60,435**	**1,777**	**2.9 %**

The climate of uncertainty linked to the persistence of the Covid-19 pandemic crisis contributed, in the early months of 2021, to further strengthening the propensity to save on the part of households and postponing, at least in part, the expenses for investments by companies, with a consequent accumulation of liquidity on the technical forms of deposits and current accounts.

The total amount of direct funding from customers of the Cassa Centrale Group came to EUR 62.2 billion, up by +2.9% (EUR +1.8 billion) compared to the previous year. As mentioned, the trend is driven by the trend in short-term funding from customers, and in particular from current accounts (87% of direct funding) which amounted to EUR 54.2 billion, up by 2.6 billion compared to December 2020.

Fixed-term funding, in the form of deposits, repos and bonds, amounted to EUR 4.3 billion, equal to 7% of total direct funding volumes, down by EUR 691 million from the previous year. At June 2021, repos include transactions carried out by the Parent Company with the counterparty Cassa di Compensazione e Garanzia for a total of EUR 61 million (compared to EUR 300 million in December 2020).

(Figures in millions of euro)	30/06/2021	% impact	31/12/2020	Change	% change
Assets under management	**21,859**	**65%**	**19,210**	**2,649**	**13.8%**
Mutual funds and SICAVs	7,029	21%	6,242	787	12.6%
Asset management	7,814	23%	6,554	1,260	19.2%
Banking-insurance products	7,015	21%	6,414	602	9.4%
Assets under administration	**11,849**	**35%**	**12,093**	**(244)**	**(2.0%)**
Bonds	9,456	28%	9,460	(4)	(0.0%)
Shares	2,393	7%	2,633	(240)	(9.1%)
Indirect funding *	**33,709**	**100%**	**31,303**	**2,405**	**7.7%**

* Indirect funding is expressed at market values.

Indirect funding of the Cassa Centrale Group at June 2021, valued on the market, amounted to a total of EUR 33.7 billion (+7.7% compared to the end of December 2020). Assets under management, amounting to approximately EUR 21.9 billion (+13.8% compared to the comparison period), accounted for 65% of indirect funding and showed a marked trend driven by the growth in asset management (+19.2%) due to the performance of the cash PIP programme. Mutual funds and SICAVs (+12.6%) and banking-insurance products (+9.4%) also maintained high growth rates.

The assets under administration amounted to EUR 11.8 billion at June, down 2.0% compared to December 2020. The contraction is entirely linked to the equity segment (-9.1%) while bonds remain stable at the levels of December 2020.

From the point of view of composition, although the largest weight is represented by assets under management, the indirect funding reflects a balanced composition between the individual forms of administered and managed assets, the result of policies of adequate and prudent diversification of investments implemented with customers.

Group funding, consisting of overall traded volumes on behalf of customers, amounted to EUR 95.9 billion as at 30 June 2021 and consisted of 65% from direct funding and the remaining 35% from indirect funding with the component of managed funding accounting for approximately 23% of total volumes.

Percentage composition of funding

PERCENTAGE COMPOSITION OF FUNDING	30/06/2021	31/12/2020
Direct funding	65%	66%
Indirect funding	35%	34%

Net loans to customers

(Figures in millions of euro)	30/06/2021	% impact	31/12/2020	Change	% change
Loans at amortised cost	**44,862**	**99.4%**	**43,345**	**1,517**	**3.5%**
Mortgage loans	*35,710*	*79.1%*	*33,992*	*1,718*	*5.1%*
Current accounts	*3,332*	*7.4%*	*3,440*	*(108)*	*(3.1%)*
Other loans	*3,297*	*7.3%*	*3,400*	*(103)*	*(3.0%)*
Finance leases	*621*	*1.4%*	*605*	*16*	*2.6%*
Credit cards, personal loans and CQS	*801*	*1.8%*	*707*	*94*	*13.3%*
Impaired assets	*1,101*	*2.4%*	*1,201*	*(100)*	*(8.3%)*
Loans at fair value	**284**	**0.6%**	**288**	**(4)**	**(1.4%)**
Total net loans to customers	**45,146**	**100.0%**	**43,633**	**1,513**	**3.5%**

As at 30 June 2021, net loans to customers of the Group amounted to EUR 45.1 billion. Almost all of these are loans at amortised cost, equal to EUR 44.9 billion, showing an increase of 3.5% (EUR +1.5 billion) compared to December 2020. The aggregate is mainly composed of mortgages, which amount to EUR 35.7 billion and represent 79% of total loans to customers, of current accounts of EUR 3.3 billion and other loans of EUR 3.3 billion. The trend shows, on the one hand, a positive change in loans to maturity represented by mortgages (+5.1%) and on the other hand a decrease in short-term loans. This change is related to the measures provided for in the government's economic support decrees issued in response to the Covid-19 crisis and the consequent reshaping of on-demand exposures to government-guaranteed forms of financing.

The Group's commitment to facilitate the granting of benefits to its customers as provided for by local and governmental measures continues, in order to offer economic support to the production system and households, as well as support social stability in the territories. In addition to the initiatives coordinated by the Parent Company, there were also specific loans offered by many of the Group's banks, with dedicated funds at favourable conditions.

Initiatives in favour of businesses, households and the community

During 2020, the Italian government approved important legislative measures to mitigate the effects of the Covid-19 pandemic on the economy. As a result, the Cassa Centrale Group promptly took all necessary steps to facilitate the granting of the benefits provided by these measures to its customers, in addition to adhering to specific conventions or agreements, including the Addendum to the 2019 Credit Agreement promoted by the Associazione Bancaria Italiana - ABI (Italian Banking Association).

The measures and agreements to support the economy based on moratoria and new loans guaranteed by the Government were initially designed for a limited duration to 2020, precisely until 30 September 2020.

If during the summer of 2020, also thanks to the expectations of the imminent launch of vaccination plans at national and European level, the health emergency seemed to be gradually attenuating, in the course of the fall of 2020 there was a recovery of the contagions with a consequent new deterioration of the data on both hospital admissions and the percentage of deaths. From an economic point of view, this exacerbation of the pandemic did not involve periods of complete interruption of economic activities, but geographically variable slowdowns, with restrictive measures applied differently and alternately on a regional basis.

In consequence of these developments, the measures for suspending payments contained in the main legislative intervention to support economic activities (Law Decree no. 18 of 17 March 2020, converted into Law no. 27 of 24 April 2020) were extended for the first time until 31 January 2021 by Law Decree no. 104 of 14 August 2020, converted into Law no. 126 of 13 October 2020, and then until 30 June 2021 by the 2021 Budget Law (Law no. 178 of 30 December 2020). Finally, with Law Decree no. 73 of 25 May 2021, the suspension of mortgage payments, albeit limited to the principal amount only, was further extended until 31 December 2021. In this further round of renewal of facilities, given the partial recovery of the economy due to the good results of the vaccination campaign, the Group recorded requests for renewal of moratoria for a minority of previously suspended loans.

The measures aimed at ensuring new liquidity to businesses through access to Government-guaranteed financing (Law Decree no. 23 of 8 April 2020, converted into Law no. 40 of 5 June 2020), after an initial period of validity limited to 2020, have also been extended until 31 December 2021 for the same reasons.

The data relating to the moratoria linked to Covid (including both EBA and non-EBA compliant moratoria) and the loans covered by the State guarantee extended until 30 June 2021 are shown below[9].

MORATORIA GRANTED AS AT 30/06/2021	Number of loans *	Amount ** (figures in millions of EUR)	Performing ** (figures in millions of EUR)	Impaired ** (figures in millions of EUR)	% impaired amount
Total granted moratoria	**119,713**	**13,402**	**12,760**	**642**	**5%**
BY REFERENCE SOURCE:					
EBA compliant moratoria	90,550	10,704	10,421	283	3%
Other Covid-related moratoria	23,596	2,108	2,073	36	2%
Moratoria subject to other forbearance measures	5,567	590	267	323	55%
BY STATUS OF THE MORATORIA:					
Existing (repayment plan suspended)	**37,365**	**4,244**	**4,107**	**136**	**-**
of which: Households	10,264	*694*	*665*	*29*	-
of which: Non-financial companies	*26,009*	*3,528*	*3,420*	*107*	-
Past due (repayment plan reactivated)	**82,348**	**9,158**	**8,652**	**506**	**-**
of which: Households	*47,169*	*3,824*	*3,619*	*205*	-
of which: Non-financial companies	*31,716*	*5,283*	*4,984*	*299*	-

* The figure refers to individual positions.

** Gross amount.

The data shown in the first section of the table above refer to all the requests for suspension of the payment of the mortgage instalments, submitted and accepted from the beginning of the health emergency until 30 June 2021. Therefore, they do not represent an exact snapshot of the status of the moratoria at the reference date, but essentially an element of comparison to assess the level of recovery of the normal repayment plans, shown in the second section of the table.

[9] Data source: EBA - COVID19 report as at 30 June 2021 relating to legislative and non-legislative moratoria on loans.

As at 30 June 2021, there was a substantial reduction in the moratorium debt, amounting to EUR 4.2 billion (of which EUR 2,01 billion subject to EBA compliant moratoria), due to the end of the concessions and extensions granted on the basis of the legislative measures prior to Law Decree 73/2021. The recognition, which on the basis of the interpretation criteria defined by EBA includes among the remaining moratoria also those expiring on 30 June 2021, must be assessed in the light of the data included in subsequent reports. In fact, on the basis of the residual duration of the moratoria shown in the table, during the third quarter of the year approximately 50% of the loans with a repayment plan still suspended as at 30 June 2021 were included among the moratoria with repayment plan reactivated.

The consolidated figure can therefore be considered a comforting sign of resumption of regularity of payments in conjunction with the restart of many economic activities and the improvement in health care resulting from the vaccination plan.

LOANS GRANTED WITH A STATE GUARANTEE AS AT 30/06/2021	Number of loans *	Amount ** (figures in millions of EUR)
Total loans granted	**67,092**	**4,674**
By customer type:		
of which: Households	29,834	714
of which: Non-financial companies	*37,014*	3,948
By residual duration:		
Less than/equal to 12 months	261	19
More than 12 months	66,831	4,655

* The figure refers to individual positions.

** Gross amount

The possibility of obtaining loans with public guarantees through a simplified selection procedure (the guarantee, in fact, is issued without any prior selection based on the MCC rating of the applicant) continues by virtue of the exception to the normal restrictions on State aid introduced by the Temporary Framework, the validity of which was extended until 31 December 2021. Therefore, we are witnessing a further growth in loans granted on the basis of Law Decree 23/2020, a measure that implemented in Italy the facilities introduced with the aforementioned Temporary Framework. The new requests are no longer growing at the pace of 2020 and are less and less attributable to actual difficult conditions of the companies. However, this is an opportunity that many companies want to seize, as it makes it possible to access liquidity stocks at advantageous rates and for medium/long-term durations. The continuous increase in these loans is accompanied by a simultaneous reduction in the use of short-term commercial credit facilities.

Credit quality

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

Cash assets to customers

(Figures in millions of euro)	30/06/2021			
	Gross exposure	Total value adjustments	Net exposure	Coverage
Impaired exposures	**3,282**	**(2,181)**	**1,101**	**66.5%**
Non-performing	1,315	(1,052)	263	80.0%
Unlikely to pay	1,842	(1,103)	739	59.9%
Overdue/past due	125	(27)	98	21.6%
- of which forborne	*1,495*	*(938)*	*557*	*62.7%*
Performing exposures	**44,448**	**(403)**	**44,044**	**0.9%**
- of which forborne	*1,096*	*(76)*	*1,020*	*6.9%*
Total cash assets to customers	**47,730**	**(2,584)**	**45,146**	**5.4%**

(Figures in millions of euro)	31/12/2020			
	Gross exposure	Total value adjustments	Net exposure	Coverage
Impaired exposures	**3,337**	**(2,136)**	**1,201**	**64.0%**
Non-performing	1,365	(1,043)	322	76.4%
Unlikely to pay	1,925	(1,083)	842	56.3%
Overdue/past due	47	(10)	37	21.3%
- of which forborne	*1,506*	*(901)*	*605*	*59.8%*
Performing exposures	**42,868**	**(436)**	**42,432**	**1.0%**
- of which forborne	*927*	*(75)*	*852*	*8.1%*
Total cash assets to customers	**46,205**	**(2,572)**	**43,633**	**5.6%**

As at 30 June 2021, the Group had net loans to customers of EUR 45.1 billion, compared to a gross exposure of EUR 47.7 billion, and adjustment provisions totalling EUR 2.6 billion, allowing it to maintain an average portfolio coverage of 5.4%.

Net performing loans, at June 2021, amounted to EUR 44.0 billion (42.4 million at December 2020) and represented 97.6% of total loans, while net impaired loans, amounting to approximately EUR 1.1 billion (EUR 1.2 billion at the end of 2020), fell to 2.4%. These ratios confirm the attention of the Cassa Centrale Group to the management of impaired loans despite an economic context of great uncertainty.

At June 2021, the impaired loan portfolio, in terms of net exposure, showed non-performing positions amounting to EUR 263 million written down by a total of EUR 1.1 billion, and unlikely to pay amounting to EUR 739 million with value adjustments of EUR 1.1 billion. Within impaired exposures, which are transversal to the degree of risk, there are forborne exposures of EUR 557 million, equal to 1.2% of total loans, down by EUR 48 million compared to December 2020.

Performing loans, at June 2021, recorded value adjustments of EUR 403 million, representing a level of coverage on performing loans of 0.9% (against a coverage of 1.0% at December 2020). The item includes forborne positions whose net value is EUR 1,020 million (2.3% of net loans) with a coverage ratio of 6.9% (8.1% at December 2020).

The provisions for performing loans, together with the significant coverage of non-performing and unlikely to pay positions, which amount to 80.0% and 59.9% (against 76.4% and 56.3% at December 2020) respectively, allow the Group to protect itself against credit risk in a highly uncertain economic environment.

The table below shows the main credit risk management indicators[10].

RISK MANAGEMENT RATIOS	30/06/2021	31/12/2020	Change
NPL ratio	6.1%	6.8%	(0.7%)
NPL coverage	66%	64%	2%
Texas ratio	36%	38%	(2%)

The NPL ratio as at 30 June 2021 was down compared to December 2020, standing at 6.1% (6.8% at the end of 2020). The decrease in the indicator confirms the improvement in asset quality that the Cassa Centrale Group is pursuing, with a progressive and constant decrease in the stock of non-performing loans, in line with the guidelines issued by the Supervisory Authority.

The constant attention paid to the valuation of NPLs is also reflected in the level of coverage of non-performing loans, with a level of NPL coverage that increased to 66%, up by 2 basis points compared to December 2020.

The active management of impaired loans and its progressive reduction are reflected in the Group's Texas ratio, with a value at June 2021 of 36% (38% at the end of 2020), while the cost of risk of the credit portfolio amounts to 25 Bp[11]

[10] The calculation of the indices - NPL ratio, NPL Coverage and Texas ratio (which as its numerator considers gross impaired loans) - was carried out on the basis of the EBA data model (EBA methodological guidance on risk indicators, last updated in April 2020).

[11] The Cost of risk index is determined as the ratio between net adjustments and write-backs for credit risk and net customer loans.

(Figures in millions of euro)

ECONOMIC SECTOR	30/06/2021		
	Gross exposure	Value adjustments	Net exposure
Public Administrations	220	(1)	219
Financial and insurance companies	1,109	(24)	1,085
Non-financial companies	23,132	(1,714)	21,418
Consumer households and other unclassifiable enterprises	23,269	(845)	22,424
TOTAL	**47,730**	**(2,584)**	**45,146**

(Figures in millions of euro)

ECONOMIC SECTOR	31/12/2020		
	Gross exposure	Value adjustments	Net exposure
Public Administrations	192	(1)	191
Financial and insurance companies	1,116	(20)	1,095
Non-financial companies	22,395	(1,730)	20,665
Consumer households and other unclassifiable enterprises	22,502	(820)	21,682
TOTAL	**46,205**	**(2,572)**	**43,633**

In representing the loan portfolio by sector of economic activity, it is clear that the Cassa Centrale Group, reflecting the nature of the Affiliated Banks, has a prevalent allocation of loans to customers with counterparties represented by consumer households and non-financial companies, which account for about 49% and 48% of net exposures to customers respectively.

Composition of financial instruments

(Figures in millions of euro)	30/06/2021	31/12/2020	Change	% change
SECURITIES PORTFOLIO				
Trading book assets (FVTPL)	304	312	(8)	(2.6%)
Financial liabilities	(1)	(15)	14	(93.3%)
Banking book assets (FVOCI)	10,196	9,440	756	8.0%
Financial fixed assets excluding loans (AC)	25,969	27,051	(1,082)	(4.0%)
Total securities portfolio	**36,468**	**36,788**	**(320)**	**(0.9%)**
DERIVATIVES PORTFOLIO				
Trading assets (FVTPL)	5	7	(2)	(28.6%)
Trading liabilities (FVTPL)	(4)	(9)	5	(55.6%)
Total derivatives portfolio	**1**	**(2)**	**3**	**(150.0%)**
TOTAL FINANCIAL INSTRUMENTS	**36,469**	**36,786**	**(317)**	**(0.9%)**

The portfolio owned by the Group, as at 30 June 2021, amounted to EUR 36.5 billion (EUR -320 million compared to December 2020).

Given the trend in interest rates, both historical and forward-looking, and with the aim of mitigating the Group's exposure to interest rate risk, the Group resolved to revise the Group's strategy on the portfolio of owned securities, with a direct impact on the composition of the overall portfolio.

There was a decrease of EUR 1.1 billion in financial assets measured at amortised cost, which stood at EUR 26 billion at June 2021, and an increase in banking book assets of EUR 756 million since the beginning of the year.

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

Financial assets

(Figures in millions of euro)	30/06/2021	31/12/2020	Change	% change
Debt securities	**35,967**	**36,271**	**(304)**	**(0.8%)**
- Mandatorily measured at fair value (FVTPL)	16	17	(1)	(5.9%)
- Measured at fair value through other comprehensive income (FVOCI)	9,982	9,203	779	8.5%
- Measured at amortised cost (AC)	25,969	27,051	(1,082)	(4.0%)
Equities	**228**	**263**	**(35)**	**(13.3%)**
- Mandatorily measured at fair value (FVTPL)	14	26	(12)	(46.2%)
- Measured at fair value through other comprehensive income (FVOCI)	214	237	(23)	(9.7%)
UCITS units	**274**	**269**	**5**	**1.9%**
- Mandatorily measured at fair value (FVTPL)	274	269	5	1.9%
Total financial assets	**36,469**	**36,803**	**(334)**	**(0.9%)**

As at 30 June 2021, the composition of financial assets consisted almost entirely of debt securities (99%). The latter are mainly government securities of euro area countries or supranational issuers.

Exposure to the banking system: net financial position

(Figures in millions of euro)	30/06/2021	31/12/2020	Change	% change
Loans to central banks	5,655	2,089	3,566	170.7%
Loans to other banks	434	583	(149)	(25.6%)
Current accounts and deposits on demand	*179*	*209*	*(30)*	*(14.4%)*
Fixed-term deposits	*126*	*186*	*(60)*	*(32.3%)*
Other loans	*129*	*188*	*(59)*	*(31.4%)*
Total loans (A)	**6,089**	**2,672**	**3,417**	**127.9%**
Due to central banks	(18,190)	(16,617)	(1,573)	9.5%
Due to other banks	(820)	(821)	1	(0.1%)
Current accounts and deposits on demand	*(534)*	*(490)*	*(44)*	*9.0%*
Fixed-term deposits	*(44)*	*(43)*	*(1)*	*2.3%*
Repos	*(202)*	*(10)*	*(192)*	*n.s.*
Other loans	*(40)*	*(278)*	*238*	*(85.6%)*
Total payables (B)	**(19,010)**	**(17,438)**	**(1,572)**	**9.0%**
NET FINANCIAL POSITION (A-B)	**(12,921)**	**(14,766)**	**1,845**	**(12.5%)**

As at 30 June 2021, total loans to banks amounted to EUR 6.1 billion (EUR +3.4 billion compared with 31 December 2020), mainly reflecting cash held with the ECB target account of EUR 5.7 billion. Interbank funding, amounting to EUR 19.0 billion, shows the growth in refinancing transactions with the ECB in line with the implementation of the new management strategy of the Group's own portfolio.

Refinancing transactions through the Eurosystem amounted to EUR 18.3 billion at June 2021 and refer to TLTRO-III (EUR 15 billion) and PELTRO (EUR 3.3 billion).

Fixed assets

(Figures in millions of euro)	30/06/2021	31/12/2020	Change	% change
Equity investments	70	75	(5)	(6.7%)
Goodwill	28	28	-	0.0%
Tangible	1,264	1,270	(6)	(0.5%)
Intangible	52	54	(2)	(3.7%)
Total fixed assets	**1,414**	**1,427**	**(13)**	**(0.9%)**

Fixed assets as at 30 June 2021 amounted to 1.4 billion (-0.9% compared to December 2020) and mainly include operating properties. Other intangible assets are mainly represented by user licenses and software, while goodwill refers to assets with an indefinite useful life included in intangible assets, as detailed in part B of the Explanatory Notes to the consolidated financial statements.

Consolidated equity

(Figures in millions of euro)	30/06/2021	31/12/2020	Change	% change
Share capital	1,275	1,274	1	0.1%
Own shares (-)	(866)	(866)	-	0.0%
Share premium	72	75	(3)	(4.0%)
Reserves	6,127	5,915	212	3.6%
Valuation reserves	34	72	(38)	(52.8%)
Equity instruments	6	6	-	0.0%
Profit (loss) for the year	307	245	62	25.3%
Group equity	**6,955**	**6,721**	**234**	**3.5%**
Third party minority interests	4	1	3	n.s.
Consolidated equity	**6,959**	**6,722**	**237**	**3.5%**

Reconciliation between the Parent Company's equity and profit for the year and the consolidated equity and profit for the year

(Figures in millions of euro)	Equity	Result for the period
Accounting balances of the Parent Company	1,106	22
Effect of the consolidation of subsidiaries	5,734	299
Effect of the measurement of associates using the equity method	68	(1)
Reversal of write-downs of equity investments and recognition of goodwill impairment	(19)	-
Elimination of dividends received from subsidiaries and associates		(17)
Other consolidation adjustments	66	4
BALANCES AS PER THE CONSOLIDATED FINANCIAL STATEMENTS	**6,955**	**307**

Own funds and capital adequacy

Own funds and capital ratios

OWN FUNDS AND CAPITAL RATIOS	30/06/2021	31/12/2020
Common Equity Tier 1 capital - CET 1	6,730	7,031
Tier 1 capital - TIER 1	6,736	7,037
Total own funds - Total Capital	6,742	7,046
Total risk-weighted assets	32,199	32,769
CET1 Capital ratio (Common equity Tier 1 capital/Total risk-weighted assets)	20.90 %	21.46%
Tier 1 Capital ratio (Tier 1 capital/Total risk-weighted assets)	20.92 %	21.47%
Total Capital ratio (Total own funds/Total risk-weighted assets)	20.94 %	21.50%

Risk Weighted Assets

(Figures in millions of euro)	30/06/2021	31/12/2020	Change	% change
Credit and counterparty risk	28,016	28,679	(663)	(2.3%)
Credit valuation adjustment risk	49	25	24	96%
Market risk	175	106	69	65%
Operational risk	3,959	3,959	-	0.0%
Other prudential requirements	-	-	0	0.0%
Total RWA	**32,756**	**32,769**	**(570)**	**(1.7%)**

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

In accordance with the above provisions, own funds derive from the sum of positive and negative components, based on their capital quality; the positive components are fully available to the Bank allowing them to be used in full to cover the overall regulatory capital requirements pertaining to risks.

At June 2021, the Group's Common Equity Tier 1 capital (CET1), determined in application of the standards and references already mentioned, amounted to EUR 6,730 million, Tier 1 capital amounted to EUR 6,736 million and Total Capital amounted to EUR 6,742 million. The CET1 capital ratio stood at 20.90% (21.46% at December 2020), the Tier 1 capital ratio was 20.92% (21.47% at December 2020) and the Total capital ratio stood at 20.94% (21.50% at December 2020). Excluding the effects of the transitional regime, with a view to full application of prudential provisions at the same reference date, fully loaded CET1 capital amounted to EUR 6,363 million and the related fully loaded CET1 capital ratio is 19.97%; fully loaded Tier 1capital amounted to EUR 6,369 million and the related fully loaded Tier 1 capital ratio is 19.99%; and finally, the total of own funds when fully loaded (Total Capital fully loaded) amounted to EUR 6,375 million and the related fully loaded Total Capital ratio was 20.01%.

Main strategic business areas of the Cassa Centrale Group

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

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

*the Industrial Group refers to a management representation of the main strategic areas of the Group that contribute to the economic and financial results commented on below.

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

Affiliated Banks

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

The Strategic Plan aims to develop relationships with households and SMEs by making the most of the territorial network and exploiting synergies, the expansion of the commercial offer and economies of scale resulting from belonging to a Group of national importance.

In general, the structure of Cooperative Credit Banks reflects the nature of territorial banks, characterised by high customer funding deriving from historical ties with the territory to which they belong, a prevalence of loans to counterparties represented by households and small companies and a low loan-to-deposit ratio which, from a liquidity perspective, reflects the structural soundness of the Group and the investment of excess liquidity mainly in government bonds.

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

(Figures in millions of euro)

LOANS TO CUSTOMERS	30/06/2021					Total 30/06/2021	Total 31/12/2020	Change	% change
	Trentino-Alto Adige	North East	North West	Central	South and the Islands				
Gross customer loans	10,657	10,145	10,290	10,430	4,665	**46,187**	44,725	1,462	3.3%
of which performing	*9,852*	*9,549*	*9,602*	*9,689*	*4,304*	***42,996***	*41,490*	*1,506*	*3.6%*
of which non-performing	*805*	*597*	*688*	*741*	*362*	***3,192***	*3,236*	*(45)*	*(1.4%)*
Value adjustments	631	515	541	541	266	**2,495**	2,474	22	0.9%
Net customer loans	10,025	9,630	9,749	9,889	4,400	**43,693**	42,252	1,440	3.4%

The total gross loans of the Affiliated Banks amounted, as at 30 June 2021, to EUR 46.2 billion, up sharply compared to the end of 2020 (+3.3%). The evolution of loans to customers confirms and reinforces the evolutionary trend that has been underway since the establishment of the Cassa Centrale Group, albeit in a context conditioned, at least in part, by the extraordinary measures to support an economic context strongly impacted by the Covid-19 health emergency.

The territorial analysis of the credit disbursed confirms that the operations of the Affiliated Banks are mainly concentrated in the North of Italy, in line with the territorial distribution of the Cassa Centrale Group's branches. Looking in detail at the various geographical areas into which the Cassa Centrale Group is divided, the allocation is homogeneous in four of the five areas, with the exception of the South and Islands areas which, despite having a large number of Affiliated Banks, has a lower incidence on total loans due to the smaller average size of the banks operating in that area.

In 2021 the growth in performing loans of the Affiliated Banks totalled EUR 1.5 billion (+3.6% compared to December 2020), with marked growth in all territorial areas according to a range that varies from +2.7% for the Trentino-Alto Adige area to +4.2% for the North-Western area.

At the counterparty level, the significant exposure of the overall credit disbursed by the Affiliated Banks to households and local small and medium-sized enterprises is confirmed, demonstrating the central role of the Affiliated Banks in supporting the growth of the territory and the support to an economic context strongly affected by the Covid-19 health emergency.

In line with the strategy of the Cassa Centrale Group, active management of non-performing loans continued in the first half of 2021, which allowed a further reduction in total non-performing assets (-1.4%) with particular focus on the management of bad loans. Overall, the impact of impaired loans on gross loans to customers stood at 6.9%, reflecting a territorial trend ranging from 5.9% in the North Eastern area to 7.8% in Trentino-Alto Adige.

Confirming a strategy of the Cassa Centrale Group that is particularly attentive to credit risk management, and in the presence of a decrease in the total stock of impaired loans, provisions on non-performing loans of the Affiliated Banks, the provisions on non-performing loans of the Affiliated Banks stood at 66%, up from 64% at the end of 2020. The average coverage levels of the Affiliated Banks are confirmed as one of the highest in the national banking system.

(Figures in millions of euro)

FUNDING	30/06/2021					Total 30/06/2021	Total 31/12/2020	Change	% change
	Trentino-Alto Adige	North East	North West	Central	South and the Islands				
Overall funding	21,835	19,020	21,052	18,337	7,621	**87,865**	83,932	3,933	4.7%
Direct funding	14,353	12,926	13,903	12,686	6,727	**60,595**	59,212	1,383	2.3%
Indirect funding*	7,482	6,094	7,149	5,651	893	**27,270**	24,720	2,550	10.3%
of which administrated	*1,863*	*1,459*	*2,587*	*1,533*	*451*	***7,893***	*7,928*	*(35)*	*(0.4%)*
of which managed	*5,619*	*4,635*	*4,562*	*4,118*	*442*	***19,377***	*16,792*	*2,585*	*15.4%*

*Indirect funding is expressed at market values

The total funding of the Affiliated Banks amounted to EUR 87.9 billion (EUR +3.9 billion compared to December 2020), confirming the important ability of the Affiliated Banks attracting depositors and converting direct funding into indirect funding.

Direct funding amounted to EUR 60.6 billion, up by EUR 1.4 billion compared to the end of 2020 (equal to +2.3%), a figure that reflects at least in part the growing share of savings held by households as a result of the on-going economic uncertainty due to the health emergency.

The distribution of direct funding among the geographical areas proportionally respects the trend described above for the volumes of credit and shows, in the first half of 2021, greater growth in the North East, North West and Central areas, with an increase of more than 3%.

The various territorial areas show a structural surplus of resources in the ratio between loans and deposits, which determines a high degree of liquidity of the Affiliated Banks and the Cassa Centrale Group. The prudent approach to the investment of resources raised by depositors historically characterises the operations of the BCC-CR-RAIKAs.

Total indirect funding of the Affiliated Banks amounted to EUR 27.3 billion[12], up by EUR 2.6 billion compared to December 2020. Indirect funding as a

[12] Indirect funding is expressed at market values.

percentage of total funding rose to 31%, up from 29% at the end of 2020, demonstrating the growing ability to shift funding to the indirect component in accordance with the guidelines of the Cassa Centrale Group, even in a context of strong prudence on the part of depositing customers. At the level of Affiliated Banks, the percentage of indirect funding on total funding exceeds 30% in all territorial areas, with the exception of the South and Islands, where this ratio exceeds 12%.

An analysis of the composition of indirect funding confirms the growth, in absolute and relative terms, of the managed and insurance component, which rose to 71% of total indirect deposits, compared to 68% at the end of 2020.

The trend in indirect funding of the Affiliated Banks, in the first half of 2021, saw a growth in both the Bancassurance segment (+10%) and the Asset Management and Funds segment (+19%), against a slight decrease in assets under management, which stood at EUR 7.9 billion (-0.4% compared to the end of 2020).

The strong boost of managed indirect funding, in progress since the establishment of the Cassa Centrale Group, is part of the significant growth margins available to the Affiliated Banks compared to the rest of the banking industry which have historically favoured the placement of direct funding products. Growth has been driven and accompanied by major investments made in the specialist training of staff of the Affiliated Banks in order to increase their ability to offer shareholders and customers a high level of advisory support. These investments, supported by the careful research of the Industrial Group's companies for products suitable for BCC-CR-RAIKAs' shareholders and customers, is gradually closing the gap with the system, while maintaining a high level of attention to the quality of the overall service offered to the savings customer.

(Figures in millions of euro)

MARGINS AND COMMISSIONS	30/06/2021					Total 30/06/2021	Total 30/06/2020	Change	% change
	Trentino-Alto Adige	North East	North West	Central	South and the Islands				
Interest margin	154	134	124	146	82	**640**	577	63	10.9%
Net commissions	56	64	69	66	28	**283**	265	18	6.9%
Net interest and other banking income	251	232	222	249	129	**1,083**	924	159	17.2%

The economic contribution deriving from the interest margin for the Affiliated Banks amounted to EUR 640 million, equal to 59% of net interest and other banking income. Despite a context characterised by interest rates at historic lows and high commercial pressure, interest margin was up compared to the first half of 2020 (+10.9%), thanks to the growth in the volumes of lending and in the own securities portfolio as an effect of the new Group strategy.

The contribution of the interest margin to overall profitability is therefore high, in line with the predominantly traditional banking operations that characterise the Affiliated Banks and therefore the Group as a whole. The main source of income remains the traditional activity of collection of savings and lending in the territories where the Affiliated Banks are located.

The net commissions of the Affiliated Banks amounted to a total of EUR 283 million, up by 6.9% compared to the same period of 2020, most affected by the Covid-19 health emergency.

The commission margin of the Affiliated Banks shows an average contribution to the net interest and other banking income of around 26%, with a geographical impact from 31% in the North West to 22% in the South and Islands, in line with the lower volumes of indirect funding related to this area.

An analysis of Affiliated Banks' primary revenues shows that their ability to offer shareholders and customers services capable of completing the commercial offer and increasing margins, is becoming increasingly decisive. This development path is taken by maintaining a strong focus on the protection of shareholders and customers in compliance with the cooperative principles that are the basis of the operations of the Affiliated Banks.

The growth in net interest and other banking income at June 2021 (+17.2% compared to the first half of 2020) reflects the important contribution deriving from the trading activity of the securities portfolio owned by the Affiliated Banks.

Industrial group

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

- ICT and back office services, with the subsidiary Allitude S.p.A. (hereinafter also "Allitude");
- leasing services, with the subsidiary Claris Leasing S.p.A. (hereinafter also "Claris Leasing" or "Claris");
- insurance services, with the subsidiaries Assicura Agenzia S.r.l. and Assicura Broker S.r.l. (hereinafter also "Assicura Agenzia" and "Assicura Broker");
- collective asset management services, with the subsidiary Nord Est Asset Management S.A. (hereinafter also "NEAM");
- consumer credit services, with the subsidiary Prestipay S.p.A. (hereinafter also "Prestipay");
- other ancillary services, with the subsidiaries Centrale Credit Solutions S.r.l., Centrale Soluzioni Immobiliari S.r.l., Centrale Casa S.r.l., Claris Rent S.p.A. and the associate Centrale Trading S.r.l.

The main income statement and balance sheet aggregates referring to the Industrial Group as at 30 June 2021 are shown below.

(Figures in millions of euro)

LOANS TO CUSTOMERS*	30/06/2021	31/12/2020	Change	% change
Gross customer loans	**1,542**	1,479	63	4.3%
of which performing	***1,452***	*1,378*	*74*	*5.4%*
of which non-performing	***90***	*101*	*(11)*	*(10.9%)*
Value adjustments	**90**	98	(8)	(8.3%)
Net customer loans	**1,452**	1,381	71	5.2%

* Management data including all intra-group eliminations.

With reference to loans to customers, the contribution of the Industrial Group mainly refers to the brokerage activities of the Parent Company and to the subsidiaries Claris Leasing and Prestipay.

Gross loans to customers amounted to approximately EUR 1.54 billion, up by approximately EUR 63 million compared to the end of the previous year (+4%), mainly as a result of the expansion of the Parent Company's loan portfolio and the consolidation of the receivable portfolio of Claris Leasing and the start-up of consumer credit operations by the newly-established Prestipay; this growth is partly offset by the drop in exposures in margins and default funds to Cassa di Compensazione e Garanzia regarding transactions in repurchase agreements.

Total gross provisions amounted to approximately EUR 90 million, down compared to EUR 98 million at the end of 2020 as a result of the reduction in non-performing loans achieved thanks to their careful and prudent management. The latter, in fact, decreased by around EUR 11 million compared to 31 December 2020 (-11%).

As a whole, net loans to customers of the Industrial Group grew by EUR 71 million compared to the end of 2020 (+5%), reaching approximately EUR 1.45 billion.

(Figures in millions of euro)

FUNDING*	30/06/2021	31/12/2020	Change	% change
Overall funding	**8,039**	7,802	237	3.0%
Direct funding	**1,580**	1,219	361	29.6%
Indirect funding**	**6,459**	6,583	(124)	(1.9%)
of which administrated	***3,977***	*4,165*	*(188)*	*(4.5%)*
of which managed	***2,482***	*2,418*	*64*	*2.7%*

* Management data including all intra-group eliminations.

** Indirect funding is measured at market values; ETF financial products are included in the sub-fund.

The Industrial Group's total funding amounted to EUR 8.0 billion, almost entirely attributable to the Parent Company. The increase of approximately EUR 360 million derives mainly from the increase in liquidity deposited in the current accounts of asset management, partly offset by the decline in repurchase agreements with Cassa di Compensazione e Garanzia.

Indirect funding[13], on the other hand, stood at EUR 6.5 billion, of which EUR 2.5 billion, or 38%, related to assets under management, with operations mainly concerning asset management products, while assets under administration amounted to EUR 4.0 billion and represented about 62% of indirect funding, with operations mainly in the bond market.

(Figures in millions of euro)

MARGINS AND COMMISSIONS*	30/06/2021	30/06/2020	Change	% change
Interest margin	**25**	24	2	6.7%
Net commissions	**53**	46	7	15.2%
Net interest and other banking income	**97**	81	15	18.8%

* Management data including all intra-group eliminations and the residual economic results of fully consolidated entities other than the cohesion agreement.

The breakdown of revenues highlights the nature of the Industrial Group, which is mainly oriented towards the provision of services. Net commission income amounted to EUR 53 million and in fact represented 55% of the Net interest and other banking income. The Interest margin stood at EUR 25 million, representing 26%.

Compared to the same month of the previous year, there was an increase in Interest margin of approximately EUR 2 million, and of Net commission

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

income of approximately EUR 7 million; the growth of the latter is mainly attributable to the scope of consolidation of the Parent Company and in part of NEAM, which, compared to the previous year, saw an increase in commissions from assets under management. With reference to Cassa Centrale Banca, commissions relating to payment systems also recorded a better performance than in the first few months of 2020 (particularly marked by the lockdown due to the Covid-19 epidemic).

Overall, net interest and other banking income showed an increase of around 19%, partly due to the trading of the securities portfolio owned by the Parent Company, which led, in the first months of 2021, to significant profits from trading.

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

1. Parent Company

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

- Finance;
- Credit;
- Consumer credit services;
- Payment systems;
- Governance and support.

Finance

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

Cassa Centrale Banca offers services to access the main bond, equity and derivatives markets both for retail customers and for management of the owned portfolio: in the first half of 2021, Cassa Centrale Banca carried out transactions on bond markets for approximately EUR 14 billion (down by approximately 48% compared to the same period of 2020) and on stock markets for approximately EUR 1.8 billion (+7.7% compared to the same period of 2020).

With regard to operations in the interbank sector, intermediation of refinancing operations with the ECB and securitised financing operations of Affiliated Banks and customers as part of the "Collateral Account" service further increased to EUR 16.5 billion at the end of June 2021, compared to EUR 15.3 billion at the end of 2020. At the Cassa Centrale Group level, recourse to refinancing via the Eurosystem amounted to EUR 18.3 billion at the end of June 2021 and was fully represented by participation in the TLTRO-III and PELTRO operations.

OTC derivative activities are mainly aimed at hedging the interest rate risk of the Group's banking book and, residually, at brokerage in relation to these types of instruments in favour of other client Banks. In the first half of 2021, OTC derivatives were traded for a total original notional amount of EUR 183 million. The types of OTC derivatives in the portfolio are configured into interest rate swaps (IRS) and interest rate options.

A further activity that is carried out within the Treasury support services of Affiliated Banks and customers is foreign currency trading. In the first half of 2021, the volume of spot and forward trading in foreign currency (equal to EUR 1.55 billion) recorded a limited decrease compared to that of the first half of 2020 (-2.0%).

The Finance Department has always offered services aimed at managing the relationship with savings customers, which over time have become an element of excellence in the overall commercial offer of Cassa Centrale Banca.

Among these, the main products and services offered are:

- **Asset Management:** Cassa Centrale Banca's Asset Management closed the first six months of 2021 with EUR 10.6 billion[14] in assets

[14] The amount relates to Asset Management placed directly by Cassa Centrale Banca for approximately EUR 2.4 billion, Asset Management placed through banks for approximately EUR 6.4 billion, institutional assets for approximately EUR 1.0 billion and pension funds, on which Cassa Centrale Banca has delegated management, for approximately EUR 830 million.

under management and more than 95 active accounts. During this first part of the year, the trend of funding was very positive, with net contributions exceeding EUR 1.5 billion. The campaign "PIP Cash Double Opportunity" (from 1 January to 31 May), which provided for the remuneration of the liquidity present in the management account (gradually invested through the PIP) at a rate of 1% to the duration of the plan, contributed to this result. The initiative was assigned an initial ceiling of EUR 550 million, then extended with another EUR 550 million, given the great commercial success recorded. This campaign has further fuelled the growth of planned investment plans (PIP): currently there are more than 30 thousand active accounts. This is an instrument that has proved to be very defensive and useful in managing the phases of greater market volatility, reducing the risk on the entry timing and offering the possibility to customers to gradually enter the market or take profit without exiting the investment. The Private segment continues to grow (reached EUR 1.5 billion at the end of June) also thanks to the increased possibilities of customisation depending on the amount invested. With regard to the performance of the portfolios, all the balanced and equity lines recorded positive changes from the beginning of the year and were largely satisfactory also in terms of comparison with the reference benchmarks. The *CCB # LIVE* webinar, created through the Teams digital platform, was introduced to provide support to placement banks during the period of restrictions related to virus containment measures. It is a container in which market dynamics, strategies on management lines, market views by Cassa Centrale Banca managers and NEF partner managers, analysis of funds and bancassurance products/services are addressed. The appointment is fortnightly with the participation of an average of over 700 advisors from the placement banks.

- **Funds Partner:** the third-party fund placement platform called Funds Partner is made available to Affiliated Banks and client banks. This is a useful tool for advisors who can access a universe of around 3,000 funds available through a platform on which Cassa Centrale Banca has activated a process of definition and maintenance of the list of funds that can be placed (funds with capitalisation of less than EUR 100 million and a track record of less than 3 years are excluded). The platform offers numerous tools provided by Morningstar, the reporting provided by the 12 investment houses and the "example portfolios" compliant with the MiFID risk profile. For these houses, Cassa Centrale Banca also carries out the service of entity appointed to perform payments. At the end of the first half of 2021, traded volumes exceeded EUR 2.6 billion.
- **Advanced Advisory services:** the advanced advisory service is provided to the customers of 21 Banks. Cassa Centrale Banca supports these Banks as advisor in identifying the best investment strategies.

Credit

Cassa Centrale Banca's Credit Department provides support to its Affiliated Banks and Group companies in their lending activities and, with regard to these aspects, guides the direction and coordination of the Cooperative Banking Group. In the Credit area, the Group defined its own credit policy guidelines in a context prior to the spread of the Covid-19 epidemic. These guidelines were drawn up in view of a limited growth in world trade and in particular considering a modest increase in Italy's GDP. The main objectives of the Group's lending activities inferred from the guidelines can be summarised as follows: (i) optimisation of portfolio asset allocation in qualitative and quantitative terms; (ii) strengthening of the sales network and repositioning of its lending operations; (iii) prevention of credit quality deterioration, in the medium term, particularly on the largest risk groups.

The health emergency of 2020 has profoundly changed the macroeconomic scenario, causing a generalised shock of production activities that simultaneously involved supply (closure of activities and interruption of value chains) and demand (reduction in consumption and reduction in income). This scenario also affected banking activities, which began to record the first significant impacts of the emergency starting from spring 2020 and until the end of April 2021, with a significant downsizing of operations, particularly in the tourism/hospitality and commercial sectors. The radical change in the operating context and in the outlook for the future required a revision of the Group's credit portfolio management guidelines. This activity, although started in the second half of 2020, also involved the first half of 2021 with specific projects related to the loan portfolio, aimed at assessing the prospective sustainability of the debt by the companies, taking into account:

- scenario analysis and assessment of deterioration and decay rates in the various sectors;

- assessments of the impacts deriving from the support measures by virtue of law or granted by the initiative;
- application of the 2020/21 sector estimates on the 2018/19 financial statements of individual companies with the aim of making a projection of the expected cash flows and therefore of assessing the relative sustainability of the debt.

Among the loan portfolio management objectives, a strategy was identified aimed at ensuring adequate support to businesses through the granting of new loans under the government measures envisaged by the so-called Liquidity Decree, and encouraging the use of State guarantees in order to optimise the riskiness of the portfolio. The creditworthiness analysis, in particular, privileged the verification of the medium-term sustainability of the debt service, through the projections of the expected cash flows, prudentially reduced compared to the figures of the previous years in relation to the continuation of the Covid emergency.

In granting new loans, the utmost attention is still paid to credit quality, product, geographical and, above all, size diversification. The dimensional aspect is in fact considered of fundamental importance and represents the backbone of the Group's credit supply strategy. The logic of spreading the risk over a multitude of small recipients, which has always been the main component of the credit approach of the Affiliated Banks, has been strengthened with the introduction of risk thresholds and through an operational practice pursued in the day-to-day relationships between the Group's corporate structures and the Credit Departments of the individual Affiliated Banks. More space was also given to distributed products (leasing, factoring, personal loans and salary-backed loans) due to the lower risk profile assumed with respect to similar banking transactions. As regards the definition of the specific lending activities (moratoria and new loans) under the "Cura Italia" and "Liquidity" Decrees, in relation to the impacts of the Covid-19 emergency, please refer to the paragraph on initiatives in favour of businesses, households and the community (chapter "Operating performance of the Cassa Centrale Group").

In the first half of 2021, Cassa Centrale Banca participated in the ABI - Cassa Depositi e Prestiti Working Group for the preparation of an Addendum to the Agreement between the two entities, which will allow the participating Cooperative Credit Banks to operate with Cassa Depositi e Prestiti, without the need to involve intermediaries not belonging to the Group. ABI and CDP have signed the aforementioned Addendum on 24 June 2021.

In the first half of 2021, the Cassa Centrale Banca Group has confirmed its participation in the various initiatives promoted by the Italian Banking Association in favour of both private individuals ("Fondo di Solidarietà mutui" ["Mortgage Solidarity Fund"] and "Fondo di Garanzia per la Prima Casa" ["First Home Guarantee Fund"]) and businesses (Accordo per il credito 2019 – Imprese in ripresa 2.0 ["Credit Agreement 2019 - Businesses in Recovery 2.0"]). As regards the activity in the sector of subsidised/ concessional loans, the collaboration with the main references of the sector continued: national (e.g. Medio Credito Centrale, MISE for the so-called Nuova Sabatini, ISMEA and SACE), territorial, regional, trade associations and the various credit guarantee consortia present throughout the country. The main agreements were signed with:

- Artigiancredito (Emilia-Romagna Region) for the Energy Fund. Revolving fund of subsidised finance with private participation, promoted by the Emilia-Romagna Region with POR-FESR 2014/2020 resources and managed by Artigiancredito. The Fund aims to support the green economy through the disbursement of loans at a subsidised rate.
- Artigiancredito (Emilia-Romagna Region) for the New Businesses Fund. Revolving subsidised finance fund with private partnership, supported by the Emilia-Romagna Region with POR-FESR 2014/2020 resources and managed by Artigiancredito. The Fund aims to support new entrepreneurship through the disbursement of loans at a subsidised rate.
- Insieme per l'Agricoltura (IPA) (Together for Agriculture) is the memorandum of understanding signed between AVEPA and the main banks operating in the Veneto region, including Cassa Centrale Banca representing the BCCs of Veneto, for the advance payment of subsidies to farms entitled to aid, by means of financing at subsidised conditions.
- SACE ("Garanzia Italia" Agreement); this is a strategic agreement, in that, in addition to the possibility of accessing an additional system of Guarantees, it has allowed the banks of the Cassa Centrale Group and client companies direct access to SACE services.

During the first half of 2021, several agreements were signed for which only the securities and the entities concerned are reported: Veneto Sviluppo

S.p.A. (agreement on the intervention of the anti-crisis rotation fund for production activities), Finpiemonte S.p.A. (measurement data sheets Regional Law 07/2018 Article 22 and Regional Law 17/2018), Puglia Sviluppo S.p.A. (Lender for Title II, Chapter 3 applications on the Puglia Simple platform).

New subscriptions to the Confidi Framework Agreement were recorded in the period in question. More specifically, the following agreements have been made: Finterziario Società Cooperativa a Responsabilità Limitata, Confidi Rating Italia, Artfidi Lombardia S.c.r.l., Consorzio Lucania Fidi, Asconfidi Lombardia S.C.p.A., Confiditer Cooperativa di Garanzia Collettiva, Agrifidi Modena Reggio Ferrara Soc. Coop., Confidimpresa Abruzzo and Confidimpresa, Farmafidi Italia.

Consumer Credit Services

In January 2021, in line with the forecasts provided in the joint venture agreement and with the time lines defined in the project plan, the operations of Prestipay S.p.A. were initiated, the company specialised in the consumer credit segment controlled by Cassa Centrale Banca and an investee company of Deutsche Bank.

The launch of Prestipay S.p.A. operations marks the milestone of an industrial partnership that began in 2018 with the commercial and distribution agreement for "Prestipay" white label products and represents a further step in consolidating the Cassa Centrale Group's range of products and services, through direct control of the consumer credit market.

In the first half of 2021, despite the difficulties arising from the continuing instability due to the pandemic scenario and the lockdown measures that affected the early months of the year, the Company successfully finalised the operational roll-out phase. The correct planning and execution of all the preparatory activities for the start-up made it possible, together with the agility of the business model identified, to make the Company immediately operational and to immediately start the direct disbursement of personal loans with Prestipay brands, distributed through the network of branches of the Group banks and also accessible through the online channel.

After the implementation of a "pilot test" started in January 2021, all the Banks already active as part of the Agreement defined with Deutsche Bank for the distribution of consumer credit products in the "Prestipay" white label, have progressively migrated to the new operations and the new ICT applications of Prestipay S.p.A., and as at 30 April 2021 were fully operational in the placement of the Company's products.

The operational start-up required the achievement of multiple objectives and the approach used allowed not only to ensure a correct and effective roll-out of the initiative, but also the continuity of the disbursement of loans to private customers of the Affiliated Banks and Partner Banks, with the achievement of the main milestones envisaged in the plan and the introduction of important changes in the service offered as part of the new operations.

In particular, the main milestones achieved and the most significant activities concerned:

- the completion of the final phase of ICT tests and the porting into production of the IT evolutions necessary to customize the flows and operating processes in line with the needs of the distribution network;
- recruitment and completion of the team of specialised human resources that constitute the main backbone of the Company;
- training and coaching for the Company's junior and senior resources;
- the drafting of the overall regulatory framework and specialist policies that allow for the proper performance of all activities and compliance with all necessary and regulatory obligations;
- the creation of a specialised and customised Piattaforma di Valutazione Crediti - PVC [Credit Assessment Platform] for the assessment, approval and settlement of loan applications;
- the creation and activation of customer care processes through an internal unit dedicated to the management of the inbound service to customers, supported by the most advanced technologies;
- the introduction of a certified digital signature process for the finalisation of loan agreements at the branches of the participating banks and the digitalisation of all contractual and ancillary documentation;
- the release of the new product portal www.prestipay.it and the new digital service for retail customers to apply for an online loan with a completely paper-less process, again assisted by the most advanced technologies available on the market and with the completion of the transactions by means of a certified digital signature;

- the implementation of an artificial intelligence system through a chatbot specifically created and configured to manage the requests for assistance received from customers.

Although the Company decided to start its business in a context characterised by uncertainty due to the ongoing health emergency, in terms of the results achieved in the first half of 2021, the disbursements of personal loans to the Prestipay brand recorded total volumes of more than EUR 101 million, with a significant increase compared to the same period of the previous year and the performance of the reference market.

Prestipay's positive results stand out in a national market scenario that in the first five months of 2021 (latest data available at the time of writing - Source: Assofin) recorded an increase of 29.0% compared to the same period in 2020 in the personal loans segment, compared to an increase of 37.7% achieved by the Company in the first half of the year.

Payment systems

The payment systems market is going through a period of strong renewal and high competitiveness. There is a growing diffusion of digital payments on channels provided by banks or innovative solutions offered by new market operators entering the markets. In this very dynamic context, the Payment Systems for the Cassa Centrale Group represent a service and support structure for the Group's Banks and operate in five different areas of activity, (i) Settlements, (ii) Foreign relations, (iii) Centralised services, (iv) Treasury, (v) E-money, in order to develop new services, making them available to the Affiliated Banks, to enable them to be competitive and retain their customers.

During the emergency period following the spread of the Covid-19 pandemic, the Payment Systems ensured the operational continuity of the services offered by optimally modulating the management of resources (with remote and on-site operations) in order to guarantee monitoring of all transactions, in particular those that require physical presence at the company (processing of bills, checks, foreign documents, etc.).

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

Settlements

With regard to settlements, the Covid-19 emergency led to a reorganisation of many activities in order to guarantee the operational continuity of the services provided. Very complex interventions were launched, especially to guarantee the payment of pensions, incentives and subsidies recognised by the Government (and related entities) in favour of citizens and businesses and for cash management. With reference to the latter aspect, the activity carried out during the lockdown to guarantee the supply of the ATMs and keep the service constantly operational was particularly complex. The new applications to manage the payments of the subsidies that INPS began to disburse in April 2020 were also developed very quickly. The Settlements Service also guaranteed the continuous monitoring of the procedures relating to bank transfers, commercial collections, SEPA direct debit and check image truncation.

The Service actively participated in the national work group set up within the ABI for the adjustment of the CIT, CAI and Bills procedures following the numerous moratoria introduced by the various regulatory measures resulting from the Covid emergency.

For the Cash Management Service, it should be noted that the migration activities of the Banks were completed with the consequent expansion of the value transport network to all regions of Italy.

The money purchase service provided by Coinservice, which joins the traditional value transport service, was activated on a further 10 banks of the Group.

The Cash Supply service was activated with the company Euronet for the supply and distribution of certified cash on the proprietary ATM network.

The analysis of the new Sicurcash product was completed, which enables the secure handling of valuables directly at retail outlets. The new product is in the pilot phase at some banks and will be made available to the entire Group in the second half of 2021.

The processing and accounting stages relating to paper bills and paid transactions have been improved.

Foreign relations

In the first half of 2021, despite the persistence of the difficulties caused by the pandemic, there were important signs of recovery in the foreign sector. The number of foreign payments increased by 13% compared to the same period in 2020. If the equivalent value is analysed, the increase is 36%. The values therefore returned almost to the pre-crisis level. The increase in operations also involved Trade Finance, which, although it did not see a significant contraction in operations in 2020, saw a significant increase in its numbers in the first half of 2021. International guarantees issued increased by almost 40%, import documentary credits by 10%, while export documentary credits rose by more than 50%.

Centralised services

The Centralised Services structure ensured during the period of the pandemic that the main activities were maintained: management of bank and tax inspection files; reports to government bodies and authorities (e.g. Archivio dei rapporti – ADR [Archive of Reports] and reports concerning the Single Justice Fund); first-level checks on anti-money laundering and countering the financing of terrorism on third-party products (prepaid cards and asset management) placed by BCC-CR-RAIKA members of the GBC and banks outside the Cooperative Banking Group; management of SITRAD encryption keys.

At the end of 2020, Cassa Centrale Banca joined a new interbank procedure, "Spunta Banca DLT", for the automatic check of reciprocal current accounts. The procedure, carried out by SIA S.p.A. in collaboration with ABI-Lab, allows banks to quickly identify misalignments in interbank transactions and is configured as an experiment that uses a technologically advanced infrastructure (known as the AbiLabChain), potentially available to other advanced services in the future. Some banks outside the Cooperative Banking Group that use the information systems managed by Allitude also participated in the procedure.

I am also continuing my commitment to the management of the Parent Company and Group records, also through direct involvement in dedicated work groups, which has led to a strengthening of the operating structure.

Public bodies treasury

The Payment Systems Department also includes treasury activities carried out for several public bodies in Italy. As at 30 June 2021, the total number of bodies managed was 1,013, while 658 bodies had an IT mandate, confirming the ongoing commitment to introducing more modern ways of delivering the service. As part of the service, support was also provided to the Affiliated Banks for the participation in 46 tenders for treasury services (37 of which were won).

E-money

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

The current health situation has certainly changed the habits of consumers who increasingly prefer the use of payment cards both for purchases in stores and for payments to the Public Administration. From the end of February 2021, thanks to the collaboration with Nexi, two new solutions for the acceptance of cards on the POS are available: the SmartPOS and the PagoPA POS.

In the first few months of 2021, the regulatory adjustment process envisaged for Strong Customer Authentication (SCA) was gradually completed: from 12 April 2021, all e-commerce transactions are subject to the full application of the rules set forth by the SCA.

In collaboration with the Allitude technical structure, procedural interventions were carried out in order to fulfil the new regulatory obligation that requires (starting from 8 May 2021) the intermediaries issuing payment cards to report to the Interbank Alert Center CAI – CARTER segment – whether there has been full payment of the debt for which a person had previously been reported to CAI (late payment).

Activities relating to the tokenisation/virtualisation project for debit cards and prepaid cards are being completed. This is the innovative payment system that allows you to digitise a card within a smartphone and pay on the POS enabled through the Samsung, Google and Apple apps.

Activities are continuing for the release of new products planned for the second half of 2021 (International Debit Card and Bancomat Pay Business), while a feasibility analysis has been launched for an organisational review of the E-money sector with a particular focus on the POS offer.

As at 30 June 2021, debit cards stood at around 1.53 million (compared to around 1.3 million in December 2019), prepaid cards at 400 thousand, credit cards at 380 thousand, POS at 75 thousand and ATMs at 2,427.

Governance and support

Also in 2021, the Parent Company's governance and support functions have worked to strengthen the organisational structures and develop the activities of the Cassa Centrale Group.

Within the Planning Department, the unit dedicated to ensuring the management of relations and communications with Authorities, Community and national Supervisory Bodies and the financial community, was strengthened.

The Planning area also manages activities aimed at an orderly business development of the Group with a dedicated structure that has constantly transferred the Parent Company's operational and strategic guidelines to the Affiliated Banks, ensuring their effective understanding and implementation.

Activities also continued in the following areas:

- management of activities aimed at defining the Group's 2021-24 Strategic Plan;
- supporting activities relating to merger projects of Affiliated Banks initiated and/or concluded during the financial year;
- development of an IT platform integrated with all Group Companies with the aim of ensuring consistency between the operating and strategic planning of each individual Affiliated Bank and that of the Group as a whole.

In the first half of 2021, activities continued to strengthen the structures responsible for Financial Statements, Supervisory and Tax Reporting, in order to further strengthen the controls aimed at ensuring the correct and timely representation of the Parent Company's individual and consolidated economic and financial results, as well as the fulfilment of the related accounting, supervisory and tax obligations. In this sense, the Parent Company has provided important support to the Affiliated Banks in the management of accounting, tax and reporting processes, as well as in the activities to improve efficiency and correct management of the Group's income statement and balance sheet consolidation processes.

The Operations Department has provided continuous support to the Group in many projects and activities oriented both to the evolution and innovation of products and services for the Affiliated Banks and customers, and to the alignment to external regulations. With a view to revising the Group's organisational model, the process of strengthening and consolidating the organisational structure of the Operations Department continued.

In the area of IT Governance and Security, actions are being taken to encourage the de facto transformation of Allitude into a Group IT Department. To that effect, the Regulation on the Group Information System was issued, which explicitly assigns the role of ICT Function to IT Governance and Security and requires the Group companies to formally develop a model for the adoption of the services provided by Allitude. A programme was also activated to monitor ICT changes in the Group's Banks and Companies, which envisages the adoption of the guidelines provided by the ICT Government through a training course, and a dedicated operating tool.

In the Data Governance area, projects are underway to strengthen data management oversight. The update of the ICT Strategic Plan and of the Strategic Guideline Document for the three-year period 2021-2024 was prepared, whose strategic and transformation initiatives lay the pillars to align the Group's Information System with reference peers and to support the lines defined by the Group's Industrial Plan. In line with the IT Security Strategic Plan, the Parent Company's Information Security Service, in collaboration with Allitude's ICT Security Management Office, has launched a number of technical and security governance projects in 2021 together with training or certification activities:

- drafting of IT Security Information Flows and updating of the three-year master plan;
- expansion of the IT security document framework in both the Parent Company and Allitude;
- updating or implementation in Allitude of the technological infrastructure in relation to processes in the areas of vulnerability management, Threat Intelligence, EDR, Identity Governance, and Anti-fraud;
- provision of information for the Group's employees and promotion of mock phishing campaigns aimed at increasing awareness of key threats;
- maintenance and renewal of the various IT security certifications and questionnaires (SWIFT - PCI-DSS, Target2 SREP-IT Risk Questionnaire);

- update of the model for the secure management of third parties;
- organisational relocation of the Information Security Service to the Head of Operations Department.

The Service Governance area was characterised by a reorganisation of the central governance of the Group's back office services in terms of activities, responsibilities and coordination mechanisms and by the definition of the 2021-2024 guidelines. Initiatives were also launched to centralise the back office operations carried out by the network, giving the Group Banks the possibility to refocus their resources towards core activities. The Organisation continued to develop its structure with a view to further strengthening the functional controls and the operational and support mechanisms of the function within the company context. The digital transformation and project support programme continued in multiple areas, ensuring the coordination and management of measures that would guarantee operational continuity and critical processes in the emergency context. The stabilisation of the integrated management of processes and the definition of the management model of the Group's internal regulations also continued, including the updates deriving from the adoption of external regulations.

Cost Management and Procurement activities continued for the adoption by all Affiliated Banks of the Ivalua technology platform with the aim of standardising the expense management process and obtaining control of the Group's register of suppliers, supplies and expenses. With the aim of rationalising the Group's supplies, during the period the supply agreements negotiated with two leading operators in the mobile telephony sector were made available to the Banks/Companies, also providing support to the Banks interested in evaluating the agreements already in place, which over time will benefit the Group with economic savings, uniformity of supplies and contractual commitments.

The Corporate Affairs and Equity Investments Department has ensured operational and administrative support to the activities of the Board of Directors and the Board Committees. In the first half of the year, the Board of Directors met 18 times, the Risks Committee met 15 times, the Appointments Committee held 15 meetings, the Remuneration Committee 9 and finally the Independent Directors Committee 6. The newly established Sustainability and Identity Steering Committee met for the first time on 14 January 2021, followed by four meetings in the first half of the year.

The consultancy provided to the Affiliated Banks in the organisation of the Shareholders' Meetings was significant. For the Shareholders' Meetings held in 2021, the Affiliates were recommended to review the experience of the previous year, using the Designated Representative. This option, allowed by Article 106 of Law Decree 18/2020, which extended this instrument typical of listed companies to Cooperative Credit Banks, made it possible to comply with the assembly ban imposed by the emergency regulations in force.

Advisory support activities continued also in 2021 for the Affiliated Banks and Group Companies by the Equity Investments Department, which reports to the Corporate Affairs Service.

Particularly intense and demanding was also the support activity provided in the analysis process carried out by the Affiliated Banks for the purposes of the self-assessment of the corporate bodies and the checks pursuant to Article 26 of the TUB regarding the requirements of the more than 300 corporate officers elected in the first half of the year. In particular, regarding the Shareholders' Meetings of April-May 2021, the activity consisted of three main steps: (i) advising the Affiliated Banks during the application, appointment and verification of the requirements of their corporate officers; (ii) preparation of the documentation necessary for the assessment of the requirements of the corporate officers of the Affiliated Banks conducted by the Appointments Committee and the Board of Directors of the Parent Company; (iii) notification to the Supervisory Authorities of the documentation necessary for the purposes of verifying fulfilment of the requirements set for the corporate officers of the Affiliated Banks and consequent response to the requests for additional information made by the Authorities themselves.

In this context, the management of some particularly delicate cases in terms of banking governance also took place, with two cases concerning the exercise of the power of revocation and appointment granted to the Parent Company.

During the first half of the year, the Corporate Affairs and Equity Investments Department also oversaw the development of the new regulations on fit and proper and corporate governance, initially through the transposition of Ministerial Decree no. 169 of 23 November 2020 within the new Model for the optimal qualitative-quantitative definition of the Bodies and

Management of the Affiliated Banks, and subsequently through the drafting of position papers during the public consultations launched by the Bank of Italy before the issue two Circulars, respectively on the assessment of the fulfilment of requirements applied to corporate representatives and corporate governance, and by the ECB for the update of the Fit and ProperGuide.

In the first half of 2021, the strengthening of the structure of the Management continued, providing for the establishment of an office dedicated to oversee transactions with related parties and associates, a task that, given the particular structure of the Group, assumes significant importance. The structure therefore immediately assumed an important role in supporting the Affiliates and the Companies of the Banking Group, providing the requested feedback.

The Legal Department has supported the Group Companies and the Affiliated Banks in all aspects related to contracts and the management of claims and ongoing lawsuits with consulting activities.

The Legal Department also coordinated the entry into force of the new Group Regulations for the management of complaints, which were applied at Group level as of June 1, 2021, including through a specific application.

Moreover, in order to promote an integrated and coordinated management of disputes (with the exclusion of those of a fiscal, labour law and credit recovery nature) concerning the Parent Company, the Affiliated Banks and the Group Companies, the Legal Department has launched a project to revise and update the Group's Regulations for the management of disputes, the updated version of which is expected to enter into force by the end of 2021.

Lastly, the Legal Department started the preparation of a policy applicable to the Parent Company, the Affiliated Banks and the Companies falling within the scope of consolidated supervision of the Group (e.g. Prestipay) for the management of verbal complaints submitted by customers, whose entry into force is scheduled for autumn 2021.

The new element of novelty represented by the Cooperative Banking Group within the national economic panorama requires investments in communication and the media as well as a coordination of the activities related to the Institutional Relations of the Affiliated Banks. In these respects, the first half of 2021 saw an intensification of the activities carried out both by the Affiliated Banks and by the Parent Company, aimed in particular at:

- organising these activities in full compliance with legislative and regulatory provisions, maintaining constructive relations with the supervisory and control bodies in charge;
- recognising the Group as an entity with distinctive characteristics within the banking scene, enhancing the sustainable development objectives and the principles and values of mutual credit cooperation. To this end, communication tools were developed for the use of the Affiliated Banks, both paper-based and digital, and presented at the Regional Meetings. Specific projects were further enhanced, such as the "Community of Practice of External Communication Representatives", which brings together the specialised functions of the banks and subsidiaries with the aim of sharing experiences in the individual areas;
- increasing, according to a constant and gradual approach, the visibility of the Group to the outside world, also through social networks, coordinating the promotion of the various initiatives activated by the Group;
- defining sustainability objectives at Group level, that are achievable and accountable, and eventually formalised in a dedicated Sustainability Plan;
- launching the five-year collaboration with Euricse, a research institute specialised in cooperation and social enterprise issues.

In-depth analyses were also carried out to align to the various European laws and regulations, which, starting from 2021, will affect banking operations with reference to sustainability issues.

2. ICT and back office services

The first half of 2021 saw Allitude as the protagonist of further phases of operational efficiency and organisational tuning aimed at consolidating its role as a company with a dual vocation: that of IT Department of the Group and that of Service Provider on the market.

In implementation of the Regulation on the Group Information System, ICT

Governance and Security talks are underway with the individual companies to clarify the importance of certain services that, until now, have not been as prevalent and are deemed essential to ensure regulatory compliance and strategic alignment. At the same time, Allitude is being guided in the adaptation of the delivery model (Repricing initiative) and the improvement/creation of specific services, bringing together the main needs gathered from the companies and prioritising them according to a principle of risk moderation.

The specialisation and transformation of Allitude back office services has remained a priority topic during the year. In fact, various initiatives were carried out aimed at stabilising operating models in terms of skills, processes and supporting tools. In addition, projects aimed at re-engineering and digitising current processes and monitoring service performance were launched.

During the year, several meetings with the banks of the Group started to be held, with the aim of representing the current offering of Allitude and understanding the needs of the banks, in order to be able to strengthen and expand the current service offering and increase the volumes managed by pursuing economies of scale and scope.

At the helm of the Group's operating machine, the Service Governance and the ICT Governance and Security were involved in a continuous set-up process of the governance structure with the expansion and strengthening of the workforce. Moreover, to comply with the segregation of roles envisaged by the regulator, the ICT Governance function and the ICT Security function have been divided into two separate services.

The period was characterised by numerous activities in support of the implementation needs of the Group, both functional and technological. These requirements were formalised in the ICT Operating Plan document and approved by the competent decision-making bodies. In this context, in particular, solutions were developed that correspond to requirements deriving from the adoption of the operating requirements consistent with the qualification of the Group as a significant supervised entity.

In the face of the Covid-19 emergency, Allitude also needed to guarantee the Group, in all its organisational structures, the operational continuity of ICT and back-office services. This role was promptly carried out through multiple initiatives, including the enabling of the personnel of Cassa Centrale Banca and Allitude to work in remote working mode.

The development activities linked to the implementation requirements of the new policies, regulations and controls of the Parent Company were also important, including those concerning the areas of management of ICT incidents, ICT changes, ICT demand and operating plan, data governance and ICT security. These initiatives see Allitude engaged on both sides: that of provider of IT solutions to support the operations of the Group companies and that of companies that must align their internal practices to the new regulatory requirements, combining them with the effectiveness of internal processes and with the own organisational structure.

Operational and organisational support continued as part of the migration programme of the Affiliated Banks operating on the Gesbank IT system to the SIB2000 IT system, completing six migration projects over the first half of 2021: BCC Dell'alta Murgia, BCC Valdostana, BCC Pianfei Rocca De Baldi, CR Val Di Sole, BCC Caraglio, Banco Marchigiano. The remaining three Banks of the Group and a first tranche of non-captive Banks are planned for the second half of the year.

At the same time, in-house development of new content for the Group's IT systems continued and the best market solutions were selected and purchased to meet many of the new specialist needs that emerged.

Finally, it should be noted that part of the activities carried out by Allitude are carried out not only with respect to the Group, but also with other banks not belonging to the Cassa Centrale Group, which use the services it provides.

3. Leasing services

The offer of leasing services, through specific agreements for the distribution of products, represents an important aspect of the commercial strengthening of the Cassa Centrale Banca Group. The market context, although still affected by the uncertainties resulting from the spread of the Covid-19 epidemic, shows positive and encouraging signs of recovery in the macroeconomic variables that have strong correlations with the leasing industry.

These positive results of the market are also reflected in the final trends recorded for the Company. In fact, in the first six months of 2021, Claris Leasing S.p.A., also through the placements made by the distribution network of the Banks affiliated to the Cooperative Banking Group, executed 680 lease agreements for a total of EUR 123 million. Compared to the figures for the same period of 2020, there was an increase of approximately 81% in the agreement volumes. This growth trend is also explained by the fact that in the second quarter of 2020, operations were decidedly limited due to the production blocks decided at the government level in order to stem the spread of the pandemic.

As regards the quality of assets, in line with the objective of the Cassa Centrale Group, the trend in reducing non-performing exposures continued through a strategy of disposals managed directly by the company. The gross NPL ratio stood at 8.3% at June 2021, a marked improvement compared to 9.4% in December 2020 and 12.4% at the end of 2019. Supported by a prudent provisioning policy, the ratio of net impaired exposures to total leasing receivables was 2.7% at the end of the first half of 2021, down from 3.1% as at 31 December 2020 and 5.2% in 2019. In line with the Parent Company's directives, coverage of non-performing loans stood at 90.5%. With regard to the granting of Covid-19 moratoria, as at 30 June 2021, 682 contracts were suspended, for a total amount of EUR 133 million (22% of total loans). 90% of these suspensions are related to the application of the "Cura Italia" Law Decree, while the remaining 10% is due to the application of the ABI moratorium or deriving from specific initiatives undertaken by Claris Leasing S.p.A..

Overall, in the first half of the year, Claris Leasing S.p.A. recorded a net profit of EUR 3.3 million.

The Cassa Centrale Group's range of services is enriched with content through the company Claris Rent S.p.A., established in December 2019, with the sole shareholder being the parent company Claris Leasing S.p.A. and with the aim of developing a business project involving the marketing of services in the area of long-term rentals.

After a start-up phase that saw the launch of the first campaign in favour of the Cassa Centrale Group's employees for the development of long-term rentals, operating leases were added in favour of the banks participating in the Cassa Centrale Group and the signing of distribution agreements for the placement of services to the customers of the Banks affiliated to the Cooperative Banking Group. In order to promote awareness of the products, special web "showcases" have been set up, sharing marketing policies with the Affiliated Banks to promote the distribution of the products.

The offer of services in the leasing sector is supplemented by the collaboration agreement between the Parent Company and Fraer Leasing S.p.A. belonging to the Société Générale Group. During the first half of 2021, this agreement made it possible to execute 652 contracts with the distribution network of the Cooperative Banking Group for a total amount of approximately EUR 102 million.

4. Insurance services

The development of the insurance sector, whose direction is entrusted to the company Assicura Agenzia S.r.l., 100% owned by the Cassa Centrale Group, and to the subsidiary Assicura Broker S.r.l., continued with vigour during the first half of 2021, accelerating the trends of previous years.

The support offered to the 74 of the 77 Affiliated Banks and the 14 member banks outside the scope of the Cassa Centrale Group enabled an increase in new business that was decidedly higher than the market trend and the growth estimates formulated by ANIA for 2021, which assume an increase in premiums on an annual basis of 3% for the Non-Life sector (including Motor TPL) and 8.5% for the Life sector. In the first half of the year, in fact, member banks executed more than 115 thousand new contracts, exceeding EUR 686 million in new premiums, with growth across all lines of business (+66% non-life policies, +10% third party motor liability, +62% credit protection insurance, +68% term life policies, +45% financial life and +33% supplementary pensions), exceeding the challenging objectives shared at the planning stage.

These results, although positive, only marginally express the development potential offered by the sector, both because of the deep-rooted underinsurance that characterises the Italian market – with an incidence on GDP of Non-Life premiums of just 1.9% compared to the OECD average of 4.6% – and because of the profound heterogeneity of the offer capacity still shown by the member banks.

In particular, we shared with the banks the growing importance of the insurance offer in the field of protection of the primary needs of families and SMEs, improving and innovating the products in the catalogue, but, above all, increasing the culture of intermediaries through training courses – such as the SME master's degree, now in its third year, attended by 32 banks – aimed at guaranteeing customers increasingly professional and competent advice.

Pursuing the objective of facilitating the relationship with our customer, the advanced electronic signature was introduced through OTP, overcoming the need to print the documentation, guaranteeing the collection of all signatures and reducing the costs for the physical archiving of documents, opening the leads to the new frontier of remote brokerage.

At the same time, in order to reduce the management complexities deriving from the existing proliferation of products, a process of portfolio rationalisation was launched with the aim of reducing, where possible, the more than 800 existing products to the solutions available in the Sicuro catalogue, which are characterised by more extensive and protective conditions for customers.

The activity carried out, both in terms of new business and maintenance of the existing portfolio, led to over EUR 6.1 billion of managed premiums as at 30 June 2021, of which EUR 5.2 billion relate to investment instruments, EUR 623 million relate to supplementary pensions and over EUR 229 million are attributable to insurance cover in the protection area. Fees were generated for the banks of EUR 22.9 million, up by 42% compared to the first half of 2020.

To be noted is the progressive growth of the percentage of fees accrued from the development of protection products which has exceeded 45.5% of total revenues, despite the evident inequality in terms of volumes of managed assets, guaranteeing greater stability to the bank's profitability, thanks to the recurrence of collection fees and the greater retention of the non-life portfolio.

Net commission income for Assicura Agenzia exceeded EUR 3.8 million, up by 36% compared to 30 June 2020 and contributed to a net profit for the half year of EUR 1,492,108.

Assicura Broker, after having agreed with customers and companies on the renewals of the insurance plans expiring on 31 December, in the first months of 2021 was engaged in the management and reporting to customers of the activities carried out during the renewal phase. This activity made it possible to improve the insurance level of the policies of the Affiliated Banks, aligning the levels of coverage and greater security for the Group. Similarly, sales activities in favour of the Group Companies and Banks resumed, with an increase in the number of customers. After the opening of the Bologna branch in the second half of 2020, at the beginning of the year the Brescia branch was opened for the development of brokerage activities in favour of corporate customers of the Lombardy Banks of the group and the Udine branch was strengthened.

Lastly, the renewals of the D&O policies of the Group Companies and of the member banks were managed, in a particularly difficult market context that sees a gradual reduction in the insurance offer, both due to the reduction of companies willing to insure these risks, and due to the reduction in the policy limits that can be assumed by the market. Nevertheless, thanks to the Group's overall volumes, it was possible to contain the increases in costs and to guarantee coverage to all our customer companies.

Overall, during the first half of 2021 there was an increase in brokered premiums and in commissions collected. The latter amounted to EUR 2.88 million, equal to an increase of 26.5% compared to the first half of the previous year, bringing the half-year gross profit to approximately EUR 1.7 million and the gross forecast at the end of the year to almost EUR 1 million.

5. Collective asset management services

NEAM is the Luxembourg-based asset management company wholly owned by Cassa Centrale Banca which manages the NEF Mutual Investment Fund composed of 19 different sub-funds.

The NEF Fund is placed by all the Affiliated Banks and by numerous client banks which mainly use Cassa Centrale Banca as the entity in charge of payments, i.e. as an intermediary called upon to carry out activities in support of clients in the administrative, accounting settlement and fiscal phases.

Thanks to the good results of the BCC-CR-RAIKA commercial network and the favourable market conditions, assets under management reached a total amount of over EUR 5.2 billion at the end of June 2021, with an increase of 13.4% since the beginning of the year, while the shares amounted to EUR 344 million, with an increase of 9.49%.

Assets under management therefore increased by EUR 618 million in the first half year, mainly as a result of net funding of EUR 351 million and a positive market contribution of EUR 267 million. During the period, the PAC (Piani di accumulo di capitale – Capital Accumulation Plans) contributed almost EUR 400 million to funding, while the PIC (Piani di investimento di capitale – Capital Investment Plans) recorded a marginally negative result. With regard to PACs, there was a net increase of 45,068 new acceptances during the six-month period, for a total of 487 thousand units, equivalent to monthly deposits of around EUR 65 million.

In detail, the figures show a significant growth in the ethical segments compared to other products, especially the NEF Ethical Balanced Dynamic with an increase of 119 million and the NEF Ethical Global Trends SDG with 101 million. There was also significant growth in the NEF Global Equity +27%, NEF Euro Equity +18%, NEF Pacific +27% and NEF Us Equity +32%. Worthy of note is the launch of the new Target 2028 sub-fund, invested in credit securities, which has raised more than EUR 53 million since its launch in April.

In confirmation of the high quality level of operations, NEAM received two very important awards in the first half of the year: it was ranked first in Italy, for the second consecutive year (2020 and 2019), in the Sole 24 Ore High Performance Award according to the analysis carried out by the independent company CFS Rating, which confirmed NEAM S.A. as Best Management Company - Italian Small Funds; moreover, a few weeks later, Lipper awarded the NEF with the title of Refinitiv Lipper Fund Awards Winner Europe 2021 as Best Overall Small Fund Family Group at three years[15].

6. Other services

Centrale Credit Solutions S.r.l. (hereinafter also referred to as "CCS") mainly provides consultancy services for extraordinary financial transactions such as the sale of impaired loans, securitisations and project financing. CCS also ensures, through specialised companies in the sector, administrative support to other Group companies operating in the real estate sector.

During the first half of 2021, the Company mainly operated on two fronts:

- the conclusion of the Buonconsiglio 3 securitisation, which involved 38 Italian banks (32 belonging to the Group) and released non-performing loans for a total of EUR 676.6 million in terms of gross book value. On 14 June, the Ministry of Economy and Finance issued the GACS state guarantee, which confirms the successful completion of the transaction;
- the structuring, as advisor, of the second securitisation of the Cassa Centrale Group supported by the state guarantee GACS. This transaction, called Buonconsiglio 4, will probably be joined by 40 Italian banks (28 belonging to the Group). The Portfolio under transfer is still being defined but it is expected that bad loans will be disposed of for around EUR 650 million in terms of gross book value.

For CCS, the financial statements as at 30 June 2021 recorded a gross profit of approximately EUR 1.02 million.

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

During the year, CSI continued – through specialised companies – to create, complete and maintain the sites relating to real estate acquired through bankruptcy proceedings. In January 2021, a new property was purchased in Trento, which after the renovation will be leased to the Parent Company in order to increase the space used as offices and meeting rooms.

Work continues regularly on the various sites in progress. During the half year, two new building permits were obtained and in the second half of 2021 two new construction sites will start. Against revenues from the sale of owned properties, less costs, a profit of around EUR 2 thousand was recorded.

Centrale Casa S.r.l., a real estate brokerage company, is controlled by the Group and carries out its activities with the aim of supporting the Affiliated Banks in meeting the needs of customers wishing to sell or purchase residential, tourist, artisan, commercial and industrial properties.

It acts as an intermediary between supply and demand and also offers real estate consulting services in addition to making estimates of the value

[15] The identification of the overall winning company in its category is obtained through an average ranking of each company's funds expressed on their three-year performance as decile positions on their respective asset classes.

of properties. Operations are carried out in compliance with current regulations and in a completely autonomous manner, implementing all the controls necessary for the separation of the activity from the banking and financial one.

This activity also helps the Group's banks and companies to dispose of part of their real estate assets, as well as to implement cross-selling policies towards customers, offering services related to the purchase and/or sale of real estate.

The activity carried out in the first half of 2021 was affected by the prolongation of the limitations linked to the Covid pandemic, with a consequent reduction in turnover, in particular in the first four months. On the other hand, in June, transactions that had been launched in 2020 were completed, with a significant impact on commissions. Significant back office activities continued, through Internet and social channels, which led to significant visibility results, as demonstrated by the 670 requests for information on properties by customers interested in the property portfolio of Centrale Casa. There were around 800 new contacts, more than 80 visits to acquire sales orders, and around 180 in-person visits to properties. As a result of these activities, 20 orders for the sale of real estate were obtained, with 17 sales, and consultancy and valuation work also resumed.

Originally established to provide support and assistance to Banks using the on-line trading service offered by Directa Sim, over the years Centrale Trading S.r.l. (hereinafter also "Centrale Trading" or "CT") has entered into agreements with many companies which have enabled it to expand the range of services offered to the Group's Affiliated Banks and to other third party banks. There are currently 160 Affiliated Banks throughout the country. Over time, Centrale Trading has developed a series of complementary activities and has entered into agreements with various companies (Italpreziosi S.p.A., Six Financial Information, WebSim and MasterChart) in order to provide services able to meet the needs of its customers and enhance income flows. Recently, in collaboration with MasterChart, the Prenotabanca service was activated, which allows customers to book appointments with the BCC-CR-RAIKA representatives through dedicated apps.

Risk management and internal control system

The Cassa Centrale Group operates in a macroeconomic context that is permeated by a multitude of elements of discontinuity with respect to the past, not only due to the still uncertain prospects for economic recovery, after the onset of the health emergency, the continuing negative rates, the ongoing measures issued in Europe and Italy, but also with reference to the reform of Cooperative Credit.

The risk governance model, i.e. the set of corporate governance mechanisms and management and control mechanisms aimed at facing the risks to which the Group is exposed, is part of the broader framework of the internal control system (so-called "SCI"), defined in accordance with the prudential regulatory provisions contained in Circular no. 285/2013 of the Bank of Italy. These provisions require the adoption of a series of detailed actions in relation to organisation, processes and internal devices of the company.

The Group attaches great importance to the management and control of risks, in order to ensure prudent and effective management of banking activities, in compliance with the Group's cooperative principles and mission. In particular, the Parent Company, in the exercise of management and coordination of the individual Group Companies, establishes and defines the duties and responsibilities of the control bodies and functions within the Group, the coordination procedures, the reports, information flows and related connections, in compliance with the provisions of current legislation, the Cohesion Contract and the Articles of Association of Cassa Centrale Banca. In addition, it issues provisions for the execution of the instructions provided by the Supervisory Authority in the interest and for the stability of the Group.

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

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

The Group pays particular attention to risk management and governance in order to ensure the constant evolution of its organisational/procedural controls and methodological solutions. These functions are carried out with tools to support effective and efficient risk governance, also in response to changes that have permeated the operational and regulatory environment. As required by the regulations on the reform of Cooperative Credit, the outsourcing of the Corporate Control Functions of the Affiliated Banks to the Parent Company has become operative and it is therefore the task of the latter to define the guidelines on risk measurement and management.

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

- the organisational structures suitable for identifying and managing the risks to which the Group is exposed;
- the strategic guidelines aimed at safeguarding the Group's equity, economic and liquidity structure;

- the actions to be taken to safeguard the mutualistic purposes of the Affiliated Banks, in compliance with the Cohesion Contract and the related Guarantee Agreement to which the Affiliated Banks and the Parent Company are mutually committed.

The methodological framework used is based on a precise management of the various types of risk to which the Group is exposed and is characterised by a unified vision of business risks considering both the macroeconomic scenario and the individual risk profile. In addition, it aims to stimulate the growth of a culture of risk control, reinforcing a transparent and accurate representation of risks to the benefit of immediate “governability” by top management.

The risk-taking strategies are summarised in the Risk Appetite Framework (so-called RAF) which represents the reference framework that defines – consistently with the maximum risk that can be assumed, the business model and the strategic plan – the risk appetite, the tolerance thresholds, the risk limits, the risk management policies, the reference processes necessary to define and implement them.

The Group’s RAF represents the framework within which corporate risk management is developed and is divided into:

- general principles of risk appetite;
- monitoring of the Group’s overall risk profile;
- monitoring of the main specific risks of the Group.

In other words, the RAF provides a representation of the reference framework for determining the Group’s risk appetite, which:

- serves as a tool for strategic control, linking risks to corporate strategy and translating the mission and strategic plan into qualitative and quantitative variables;
- operates as a tool for risk management and control, linking risk objectives to business operations and translating them into constraints and incentives for the structure.

The framework is developed by the Parent Company and is divided into the following main areas:

- **organisational:** this includes the definition of the duties and responsibilities of the corporate bodies involved in the RAF and in the exercise of guidance, coordination and control activities with respect to the Group Companies, in order to ensure uniformity in its management. Within this context, in addition to the definition of the information flows, the organisational and governance documents are updated with regard to the main risk profiles and the references for the management of the related interrelationships within a framework of overall consistency. This includes risk governance policies, risk management process, internal processes for determining and assessing capital adequacy and liquidity risk (ICAAP and ILAAP), major operations, strategic and operational planning, and the system of internal controls;
- **methodological:** through the definition of indicators, of operational references for their evaluation and the setting of reference thresholds as well as a detailed description of the objectives and indicators identified in the system of operational limits;
- **application:** through the reconnaissance of the areas of intervention on the application supports for risk management and supervisory processes and the definition of functional requirements for the development of related activities.

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

The general principles that guide the Group’s risk-taking strategy are set out below:

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

- formal and substantial compliance with the rules with the aim of not incurring sanctions and maintaining a solid relationship of trust with all company's stakeholders.

The overall risk profile is monitored by a structure of limits based on the need to ensure compliance with the required minimum levels of solvency, liquidity and profitability, even under stressful conditions and aims at maintaining adequate levels of:

- **capitalisation**, with reference to Pillar I and Pillar II risks, through the monitoring of the Common Equity Tier1 ratio, the Tier1 ratio, the Total Capital ratio and the financial leverage indicator;
- **liquidity**, such as to cope with periods of tension, even prolonged ones, on the various funding supply markets with reference to both the short-term situation and the structural situation, by monitoring the Liquidity Coverage Ratio, the Net Stable Funding Ratio and the loan-to-deposit gap;
- **profitability**, through the monitoring of indicators such as, for instance, the cost-income and the ROA.

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

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

In order to strengthen the overall risk management and governance system, common policies and regulations have been adopted within the Group and issued by the Parent Company.

With reference to quantifiable risks, the declination of the elements making up the RAF has been set using the same risk measurement methodologies as those used in the internal process of self-assessment of capital adequacy and liquidity risk management and governance. (ICAAP/ILAAP).

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

- Risk Profile, indicates the risk actually assumed, measured at a given time on a current or forward-looking basis;
- Risk Appetite, i.e. the level of risk that the Group intends to assume in order to pursue its strategic objectives;
- Alert Threshold, i.e. the system of risk thresholds which, if exceeded, provides for reporting at appropriate levels and activation of any corrective actions in order to avoid reaching or exceeding the Risk Tolerance;
- Risk Tolerance, i.e. the maximum deviation from the Risk Appetite allowed; it is set in such a way as to ensure sufficient margins to operate, even under stress conditions, within the maximum assumable risk;
- Risk Capacity, i.e. the maximum risk that the Group is technically able to assume without violating regulatory requirements or other restrictions imposed by shareholders or by the Supervisory Authority.

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

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

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

The risk management process is divided into the phases described below:

- **identification:** activity of framing the risk, taking into account the definition and the specific regulatory provisions, in the business model by also identifying the internal and external sources from which the risk originates (so-called risk factors). In this context, depending on the activities assigned to them, the company functions involved in the overall risk management process are also relevant. The activities of collecting and classifying information and the sources of risk-related information that are preparatory to the definition of a complete information base, as well as the identification of risks and the development of the subsequent stages of the process, are also highlighted;
- **measurement/assessment:** determination, through specific methodologies approved by the Board of Directors, of the capital absorption of internal capital, as well as of further synthetic risk measures and more detailed indicators used for management purposes and/or functional to the assessment of risks that are difficult to quantify and to the subsequent monitoring phase;
- **prevention/mitigation:** concerning the organisational controls and the identification of interventions aimed at preventing and/or mitigating risk, in line with the established risk appetite. In particular, the following controls are highlighted that allow:
    - from an ex-ante perspective to prevent risk-taking beyond the desired level;
    - with an ex-post perspective to reduce the assumed risk to the desired level, as well as to manage any stress conditions.

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

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

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

Monitoring of risk profiles

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

- **the updating of the impacts of the macroeconomic scenario:** with a view to monitoring the possible effects of the pandemic on the macroeconomic and banking panorama on an ongoing basis, the Group monitors periodically the evolution of the reference scenario in order to incorporate and evaluate the evolving effects of the economic/operating context ensuing from the outbreak of the Covid-19 health emergency. The analysis of the scenario focuses not only on the most significant typical variables (such as exchange rates, national GDP and those of the EMU and USA, the BTP-BUND spread, the unemployment rate, the propensity to consume and the most significant banking variables, such as, for example, short and medium/long-term loans and deposits) but also on the effects of the pandemic on credit quality by forecasting decay rates for the main economic sectors. The results of the information described above are reported in the Group's integrated risk reporting, so as to submit to the Management Body the data relating to the impacts on the evolution of the scenarios;
- **the monitoring of risk profiles:** in addition to monitoring the

evolution of the scenario, the Group continuously monitors the evolution of the risk profile in the context of the pandemic. The monitoring takes place both as part of the ordinary integrated reporting of risks (with the aim of providing a complete representation of the monitoring activities carried out at consolidated and individual level), and through reports dedicated to the evolution of the loan portfolio (with particular focus on the Covid-19 moratoria and on the results of the "AQR" controls conducted by the Parent Company and aimed at the overall assessment of the status of the loan portfolio).

Risk map

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

The risk mapping, conducted at Group level and determined at the time of the definition of the RAF (approved by the Board of Directors of the Parent Company), is the result of the activities aimed at drafting the ICAAP/ILAAP Report. These activities, preparatory to the review and updating of the map of significant risks of the Cooperative Banking Group, led to the updating of the "Policy for the identification of the Group's Significant Risks", approved by the Board of Directors of the Parent Company at the meeting of 31 March 2021, in order to align the Risk Map with the recently published regulations. The risk mapping process, defined by the Policy, represents the starting point of all the Group's strategic processes, through a structured and dynamic approach:

- at centralised level, by the Risk Management Department;
- with the involvement of the corporate bodies, the Internal Audit Department, the Compliance Department, the Anti-Money Laundering Department and the other Group Departments to the extent of their competence, in order to ensure alignment with the development and/or changes in the business model;
- with the involvement of the main user companies of the Group, if deemed necessary, in order to enhance their role in relation to individual operating characteristics.

The analysis was carried out by evaluating the Group's current and potential operating conditions, in order to identify any risk profiles already present in the current context or not adequately captured by the pre-existing mapped categories, or to anticipate types of risk historically not relevant for the Group, but likely to become such in a prospective scenario, as they are connected to foreseeable changes in the economic, financial and regulatory context as well as in the company's operations. This analysis also took into account the principle of proportionality.

The process of identification of the Group's significant risks is a fundamental recognition process for the whole system of risk management as it constitutes an ideal "link" between different processes, representing the starting point to address:

- within the RAF, the identification of the most significant types of risk on which to define appropriate "risk appetite" values, tolerance thresholds and risk limits;
- as regards ICAAP/ILAAP, the perimeter of the risks with the greatest impact on the adequacy of the Group's capital and liquidity situation, in current and/or potential terms as well as under stress conditions;
- within the MRB, the identification of the main areas of vulnerability of the member banks and the possible activation of strengthening mechanisms;
- as part of the Recovery Plan, the definition of possible areas of intervention aimed at recovering from "near to default" situations and the consequent calibration of appropriate recovery actions.

The process of identifying significant Group risks was divided into three main steps:

- the identification of potentially significant risks, i.e. the verification of the relevance of company risks already subject to assessment, and the analysis, research and identification of new potentially significant risks not yet considered by the Group;
- the application of the criteria of relevance to potentially significant risks, through quali-quantitative analyses;

- the identification of significant risks, aimed at defining the "Short list" of significant risks for the Group on the basis of the results of the previous analyses.

Following is the Group's "Risk Map", valid for 2021, with reference to the 1st level of risk identified, as well as on some second and third level risks considered particularly significant:

Credit risk

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

Counterparty risk

Risk that the counterparty to a transaction involving certain financial instruments defaults before the settlement of the transaction. Counterparty risk arises from the following types of transactions: over-the-counter financial and credit derivatives; repurchase and reverse repurchase agreements on securities or commodities; securities or commodities lending or borrowing transactions; and margin lending (so-called Securities Financing Transactions); transactions with long-term settlement. This risk is a particular type of credit risk, which generates a loss if transactions with a given counterparty have a positive value at the time of insolvency.

Credit valuation adjustment (CVA) risk

Risk of adjustment of the interim market valuation of the portfolio of transactions with a counterparty. This adjustment reflects the current market value of the counterparty risk vis-à-vis the institution, but does not reflect the current market value of the credit risk of the institution vis-à-vis the counterparty.

Market risk

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

Operational risk

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

Liquidity and financing risk

The risk of being unable to meet payment obligations or disburse funds efficiently and without jeopardising its normal operations and financial equilibrium, due to an inability to raise funding or to raise it at above-market costs (funding liquidity risk) or due to the presence of limits on the disposal of assets (market liquidity risk), resulting in capital losses.

Credit concentration risk

Risk arising from exposures to counterparties, including central counterparties, groups of connected counterparties and counterparties operating in the same economic sector, geographic region, or engaged in the same activity or dealing in the same commodity, as well as from the application of credit risk mitigation techniques including, in particular, risks arising from indirect exposures, such as to individual collateral providers.

Country risk

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

Transfer risk

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

Basis risk

Risk arising from the impact of relative changes in interest rates on interest rate sensitive instruments, which are similar in terms of maturities, but different in terms of interest rate indices used for pricing. The basis risk derives from the imperfect correlation in the adjustment of the rates accrued and paid on various instruments sensitive to the interest rate with otherwise similar rate change characteristics.

Interest rate risk of the banking book

Current and future risk of changes in the Group's banking book following adverse changes in interest rates, which affect both the economic value and the interest margin.

Residual risk

Risk that the recognised credit risk mitigation techniques used by the bank will be less effective than expected.

Securitisation risk

Risk that the economic substance of the securitisation transaction is not fully reflected in the risk assessment and risk management decisions.

Excessive leverage risk

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

Strategic and business risk

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

Real estate portfolio risk

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

Reputational risk

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

Compliance risk

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

Risk of money laundering and terrorist financing

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

Risk associated with the acquisition of equity investments

Risk of inadequate management of equity investments, in line with the provisions of Bank of Italy Circular no. 285/2013 and subsequent updates.

Risk of conflicts of interest with respect to associated parties

Risk of distortions in the process of resource allocation, exposure of the entity to risks that are not adequately measured or monitored, and potential harm to depositors and shareholders due to the possible lack of objectivity and impartiality of decisions regarding the granting of loans and other transactions to persons close to the decision-making centres of the institution.

Encumbered assets risk

Risk that the portion of encumbered assets held is sufficient to limit the degree of liquidity of the entity's assets.

Sovereign risk

Risk linked to the impossibility or unwillingness of a Country to honour its payment commitments.

ESG risks

Risks deriving from environmental, social or governance factors that may represent sources of structural change for individuals, for the economic activity and, ultimately, for the financial system. ESG risks materialise when ESG factors affecting the counterparties of institutions have a negative impact on the financial performance or solvency of those institutions.

Risk linked to climate change

Risk deriving from losses linked to extreme or chronic weather events (Physical Risk) or to the transition to a low-carbon economy (Transition Risk).

Pandemic risk

Risk of losses deriving from the consequences for public health, economic activity and trade due to the outbreak of an epidemic.

Main actions and Functions involved in the mitigation and control of risks to which the Group is subject

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

- risks that can be measured in terms of internal capital, in relation to which the Group uses specific metrics to measure capital absorption: credit and counterparty risk, market risk, credit valuation adjustment (CVA) risk, operational risk, interest rate risk in the banking book, credit concentration risk (divided into Geo-Sectoral and Single Name concentration risk), strategic risk, real estate risk and sovereign risk;
- risks that are not measurable in terms of internal capital, for which, as robust and agreed-upon methodologies for determining the relative capital absorption have not yet been established, a capital buffer is not determined and for which, in accordance with the above-mentioned regulatory provisions, adequate control and mitigation systems are put in place: liquidity risk, country risk, transfer risk, basis risk, residual risk, securitisation risk, excessive leverage risk, reputational risk, compliance risk, risk of money laundering and terrorist financing, encumbered assets risk, risk associated with the acquisition of equity investments, risk of conflicts of interest with associated parties, ESG risk, risk linked to climate change and pandemic risk.

In general, the criteria for assigning the overall materiality of each risk are based on a joint analysis of materiality by operations and exposure.

With reference to each of the relevant risks identified, the definition adopted by the Group and the main information related to the governance of the risk, the tools and methodologies for measuring/assessing and managing the risk and the structures responsible for the management are reported below.

Credit risk

Credit risk consists of the possibility of incurring losses arising from the default or deterioration of a counterparty’s creditworthiness and is mainly expressed in the risk that a counterparty will not fulfil its obligations in full, by not returning all or part of the object of the contract.

Therefore this risk is mainly found in the traditional activity of granting secured and unsecured loans recorded and not-recorded in the financial statements (for instance endorsement credits) and the potential causes of default lie largely in the lack of liquidity of the counterparty and to a lesser extent in reasons independent of the financial condition of the counterparty. Activities other than traditional lending also expose the Group to credit risk.

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

Control activities on credit risk management are carried out by the Risk Management Department, outsourced to the Parent Company, which makes operational use of its internal contacts at the Affiliated Banks.

The main areas of intervention aimed at strengthening the monitoring of risk to regulatory requirements pertain to the degree of formalisation of the valuation policies of non-performing loans (i.e. NPL & provisioning management), as well as the development and full effectiveness of second-level controls on the entire segment of the credit process.

By virtue of the Cohesion Contract entered into with the Affiliated Banks, the Parent Company defines common and homogeneous rules and criteria for the performance of the activities relating to the entire process of granting credit and the management of the related risk. The rules and criteria defined by the Parent Company apply to risk measurement, preliminary investigation, disbursement, valuation of guarantees including real estate guarantees, performance control and monitoring of exposures, review of credit lines, classification of risk positions, intervention in the event of anomalies, classification criteria, provisioning policy, classification and valuation of credit exposures, and classification and management of impaired exposures.

The above-mentioned rules and criteria are outlined in the Group Credit

Regulations, within which the Parent Company also defines its decision-making powers for the disbursement of credit, the maximum exposure thresholds for each individual customer or group of connected customers for each Affiliated Bank depending on the risk of the bank itself. Within these thresholds, the decision-making levels for the disbursement of credit are defined by the individual Affiliated Bank, in compliance with the limits established in the Group's risk policies.

The Parent Company defines the strategy and related management plan for non-performing exposures at Group level, identifying binding short/medium/long-term objectives for each Affiliated Bank. In addition, it establishes the criteria for assessing exposures and creates a common information base that allows all Affiliated Banks to know the exposures of customers to the Group, as well as the assessments relating to the exposures of borrowers.

In this regard, the Parent Company has prepared a specific Group policy for the classification and valuation of loans, which, in addition to regulating the process of classifying credit exposures (both on and off-balance sheet), also establishes rules for the valuation of real estate collaterals and other types of guarantees.

With reference to transactions with associated parties, the Group has adopted specific Regulations governing the identification, approval and execution of transactions with associated parties, as well as organisational structures and a system of internal controls to guard against the risk that the proximity of certain parties to its decision-making centres may compromise the impartiality and objectivity of the relevant decisions.

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

The Risk Management Department defines, as part of the Risk Appetite Framework process, the risk appetite that represents the maximum amount of capital that the Group is willing to put at risk in order to achieve its strategic-income objectives, based on the business model and strategic decisions adopted; in particular, as regards credit risk, the Risk Management Department, in line with the provisions of the prudential regulatory provisions, breaks down the risk objectives, identified in the RAF, into risk-limits and monitoring indicators.

The former have the objective of placing a limit on operations through a system of thresholds and escalation procedures, and in addition, credit risk policies are prepared by setting monitoring thresholds for them. The latter are of a managerial nature, with the aim of ensuring adequate monitoring of the Group's exposure to credit risk, thus constituting a functional system of continuous monitoring of the economic and equity position and representing support for the decisions taken by the corporate bodies. Therefore, they are an integral part of the RAF, making it possible to prevent the exceeding of critical thresholds that could compromise compliance with the appetite and monitoring thresholds defined in the RAS.

The Risk Management Department carries out controls aimed at monitoring, on a periodic basis, credit exposures (both on and off-balance sheet), which are substantiated in the activities of systematic verification of the performance monitoring of credit exposures (in particular impaired exposures), in assessing the consistency and accuracy of classifications, determining the adequacy of provisions and monitoring the adequacy of the recovery process for credit exposures and the relative degree of uncollectability.

These controls are carried out by means of activities that include the monitoring of phenomena and precise process investigations, the results of which may or may not lead to the determination of findings.

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

For the purposes of calculating the internal capital against credit risk, the Group uses the standardised methodology adopted to determine the prudential requirements for the risk itself. In the financial statements, it decided to use rating models, developed on a statistical basis and using credit scoring methodology, to simulate and assess creditworthiness and related provisions for ordinary customers and interbank exposures.

For the purposes of measuring the capital requirement for credit risk, the type of customers to which the exposures attributable to the subject are ascribed are identified first. Customer classification is performed not only for activities that generate a capital requirement for credit risk, but also for activities that fall within the scope of counterparty risk and settlement risk on non-contextual settlement transactions. The issuers of securities received as collateral and the guarantors/counter-guarantors/vendors of credit protection relating to personal collaterals are also included.

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

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

The Group considers as authorised CRM the forms of credit protection that comply with the general and specific requirements of Part 3, Title II, Chapter 4 of Regulation (EU) no. 575/2013.

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

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

- financial collateral involving cash and financial instruments, provided through agreements for the pledging and transfer of ownership and repurchase agreements;
- residential and non-residential real estate mortgages;
- other forms of real protection, such as cash deposits with third parties, financial instruments issued by supervised intermediaries which the issuer itself has undertaken to repurchase at the bearer's request, and life insurance policies (meeting the requirements of European Regulation no. 575/2013);
- personal guarantees and counter-guarantees represented by sureties and given by supervised intermediaries within the scope of eligible authorities. These also include mutualistic guarantees of personal type provided by credit guarantee consortia ("Confidi") which meet the subjective and objective criteria for admissibility.

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

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

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

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

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

Counterparty risk

Counterparty credit risk is a particular type of credit risk representing the risk that the counterparty to a transaction involving certain financial instruments specifically identified by legislation will default before the transaction is settled.

The regulations specify that the transactions that may determine the counterparty risk, which represents a particular type of credit risk, are the following:

- over-the-counter (OTC) credit and derivative financial instruments;
- repurchase and reverse repurchase agreements on securities or commodities, securities or commodities lending or borrowing transactions and margin lending (SFT – Securities Financing Transactions);
- transactions with long-term settlement (LST – Long Settlement Transactions).

Counterparty risk management and control is part of the Group's broader risk management and control system, structured and formalised in specific internal regulations.

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

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

The Risk Management Department prepares reports on the results of the counterparty risk measurement and monitoring phase for the General Management and the Board of Directors.

Market risks

Market risks concern the risks generated by operations on the markets regarding financial instruments, currencies and commodities. They are divided into

- **Specific position risk on debt securities in the regulatory trading book**, which represents the risk of incurring losses caused by adverse changes in the price of such financial instruments due to factors associated with the situation of the issuers.
- **Generic position risk on debt securities in the regulatory trading book**, which represents the risk of incurring losses caused by adverse changes in the price of such financial instruments due to factors associated with movements in market interest rates (risk factor affecting the current value of such instruments).
- **Position risk on equities in the regulatory trading book**, which comprises two components:
    - "generic risk", i.e. the risk of incurring losses caused by adverse changes in market prices of most equities;
    - "specific risk", i.e. the risk of incurring losses caused by adverse changes in the price of a given equity due to factors connected with the situation of the issuer.
- **Position risk for UCITS units in the regulatory trading book**, which represents the risk of incurring losses caused by adverse changes in market prices.
- **Exchange rate risk**, i.e. the risk of incurring losses due to adverse changes in the prices of foreign currencies on all positions held by the Group regardless of the allocation portfolio on the entire financial statements.

Settlement risk

Settlement risk is the risk of incurring losses deriving from the non-settlement, by the counterparty, of past due transactions on securities, currencies and commodities, including those represented by derivative contracts and derivative contracts without exchange of capital, both of the banking and the trading portfolio for supervisory purposes. Repurchase agreements and the lending or borrowing of securities or goods are excluded.

Concentration risk of the trading book

The concentration risk of the trading book is linked to the possibility that the insolvency of a single large borrower or of several borrowers related to each other could lead to losses that could compromise the stability of the lending bank. For this reason, the current regulatory provisions on "large exposures" sets forth a mandatory quantitative limit, expressed as a percentage of the eligible capital, for risk positions vis-à-vis individual "customers" or "groups of associated customers". Any overdrafts with respect to this limit are permitted only if they refer to a position in the trading book for supervisory purposes and provided that specific additional capital requirements are met.

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

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

- definition of risk/return objectives;
- definition of risk appetite (defined in terms of operating limits in the finance portfolios with reference to the various management, accounting and supervisory aspects). In particular, value-at-risk (VaR) limits, issuer and instrument type limits and concentration risk exposure limits are established and measured;
- restriction on tradable financial instruments in terms of the instruments admitted (or admitted in position but with specific exposure limits) and their nature;
- allocation of delegations.

In order to manage and monitor market risk exposures taken as part of the regulatory trading book, the Group has defined in its Finance Regulation and in the underlying implementing provisions: the guiding principles, roles and responsibilities of the organisational functions involved. This is in order to ensure the regular and orderly execution of financial market activities, within the scope of the risk/return profile outlined by the Board of Directors or declared by customers, and to maintain a correct mix of instruments aimed at balancing liquidity flows.

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

The Group has established systems and controls for portfolio management by defining a documented trading strategy by position or portfolio and appropriate policies and procedures for active position management. The system of operating limits and delegations on the regulatory trading book and on the banking book is compliant with regulatory provisions and consistent with the requirements of international accounting standards.

In order to monitor and control market risks, information flows to the corporate bodies and organisational units involved are produced on a regular basis, concerning the specific phenomena to be monitored and the aggregate values relating to the composition of the Group's trading book.

Operational risk

Operational risk is defined as the possibility of incurring losses resulting from inadequate or dysfunctional procedures, human resources and internal systems, or from exogenous events. This definition includes legal risk, but not reputational and strategic risk. This includes, inter alia, losses resulting from fraud, human error, breach of contract, natural catastrophes, business interruptions and system downtime.

Operational risks, depending on the specific aspects, also include IT risk, i.e. the risk of incurring losses in connection with the use of information and communication technology (Information and Communication Technology – ICT). This sub-category of risk considers potential damage resulting from the unavailability of information systems, degradation of service quality, violation of data confidentiality, compromise of data integrity, and loss of data quality.

Operational risk also includes the risk of outsourcing, i.e. the risk of incurring potential organisational malfunctions, critical issues and/or losses linked to the decision to outsource the performance of one or more business activities to third-party suppliers; legal and compliance risks are also included, while strategic and reputation risks are not.

With regard to legal risk, the Group includes the risk of losses deriving from contractual or non-contractual liability or from other disputes, while the risk of losses deriving from violations of laws or regulations is attributed to a specific case, defined as compliance risk.

With reference to the measurement of the prudential requirement for operational risks, the Group has approved the application of the Basic

Indicator Approach (BIA). In addition, the Group, for the purpose of managing and controlling operational risk, continuously verifies exposure to certain onset profiles through the analysis and monitoring of a set of indicators. This activity is carried out by the Risk Management Department.

In addition to the corporate bodies, different organisational units are involved in the management and control of operational risks, each of which is assigned specific responsibilities consistent with the ownership of the activities of the processes in which the risk in question may occur. Among these, the Risk Management Function is responsible for analysing and assessing operational risks, ensuring an effective and timely evaluation of the related event profiles, in accordance with the operating procedures for which it is responsible.

The Internal Audit Function, in the broader context of the control activities for which it is responsible, carries out specific and targeted periodic checks on operational risks. Lastly, with regard to organisational controls, particularly important is the Compliance Function which is responsible for monitoring and controlling compliance with the rules as well as providing support in the prevention and management of the risk of incurring judicial or administrative sanctions, of incurring significant losses as a result of the violation of external (laws or regulations) or internal (articles of association, codes of conduct, corporate governance codes) rules, and, for all pertinent areas, also important is the work carried out by the Anti-Money Laundering Function.

Considering the specific characteristics of the risk in question and the way it manifests itself, as well as the substantial inability of the regulatory method of calculating capital absorption (BIA method) to identify the areas of operations most exposed to operational risks, the Group deemed it appropriate to develop a more in-depth management approach, aimed at acquiring a better knowledge and awareness of the actual level of risk exposure.

With the support of a dedicated tool, a census activity, consisting of the collection and storage of the most significant loss events found in the company's operations, is carried out. To this end, a specific database has been set up in which the loss events identified are traced back to the types envisaged by the Basel Agreement (and to the related risk owners). The application adopted allows to frame the entire operational risk management process (from the recognition and registration by the organisational units where the event was found, to the "validation" of the same, up to the authorisation for the accounting of the economic impact) within a predefined workflow. The Group's objective is to identify the areas characterised by greater vulnerability, in order to prepare more effective control and mitigation systems. In this context, the application solution adopted makes it possible to manage the mitigation "tasks", i.e. the risk containment initiatives activated by the risk owners.

The Group has defined, in close connection with project references drawn up in the relevant associative areas and in compliance with the principles and provisions of current legislation, the methodology for analysing IT risk and the related management process (including profiles relating to the provision of IT services through the outsourcing of ICT services to external suppliers). The implementation of the afore-mentioned methodology makes it possible to integrate the management of operational risks by also considering the risks connected to IT and business continuity profiles, and to document the evaluation of IT risk based on the continuous information flows established with the Centre(s)/Service(s). The adoption of these references is also prior to the preparation of the process of verification, at least annually, of the evaluation of IT risk based on the results of the monitoring of the effectiveness of the measures to protect ICT resources.

With regard to the management of operational risks, to be noted are the controls adopted in the context of compliance with the regulations introduced by the regulatory provisions on the internal control system which have defined a comprehensive framework of principles and rules to be followed in order to outsource corporate functions and have required the activation of specific controls against the related risks, as well as the maintenance of the ability to control the work of the supplier and the skills necessary for the possible re-insourcing, if necessary, of the outsourced activities.

To ensure compliance with the requirements set forth by current regulations, the Legal Department defines specific outsourcing agreements. In this context and with reference to the outsourcing of important operational and control company functions, which entails more stringent obligations in terms of contractual obligations and specific requirements imposed on the supplier (relating, inter alia, to the definition of specific objective and measurable service levels and the relevant thresholds of relevance), the service levels ensured in the event of an emergency and the related continuity solutions are defined; contractual provisions cover, inter alia: (i) the right of access for the Supervisory Authority to the premises where the service provider operates; (ii) the presence of specific termination clauses to terminate the outsourcing agreement in the case of particular events preventing the provider from guaranteeing the service or in the event of failure to comply with the agreed service level.

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

More generally, as part of the actions undertaken with a view to ensuring compliance with the regulations introduced by the Bank of Italy through the 15th update of Circular 263/06 (and subsequently merged into Circular 285/13, Part One, Title IV, Chapter 4), to be noted are the initiatives related to the implementation in the organisational profiles and in the internal provisions of the regulatory references regarding information systems.

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

Although it is not necessary, in general, to change the underlying business continuity strategy, the references adopted have been reviewed and supplemented in the light of the requirements set out in Chapter 5 of Title IV of Part One of Bank of Italy Circular 285/13, to support compliance with the reference provisions. In particular, the business continuity plan was updated with reference to the risk scenarios which, although in principle compatible with those already described previously, are now more precautionary than those envisaged in the current provisions. Incident classification and rapid escalation procedures have also been introduced along with the anticipation of the necessary links with the IT security incident management procedure soon to be implemented in accordance with the relevant regulatory provisions set forth in Chapter 4, Title IV, Part One of Circular 285/13.

Credit concentration risk

Credit concentration risk is the risk arising from exposures to counterparties, including central counterparties, groups of related counterparties (single-name concentration) and counterparties operating in the same economic sector, in the same geographical region or carrying out the same activity or trading the same commodity (geo-sectorial concentration), as well as from the application of credit risk mitigation techniques, including in particular risks deriving from indirect exposures, such as, for example, towards individual guarantee providers.

The policies on concentration risk, defined by the Board of Directors, are mainly based on the following specific elements:

- powers delegated in terms of concentration risk management;
- total amount of exposure to "large risks".

With a view to prudent management, the Parent Company defines maximum exposure thresholds at the level of each individual subsidiary bank, depending on its risk class, and at Group level, in line with the regulatory provisions in force relating to Large Exposures and the provisions contained in the risk management framework. Compliance with the thresholds is ensured by the application of specific preventive controls carried out by the Credit Department of the Parent Company, in the pre-investigation and pre-trial phase, for each loan application processed within the processes of granting and managing credit by the Affiliated Banks and of the Parent Company.

Exposure to concentration risk is also measured and monitored in terms of capital absorption. To this end, the Group uses the following calculation metrics:

- with reference to the single-name definition of risk (i.e. concentration towards individual counterparties or groups of related counterparties), the regulatory algorithm of Granularity Adjustment (GA) proposed in Annex B to Title III, Chapter 1 of Part One of Circular 285/13 of the Bank of Italy. For the application of this algorithm, Circular 285/13 of the Bank of Italy refers to the concept of loan portfolio and, in particular, to exposures to companies that do not fall within the "retail" class. In this regard, reference should be made to the asset class "companies and other entities", "short-term exposures to companies", "exposures to companies in the asset classes that are past due and secured by real estate", "equity exposures" and "other exposures ". The exposures also include off-balance sheet transactions, the latter to be considered for an amount equal to their credit equivalent. In the presence of credit protection instruments that meet the (objective and subjective) eligibility requirements under the current rules for credit risk mitigation techniques (CRM), exposures to companies backed by guarantees provided by eligible companies are included in the calculation and exposures to companies backed by guarantees provided by eligible entities other than companies are excluded. In application of this algorithm, the quantification of the internal capital in relation to the concentration risk requires preliminary:

   i. determination of the amount of exposures for individual counterparties or groups of related counterparties;

   ii. calculation of the Herfindahl index, a parameter that expresses the degree of concentration of the portfolio;

   iii. calculation of the proportionality constant C which is a function of the "probability of default" (PD) associated with cash loans. The proportionality constant is determined on the basis of a specific calibration – established by the supervisory provisions in force – of the constant itself when the PD attributed to cash loans changes.

- with reference to the geo-sectorial profile of the risk, the methodology for estimating the effects on internal capital developed by the ABI "Laboratorio per il Rischio di Concentrazione" [Laboratory for Concentration Risk]. The objective of measuring the impacts of geo-sectorial concentration risk is to estimate any capital add-on with respect to the standardised credit risk model, measured by the Herfindahl indicator at industrial sector level (Hs). The capital add-on is envisaged only if the calculated mark-up coefficient is greater than one.

Liquidity risk

Liquidity risk relates to the possibility of the Group not being able to fulfil its payment obligations due to an incapacity to obtain new funds (funding liquidity risk), its inability to sell its assets on the market (asset liquidity risk), or that it may be forced to liquidate its assets in unfavourable market conditions, incurring very high costs to meet these commitments (market liquidity risk).

Funding liquidity risk, in turn, can be distinguished between: (i) mismatching liquidity risk, consisting of the risk associated with the different time profile of cash inflows and outflows determined by the misalignment of the maturities of financial assets and liabilities on (and off) the balance sheet; (ii) contingency liquidity risk, i.e. the risk that unexpected events may require a higher amount of cash and cash equivalents than estimated as necessary; and (iii) margin calls liquidity risk, i.e. the risk that the Group, in the event of adverse changes in the fair value of financial instruments, is contractually required to restore the reference margins by means of collateral/cash margins.

Liquidity risk can be generated by various factors both internal and external to the Group. The identification of these risk factors is done through:

- the analysis of the time distribution of cash flows of financial assets and liabilities and off-balance sheet transactions;
- the identification of:
  - items that do not have a defined due date (on demand and revocation items);
  - financial instruments that incorporate optional components (explicit or implicit) that may change the entity and/or the time distribution of cash flows (e.g. early redemption options);
  - financial instruments that by their nature determine variable cash flows depending on the performance of specific underlying assets (e.g. derivatives);
- the analysis of the level of seniority of financial instruments.

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

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

Regulation (EU) no. 575/2013 (CRR) prescribes that financial intermediaries shall use additional liquidity monitoring metrics (ALMM) to obtain a full picture of the liquidity risk profile. Specifically, the Implementing Regulation (EU) 2016/313 prescribes that the following 6 models must be set up as control information instruments:

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

These information models are drawn up monthly and the Group, in the face of possible critical situations, assesses whether to activate appropriate governance strategies to avoid the emergence of stress situations.

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

The results of the liquidity risk analysis are periodically presented by the Risk Management Department to the Risk Management Committee; the latter also offers an evaluation in relation to needs deriving from financial flows as well as in relation to the growth plans of the Group, financing requirements or resources that must be invested in addition to supplying general guidelines for the directly involved organisational units. The positioning of the Group with regard to operational and structural liquidity is also reported to the Board of Directors on a quarterly basis.

The requirements of the Cassa Centrale Banca Group are largely ascribable to decreases in liquidity available to shareholder banks or clients; the Group's ability to respond to its own needs is constantly assessed, taking into account in particular the following:

- availability and price of securities that can be easily liquidated;
- availability of credit within the interbank system;
- potential of institutional bond funding;
- use of other funding tools.

With regard to attainable credit and the potential for bond funding, the Group adopts the best practices in order to safeguard or improve the ratings attained thus far. The internal regulation of liquidity risk management meets the requirements set out in the supervisory provisions and guarantees consistency between the management measurements and the regulatory ones.

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

Interest rate risk of the banking book

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

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

In particular, the following were defined:

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

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

Since 2019, the Group has adopted a risk measurement methodology compliant with the EBA guidelines, thanks to the support provided by the Ermas calculation engine of Prometeia, therefore abandoning the simplified methodology envisaged by Circular no. 285/2013 of the Bank of Italy. The stresses defined by the aforementioned guidelines are also performed.

Monitoring exposure to interest rate risk within the banking book is implemented on a quarterly basis, in compliance with regulations, as well as on a monthly basis on a managerial level and on the basis of internal regulations. In addition, specific simulations are carried out before transactions of a certain amount that lead to increases in capital absorption.

Supervisory review and evaluation process and MREL requirement

As part of the prudential review and assessment process for 2020 (known as SREP), the Supervisory Authority has adopted a "pragmatic" approach in light of the health crisis caused by the Covid-19 pandemic. In this context, in a letter dated 17 November 2020, the Banking Supervisory Board indicated that no SREP decision would be made for the 2020 cycle, therefore confirming the requirements established as part of the SREP 2019 process, the outcomes of which were communicated to the Group by letter dated 25 November 2019. These requirements, applicable from 1 January 2020, are still in force for the Group, as described in the following paragraphs.

The Group is required to meet, on a consolidated basis, a total SREP capital requirement (TSCR) of 10.25%, including an additional requirement with regard to Pillar 2 (P2R) own funds of 2.25%, to be held in the form of Common Equity Tier 1 (CET1) capital. In relation to this aspect, it should be noted that as part of the support measures issued by the Authorities in response to the health emergency, the ECB, with the press release of 12 March 2020 "ECB Banking Supervision provides temporary capital and operational relief in reaction to Coronavirus", has specified that it is no longer required to cover this requirement in full with Common Equity Tier1, but that this requirement can also be covered with Additional Tier1 or Tier2 instruments, respectively up to a maximum of 18.75% and 25% of P2R, anticipating by one year the provisions of CRD V.

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

Finally, with reference to the Resolution regulatory framework, in application of the European Directive establishing a framework for the reorganisation and resolution of credit institutions and investment firms (so-called Bank Recovery and Resolution Directive - BRRD), during the 2020 Resolution Cycle, discussions continued with the SRB (Single Resolution Board), in order to define the MREL (Minimum Requirement of Eligible Liabilities) target to be assigned to the Group. These targets are defined in compliance with the regulatory changes introduced by the Banking packages, which entered into force in December 2020, and therefore replace the previous decisions adopted by the SRB on the matter.

The determination of the MREL requirement was communicated to the Parent Company in March 2021. For details, please refer to the section "Significant events in the first half of the year" of this Report.

Supervisory expectations regarding minimum coverage of losses on impaired exposures

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

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

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

It should be noted that the ECB Addendum applies to loans classified as impaired (impaired past due and/or overdue, 'unlikely to pay', non-performing exposures) as from 1 April 2018, with the disbursement date prior to 26 April 2019, while the Regulation (EU) is applicable to new loans granted as from 26 April 2019 that have deteriorated as of 1 April 2018.

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

On 27 June 2020, EU Regulation 873/2020 entered into force, according to which exposures secured by government guarantees are permanently included in the same category as exposures secured by guarantees granted by an official export credit agency, with the resulting benefit of 100% supervisory coverage after 7 years of vintage from the date of classification.

The Group carries out constantly the activities necessary to implement the regulatory requirements described above, with the monitoring and supervision of the potential impacts on the main balance sheet and income statement ratios and on credit processes.

New default definition

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

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

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

As from 1 January 2021, these rules have been mandatorily applied by the entire banking system. The Group has substantially completed the developments and put in place the infrastructure to support the credit management activities in the different phases of the credit life cycle and implemented all the activities necessary to start the application of the "new rule" based on the new definition of default. Consequently, the relevant applications and procedures were adjusted, in order to comply with the related regulatory obligations within the pre-established regulatory deadlines.

It should be noted that, net of the regulatory details implemented in the systems and procedures, the classification as default has been adjusted at Banking Group level according to the regulatory indications, i.e. it is no longer permitted for a customer to be classified as a default with one company of the Group and not by another.

Finally, the Group has adjusted its internal models for credit risk in the context of the accounting application, in order to ensure the computation of collective impairment provisions, according to the provisions introduced by the IFRS 9 accounting standard, in compliance with the new definition of default; these adjustments have been factored in from the first quarter of 2021.

ICAAP e ILAAP

The corporate self-assessment processes of capital adequacy (known as ICAAP) and liquidity risk management and governance system (known as ILAAP) of the Group and their structure are based on a management model consistent with the operations and complexity of the Group, according to the principle of proportionality.

The Parent Company, in the exercise of guidance, coordination and control over the Affiliated Banks and Group Companies, defines in detail the roles and responsibilities of the corporate bodies and structures involved in the management of the ICAAP/ILAAP process. In particular, in order to achieve an effective and efficient management and control system, the bodies define the strategic guidelines and governance policies of the ICAAP/ILAAP process and adopt an effective management process; they are also responsible for its implementation, supervise its actual functioning and verify its overall functionality and compliance with the requirements of the regulations.

Procedures have been defined in the ICAAP/ILAAP process for:

- the identification of all risks to which the Group is or could be exposed, in consideration of its specific operating conditions. This risk mapping process, defined by a specific policy, represents the starting point of all strategic processes of the Group and is strongly integrated with the Risk Appetite Framework, as well as with the overall business risk management and control system. It is coordinated, at a centralised level, by the Risk Management Department of the Parent Company, with the involvement of the corporate bodies and other departments as far as their competence is concerned (in order to ensure alignment with the evolution and/or changes of the business model). The involvement of other Group companies is also envisaged, where deemed necessary, in order to enhance their role in relation to individual operational specificities. The analysis is carried out by evaluating the Group's current and potential operating conditions, in order to identify the risk profiles already present in the current context or not adequately captured by the pre-existing mapped categories, or to anticipate types of risk historically not relevant for the Group, but likely to become such in a prospective scenario, as they are connected to foreseeable changes in the economic, financial and regulatory context, as well as in the company's operations. This analysis also takes into account the principle of proportionality and is carried out at least once a year;
- the measurement/assessment of risks from a current, future and stress situation perspective. In this context, the methods for measuring risks with quantification of capital absorption are consistent with the indications provided by the reference regulations and with the size and operational specificity of the Group, while for non-quantifiable risks, suitable measurement, control and mitigation systems have been defined. In particular, in conducting the stress tests, particular attention was paid to the weaknesses of the Group in order to quantify, on internal and regulatory capital, the most significant impacts and continuously monitoring and identifying the possible emergence of new threats, vulnerabilities and changes in the context in which the Group operates;
- the definition of the minimum requirement for own funds and eligible liabilities (known as MREL) on the basis of what was communicated to Cassa Centrale Banca by the Single Resolution Committee with Decision SSB/EES/2021/20 of 29 March 2021 which, although still

not binding, the Group monitors;

- the quantification of internal capital, in all the scenarios considered in the ICAAP/ILAAP process, against first and second pillar risks and the overall risk, both from a current and forward-looking perspective over the medium term, integrating the shorter perspective with the medium term;
- the self-assessment of capital adequacy, taking into account the results separately obtained with reference to the measurement of risks and capital from current, prospective and stress situation viewpoints, identifying the areas of the process where improvements can be made and planning any actions required in terms of assets and organisation;
- the self-assessment of the adequacy of the liquidity and funding risk management process, taking into account the results obtained with reference to the measurement of liquidity risk from a current, prospective and stressed perspective, identifying the areas of the process that are susceptible to improvement and planning any interventions envisaged in the governance and management of liquidity and organisational risk.

Climate and Environmental Risks

The European Central Bank (ECB) considers climate and environmental risks as the main risk factors for the banking system in the Eurozone. As credit, market, operational and other risk factors, climate and environmental risks will have a widespread impact on the various sectors and geographical areas. The ECB deems it necessary for all institutions to take timely and decisive action to ensure sound, effective and comprehensive management and reporting about these risks.

During 2020, the ECB outlined a programme aimed at introducing management and monitoring of climate risks in the banks under its supervision. After having been asked to conduct, in February of this year, a self-assessment with respect to the practices adopted by the Group with respect to the thirteen expectations defined in the "Guide on Climate and Environmental Risks" ("Questionnaire A"), the Group was asked to draw up an action plan to ensure - on the basis of this self-assessment - the implementation of the thirteen expectations outlined in the Guide on Climate and Environmental Risks ("Questionnaire B").

Indeed, the European Supervisory Authority believes that, although there has been some improvement over the previous year, European banks need to make significant efforts to meet the expectations outlined, both in qualitative and quantitative terms. In this regard, in the second half of this year, the ECB intends to guide the Banks with respect to the declared adjustment plans.

The ECB will therefore carry out a complete review of the self-assessments and during 2022 will discuss them as part of the dialogue with the competent national Supervisory Authorities. A specific stress test ("2022 SSM climate risk stress test") is planned for next year, the methodology of which (albeit still being defined) was presented to the Group during a dedicated workshop in May.

On this point, there are a number of critical issues linked, in the first place, to the costs to be incurred for carrying out this exercise (estimated as very significant, both in terms of the effort required of the internal structures involved and in terms of costs and investments necessary to sustain this type of stress test) even more exacerbated by the reduced time margin available to collect and prepare the necessary databases.

Internal control system

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

The Cassa Centrale Group attributes strategic importance to the integrated management of controls and related risks as they constitute, among other things:

- an element to ensure that all activities are carried out in accordance with the principles of sound and prudent management and defined strategic guidelines;
- a clear and complete representation for the corporate bodies of the internal control system to monitor risks, the critical elements to which the Group is exposed and the interventions in progress;

- an important element for monitoring compliance with the relevant provisions by the competent authorities, as well as spreading the use of integration parameters.

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

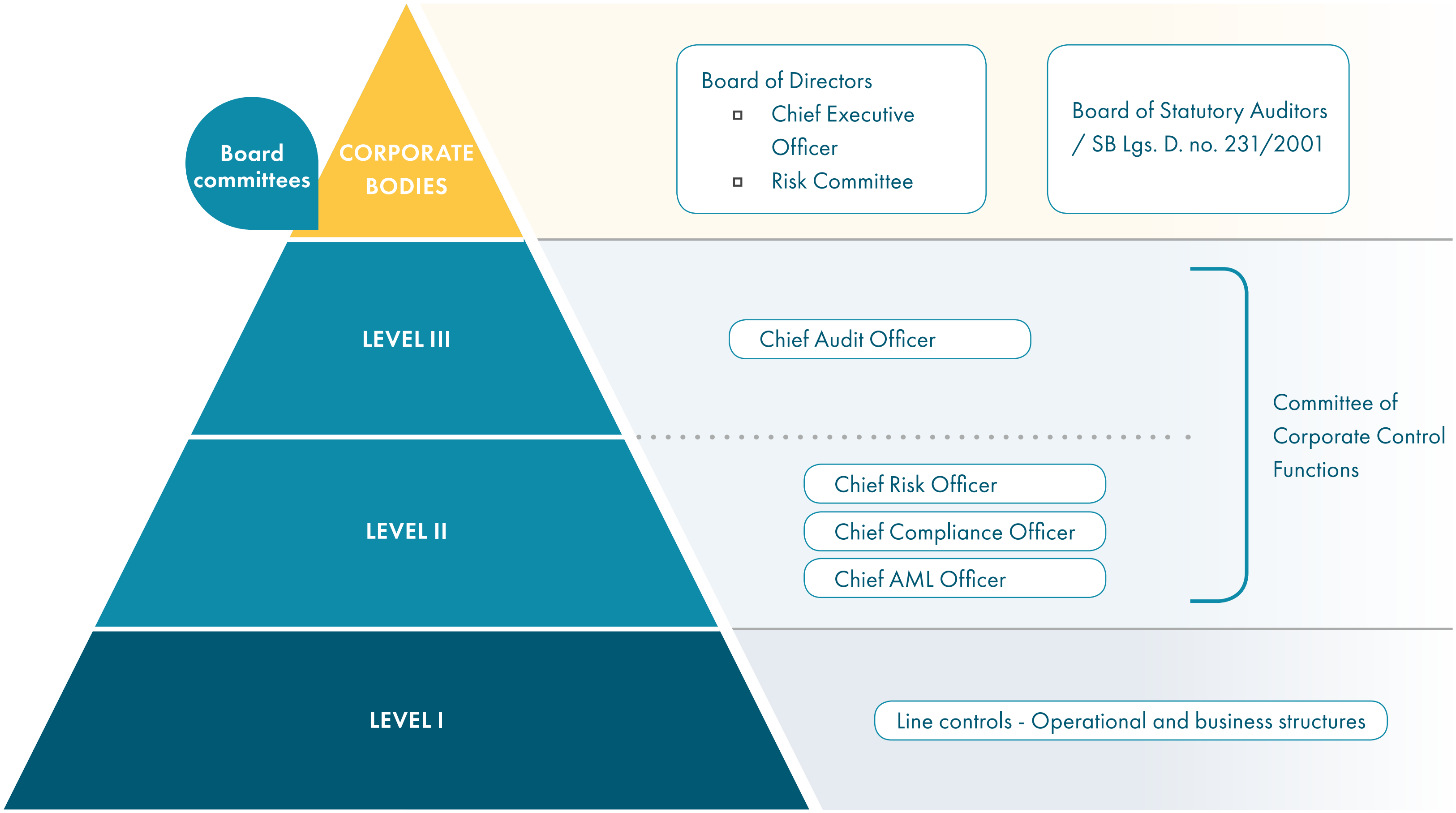
- verification of the implementation of company strategies and policies;
- containment of risks within the limits indicated in the Group's Risk Appetite Framework (RAF);
- safeguarding the value of assets and protection against losses;
- effectiveness and efficiency of business processes;
- reliability and security of company information and IT procedures;
- prevention of the risk that the Group may be involved, even involuntarily, in illegal activities (with particular reference to those connected with money laundering, usury and terrorist financing);
- compliance of the company's operations with the law and supervisory regulations, as well as with internal policies, regulations and procedures.

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

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

The Group's internal control system includes, in keeping with regulatory and legislative provisions in force, the following types of controls:

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



The Parent Company's corporate bodies, the Parent Company's Risks Committee, the Committee of Corporate Control functions, as well as the Corporate Control functions themselves represent the main players in the internal control system.

Specifically:

- the **Board of Directors** is responsible for strategic planning, organisational guidance, evaluation and monitoring functions. In particular, as a body with strategic supervision functions, it defines and approves the business model, strategic guidelines, risk appetite, tolerance threshold (where identified) and risk management policies at Group level, the guidelines of the internal control system, the criteria for identifying the most significant transactions to be submitted to the prior scrutiny of the Risk Management Department and the general terms of the ICAAP process in order to ensure overall consistency with the RAF and the strategic guidelines;
- the **Risks Committee** is responsible for the tasks assigned to it by the regulations in force from time to time and by the Board of Directors, also with regard to the Affiliated Banks and, in particular, it performs support functions for the Parent Company's corporate bodies with regard to risks and the internal control system, paying particular attention to all activities that are instrumental and necessary for the Parent Company's Board of Directors to arrive at a correct and effective determination of the Risk Appetite Framework (RAF) and risk management policies;
- the **Board of Statutory Auditors**, as the body with control functions, is responsible for overseeing the completeness, adequacy, functionality and reliability of the internal control system and the RAF at Group level, in accordance with the provisions of current legislation, the Cohesion Contract and the Articles of Association of Cassa Centrale Banca. The Board of Statutory Auditors performs the functions of the supervisory body, established pursuant to Italian Legislative Decree no. 231/2001 on the administrative liability of entities, which supervises the functioning and observance of the organisational and management model adopted by the Parent Company for the purposes of the same Legislative Decree;
- the **Chief Executive Officer**, as a body with management functions, has an understanding of all business risks, including the possible risks of malfunctioning of internal measurement systems (the so-called "model risk"), where present, and, within the scope of integrated management, of their interrelationships with each other and with the evolution of the external environment. In this context, they are able to identify and assess the factors, including the complexity of the organisational structure, from which risks may arise for the Group;
- the **Committee of Corporate Control Functions**, consisting of the managers of the corporate control functions, carries out the coordination and integration activities of the functions overseeing the internal control system.

The Group's corporate control functions are represented by the following structures:

- Internal audit function (**Internal Audit Department**);
- Risk control function (**Risk Management Department**);
- Compliance function (**Compliance Department**);
- Anti-money laundering function (**Anti-Money Laundering Department**).

The model adopted for the Group

The supervisory provisions for Banks in relation to the Cooperative Banking Group issued by the Bank of Italy establish that the corporate control functions for affiliated Cooperative Credit Banks are carried out under an outsourcing regime by the Parent Company or other companies of the Group.

The Parent Company carries out its tasks in compliance with the following criteria:

- the corporate bodies of the members of the Group are aware of the choices made by the Parent Company and are responsible, each according to their own competencies, for the implementation, within their respective business realities, of the strategies and policies pursued in the field of controls, favouring their integration within the scope of Group controls;
- special internal representatives are appointed within the user companies who: i) perform support tasks for the outsourced control function; ii) report functionally to the outsourced control function; iii) promptly report particular events or situations, which may change the risks generated by the subsidiary.

Each individual Group Company must have an effective system of information exchange that guarantees, on an ongoing basis:

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

In order to ensure guidance and coordination, the Parent Company oversees Group Companies through the continuous exchange of flows, information and data in order to carry out management control that is useful for ensuring the balanced maintenance of economic, financial and equity conditions, the level of risk and, more generally, the integrated internal control system at Group level as a whole.

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

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

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

The Supervisory Body, set up pursuant to Legislative Decree 231/2001, oversees the functioning and observance of the organisational and management model adopted by the company itself to prevent the offences relevant to the purposes of the same Legislative Decree.

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

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

The bodies of the Group companies other than the user companies are assigned the same responsibilities as those of the bodies of the user companies, insofar as they are compatible. These bodies are also the assignees of all the powers attributed to them by the regulations and regulatory provisions applicable to the company to which they belong. The internal corporate control functions, where present, in compliance with the rules applicable to them, carry out their activities in line with the principles established by the Parent Company.

Internal audit function

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

This function – which is separate from the other corporate control functions from an organisational point of view – reports directly to the Board of Directors of Cassa Centrale Banca and has specific requirements such as independence, authority and professionalism, which are necessary to ensure effectiveness and efficiency in the performance of its duties. It operates according to principles based on the diligence and professionalism of its employees, in light of the awareness that an effective preventive activity can only be effectively implemented if all staff are made aware of their responsibilities, if a culture based on the value of integrity (honesty, fairness, responsibility) and on a set of values to be recognised and shared at all organisational levels, is disseminated.

The Internal Audit Department operates, for the Affiliated Banks, under an outsourcing regime in compliance with the service levels established and formalised in the agreement to outsource the function and avails itself of the collaboration and support of the internal representatives of the same, who report functionally to the Manager of the Internal Audit Department of the Parent Company. With similar operating procedures, the Internal Audit Department also operates for Group Companies that sign an agreement to outsource the function.

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

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

In order to fulfil the responsibilities assigned to it, the Internal Audit Department has access to all the central and peripheral activities of Cassa Centrale Banca and the Group Companies and to any information relevant for this purpose, including through direct contact with staff.

Risk control function

The Risk Management Department, as part of the Group's internal control system, fulfils the responsibilities and tasks envisaged by the Bank of Italy Circular 285/2013 for the risk management function. It provides useful elements to corporate bodies in the definition of guidelines and policies on risk management and ensures the measurement and control of the Group's exposure to different types of risk.

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

It operates for the user companies, under an outsourcing regime, in compliance with the service levels established and formalised in the agreement for outsourcing the Risk Management Function, and avails itself of the cooperation and support of their internal contacts, who report functionally to the Manager of the Risk Management Department of the Parent Company.

Within this scope, the Risk Management Department:

- guarantees the effective and proper implementation of the process of identifying, evaluating, managing and monitoring the risks undertaken, both current and forecast;
- coordinates the process of defining, updating and managing the Risk Appetite Framework (hereinafter "RAF"), within which it has the task of proposing the qualitative and quantitative parameters necessary for the definition of the RAF;
- defines common metrics for assessing operational risks in line with the RAF and methods for assessing and controlling reputational risks in coordination with the Compliance Department and the relevant structures;
- contributes to ensuring the consistency of the remuneration and incentive system with the reference framework for determining the Bank's risk appetite (RAF);
- is responsible for assessing the adequacy of internal capital (ICAAP) and liquidity reserves (ILAAP);
- is responsible for preparing the public disclosure (Pillar III);
- is involved in defining the risk governance policies and the phases of the risk management process through the establishment of a system of policies, regulations and documents for the implementation of the risk limits for the Group;
- is responsible for defining the operational limits to the assumption of the various types of risk, as well as for verifying their adequacy on a continuous basis;
- defines the metrics and methodologies for measuring and monitoring risks and the related guidelines to be adopted at the Group level;
- verifies, on an ongoing basis, the presence of adequate risk management processes;
- is responsible for the development, validation, maintenance and updating of risk measurement and control systems, ensuring that they are subject to periodic backtesting, that an appropriate number of scenarios are analysed and that conservative assumptions are used on dependencies and correlations;
- develops and applies indicators capable of highlighting anomalous and inefficient situations in risk measurement and control systems;
- analyses and assesses the risks arising from new products and services and entry into new operating and market segments;
- measures and monitors current and forward-looking exposure to risks, including at Group level;
- ensures, through reporting activities, a constant and continuous flow of information to the corporate bodies and other corporate control functions on the exposure to risks and the results of the activities carried out;
- provides preventive opinions on the consistency of the most significant transactions with the RAF, including those originated by user companies while also contributing to defining the parameters for their identification;
- carries out second-level checks on credit exposures;
- verifies the adequacy and effectiveness of the measures adopted to remedy the shortcomings identified in the risk management process;
- verifies the proper monitoring of the performance of individual credit exposures;
- oversees the process of assigning and updating the ratings used to assess the creditworthiness of the counterparties;
- oversees the processing of the classification of the risk-based model and, in agreement with the Human Resources Department, the activation of the appropriate corrective actions (i.e. Relaunch Plan, Recovery Plan, Combination Plan);
- informs the Chief Executive Officer/General Manager of any exceeding of targets/thresholds/limits relating to the assumption of risks;

- is responsible for activating monitoring activities on the actions put in place if targets/thresholds/limits are exceeded and for communicating any critical issues until the thresholds/limits return within the established levels;
- ensures the consistency of the risk measurement and control systems with the processes and methodologies for assessing company activities, coordinating with the appropriate company structures;
- prepares and submits to the corporate bodies the report on the activities carried out by Management, in accordance with the provisions of the reference regulations;
- contributes to the dissemination of a control culture within the Group.

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

- adopt consistent and integrated risk measurement and assessment methods, providing a common and integrated representation of the areas of greatest risk;
- define risk-based intervention priorities;
- develop the sharing of operational and methodological aspects and the actions to be taken in case of significant and/or critical events in order to identify possible synergies and avoid potential overlapping and duplication of activities.

As part of the activities listed above, the Risk Management Department prepares annually a risk-based approach and submits an activity plan to the corporate bodies based on:

- the main risks to which the Group is exposed;
- any shortcomings emerging from the checks carried out;
- any elements identified by the Internal Audit or any findings reported by the Validation Service;
- the risk objectives defined by the Group;
- any evidence emerged from discussions with the Supervisory Authorities.

Compliance function

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

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

The Compliance Department is separate from the other corporate control functions from an organisational point of view, it reports directly to the Board of Directors of Cassa Centrale Banca and has specific requirements such as independence, authority and professionalism, which are necessary to ensure effectiveness and efficiency in the performance of its duties.

The Compliance Department operates, for the Affiliated Banks, under an outsourcing regime in compliance with the service levels established and formalised in the agreement to outsource the function and avails itself of the collaboration and support of the internal representatives of the same, who report hierarchically to the Board of Directors of the respective Company and, at the same time, report functionally to the Department Manager. With similar operating procedures, the Compliance Department also operates for the other Group Companies that sign an agreement to outsource the function. This department also carries out any further activities aimed at assessing and reporting the various risk profiles brought to the Group by the Companies and the overall risks of the Group.

For the monitoring of certain regulatory areas for which it is permitted by applicable regulations or for the performance of specific obligations in which the Compliance Department’s activities are articulated, the same may make use of specialist compliance control units and/or support, remaining in any case responsible for the definition of risk assessment methodologies. In particular, the role of specialist control units is attributed to the Tax Service and the Workplace Prevention and Protection Office, for the respective regulations indirectly supervised by the function.

The Compliance Department:

- continuously identifies the applicable rules and assesses their impact on corporate processes and procedures;
- collaborates with the corporate structures for the definition of methodologies for the assessment of compliance risks;
- identifies suitable procedures and/or organisational changes for the prevention of the detected risk, with the possibility of requesting their adoption;
- verifies the adequacy and correct application of the procedures for the prevention of the detected risk;
- ensures ongoing and continuous monitoring of the adequacy and effectiveness of the measures, policies and procedures relating to investment services and activities;
- prepares information flows directed to the corporate bodies and structures involved (e.g.: operating risk management and internal audit);
- verifies the effectiveness of the organisational adjustments (structures, processes, procedures, including operational and commercial) suggested for the prevention of compliance risk;
- is involved in the ex-ante assessment of the compliance with applicable regulations of all innovative projects (including the operation of new products or services) that the company intends to undertake as well as in the prevention and management of conflicts of interest between the different activities carried out by the company and also with regard to employees and company representatives;
- provides advice and assistance to corporate bodies in all matters in which compliance risk is significant;
- collaborates in the training of staff on the provisions applicable to the activities carried out;
- coordinates with the other corporate control functions in order to adopt consistent and integrated risk measurement and assessment methodologies and sharing priorities for risk-based intervention and providing a common and integrated representation of the areas of greatest risk;
- provides, for the aspects within its competence, its contribution to the Risk Management Department in the assessment of risks, in particular those that cannot be quantified, as part of the process of determining capital adequacy;
- collaborates with the Risk Management Department, in line with the Risk Appetite Framework (RAF), to develop appropriate methodologies for the assessment of operational and reputational risks arising from any areas of non-compliance, also ensuring the reciprocal exchange of information flows suitable for an adequate oversight of the areas of competence;
- spreads a corporate culture based on the principles of honesty, fairness and respect for the spirit and letter of the rules.

Anti-money laundering function

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

The Anti-Money Laundering Department operates in accordance with the responsibilities assigned to it as a second-level corporate control function of the Parent Company and fulfils the contractual obligations arising from its role as supplier to the Affiliated Banks and the user companies.

The Anti-Money Laundering Department operates, for the Affiliated Banks and the user companies, under an outsourcing regime in compliance with the service levels established and formalised in the agreement to outsource the function, and avails itself of the collaboration and support of internal representatives, who, operating in close functional coordination with the Anti-Money Laundering Department, supervise the processes related to anti-money laundering legislation in the Affiliated Bank/User Company.

The Anti-Money Laundering Department of the Parent Company formulates and prepares specific directives and instructions to which the Anti-Money Laundering representatives must adapt their operations, in order to ensure the operational consistency of the Group in relation to the management and measurement of the risks of money laundering and terrorist financing.

In the event that a Group Company is the recipient of anti-money laundering obligations and has not outsourced the function to the Parent Company, specific information flows are transmitted to the Anti-Money Laundering Department of the Parent Company by the same companies (the Annual Anti-Money Laundering Report, the annual planning of activities, any significant critical issues identified by the execution of anti-money laundering activities).

The Anti-Money Laundering Department has the objective of:

- contributing to the definition of strategic guidelines and policies for the overall governance of risks related to money laundering and terrorist financing, the preparation of communications and periodic reports to corporate bodies and the feeding of the Risk Appetite Framework, collaborating with other corporate control functions in order to achieve an effective integration of the risk management process;
- developing a global approach to risk based on the strategic decisions taken by the Parent Company, defining the Group's methodology for assessing the risks of money laundering and terrorist financing, the procedures for coordinating and sharing information between Group Companies and general standards for the adequate verification of customers, the retention of documentation and information and the identification and reporting of suspicious transactions;
- ensuring adequate Group supervision, continuously verifying the suitability, functionality and reliability of the anti-money laundering arrangements, the procedures and processes adopted within the Group and their degree of adequacy and compliance with the law;
- playing a management and coordination role in relation to Group Companies, promoting and spreading the culture of prevention of the risk of money laundering and terrorist financing.

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

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

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

As part of the integrated internal control system, the Anti-Money Laundering Department contributes in its areas of responsibility to:

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

Human Resources

The total workforce of the Cassa Centrale Group as at 30 June 2021 stood at 11,453 employees, compared to 11,301 as at 31 December 2020.

Staff composition by category and gender

NUMBER OF EMPLOYEES BY CATEGORY AND GENDER	30/06/2021			31/12/2020	Change	% change
	Men	Women	Total	Total		
Executives	183	10	**193**	201	(8)	**(3.98%)**
Middle managers	2,284	689	**2,973**	2,981	(8)	**(0.27%)**
Office staff	4,228	4059	**8,287**	8,119	168	**2.07%**
TOTAL	**6,659**	**4,758**	**11,453**	**11,301**	**152**	**1.35%**

Staff composition by age group

NUMBER OF EMPLOYEES BY CATEGORY AND AGE GROUP	30/06/2021				31/12/2020	Change	% change
	<30	30-50	>50	Total	Total		
Executives	-	37	156	**193**	201	(8)	**(3.98%)**
Middle managers	3	1,339	1,631	**2,973**	2,981	(8)	**(0.27%)**
Office staff	738	5,681	1,868	**8,287**	8,119	168	**2.07%**
TOTAL	**741**	**7,057**	**3,655**	**11,453**	**11,301**	**152**	**1.35%**

The average age of the Group's personnel is in the 30-50 bracket with about 62% of employees in that bracket.

The long-term strategy of the Group is always oriented towards the quality of its human resources, with a primary commitment in promoting the constant development of individual and group capabilities and skills.

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

Corporate Culture and remote working at the time of Covid 19

In the particularly difficult and still on-going period of the Covid-19 health emergency, messages of cohesion, closeness, sense of belonging and solidarity with the employees of the Cassa Centrale Group were strengthened and the forms of communication were also enhanced.

The "Covid-19 Emergency" section, posted on the internal communication portal, has been enriched and updated over time with complete documentation on the matter, available to all employees (from the reference legislation to information material).

Numerous infographics and messages were disseminated to employees in support of the organisational management of smart working or of the psychological aspects resulting from the spread of the pandemic (from the five rules to better manage working times and spaces at home, to useful suggestions to maintain a good level of work-life-balance).

In April, May and June, specific empowerment spaces were also activated, as in 2020, for employees ("Once a week: your thirty minutes of empowerment"), with talks by Luca Mazzucchelli, psychologist and therapist expert in personal growth. In line with the approach adopted by large companies, psychological issues related to emerging fears and worries in employees linked to the pandemic emergency were also addressed.

The pilot project in the Parent Company and Allitude continues with Mindwork, the online platform where psychologists and therapists are available to the employees of the two Companies. The degree of employee satisfaction is high, the service was positively received and used to support the critical time related to the pandemic and the new normality, but also for personal empowerment projects deriving from new responsibilities.

In spring 2021, thanks to the partnership with Talent Garden, 6 new thematic webinars were proposed as part of the Digital Transformation projects reserved specifically for banks' top managers.

Following the Masterclass, which saw as protagonists the HR Managers of banks and companies of the Group, online webinars were launched to discover the 3 areas of digital transformation: Technologies; New Work Experience; Digital Change Management.

The process has allowed, through interaction with external speakers, experts in the various subjects, and focus groups among the participants, to start building together a Group dialogue on the issues of technology and its impact, also applied to the new working models. The training, entirely remote, has allowed the participants to experiment with innovative methods of interaction, especially with work in subgroups.

The need to create communication spaces between the Parent Company and some senior level figures within our banks is strong, especially in this phase of purely digital relations where daily contact with the Banks has been drastically reduced. In support of all the "Communities of Practice", where Parent Company experts and Bank representatives discuss about certain issues, the space created by Talent Garden seminars helped to stimulate a constructive dialogue in this sense.

In April and May, the "Smart Manager: Empower The Future" course was launched to address the issue of remote working and the management of employees in the "new normal". Through guided focus groups, the needs and requirements of the Parent Company's managers were collected, the various opportunities for interaction with speakers and managers outside the Group made it possible to discuss and imagine unprecedented futures regarding the flexibility and organisation of post-pandemic work. The smart working project has just begun, and the coming months will be dedicated to dialogue and sharing in order to arrive at a single Group model tailored to the needs of our new context.

For the Group, external events are an excellent opportunity for employer branding and recruiting: the Group strengthened its partnership with the academic world in order to promote itself more effectively with young university talent, make itself known to a wider audience and thus build a solid communication strategy. The Cassa Centrale Group has launched a university "career day" in order to represent all Group companies. In particular, it participated in the Career fair 2021 held by the University of Trento, completely digitalised, attracting particular interest from young participants (graduate or graduating students).

Brand Identity: supporting actions

The project on the corporate identity of Cassa Centrale Banca was strengthened with the realisation of the Manifesto of values, built within the Parent Company through the internal dialogue of people with different experiences, young people and managers engaged in the search for those "key words" that could be used to represent the identity culture of the Parent Company.

Numerous video interviews were conducted with employees to build a different storytelling on the values and key words for Cassa Centrale Banca.

A completely online event and a kit were developed to provide a phygital experience for the employees with the intent to create a greater connection with respect to the issue of corporate identity.

At the same time, the project to define its own internal Manifesto was also launched in Allitude, and the Affiliated Banks and Associated Companies will be involved throughout 2021, in line with the messages created for the Group's first national campaign.

Recruiting activities in times of pandemic

Even during the health emergency, recruiting activities continued. Thanks to the use of the SAP Success Factors platform and webcalling tools, it was possible to continue with job posting activities, review of applications and interviews. Technology has proven its efficiency in supporting experts and managers in their search for tomorrow's talent.

Partnerships to innovate and compete

Despite the pandemic, the well-established partnership with SDA Bocconi School of Management has made it possible to create new high-level professional training courses and to continue to provide the on-going courses in new ways, in full compliance with Covid-19 security measures.

The partnership with CeTif, the Research Centre on Technologies, Innovation and Financial Services at the Sacred Heart Catholic University continues to contribute to providing skills to our Banking Care Academy.

After consolidating the partnership with the Politecnico di Milano, the collaboration with Talent Garden has contributed to the development of new digital transformation projects to support the entire Group in the first half of 2021. Talent Garden is a very lively national entity, a crossroads of experimentation and innovation capable of catalysing the most innovative debates on the Italian scene and beyond; joining the Talent Garden network is an important step towards consolidating the open and smart vision that we intend to bring to the Banking Group.

Training and development of skills in the Cassa Centrale Group

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

In this particularly complicated period, the Banking Care Academy has launched some projects for the Banks and Companies of the Group aimed at facilitating training continuity through the digital tools offered by technology and aimed at the training and development of new skills.

The certification of skills, an essential element in some courses of the Academy, was also guaranteed through a new proctoring tool, already tested in universities all over the world and fundamental for the management of the learning assessment process.

In the first half of 2021, the following innovative projects continued:

- Drive the change (Digital Transformation): winner of the ABI Innovation 2021 Special Mention;
- Digital Confidence (cybersecurity).

"Drive the change: train yourself to lead change" is a digital training platform which allows employees to simulate conversations by interacting with virtual characters: this is the object of the special mention obtained by Cassa Centrale Banca at the ABI Award. A new recognition that enhances the Group's growth path in the field of digital innovation and training. The project received a mention in the "Innovation Award for Digital Transformation" category. All the candidate projects have exploited, through the application of digital technology, the potential of new technologies to transform the concept of banking by redesigning internal processes and promoting a digital corporate culture. The special mention – ABI announced during the award ceremony – was awarded to Cassa Centrale for promoting a platform for digital training that allows its employees to simulate conversations by interacting with virtual characters, thanks to a system of interactive videos driven by artificial intelligence.

Digital transformation is an extraordinary opportunity for the evolution of the Group and Drive the change represents the path to generate the engagement and participation necessary to change the mindset of the digital evolution in progress. Banking Care Academy is convinced that starting a digital innovation means breaking down cultural and organisational boundaries, dismantling rigid barriers, removing resistance to change in people and creating new ways to interact and manage their activities. Such a revolution must be supported by a leadership culture that strengthens the connections between people and their sense of belonging. In this sense, the objective of the Drive the change project is to foster a mindset able to make people feel free to take initiatives and bring value through their ideas. The Drive the change project is based on the use of artificial intelligence simulators, developed by the People and Corporate Culture Service and the Digital Office of the Parent Company, with the collaboration of SkillGym.

SkillGym is an advanced Digital Role Play system dedicated to training in the management of business and leadership conversations, through the practice and reflection of the impact of one's own behaviour. SkillGym uses Artificial Intelligence, Interactive Cinema and Augmented Reality to offer an authentic and immersive training experience. This path, developed specifically for the Cassa Centrale Group, allows to train and transmit the benefits of a path of innovation and change. Practice is the most effective way to improve conversation skills and to develop motivation, involvement and propensity for change.

The "Confidenza Digitale" project, launched in the second half of 2020, also continued in the first half of the year. This is a cybersecurity project that encompasses training initiatives and communication/awareness-raising activities aimed at spreading a culture of security in the digital world, through the involvement of every single person within the Group.

Remuneration policies

On 16 June 2021, the Ordinary Shareholders' Meeting of the Parent Company - on the proposal of the Board of Directors - approved the Group's remuneration and incentive policies for all personnel, including the most important personnel, as well as members of corporate bodies.

With regard to Group Companies within "scope", the Remuneration Policies (hereinafter also referred to as the "Policies") approved by the Shareholders' Meeting of the Parent Company were adopted by formal resolution of the respective Shareholders' Meetings for the Affiliated Banks and by various competent bodies for the other Companies.

The Remuneration and Incentive Policies have been defined on the basis of the 25th update of 23 October 2018 of the Supervisory Provisions on "Remuneration and Incentive Policies and Practices", issued by the Bank of Italy in November 2014 with the 7th Update of Circular no. 285 of 17/12/2013 in implementation of EU Directive 2013/36/EU of 26/06/2013 (so-called CRD IV) and the Delegated Regulation (EU) no. 604/2014 containing the new "Regulatory Technical Standards" (RTS), relating to the appropriate qualitative and quantitative criteria to identify the categories of staff whose professional activities have a material impact on the risk profile of the institution (the so-called Risk Takers), who integrated CRD IV starting from June 2014.

The Policies also comply with the provisions on the transparency of banking and financial transactions and services. Appropriateness of relations between intermediaries and customers, updated by the Bank of Italy on 19 March 2019, align national provisions with the Guidelines on remuneration policies and practices relating to the sale and supply of retail banking products and services issued by European Banking Authority in December 2016.

In addition, the Policies include information on their consistency with the integration of sustainability risks, in compliance with the provisions of Article

5 - Transparency of remuneration policies in relation to the integration of sustainability risks of Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector.

The Policies describe in an organic manner: the principles on which the Cassa Centrale Group's remuneration and incentive system is based; the roles, timing and activities that define the governance of the process of drafting, reviewing and adopting Group remuneration and incentive policies; the remuneration and incentive system to be adopted in 2021 by the Group for all employees, including the most important personnel, as well as for the members of corporate bodies.

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

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

Welfare and Trade Union Relations

The first half of 2021 saw the Welfare and Trade Union Relations Service engaged in trade union merger negotiations and management of redundancies and generational turnover. In particular, the various banks involved in these transactions were: Cassa Rurale Friuli Venezia Giulia which, maintaining the same name, incorporated BCC di Turriaco, Cassa Rurale Alto Garda which incorporated Cassa Rurale di Rovereto becoming Cassa Rurale Alto Garda - Rovereto, the BCC di San Giovanni Rotondo and the BCC di Cassano delle Murge e Tolve.

An important agreement pursuant to articles 11 bis and 22 third part of the National Collective Labour Agreement was reached on 28 April for the BCC Valdostana, as part of the Bank's "2020-2022 Recovery Plan".

The further continuation of the emergency period has made it necessary to maintain a constant and continuous activity of updating and support in the application and interpretation of the numerous legislative and regulatory provisions (national and local) concerning the measures to be adopted for the management of human resources and to combat the spread of contagion in the workplace (e.g. the new Budget Law, the so-called Support Decree and related conversion law).

The consultancy linked to the extraordinary emergency situation was accompanied by ordinary technical support activities for the Banks for the drafting of individual agreements for the mutual termination of the employment relationship and/or redefinition of specific contractual clauses; support activities in the drafting of opinions on specific issues concerning labour law and in the preparation of all contracts for the management of the subordinate and para-subordinate employment relationship (e.g. employment contracts, letters of employment and/or transformation) transfers, secondments, assignments of contracts, etc.); out-of-court assistance in the management of individual and collective labour disputes and related settlements and in the management of disciplinary proceedings and any appeals; support in the drafting and revision of internal regulations and policies with impacts on personnel management; assistance in the interpretation of labour law and in the correct application of contractual regulations as well as the various corporate reorganisation processes implemented by the BCC-CR-RAIKAs.

During the month of March, a cycle of 4 training meetings was organised and conducted for all colleagues who deal with Personnel Administration within the BCC-CR-RAIKA of the Cassa Centrale Group and concerning legal, managerial and contractual issues relating to particularly current and debated topics and in particular: "Budget Law 2021: summary of the provisions and innovations of interest in labour law, social security and taxation"; "Privacy and data protection in the workplace: the risk-based approach to the test of big data and AI"; "Remote control and privacy between algorithms and the infosphere"; "Leave, absences, permits and holidays: innovations, regulatory and contributory aspects". The initiative obtained a wide participation and positive feedback from those who participated.

In order to initiate trade union discussions at Group level, a further mapping and analysis of the supplementary regional and provincial agreements in force throughout the country was carried out.

Trade union negotiations - already started in 2020 - also continued, for the definition of the Supplementary Company Agreements for Allitude.

With regard to the procedures initiated between the National Secretaries of Trade Unions (OO.SS.) and Federcasse, negotiations continued for the renewal of the National Collective Labour Agreement for Executives and the work of the permanent National Commission established by the shared Protocol on "Measures to prevent, combat and contain the spread of the Covid-19 virus in the Cooperative Credit category" signed on 24 March 2020. On 13 May, two important agreements were signed concluding negotiations that had started more than five months earlier. These refer to the "Agreement on the regulation of trade union rights within Cooperative Credit" and the "Agreement on second-level collective bargaining structures" which, in their respective areas, regulate fundamental aspects of trade union relations in the category as regards the regulation of trade union prerogatives and the stipulation of supplementary contracts, whose ownership passes definitively from the local Federations to the Parent Bank.

Other information on operations

Consolidation and development of Corporate Identity activities

The first half of 2021 was marked by a number of extraordinary activities due to the Covid-19 state of emergency which led the Parent Company to continue supporting the Banks and the territories and then to undertake new projects related to economic recovery.

Also in 2021, in order to facilitate the Banks in carrying out the new meeting procedures (not in person but with an Appointed Representative) and to allow them to easily and promptly convey the information required for adequate participation in the meetings, a specific section called "2021 Shareholders' Meeting" was proposed again on MyCMS (the platform for managing the Bank's websites). Information on the website includes, for example: "Who is the Designated Representative?", "How to participate in the Shareholders' Meeting", "How to make voting proxies", "How to ask questions on the items on the agenda", "What documentation to publish". In addition to the regulatory section, communication aids (videos, infographics, etc.) have been developed for all Group banks, and a reserved area has been made available to shareholders for pre-meeting documents.

The first national multi-channel communication campaign of the Cassa Centrale Group is part of the broader scope of activities related to the introduction and consolidation of the Group identity. At the end of 2020, the first flight of the national campaign took place with a dense TV, print and digital planning, which had as its main objective the recognition of the Cassa Centrale Group pictogram. In order to continue the process of consolidating the Group's identity, and following a very positive response to the first programming, the second phase of the Cassa Centrale Group's national multi-channel communication campaign began in March 2021.

The main novelties of this second phase are represented by a programming also on the most popular national radio stations and by the addition – for the press and digital planning – of three new subjects relating to the CSR (Corporate Social Responsibility) area, the Digital Bank - Inbank and Bancassurance, in addition to the institutional ADV.

In this second flight we started a more vertical focus on the concept of Cooperative Credit, as declined by the Cassa Centrale Group, and on the composition of the Group, made of numerous local and independent Banks. The value building process therefore shifts from a more institutional communication to a more specific definition of some offer areas thanks to the three new advertising subjects.

The campaign was developed on different means of communication: TV to ensure brand awareness and visibility and reach a wide audience, the press for the reputational aspect and authority that it guarantees and the web/digital to profile an active audience and reach a younger group, and radio in order to intercept a very wide target audience and convey the message of "bank close to the people".

In June, an additional advertising subject dedicated to mobile payments in partnership with Nexi was introduced and, in continuity with the previous months, the Group will be present in the main national paper and digital newspapers.

Lastly, still pertaining to the wider scope of brand enhancement, the Marketing Service was involved in the graphic restyling of the Group payment cards, which will be available from autumn 2021. In line with the new card designs, new dedicated communication supports will be created.

During the first six months of 2021, work continued on the MyCMS (Content Management System), an easy-to-manage multi-site shared platform that allows the individual bank to configure and customise its website in just a few steps. 78% of the Banks of the Group participated in this project, allowing for a coordinated, consistent and timely communication.

In the second half of 2020, a number of analyses and in-depth reviews were started to identify possible improvements to the MyCMS platform. Thanks to these analyses, some improvements were made in the first half of 2021:

- STEP 1: back-end improvements and updates related to graphics to improve their use;
- STEP 2: user experience improvements, especially mobile, and an important front-end graphic review.

The migration to Umbraco 8, which will allow for the evolution of MyCMS, with the aim of providing the Bank site administrators with an increasingly powerful and usable tool, is planned for the end of the year.

In order to support the Banks in communicating the measures defined due to the health emergency, in collaboration with the Credit Department, during 2020 an information web page on the "110% Superbonus" was prepared for the institutional website www.cassacentrale.it and, for websites connected to MyCMS, communication materials were drawn up and a major digital marketing campaign was launched. Given the success of the campaign and in view of the extension of the national tax benefit to 2022, a national digital campaign was rescheduled for the first half of 2021 for a further two months, on the Google and Bing search networks and on the Google Display Network, under the Cassa Centrale Group brand.

The purpose of the campaign was to collect leads (potential customers) through a contact form (available on the landing page on the website www.cassacentrale.it) for the request for information/appointment on the subject in question; in the form, the user – current customer or prospect – can select their bank of reference and directly send a request for contact.

During the campaign period, 381 forms were filled in and sent from 101 customers and 280 non-customers (prospects). In the 2 months of the campaign, the landing page recorded almost 580 thousand impressions and over 37 thousand users visited the page.

With regard to CSR, in order to illustrate the Group's commitment to sustainability with the stakeholders, a new "Sustainability" section has been prepared on the corporate website www.cassacentrale.it.

To prepare the section, we started with the payoff "Cooperative. Sustainable. Responsible": the 3 pillars around which to illustrate and tell the story of the Group's commitment through the values of everyday action.

The section develops the following topics:

- Cooperative: developed business model, initiatives;
- Sustainable: our values, the objectives of the 2030 Agenda and the materiality matrix;
- Responsible: applied to people, the environment, credit and finance;
- Sustainability governance;
- Code of Ethics, ESG Policies;
- NFS

During the first half of 2021, the focus was also on defining the Cassa Centrale Group's offer to young people, which will be launched in autumn 2021. Several market analyses were carried out, involving the Banks and Companies of the Group, in order to create a simple offer (updated and standardised agreements and procedures at central level), modular and customisable for the customer (according to products and services). The new communication and development concept of the site dedicated to the new offer is being defined.

Finally, in the first few months of the year, the project dedicated to the virtualisation of the cards and enabling them to pay through the Samsung pay, Google pay and Apple pay wallets was launched. This activity involved various players, including Allitude, the Operations Department and the Payment Systems Department, as well as individual providers. The Marketing Service participated in the various round tables and, in collaboration with the partners, devised the communication concept aimed at spreading and enhancing the service throughout the country. This mobile payments project will be completed by 2021.

Relations with related parties

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

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

With reference to the Bank of Italy, Consob and Isvap documents no. 2 of 6

February 2009 and no. 4 of 3 March 2010, concerning the information to be provided in the financial reports on the business outlook, with particular reference to business continuity, financial risks, impairment testing and uncertainties in the use of estimates, the Board of Directors confirms that it has a reasonable expectation that the Group can continue to operate in the foreseeable future and therefore certifies that the condensed consolidated half-yearly financial statements as at 30 June 2021 have been prepared on a going concern basis.

There are no elements or warnings in the Group's equity and financial structure and operating performance that could lead to uncertainties as to its ability to continue as a going concern.

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

Own shares

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

As at 30 June 2021,15,874,453 ordinary and preference shares with a nominal value of EUR 825,471,556 (corresponding to 86.71% of the share capital) are held by the Affiliated Banks of the Cassa Centrale Group and therefore, in the consolidated financial statements, these are to be considered as own shares held in portfolio.

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

Policies for business continuity management

The Group continues the process of consolidating its resilience following the definition of the organisational and operating model of the Cassa Centrale Group with regard to Business Continuity.

After completing the update of the documentary framework characterising the model in 2020 and represented, in particular, by the Group Regulation on Business Continuity and Crisis Management, the update of the Business Continuity Plan of the Parent Company and of the Group Companies and the Allitude S.p.A. Disaster Recovery Plan, to which all the Banks of the Group outsourced the management of the information system, during the year 2021 the methodologies for the verification of the continuity solutions were standardised.

Tests were planned for 2021 with particular reference to the technological test of the Disaster Recovery solution provided by Allitude, and the tests planned for the first half of 2021 regarding the unavailability scenarios indicated by the Bank of Italy were successfully completed.

Particular attention was paid to strengthening the network of Business Continuity Contacts, through training and awareness meetings aimed at continuous improvement of the Group Business Continuity organisational model.

Initiatives for the management of the Covid-19 pandemic emergency also continued, ensuring the operational continuity of business processes.

The health emergency and the consequent restrictive measures issued by the Government to protect public health had a significant impact on the management of the Cooperative Banking Group. The Parent Company, through the establishment of an emergency management operating unit, immediately activated measures to contain the risk of contagion, identifying specific procedures to ensure the operational continuity of critical processes and the safeguarding and protection of the health of workers, customers and suppliers, providing for guidance and coordination mechanisms for the Group.

In order to ensure homogeneous and coordinated interventions and measures at Group level, Cassa Centrale Banca has sent guidelines, communications and circulars, both informational and regulatory, to the Banks and Companies of the Group, in compliance with the restrictions and government provisions being issued. Periodic and constant information flows to the corporate bodies were set up, also maintaining a dialogue with the CODISE, internal body of the Bank of Italy dedicated to the management of the emergency, and with the Joint Supervisory Group (GVC). Cassa Centrale Banca has set up numerous initiatives in implementation of the government DPCM and the protocols shared with the corporate partners, giving continuity to the measures adopted since the beginning of the pandemic.

During this period, widespread information continued on the Covid-19 emergency, on risks and prevention measures through the issue of circulars to employees, infographics and posters affixed at the workplace and the substantial continuation of work in remote mode by the employees, with appropriate information on the risks of agile work and on safety in terms of risk.

The adoption of specific protocols for company sanitation and hygiene continued, the use of certified masks as personal protective equipment and disinfectant gel, as well as the updating of the regulations of the procedures for opening branches and related access by customers, providing for the use of appointments for the performance of operations that cannot be carried out remotely and that are of an urgent nature, in line with government measures.

In compliance with the government measures issued and the external context in relation to the level of spread of the virus, the specific company regulations for the procedures to be applied to the return of workers have been constantly adjusted and updated, with particular attention paid to the measures relating to physical distancing in the offices and to the numerical monitoring of staff returning from remote working on the basis of pre-established parameters.

In addition, due to the continuation of the Covid-19 emergency and with the primary objective of protecting the health of staff, the Operations Department, in agreement with Allitude, deemed it appropriate to continue the migration schedule of the Banks using the Gesbank information system, maintaining the new migration model of the information system based on a minimum on-site presence in order to respond to the ongoing health emergency and the limitations dictated by it in terms of mobility and proximity allowed among people. This operating method allowed the regular performance of activities and the completion of the migrations planned during the period.

In continuity with the control and protection actions linked to the spread of the Covid-19 epidemic, Cassa Centrale Banca deemed it appropriate to renew the verification of its prevention plan through a voluntary and independent assessment process, entrusting for this purpose Bureau Veritas, a company world leader in the assessment and analysis of risks related to quality, environment, health, safety and social responsibility.

Following the carried out assessments, Cassa Centrale Banca obtained confirmation of the “Safe Guard” certification also in the first half of 2021, demonstrating that it had managed the specific risks linked to the Covid-19 emergency in compliance with the regulatory provisions issued by the Authorities.

Organisational, management and control model for crime prevention pursuant to Italian Legislative Decree no. 231/2001

In implementation of the delegation pursuant to article 11 of Law 300 of 29 September 2000, Legislative Decree 231 of 8 June 2001 (hereinafter also “the Decree”) was issued, with which the legislator aligned domestic regulations to the international conventions, adopted also by Italy, on the liability of legal persons.

These in particular include the Brussels Convention of 26 July 1995 on the protection of the financial interests of the European Communities, the Convention signed in Brussels on 26 May 1997 on the fight against corruption involving officials of the European Community or of the Member States and the Organisation for Economic Co-operation and Development (OECD) Convention of 17 December 1997 on the fight against corruption of foreign public officials in economic and international transactions.

The Decree, which lays down “rules on the administrative liability of legal persons, companies and associations, including those without legal personality”, has introduced into the Italian legal system a regime of administrative liability applicable to entities for offences which are exhaustively listed, and committed in their interest or to their advantage: (i) by natural persons who hold positions of representation, administration or management of those entities or of one of their organisational units with financial and functional autonomy, as well as by natural persons who exercise, including de facto, the management and control of those entities, or (ii) by natural persons subject to the management or supervision of one of the persons indicated above.

The entity is not liable, on the other hand, if the aforementioned parties have acted in the exclusive interest of themselves or of third parties (art. 5, paragraph 2 of the Decree) or when it voluntarily prevents the carrying out of the action or the occurrence of the event.

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

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

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

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

In this case, although there is personal responsibility on the part of the top management, the entity is not liable under the Decree.

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

The Model must meet the following requirements:

- identification of the activities within the scope of which there is the potential that offences provided for in the Decree may be committed;
- provision of specific protocols aimed at planning the formation and implementation of the company's decisions in relation to the crimes to be prevented;
- identification of methods of managing financial resources suitable to prevent the commission of such offences;
- provision of information obligations towards the body responsible for supervising the functioning of and compliance with the Model;
- introduction of a disciplinary system suitable to sanction non-compliance with the measures indicated in the Model;
- provision of adequate information channels that, also through IT methods and ensuring the confidentiality of the identity of the reporter, allow individuals in top positions and their subordinates to submit detailed reports of unlawful conduct or violations of the Model;
- prohibit retaliatory or discriminatory acts against whistleblowers for reasons linked - directly or indirectly - to the reporting of potential violations of the Model.

The Parent Company has long since adopted a Model aimed at preventing the risk of incurring administrative liability of entities for the offences provided for in the Decree. The Cassa Centrale Banca model consists of two parts.

The General Section provides a description of the reference regulatory framework, the Bank's governance model and organisational set-up, the tasks and responsibilities of the Supervisory Board, the disciplinary system and the training and communication plan relating to the Model. It also provides indications on the methodology used to define the Model. Lastly, it identifies the roles and responsibilities regarding the adoption and updating of the Model.

The Special Section, organised in specific protocols for each category of offense envisaged by the Decree, identifies the sensitive activities within which the commission of such offenses is reasonably conceivable, as well as the control measures, the organisational measures and the behavioural principles to be adopted for the purpose preventing their commission.

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

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

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

At the same time, during the period of reference, the Parent Company continued the project aimed at rationalising and standardising the management of the administrative liability of entities by the Group Companies, through the preparation of a document containing principles and guidelines with which they are required to comply. In particular, the document envisages that all Italian subsidiaries are required to adopt a Model if, based on the results of the risk self-assessment activity, there is a concrete exposure to the risk of commission of offences. In such cases, they are also required to set up a Supervisory Board in accordance with the guidelines provided in the document, as well as to prepare specific information flows aimed at enabling the Parent Company to become aware of relevant facts concerning the companies themselves.

Furthermore, on 30 July 2020, Legislative Decree 75 of 14 July 2020 came into force with rules for the "implementation of Directive (EU) 2017/1371 on the fight against fraud to the Union's financial interests by means of criminal law". This Decree made numerous changes to the system of administrative liability of entities, both through the introduction of new offences in the "catalogue" of so-called predicate offences (pursuant to Legislative Decree no. 231 of 8 June 2001), and through the amendment of existing offences.

Consequently, Cassa Centrale Banca commenced the assessment of the impacts of the new regulations through the performance of the risk assessment, aimed at identifying the activities within which the offences may be committed as well as determining the relative level of exposure to the risk of commission thereof and the appropriate mitigating measures. This activity was concluded with the approval, by the Board of Directors, of the update of the Model on 30 March 2021.

Subsequently, documentation templates were issued to the Affiliated Banks, to be customised in relation to the specific operating context of each one, to support the updating activities, which remain the responsibility of the individual Group company.

Consolidated non-financial statement

The Cassa Centrale Group prepares, on an annual basis, the Consolidated Non-Financial Statement pursuant to art. 5, paragraph 3 of Legislative Decree 254/2016. The document is published on the Cassa Centrale Banca website at www.cassacentrale.it in the "Sustainability" section.

Significant events occurred after the end of the half year

It should be noted that, after 30 June 2021 and until the date of approval by the Board of Directors of this consolidated financial report, no events, facts or circumstances have occurred that led to a change in the data approved at that time, nor that they have had significant subsequent impacts on the Group's financial position and income statement.

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

Comprehensive Assessment

The Comprehensive Assessment (hereinafter also "CA") represents an in-depth assessment, pursuant to the Regulation on the Single Supervisory Mechanism (Council Regulation (EU) no. 1024 of 15 October 2013), aimed at ensuring that banks are adequately capitalised and can withstand macroeconomic and financial shocks. In conducting this activity, the objectives stated by the ECB are as follows:

- transparency, i.e. providing correct information on the real situation of European banks;
- correction, i.e. the application of measures to fill any gaps emerging from the financial statements;
- confidence building (resulting from the sum of the two previous objectives), i.e. assuring all banking stakeholders that institutions are fundamentally sound and reliable.

The Comprehensive Assessment, which has a prudential rather than an accounting nature (therefore without automatic effects on the Group financial statements), consists of two main areas that were based on the Group data as at 31 December 2019:

- an Asset Quality Review (hereinafter also referred to as "AQR") aimed at improving the transparency of bank exposures through an analysis of the quality of banks' assets;
- a stress test to verify the resilience of the Group's assets in the three-year period 2020-2022 in ordinary and adverse scenarios (Comprehensive Assessment Stress Test, hereinafter also "CAST").

This activity, initially planned for the first half of 2020, was subject to a general suspension following the outbreak of the Covid-19 health emergency. The activities related to the AQR were interrupted by the European Supervisory Authority and, similarly, the CAST component was suspended (allowing only the sending – at the beginning of March 2020 – of the Advance Data Collection, consisting in the representation of the final data related to the Group).

During the month of August 2020, the European Central Bank informed the Group of the imminent restart of the entire Comprehensive Assessment activity, communicating, both for the AQR component and for that of CAST, the new timelines that saw the conclusion of the related activities during the first months of 2021.

The findings of the AQR were integrated (Join-up) into the stress test, thus projecting the timely assessment of the AQR over the time horizon of the stress test itself. Compared to a starting figure of 19.72% (value as at 31 December 2019), the CET1 ratio was significantly higher than the threshold value applied to identify the capital shortfalls in the AQR and in the baseline scenario (equal to 8%) as well as with respect to the threshold value for the adverse scenario (equal to 5.5%). The overall results for the year, posted on the ECB website, on Friday 9 July 2021 are as follows:

- CET1 ratio of 17.14% in the "base" scenario compared to the starting value of 19.72% in December 2019, significantly higher than the warning threshold of 8% set by the ECB;
- CET1 ratio of 10.59%, in the "adverse" scenario, compared to the minimum threshold defined by the ECB of 5.5%.

Ultimately, the Group successfully passed the Comprehensive Assessment, confirming its high capital strength and resilience also with respect to the "catastrophic" Covid-19 scenarios defined at the level of the stress test.

CARIGE transaction

After 30 June, with reference to the Banca Carige S.p.A. transaction, two significant events occurred.

On 22 July 2021, Cassa Centrale Banca informed FITD/SVI and Consob that it had formally and definitively waived the option rights relating to the Carige shares held by FITD/SVI pursuant to the option agreement dated 9 August 2019.

Following the resignation of one standing auditor and two alternate auditors, appointed in January 2020, one of whom from the minority list submitted by Cassa Centrale Banca pursuant to the Articles of Association of Carige, the Shareholders' Meeting was held on 28 July 2021 for the integration of the control body, in which Mr Diego Agostino Rigon was appointed on the candidacy of Cassa Centrale Banca as a minority shareholder.

Prestipay S.p.A. share capital increase

In the first half of 2021, the company, 60% owned by Cassa Centrale, saw a development in operations significantly higher than the forecasts of the business plan drawn up during the establishment phase in September 2018.

This led the shareholders to bring forward to the autumn 2021 the share capital increase for a total of EUR 12,500,000 which, again according to the business plan, should have taken place in the spring of 2022. In this way, the subsidiary is assured about a broad compliance with the capital requirements set forth in the current regulations for a time horizon covering the entire 2022, at growth rates commensurate with the current ones.

Acquisition of control of Centrale Trading S.r.l.

On 28 July 2021, the acquisition of 10% of the shares of Centrale Trading S.r.l. by Cassa Centrale Banca was completed. Following this transaction, Cassa Centrale Banca holds, also through Allitude, the absolute majority of the shares of the Company, which was registered in the Cooperative Banking Group.

Inspection by the Bank of Italy on Anti-Money Laundering and Transparency

On 6 August, the Bank of Italy's inspection, started on 12 April on the Cassa Centrale Group, was completed. Investigations were aimed at assessing compliance with regulations on the transparency and fairness of transactions with customers and on combating money laundering and terrorist financing. At the date of preparation of this Report, the outcome is not yet known, which is normally expected within 90 days from the conclusion of the inspection.

ECB inspection on capital adequacy

Starting from 27 September 2021, the Cassa Centrale Group is subject to an inspection by the ECB on capital adequacy for an expected duration of eight weeks, aimed at assessing the calculation of Pillar 1 capital requirements.

Business outlook

The first half of 2021 saw the prolonged effects of the current health emergency, which generated significant impacts in terms of health, on the social, economic and financial fabric of large areas of the world.

The measures issued by the European Authorities together with the government interventions (in particular the so-called Decrees “Cura Italia”, “Liquidity” and “Relaunch”) are helping to contain the recessionary effects, but the entire banking sector will have to continue to carefully assess the evolution of the situation.

In particular, a strong focus on the reduction of impaired loans must be maintained, aiming at a continuous improvement in asset quality. The banking industry will have to take into account the changed economic context and the impacts that the latter may have on the profitability of banks. Bank lending and borrowing interest rates are expected to remain at the current historically low levels, thus continuing to erode primary margins.

More stable financial markets in the first part of 2021 allowed for growth in household financial investments so that cash investments in asset management instruments continued to support revenues.

A lower contribution to profitability could come from payment and liquidity management services, also as a result of increased competitive pressure from non-banking operators and the digital transformation process. Within a context of weakness in traditional banking activity, improving operating efficiency, cost reduction and new business strategies are confirmed as the main levers for the recovery of profitability in the sector.

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

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

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

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

Condensed Consolidated Half Yearly Financial Statements of the Cassa Centrale Group

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated balance sheet

	ASSETS	30/06/2021	31/12/2020
10.	Cash and cash equivalents	595	614
20.	Financial assets measured at fair value through profit or loss	593	607
	a) financial assets held for trading	5	7
	b) financial assets measured at fair value	2	2
	c) other financial assets obligatorily measured at fair value	586	598
30.	Financial assets measured at fair value through other comprehensive income	10,196	9,440
40.	Financial assets measured at amortised cost	76,920	73,068
	a) loans to banks	6,547	3,002
	b) loans to customers	70,373	70,066
50.	Hedging derivatives	2	2
60.	Adjustment of the financial assets subject to macro-hedging (+/-)	29	45
70.	Equity investments	70	75
90.	Tangible assets	1,264	1,270
100.	Intangible assets	80	82
	of which:		
	- goodwill	28	28
110.	Tax assets	806	849
	a) current	144	165
	b) deferred	662	684
120.	Non-current assets and groups of assets held for disposal	6	7
130.	Other assets	831	738
	TOTAL ASSETS	**91,392**	**86,797**

	LIABILITIES AND EQUITY	30/06/2021	31/12/2020
10.	Financial liabilities measured at amortised cost	81,222	77,873
	a) due to banks	19,010	17,438
	b) due to customers	57,953	55,447
	c) debt securities in issue	4,259	4,988
20.	Financial liabilities held for trading	4	9
30.	Financial liabilities measured at fair value	1	15
40.	Hedging derivatives	39	57
60.	Tax liabilities	74	81
	a) current	21	8
	b) deferred	53	73
80.	Other liabilities	2,651	1,571
90.	Provision for severance indemnity	117	130
100.	Provisions for risks and charges	325	339
	a) commitments and guarantees issued	121	121
	b) retirement and similar obligations	-	-
	c) other provisions for risks and charges	204	218
120.	Valuation reserves	34	72
140.	Equity instruments	6	6
150.	Reserves	6,127	5,915
160.	Share premium	72	75
170.	Share capital	1,275	1,274
180.	Own shares (-)	(866)	(866)
190.	Third party minority interests (+/-)	4	1
200.	Profit (loss) for the year (+/-)	307	245
	TOTAL LIABILITIES AND EQUITY	**91,392**	**86,797**

Consolidated income statement

	ITEMS	30/06/2021	30/06/2020
10.	Interest income and similar revenues	741	706
	of which: interest income calculated with the effective interest method	736	706
20.	Interest expenses and similar charges	(76)	(105)
30.	**Interest margin**	**665**	**601**
40.	Commission income	380	346
50.	Commission expenses	(43)	(35)
60.	**Net commissions**	**337**	**311**
70.	Dividend and similar income	2	1
80.	Net result from trading	4	2
90.	Net result from hedging	1	(1)
100.	Profit (loss) from disposal/repurchase of:	160	100
	a) financial assets measured at amortised cost	139	74
	b) financial assets measured at fair value through other comprehensive income	21	26
	c) financial liabilities	-	-
110.	Net result of other financial assets and liabilities measured at fair value through profit or loss	10	(9)
	a) financial assets and liabilities measured at fair value	-	-
	b) other financial assets obligatorily measured at fair value	10	(9)
120.	**Net interest and other banking income**	**1,179**	**1,005**
130.	Net value adjustments/write-backs due to credit risk relative to:	(113)	(171)
	a) financial assets measured at amortised cost	(113)	(166)
	b) financial assets measured at fair value through other comprehensive income	-	(5)
140.	Profits/losses from contractual changes without derecognitions	-	(3)
150.	**Net income from financial activities**	**1,066**	**831**
180.	**Net income from financial and insurance activities**	**1,066**	**831**
190.	Administrative expenses:	(765)	(707)
	a) personnel costs	(435)	(413)

	ITEMS	30/06/2021	30/06/2020
	b) other administrative expenses	(330)	(294)
200.	Net allocations to provisions for risks and charges	(5)	(36)
	a) commitments and guarantees issued	-	(9)
	b) other net allocations	(5)	(27)
210.	Net value adjustments/write-backs to tangible assets	(52)	(49)
220.	Net value adjustments/write-backs to intangible assets	(8)	(7)
230.	Other operating charges/income	111	115
240.	**Operating costs**	**(719)**	**(684)**
250.	Profits (losses) on equity investments	(1)	1
290.	**Profit (loss) before tax from current operating activities**	**346**	**148**
300.	Income taxes for the year on current operating activities	(40)	(31)
310.	**Profit (loss) after tax from current operating activities**	**306**	**117**
330.	**Profit (loss) for the year**	**306**	**117**
340.	Profit (loss) for the year for minority interests	1	-
350.	**Profit (loss) for the parent company**	**307**	**117**

Statement of consolidated comprehensive income

	ITEMS	30/06/2021	30/06/2020
10.	**Profit (loss) for the year**	**307**	**117**
	Other post-tax components of income without reversal to the income statement	**(22)**	**(17)**
20.	Equities measured at fair value through other comprehensive income	(27)	(18)
30.	Financial liabilities measured at fair value through profit or loss (changes in credit rating)	-	-
40.	Hedging of equities measured at fair value through other comprehensive income	-	-
50.	Tangible assets	-	-
60.	Intangible assets	-	-
70.	Defined benefit plans	5	1
80.	Non-current assets and groups of assets held for disposal	-	-
90.	Quota of reserves from the valuation of shareholdings measured with the equity method	-	-
	Other post-tax components of income with reversal to the income statement	**(17)**	**6**
100.	Hedging of foreign investments	-	-
110.	Exchange rate differences	-	-
120.	Cash flow hedging	-	-
130.	Hedging instruments (non designated elements)	-	-
140.	Financial assets (other than equities) measured at fair value through other comprehensive income	(17)	6
150.	Non-current assets and groups of assets held for disposal	-	-
160.	Quota of reserves from the valuation of shareholdings measured with the equity method	-	-
170.	**Total other post-tax components of income**	**(39)**	**(11)**
180.	**Comprehensive income (Item 10+170)**	**268**	**106**
190.	**Consolidated comprehensive income pertaining to minority interests**	**(1)**	**(1)**
200.	**Consolidated comprehensive income pertaining to the parent company**	**269**	**107**

Statement of changes in consolidated equity

	Balances as at 31/12/20	Adjustment to opening balances	Balances as at 01/01/21	Allocation of result from previous year		Changes during the year										Group net equity as at 30/06/21	Equity pertaining to minority interests as at 30/06/21
							Equity transactions										
				Reserves	Dividends and other allocations	Changes to reserves	Issue of new shares	Purchase of own shares	Distribution of extraordinary dividends	Change in equity instruments	Derivatives on own shares	Stock Options	Changes in equity investments	Comprehensive income for 2021			
Share capital:																	
a) ordinary shares	1,266	X	1,266	-	X	X	3	(2)	X	X	X	X	-	X		1,267	4
b) other shares	8	X	8	-	X	X	-	-	X	X	X	X	-	X		8	-
Share premium	75	X	75	-	X	(3)	-	X	X	X	X	X	-	X		72	-
Reserves:	-																
a) of profit	5,902	-	5,902	210	X	3	-	-	-	X	X	X	-	X		6,115	1
b) other	13	-	13	-	X	(1)	-	X	-	X	-	-	-	X		12	-
Valuation reserves	72	-	72	X	X	-	X	X	X	X	X	X	-	(38)		34	-
Equity instruments	6	X	6	X	X	X	X	X	X	-	X	X	-	X		6	-
Own shares	(866)	X	(866)	X	X	X	-	-	X	X	X	X	X	X		(866)	-
Profit (loss) for the year	245	-	245	(210)	(35)	X	X	X	X	X	X	X	X	307		307	(1)
Group equity	**6,721**	**-**	**6,721**	**-**	**(35)**	**(1)**	**3**	**(2)**	**-**	**-**	**-**	**-**	**-**	**269**		**6,955**	**-**
Equity pertaining to minority interests	**1**	**-**	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4**	**(1)**		**-**	**4**

	Balances as at 31/12/19	Adjustment to opening balances	Balances as at 01/01/20	Allocation of result from previous year		Changes during the year										Group equity as at 30/06/20	Equity pertaining to minority interests as at 30/06/20
							Equity transactions										
				Reserves	Dividends and other allocations	Changes to reserves	Issue of new shares	Purchase of own shares	Distribution of extraordinary dividends	Change in equity instruments	Derivatives on own shares	Stock Options	Changes in equity investments	Comprehensive income for 2020		
Share capital:																
a) ordinary shares	1,268	X	1,268	-	X	X	1	-	X	X	X	X	-	X	1,269	-
b) other shares	8	X	8	-	X	X	1	-	X	X	X	X	-	X	9	-
Share premium	75	X	75	-	X	-	-	X	X	X	X	X	-	X	75	-
Reserves:	-															
a) of profit	5,704	-	5,704	197	X	1	-	-	-	X	X	X	-	X	5,902	3
b) other	12	-	12	-	X	1	-	X	-	X	-	-	-	X	13	-
Valuation reserves	55	-	55	X	X	-	X	X	X	X	X	X	-	(10)	45	-
Equity instruments	6	X	6	X	X	X	X	X	X	-	X	X	-	X	6	-
Own shares	(869)	X	(869)	X	X	X	-	-	X	X	X	X	X	X	(869)	-
Profit (loss) for the year	221	-	221	(197)	(24)	X	X	X	X	X	X	X	X	117	117	-
Group equity	**6,480**	**-**	**6,480**	**-**	**(24)**	**2**	**2**	**-**	**-**	**-**	**-**	**-**	**-**	**107**	**6,567**	**-**
Equity pertaining to minority interests	**4**	**-**	**4**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1)**	**-**	**3**

Consolidated cash flow statement

Indirect method

	Amount	
	30/06/2021	30/06/2020
A. OPERATING ACTIVITIES		
1. Operations	**523**	**412**
- income for the period (+/-)	**306**	117
- gains/losses on financial assets held for trading and other assets/liabilities measured at fair value through profit or loss (-/+)	**-**	-
- gains/losses on hedging activities (-/+)	**(1)**	1
- net value adjustments/write-backs due to credit risk (+/-)	**113**	171
- net value adjustments/write-backs to tangible and intangible assets (+/-)	**60**	56
- net allocations to provisions for risks and charges and other costs/revenues (+/-)	**5**	36
- uncollected net premiums (-)	**-**	-
- other uncollected insurance revenue/charges (-/+)	**-**	-
- taxes, duties and tax credits not settled (+/-)	**40**	31
- net value adjustments/write-backs from discontinued operations net of tax (-/+)	**-**	-
- other adjustments (+/-)	**-**	-
2. Cash flows generated/used by the financial assets	**(4,688)**	**(9,900)**
- financial assets held for trading	**2**	(1)
- financial assets measured at fair value	**-**	-
- other financial assets obligatorily measured at fair value	**12**	4
- financial assets measured at fair value through other comprehensive income	**(800)**	(1,307)
- financial assets measured at amortised cost	**(3,852)**	(8,697)
- other assets	**(50)**	101
3. Cash flows generated/used by the financial liabilities	**4,230**	**9,546**
- financial liabilities measured at amortised cost	**3,349**	9,489
- financial liabilities held for trading	**(5)**	1
- financial liabilities measured at fair value	**(14)**	(16)
- other liabilities	900	72
Net cash flow generated/used by operating activities	**65**	**58**

	Amount	
	30/06/2021	30/06/2020
B. INVESTMENT ACTIVITIES		
1. Cash flows generated by	**13**	**25**
- sales of equity investments	**-**	12
- dividends collected on equity investments	**2**	1
- sales of tangible assets	**11**	12
- sales of intangible assets	**-**	-
- sales of business units	**-**	-
2. Cash flows used by	**(62)**	**(41)**
- equity investment acquisitions	**-**	-
- tangible asset acquisitions	**(57)**	(35)
- intangible asset acquisitions	**(5)**	(6)
- purchases of subsidiaries and business units	**-**	-
Net cash flow generated/used by investment activities	**(49)**	**(16)**
C. FUNDING ACTIVITIES		
- issues/purchases of own shares	**-**	-
- issues/purchases of equity instruments	**-**	-
- dividend distribution and other	**(35)**	(24)
- sale/purchase of third parties' controlling interests	**-**	-
Net cash flow generated/used by funding activities	**(35)**	**(24)**
NET CASH FLOW GENERATED/USED DURING THE YEAR	**(19)**	**18**

KEY:

(+) generated
(-) absorbed

Reconciliation

ITEMS	Amount	
	30/06/2021	30/06/2020
Cash and cash equivalents at the beginning of the year	614	555
Total net cash flows generated/used during the year	(19)	18
Cash and cash equivalents: impact of exchange differences	-	-
Cash and cash equivalents at year-end	595	573

Condensed Consolidated Half Yearly Financial Statements of the Cassa Centrale Group

EXPLANATORY NOTES

Part A - Accounting policies

A.1 - General part

Section 1 - Statement of compliance with international accounting standards

Cassa Centrale Banca Credito Cooperativo Italiano Cooperative Banking Group (hereinafter also referred to as the "Cassa Centrale Group" or the "Group") is required to prepare its condensed consolidated half-yearly financial statements in accordance with the IAS/IFRS issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission under the procedure set out in art. 6 of Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002, in force at the reference date of this document, including the interpretative documents of the International Financial Reporting Interpretations Committee (IFRIC) and Standing Interpretations Committee (SIC), limited to those applied for the preparation of the condensed consolidated half-yearly financial statements as at 30 June 2021.

The condensed consolidated financial statements and the report on consolidated operations constitute the Consolidated Half-Yearly Financial Report.

In interpreting and applying the new international accounting standards, reference was also made to the Framework for the Preparation and Presentation of Financial Statements, i.e. the Systematic Framework for the preparation and presentation of financial statements (so-called Conceptual Framework or the Framework), issued by the IASB. In terms of interpretation, also considered were the documents on the application of IAS/IFRS in Italy, prepared by the Italian Accounting Body (OIC) and the Italian Banking Association (ABI).

In the absence of a standard or an interpretation specifically applicable to a particular transaction, the Group uses the professional judgement of its departments in developing accounting recognition rules which make it possible to provide a reliable financial disclosure, necessary for guaranteeing that the financial statements give a true and fair view of the Group's equity and financial position, reflecting the economic substance of the transaction as well as the relevant related aspects.

In formulating these accounting recognition rules, reference was made, as much as possible, to the provisions contained in the international accounting standards and the associated interpretations that address similar cases. Lastly, the communications of the Supervisory Bodies (Bank of Italy, Consob, ESMA, EBA, ECB) were taken into consideration, as applicable, as they provide recommendations on the disclosure to be reported in the Consolidated Half-Yearly Financial Report, on aspects of greater importance or on the accounting treatment of particular transactions.

Section 2 - General preparation criteria

The condensed consolidated half-yearly financial statements as at 30 June 2021 of the Cassa Centrale Group include the Parent Company Cassa Centrale Banca and the direct and indirect subsidiaries: for further details on the scope of consolidation, please refer to "Section 3 – Scope and methods of consolidation" of this Part A.

The condensed consolidated half-yearly financial statements comprise the consolidated balance sheet, the consolidated income statement, the statement of consolidated comprehensive income, the statement of changes in consolidated equity, the consolidated cash flow statement and these explanatory notes.

The aforementioned condensed consolidated half-yearly financial statements are prepared in compliance with the provisions of IAS 34 "Interim Financial Reporting" and, by virtue of the option granted by paragraph 10 of the aforementioned accounting standard, they are presented in summary form without including the complete disclosure required for the annual financial statements and must be read together with the consolidated financial statements of the Cassa Centrale Group prepared for the year ended 31 December 2020.

The explanatory notes to the condensed consolidated half-yearly financial statements have been prepared with reference to the structure of the notes to the consolidated financial statements required by the Bank of Italy pursuant to Circular no. 262 of 22 December 2005 as amended (hereinafter also referred to as "Circular no. 262/2005"), albeit with a limited information content as these are condensed half-yearly financial statements. Moreover, in order to facilitate the reading, the numbering recommended by the aforementioned Circular no. 262/2005, was maintained, although some parts, sections or tables may be omitted since, as mentioned above, this is a document drawn up in condensed form.

In addition to the accounting data as at 30 June 2021, the consolidated financial statements provide comparative information relating to the corresponding period of the previous year, with the exception of the balance sheet which is compared with the last consolidated financial statements approved on 31 December 2020.

In compliance with the provisions of art. 5 of Legislative Decree no. 38/2005, the condensed consolidated half-yearly financial statements were drawn up using the Euro as the accounting currency. The consolidated balance sheet, the consolidated income statement, the statement of consolidated comprehensive income, the statement of changes in consolidated equity, the consolidated cash flow statement and the explanatory notes are presented in millions of Euros. Any differences between the information provided in the explanatory notes and the condensed consolidated half-yearly financial statements are due to rounding.

The consolidated balance sheet and the consolidated income statement comprise items, sub-items and additional detailed information. Items not valued either in the current or the previous year are not reported. In the consolidated income statement and the related section of the explanatory notes, revenues are recorded without sign, while the costs are indicated in brackets. In the statement of consolidated comprehensive income the negative amounts are stated in brackets.

The condensed consolidated half-yearly financial statements are prepared on the basis of the going concern assumption of the Cassa Centrale Group, as the directors reasonably expect that the Group will continue operating in the foreseeable future. The situation of the financial markets and the real economy and the still uncertain forecasts made with reference to the short/medium-term require particularly precise valuations to be performed as regards the going concern assumption, since the results history of the Group and its easy access to financial resources may not be sufficient in the current context. The directors believe that the risks and uncertainties to which the Group may be subject in the flow of its operations, also considering the effects of the Covid-19 pandemic, are not significant and are therefore such as to cast doubt on the company's ability to continue as a going concern.

Estimation processes are based on past experience as well as other factors considered reasonable in the circumstances, and aim to estimate the carrying amount of assets and liabilities that are not readily apparent from other sources. In particular, estimation processes were adopted that support the carrying amount of some of the most important valuation items posted in the accounts, according to reference regulations. These processes are mainly based on estimates of future recoverability of the values in the accounts and were carried out on a going concern basis. The main cases for which subjective evaluations are required to be made by the Board of Directors include:

- the quantification of expected losses due to the reduction of loan values and, in general, of other financial assets;
- the determination of the fair value of financial instruments, with particular reference to financial assets not listed on active markets;
- the assessment of congruity in the value of goodwill and other intangible assets;
- the measurement of personnel funds and provisions for risks and charges;
- the estimates and assumptions regarding recoverability of deferred tax assets.

The information provided on the accounting policies applied for the main aggregate values of the consolidated financial statements includes the necessary details for identifying the main assumptions and subjective evaluations made in preparing the consolidated financial statements. For further details on the breakdown and relative carrying amounts of the specific statement captions affected by said estimates, see the relevant sections of these Explanatory Notes. The processes adopted support the carrying amounts on the date of preparing the condensed consolidated half-yearly financial statements. The measurement process turned out to be particularly complex in consideration of the persisting uncertainty of the macroeconomic and market context, characterised by the considerable volatility of the financial parameters determined for the measurement as well as indicators of impairment of the credit quality that remain high. These parameters and the information used to check the mentioned values are significantly affected by these factors, not under the Group's control, which may undergo rapid and unforeseeable changes.

The condensed consolidated half-yearly financial statements also make reference to the general preparation criteria listed below, where applicable:

- principle of truth and fairness and completeness in the presentation of the consolidated balance sheet, consolidated income statement and consolidated cash flows (true and fair view);
- accrual principle;
- principle of consistent presentation and classification from one year to another (comparability);
- principle of prohibited offsetting of entries, except where expressly permitted;
- principle of prevalence of economic substance over legal form;
- principle of prudence in exercising the necessary judgement to make the estimates required in conditions of uncertainty so that the assets or revenues are not overestimated and the liabilities or costs are not underestimated, without this implying the creation of hidden reserves or excessive allocations;
- principle of neutral nature of information;
- principle of relevance/significance of the information.

Ultimately, with reference to the main implications related to the method of application of the international accounting standards (in particular IFRS 9) in the context of the Covid-19 pandemic, please refer to the specific paragraph included in "A.1 – General Part, Section 5 - Other aspects" of this Part A.

Section 3 - Scope and methods of consolidation

The condensed consolidated half-yearly financial statements as at 30 June 2021 refer to a scope of consolidation better defined below. In this regard, the provisions of IFRS 10, 11, 12 and IFRS 3 have been taken into account, including in the scope of consolidation - as specifically provided for by IAS/IFRS - including companies operating in sectors of activity different from that of the Parent Company. Similarly, structured companies are also included if their control requirements are met, regardless of their mere shareholding.

In addition, with regard to the consolidation of Cooperative Banking Groups (hereinafter "GBC" - Gruppi Bancari Cooperativi), it should be pointed out that Law no. 145 of 30 December 2018 "State Budget for the 2019 financial year and multi-annual budget for the three-year period 2019-2021" (2019 Budget Law), in transposing into Italian law, article 2, paragraph 2, letter b) of Directive 86/635/EEC on the treatment of central bodies for the purposes of consolidated accounts, introduced the obligation to prepare consolidated financial statements for the whole of the central body and its affiliates (so-called "single consolidating entity"). This Community provision had so far not been transposed in our country, given the absence, before the reform of cooperative credit, of central bodies in Italy, which are widespread in other European countries. Among other things, in the explanatory report to the 2019 Budget Law it is pointed out that the effects of the regulatory change are twofold:

- **a.** *"for the purposes of preparing the consolidated financial statements, the Parent Company and the banks belonging to the cooperative banking group constitute a single consolidating entity";*
- **b.** *"in preparing the consolidated financial statements, the accounting items relating to the Parent Company and the Affiliated Banks are recorded on a consistent basis".*

In this regard, it seems reasonable to believe that the Italian legislator, as part of the amendments introduced by the 2019 Budget Law, has taken into account the interpretation provided by the European Commission in 2006 according to which, even in the case of IAS adopters, the obligation to prepare consolidated financial statements must be assessed in accordance with the provisions of the national transposition of European directives.

In light of the interpretation of the European Commission and considering that, as a result of the transposition into Italian law of Article 2, paragraph 2, letter b) of Directive 86/635/EEC, in the case of Cooperative Banking Groups, the entity required to prepare consolidated financial statements (reporting entity) is represented by the aggregation of the central body and the Affiliated Banks (so-called "single consolidating entity"), it is considered that the rules of IFRS 10 "Consolidated Financial Statements" apply only for the purposes of identifying the scope of consolidation of the reporting entity; i.e. only for the purposes of assessing the existence of situations of control between the entities forming the reporting entity and third parties (e.g. subsidiaries of the parent company or individual Affiliated Banks).

Recognition of the reporting entity nature within the sole consolidating entity also implies that IFRS 3 would apply only to the accounting of business combinations involving the latter and third parties (e.g. in the case of acquisition of new subsidiaries).

The provision of the Testo Unico Bancario (Consolidated Banking Act - TUB), according to which the Cohesion Contract ensures the existence of a situation of control as defined by international accounting standards, must also be interpreted in light of the subsequent amendments made to national accounting regulations by the 2019 Budget Law.

In this context, on the one hand, the 2019 Budget Law defines the procedures with which to comply with the consolidation obligations in the case of central bodies, on the other hand, the TUB's provisions are important in order to circumscribe the Central Body's governance powers over its affiliates.

The aforementioned approach is consistent, among other things, with the approach already adopted in other European jurisdictions with regard to the manner in which central bodies and their affiliated entities are consolidated, as for example in France.

That being said, in line with the above, the preparation of the condensed consolidated half-yearly financial statements was carried out through a process of aggregation:

- Financial Statements of the Parent Company Cassa Centrale Banca and its subsidiaries/associates over which it exercises control on the basis of the majority of voting rights and/or the connection on the basis of significant influence;
- Financial Statements of the Affiliated Banks and their subsidiaries/associates over which the Parent Company exercises direction and coordination on the basis of the Cohesion Contract.

This process was followed by a subsequent phase of reclassification to own shares of the same shares of Cassa Centrale Banca held by the Affiliated Banks and the elimination of the asset and economic balances attributable to intra-group transactions.

Subsidiaries

Without prejudice to that stated in the previous paragraph regarding the peculiarities of the consolidation method of the Cooperative Banking Group, the scope of consolidation is determined in compliance with the provisions contained in international accounting standard IFRS 10 Consolidated Financial Statements. Based on this principle, the control requirement forms the basis of the consolidation of all types of entities, and is realised when an investor simultaneously:

- has the power to determine the relevant activities of the entity;
- is exposed to or benefits from the variable returns deriving from its involvement with the entity;
- has the ability to exercise its power to influence the amount of its returns (link between power and returns).

IFRS 10 establishes that, to have control, the investor must have the ability to direct the relevant activities of the entity, based on a legal right or mere de facto situation, and also be exposed to the variability of the results stemming from this power.

The subsidiaries are consolidated from the date on which the Group acquires control, according to the 'acquisition method' - IFRS 3, and cease to be consolidated when control is no longer held.

The existence of control is subject to a continuous valuation process if there are events and circumstances that indicate the presence of a change in one or more of the three elements forming the control requirement, presented in the following paragraph "Significant valuations and assumptions for determining the scope of consolidation".

The full consolidation consists of the 'line-by-line' acquisition of the aggregates of the balance sheet and the income statement of the entities controlled, as contra-entry to the cancellation of the investment held by the Group in the entity and the recognition, in the appropriate items, of the shares held by minority interests.

The differences emerging from this offsetting were subject to the provisions of IFRS 3; if they were allocated to the appropriate items, they are subject to the accounting treatment of the reference standard; if they were not specifically allocated, they are booked to goodwill under intangible assets and subject to impairment testing. Negative differences (so-called bargain purchase or badwill) are recognised in the consolidated income statement.

In addition, for entities controlled through an investment relationship, the share of equity pertaining to minority interests, the result for the year and comprehensive income is represented separately in the respective consolidated financial statements (under consolidated balance sheet liability item 190. Third party minority interests, 340. Profit (loss) for the year for minority interests in the consolidated income statement and 190. Consolidated comprehensive income pertaining to minority interests in the Statement of Consolidated Comprehensive Income).

Costs and revenues relating to the controlled entity are included in the Consolidated Financial Statements from the date of acquisition of control. The costs and revenues of the subsidiary transferred are included in the consolidated income statement until the transfer date; the difference between the consideration of the transfer and the carrying amount of the net assets of the same is recognised in the income statement item 280. Profit (loss) from disposal of investments. In the presence of a partial disposal of the controlled entity which does not determine the loss of control, the difference between the consideration of the transfer and the associated carrying amount is booked as a contra-entry to equity.

Controlling interests held for sale are consolidated on a line-by-line basis and stated separately in the Financial Statements as a group held for disposal valued as at the reporting date at the lower of the carrying amount and the fair value less disposal costs, based on the treatment provided for in IFRS 5.

Controlling shareholdings with total assets of less than EUR 10 million are accounted for using the equity method, as line-by-line consolidation would require a considerable effort in terms of production, collection and consolidation of data, against negligible benefits in relation to financial reporting. This option, however, is expressly provided for in Article 19 of Regulation (EU) no. 575/2013 (CRR) on consolidation methods for the purposes of prudential supervision.

In special purpose vehicles, the circumstances that need to be examined for the purposes of any existence of a situation of control pursuant to IFRS 10 are:

- the involvement/role of Group companies in the structuring of the transaction (originator/investor/servicer/facility provider);
- the subscription of a large portion of Asset Backed Securities (ABS) issued by the special purpose vehicle on the part of Group companies;
- the scope/objective of the transaction.

In the first half of 2021, no business combinations between subsidiaries took place.

The full scope of the subsidiaries that are part of the Cassa Centrale Group as at 30 June 2021 is shown below:

COMPANY NAME	Operating headquarters	Registered office	Relationship type *	Investment relationship		Votes available %
				Investing company	% Share	
A. ENTITIES CONSOLIDATED ON A LINE-BY-LINE BASIS						
A.1 ENTITIES CONSOLIDATED ON A LINE-BY-LINE BASIS - COHESION CONTRACT						
CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	Trento	Trento	4			
BANCA DI CREDITO COOPERATIVO DEL CIRCEO E PRIVERNATE - COOPERATIVE COMPANY	Sabaudia (LT)	Sabaudia (LT)	4			
BANCA DI CREDITO COOPERATIVO DI MONOPOLI - COOPERATIVE COMPANY	Monopoli (BA)	Monopoli (BA)	4			
BANCA DELL'ALTA MURGIA CREDITO COOPERATIVO - COOPERATIVE COMPANY	Altamura (BA)	Altamura (BA)	4			
BANCA DI CREDITO COOPERATIVO DEI CASTELLI E DEGLI IBLEI - COOPERATIVE COMPANY	Mazzarino (CL)	Mazzarino (CL)	4			
CREDITO ETNEO - BANCA DI CREDITO COOPERATIVO - LIMITED LIABILITY COOPERATIVE COMPANY	Catania	Catania	4			
BANCA MALATESTIANA - CREDITO COOPERATIVO - COOPERATIVE COMPANY	Rimini	Rimini	4			
BANCA DI CREDITO COOPERATIVO DEI CASTELLI ROMANI E DEL TUSCOLO - COOPERATIVE COMPANY	Castel Gandolfo (Rome)	Rocca Priora (Rome)	4			
BANCA DEL GRAN SASSO D'ITALIA, BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	Pineto (TE)	Pineto (TE)	4			
CASSA RURALE VALLAGARINA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	Ala (TN)	Ala (TN)	4			
CASSA RURALE ALTO GARDA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	Arco (TN)	Arco (TN)	4			
CASSA RURALE DI LEDRO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	Ledro (TN)	Ledro (TN)	4			
LA CASSA RURALE - CREDITO COOPERATIVO ADAMELLO GIUDICARIE VALSABBIA PAGANELLA - COOPERATIVE COMPANY	Tione di Trento (TN)	Tione di Trento (TN)	4			
CASSA RURALE VALSUGANA E TESINO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	Borgo Valsugana (TN)	Borgo Valsugana (TN)	4			

COMPANY NAME	Operating headquarters	Registered office	Relationship type *	Investment relationship		Votes available %
				Investing company	% Share	
CASSA RURALE ROTALIANA E GIOVO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	Mezzolombardo (TN)	Mezzolombardo (TN)	4			
CASSA RURALE DOLOMITI DI FASSA PRIMIERO E BELLUNO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	Moena (TN)	Moena (TN)	4			
CASSA RURALE VAL DI SOLE - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	Malè (TN)	Malè (TN)	4			
CASSA RURALE ALTA VALSUGANA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	Pergine Valsugana (TN)	Pergine Valsugana (TN)	4			
CASSA RURALE VAL DI FIEMME - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	Cavalese (TN)	Cavalese (TN)	4			
CASSA RURALE RENON - COOPERATIVE COMPANY	Collalbo RENON (BZ)	Collalbo RENON (BZ)	4			
CASSA RURALE NOVELLA E ALTA ANAUNIA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	Fondo (TN)	Revò (TN)	4			
CASSA RURALE DI ROVERETO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	Rovereto (TN)	Rovereto (TN)	4			
CASSA RAIFFEISEN DI SAN MARTINO IN PASSIRIA - COOPERATIVE COMPANY	S. Martino in Passiria (BZ)	S. Martino in Passiria (BZ)	4			
CREDITO COOPERATIVO CENTRO CALABRIA - COOPERATIVE COMPANY	Cropani Marina (CZ)	Cropani Marina (CZ)	4			
CASSA RURALE VAL DI NON - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	Cles (TN)	Cles (TN)	4			
CASSA RURALE DI TRENTO, LAVIS, MEZZOCORONA E VALLE DI CEMBRA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	Trento	Trento	4			
CASSA RURALE ALTA VALLAGARINA E LIZZANA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	Volano (TN)	Volano (TN)	4			
BANCA DI CREDITO COOPERATIVO DI ALBEROBELLO E SAMMICHELE DI BARI - COOPERATIVE COMPANY	Alberobello (BA)	Alberobello (BA)	4			
CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	Leno (BS)	Leno (BS)	4			

COMPANY NAME	Operating headquarters	Registered office	Relationship type *	Investment relationship		Votes available %
				Investing company	% Share	
BANCA DI CREDITO COOPERATIVO DI AQUARA - COOPERATIVE COMPANY	Aquara (SA)	Aquara (SA)	4			
BANCA DI CREDITO COOPERATIVO DI ANAGNI - COOPERATIVE COMPANY	Anagni (FR)	Anagni (FR)	4			
BANCA DI CREDITO COOPERATIVO DELL'ALTO TIRRENO DELLA CALABRIA VERBICARO - COOPERATIVE COMPANY	Verbicaro (CS)	Verbicaro (CS)	4			
BANCA DI CREDITO COOPERATIVO DI BARLASSINA - COOPERATIVE COMPANY	Barlassina (MB)	Barlassina (MB)	4			
BENE BANCA CREDITO COOPERATIVO DI BENE VAGIENNA (CUNEO) - COOPERATIVE COMPANY	Bene vagienna (CN)	Bene vagienna (CN)	4			
CASSA RURALE ED ARTIGIANA DI BORGO SAN GIACOMO (BRESCIA) - CREDITO COOPERATIVO - COOPERATIVE COMPANY	Borgo San Giacomo (BS)	Borgo San Giacomo (BS)	4			
CASSA RURALE ED ARTIGIANA DI BOVES - BANCA DI CREDITO COOPERATIVO (BOVES-CUNEO) - COOPERATIVE COMPANY	Boves (CN)	Boves (CN)	4			
BANCA DI CARAGLIO, DEL CUNEESE E DELLA RIVIERA DEI FIORI - CREDITO COOPERATIVO - COOPERATIVE COMPANY	Caraglio (CN)	Caraglio (CN)	4			
BANCA DI CREDITO COOPERATIVO DI CASSANO DELLE MURGE E TOLVE - COOPERATIVE COMPANY	Cassano delle Murge (BA)	Cassano delle Murge (BA)	4			
BANCA DI CREDITO COOPERATIVO DI CASTAGNETO CARDUCCI - COOPERATIVE COMPANY	Donoratico (LI)	Castagneto Carducci (LI)	4			
BANCA DI CREDITO COOPERATIVO DELLA ROMAGNA OCCIDENTALE - COOPERATIVE COMPANY	Castel Bolognese (RA)	Castel Bolognese (RA)	4			
BCC FELSINEA - BANCA DI CREDITO COOPERATIVO DAL 1902 - COOPERATIVE COMPANY	San Lazzaro di Savena (BO)	San Lazzaro di Savena (BO)	4			
BANCA DI CREDITO COOPERATIVO DI CHERASCO - COOPERATIVE COMPANY	Rovereto di Cherasco (CN)	Rovereto di Cherasco (CN)	4			
BANCO MARCHIGIANO CREDITO COOPERATIVO	Civitanova Marche (MC)	Civitanova Marche (MC)	4			
BANCA DI CREDITO COOPERATIVO DI CONVERSANO - COOPERATIVE COMPANY	Conversano (BA)	Conversano (BA)	4			
BANCA CENTRO EMILIA - CREDITO COOPERATIVO - COOPERATIVE COMPANY	Corporeno (FE)	Corporeno (FE)	4			

COMPANY NAME	Operating headquarters	Registered office	Relationship type *	Investment relationship		Votes available %
				Investing company	% Share	
CORTINABANCA - CREDITO COOPERATIVO - COOPERATIVE COMPANY	Cortina d'Ampezzo (BL)	Cortina d'Ampezzo (BL)	4			
BANCA DI CREDITO COOPERATIVO DI FLUMERI - COOPERATIVE COMPANY	Flumeri (AV)	Flumeri (AV)	4			
BANCA DI CREDITO COOPERATIVO VALDOSTANA - COOPERATIVE DE CREDIT VALDOTAINE - COOPERATIVE COMPANY	Aosta	Gressan (AO)	4			
BANCA DEL VENETO CENTRALE - CREDITO COOPERATIVO - COOPERATIVE COMPANY	Longare (VI)	Longare (VI)	4			
BANCA DI CREDITO COOPERATIVO DI LOCOROTONDO CASSA RURALE E ARTIGIANA - COOPERATIVE COMPANY	Locorotondo (BA)	Locorotondo (BA)	4			
CREDITO COOPERATIVO - CASSA RURALE ED ARTIGIANA DEL FRIULI VENEZIA GIULIA - COOPERATIVE COMPANY	Gorizia (GO)	Gorizia (GO)	4			
BANCATER CREDITO COOPERATIVO FVG - COOPERATIVE COMPANY	Udine	Udine	4			
PRIMACASSA - CREDITO COOPERATIVO FVG - COOPERATIVE COMPANY	Martignacco (UD)	Martignacco (UD)	4			
BANCA ALTO VICENTINO - CREDITO COOPERATIVO DI SCHIO, PEDEMONTE E ROANA - COOPERATIVE COMPANY	Schio (VI)	Schio (VI)	4			
BANCA DI CREDITO COOPERATIVO DI BRESCIA - COOPERATIVE COMPANY	Nave (BS)	Brescia	4			
BANCA CENTRO LAZIO CREDITO COOPERATIVO - COOPERATIVE COMPANY	Palestrina (Rome)	Palestrina (Rome)	4			
BANCA DEL TERRITORIO LOMBARDO CREDITO COOPERATIVO - COOPERATIVE COMPANY	Brescia	Brescia	4			
BANCA DI CREDITO COOPERATIVO DEL VELINO - COOPERATIVE COMPANY	Rieti	Posta (RI)	4			
BANCA DI CREDITO COOPERATIVO DI PIANFEI E ROCCA DE' BALDI - COOPERATIVE COMPANY	Pianfei (CN)	Pianfei (CN)	4			
BANCA MONTE PRUNO - CREDITO COOPERATIVO DI FISCIANO, ROSCIGNO E LAURINO - COOPERATIVE COMPANY	Roscigno (SA)	Roscigno (SA)	4			
BANCA DI CREDITO COOPERATIVO LAUDENSE - LODI - COOPERATIVE COMPANY	Lodi	Lodi	4			

COMPANY NAME	Operating headquarters	Registered office	Relationship type *	Investment relationship		Votes available %
				Investing company	% Share	
FRIULOVEST BANCA - CREDITO COOPERATIVO - COOPERATIVE COMPANY	San Giorgio della Richinvelda (PN)	San Giorgio della Richinvelda (PN)	4			
BANCA DI CREDITO COOPERATIVO DI SAN GIOVANNI ROTONDO - COOPERATIVE COMPANY	San Giovanni Rotondo (FG)	San Giovanni Rotondo (FG)	4			
BANCA DI CREDITO COOPERATIVO DI SAN MARZANO DI SAN GIUSEPPE - TARANTO - COOPERATIVE COMPANY	San Marzano di San Giuseppe (TA)	San Marzano di San Giuseppe (TA)	4			
BANCA DI CREDITO COOPERATIVO DI CASALGRASSO E SANT'ALBANO STURA - COOPERATIVE COMPANY	Carmagnola (TO)	Sant'Albano Stura (CN)	4			
BANCA DI CREDITO COOPERATIVO DI SARSINA - COOPERATIVE COMPANY	Sarsina (FC)	Sarsina (FC)	4			
ROMAGNABANCA CREDITO COOPERATIVO ROMAGNA EST E SALA DI CESENATICO - COOPERATIVE COMPANY	Bellaria-Igea Marina (RN)	Rubicone (FC)	4			
BANCA DI CREDITO COOPERATIVO DI SPELLO E BETTONA - COOPERATIVE COMPANY	Spello (PG)	Spello (PG)	4			
BANCA DI BOLOGNA CREDITO COOPERATIVO - COOPERATIVE COMPANY	Bologna	Bologna	4			
BANCA DI CREDITO COOPERATIVO DI TURRIACO - COOPERATIVE COMPANY	Turriaco (GO)	Turriaco (GO)	4			
BANCA PREALPI SAN BIAGIO CREDITO COOPERATIVO - COOPERATIVE COMPANY	Tarzo (TV)	Tarzo (TV)	4			
CASSA RURALE ED ARTIGIANA DI VESTENANOVA - CREDITO COOPERATIVO - COOPERATIVE COMPANY	Vestenanova (VR)	Vestenanova (VR)	4			
ZKB CREDITO COOPERATIVO DI TRIESTE E GORIZIA - COOPERATIVE COMPANY	Opicina (TS)	Opicina (TS)	4			
BANCA LAZIO NORD CREDITO COOPERATIVO - COOPERATIVE COMPANY	Viterbo	Viterbo	4			
BANCA DI CREDITO COOPERATIVO LA RISCOSSA DI REGALBUTO - COOPERATIVE COMPANY	Regalbuto (EN)	Regalbuto (EN)	4			
BANCA DI CREDITO COOPERATIVO SANGRO TEATINA DI ATESSA	Atessa (CH)	Atessa (CH)	4			
BANCA ADRIA COLLI EUGANEI - CREDITO COOPERATIVO - COOPERATIVE COMPANY	Adria (RO)	Adria (RO)	4			
BANCA SICANA - CREDITO COOPERATIVO DI SOMMATINO, SERRADIFALCO E SAMBUCA DI SICILIA - COOPERATIVE COMPANY	Caltanissetta	Caltanissetta	4			

COMPANY NAME	Operating headquarters	Registered office	Relationship type *	Investment relationship		Votes available %
				Investing company	% Share	
A.2 ENTITIES CONSOLIDATED ON A LINE-BY-LINE BASIS OTHER THAN COHESION CONTRACT						
AZIENDA AGRICOLA ANTONIANA S.r.l.	Leno (BS)	Leno (BS)	1	CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	100.00	100.00
BENACO GESTIONI IMMOBILIARI S.r.l.	Leno (BS)	Leno (BS)	1	CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	100.00	100.00
NORD EST ASSET MANAGEMENT SA	Luxembourg	Luxembourg	1	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	100.00	100.00
ALLITUDE S.p.A.	Trento	Trento	1	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	96.40	96.40
				OTHER MINORITY INTERESTS	3.03	3.03
					99.43	99.43
ASSICURA AGENZIA S.r.l.	Udine	Udine	1	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	100.00	100.00
ASSICURA BROKER S.r.l.	Trento	Trento	1	ASSICURA AGENZIA S.r.l.	100.00	100.00
CENTRALE CREDIT & REAL ESTATE SOLUTIONS S.r.l.	Trento	Trento	1	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	100.00	100.00
CLARIS LEASING S.p.A.	Treviso	Treviso	1	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	100.00	100.00
CENTRALE SOLUZIONI IMMOBILIARI S.r.l.	Trento	Trento	1	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	100.00	100.00
BANCA DI BOLOGNA REAL ESTATE S.p.A.	Bologna	Bologna	1	BANCA DI BOLOGNA CREDITO COOPERATIVO - COOPERATIVE COMPANY	100.00	100.00
IMMOBILIARE VILLA SECCAMANI S.r.l.	Leno (BS)	Leno (BS)	1	CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	100.00	100.00
PRESTIPAY S.p.A.	Udine	Udine	1	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	60.00	60.00

COMPANY NAME	Operating headquarters	Registered office	Relationship type *	Investment relationship		Votes available %
				Investing company	% Share	
A.3 ENTITIES CONTROLLED BUT CONSOLIDATED AT EQUITY FOR MATERIALITY LIMITS						
CA' DEL LUPO	Leno (BS)	Leno (BS)	1	CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	100.00	100.00
AGORA' S.r.l.	Leno (BS)	Narbolia (OR)	1	CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	100.00	100.00
TAVERNOLE IDROELETTRICA S.r.l.	Tavernole sul Mella (BS)	Tavernole sul Mella (BS)	1	CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	55.00	55.00
DOMINATO LEONENSE SANITA' S.r.l.	Leno (BS)	Leno (BS)	1	CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	50.00	50.00
BTV GESTIONI S.r.l.	Brescia	Brescia	1	BANCA DEL TERRITORIO LOMBARDO CREDITO COOPERATIVO - COOPERATIVE COMPANY	100.00	100.00
CENTRALE CASA S.r.l.	Trento	Trento	1	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	100.00	100.00
IMMOBILIARE BCC DI BRESCIA S.r.l.	Nave (BS)	Nave (BS)	1	BANCA DI CREDITO COOPERATIVO DI BRESCIA - COOPERATIVE COMPANY	100.00	100.00
RAIFFEISEN IMMOBILIEN S.r.l.	Renon (BZ)	Renon (BZ)	1	CASSA RURALE RENON - COOPERATIVE COMPANY	100.00	100.00
VERDEBLU IMMOBILIARE	Cherasco (CN)	Cherasco (CN)	1	BANCA DI CREDITO COOPERATIVO DI CHERASCO - COOPERATIVE COMPANY	100.00	100.00
CASSA RURALE ALTA VALSUGANA SOLUZIONI IMMOBILIARI S.r.l.	Pergine Valsugana (TN)	Pergine Valsugana (TN)	1	CASSA RURALE ALTA VALSUGANA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	100.00	100.00
QUADRIFOGLIO 2018 S.r.l.	Castenaso (BO)	Castenaso (BO)	1	BCC FELSINEA - BANCA DI CREDITO COOPERATIVO DAL 1902 - COOPERATIVE COMPANY	100.00	100.00
VERDEBLU IMMOBILIARE	Cherasco (CN)	Cherasco (CN)	1	BANCA DI CREDITO COOPERATIVO DI CHERASCO - SOCIETA' COOPERATIVA	100,00	100,00
CASSA RURALE ALTA VALSUGANA SOLUZIONI IMMOBILIARI S.r.l..	Pergine Valsugana (TN)	Pergine Valsugana (TN)	1	CASSA RURALE ALTA VALSUGANA - BANCA DI CREDITO COOPERATIVO - SOCIETA' COOPERATIVA	100,00	100,00
QUADRIFOGLIO 2018 S.r.l.	Castenaso (BO)	Castenaso (BO)	1	BCC FELSINEA - BANCA DI CREDITO COOPERATIVO DAL1902 - SOCIETA' COOPERATIVA	100,00	100,00
SOCIETA' AGRICOLA TERRE DELLA ROCCA S.r.l.	Bologna	Bologna	1	BANCA DI BOLOGNA REAL ESTATE	100.00	100.00

COMPANY NAME	Operating headquarters	Registered office	Relationship type *	Investment relationship		Votes available %
				Investing company	% Share	
ASSICURA S.r.l.	Udine	Udine	1	BANCATER CREDITO COOPERATIVO FVG - COOPERATIVE COMPANY	22.80	22.80
				PRIMACASSA - CREDITO COOPERATIVO FVG - COOPERATIVE COMPANY	19.68	19.68
				CREDITO COOPERATIVO - CASSA RURALE ED ARTIGIANA DEL FRIULI VENEZIA GIULIA - COOPERATIVE COMPANY	12.34	12.34
				ZKB CREDITO COOPERATIVO DI TRIESTE E GORIZIA - COOPERATIVE COMPANY	11.35	11.35
				OTHER MINORITY INTERESTS	11.46	11.46
					77.63	77.63
TEMA S.r.l.	Bologna	Bologna	1	BANCA DI BOLOGNA REAL ESTATE	71.43	71.43
ANTICA VALLE DEL PO S.r.l.	Motta Baluffi (CR)	Motta Baluffi (CR)	1	CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	100.00	100.00
CLARIS RENT S.p.A.	Treviso	Treviso	1	CLARIS LEASING	100.00	100.00
DOMINATO LEONENSE S.r.l.	Milan	Milan	4	CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	0.00	0.00
FONDO LEONIDA	Verona	Verona	4	BANCA DEL TERRITORIO LOMBARDO CREDITO COOPERATIVO - COOPERATIVE COMPANY	0.00	0.00

*Relationship type:

1 = majority of voting rights in the ordinary shareholders' meeting

2 = dominant influence in the ordinary shareholders' meeting

3 = agreements with other shareholders

4 = other forms of control

5 = unitary management pursuant to Article 39, paragraph 1, of "Legislative Decree 136/2015"

6 = unitary management pursuant to Article 39, paragraph 2, of "Legislative Decree 136/2015"

Structured entities

In accordance with IFRS 12 paragraph B21, there are defined entities structured so that voting or similar rights are not the predominant factor in determining who controls the entity.

Structured entities have all or some of the following characteristics:

- limited activities;
- a limited and well-defined social purpose;
- insufficient equity to allow the structured entity to finance its activities without subordinated financial support;
- loans by investors that create concentrations of credit risk or other risks (tranches).

Structured entities subject to consolidation are those over which the Cassa Centrale Group has the power over the entity's relevant activities and is exposed to the variability of their returns, by virtue of the financial instruments underwritten.

As at the reporting date, the Cassa Centrale Group consolidated the Fondo Leonida (closed-end alternative real estate investment fund) using the equity method because it is below the aforementioned materiality limit, by virtue of the financial instruments subscribed (fund units), financial support to the fund and exposure to the variability of returns on the fund's relevant activities.

Associates

An associate is a company in which the investing company has significant influence and which is not a subsidiary or part of a joint venture. Significant influence is presumed when the investing company holds, directly or indirectly, at least 20% of the capital of another company. Further indicators of significant influence are as follows:

- representation on the company's governance body;
- participation in the process of defining policies, including therein participation in decisions relating to dividends or other profit distributions;
- the existence of significant transactions between the investor and the investee company;
- the exchange of managerial personnel;
- provision of essential technical information.

Equity investments in associates are consolidated according to the equity method. The equity method provides for the initial recognition of the investment at cost and its subsequent value adjustment based on the share of the investee company's equity. The equity investment in associates includes goodwill (net of any impairment) paid for the acquisition. Participation in the post-acquisition profits and losses of associates is booked to the consolidated income statement under item 250. Profits (losses) on equity investments.

Any distribution of dividends is used to reduce the carrying amount of the equity investment.

If the interest in the losses of an associate is equal to or exceeds the carrying amount of the investee, no further losses are recognised, unless specific obligations have been undertaken in favour of the associate or payments have been made to said entity.

The valuation reserves of the associates are shown separately in the Statement of Consolidated Comprehensive Income.

The full scope of the investments in associates belonging to the Cassa Centrale Group as at 30 June 2021 is shown below.

NAME	Registered office	Operating headquarters	Relationship type *	Investment relationship		Votes available %
				Investing company	% Share	
B. IMPRESE SOTTOPOSTE AD INFLUENZA NOTEVOLE						
LE CUPOLE	Manerbio (BS)	Manerbio (BS)	4	CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	22.00	22.00
FINANZIARIA TRENTINA DELLA COOPERAZIONE	Trento	Trento	4	CASSA RURALE DI TRENTO, LAVIS, MEZZOCORONA E VALLE DI CEMBRA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	8.48	8.48
				CASSA RURALE ALTA VALSUGANA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	7.19	7.19
				CASSA RURALE ALTO GARDA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	6.53	6.53
				CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	4.08	4.08
				CASSA RURALE DOLOMITI DI FASSA PRIMIERO E BELLUNO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	3.26	3.26
				LA CASSA RURALE - CREDITO COOPERATIVO ADAMELLO GIUDICARIE VALSABBIA PAGANELLA - COOPERATIVE COMPANY	3.15	3.15
				CASSA RURALE VAL DI FIEMME - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	3.12	3.12
				CASSA RURALE VAL DI NON - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	2.96	2.96
				CASSA RURALE VALSUGANA E TESINO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	2.88	2.88
				OTHER MINORITY INTERESTS	5.86	5.86
					47.51	47.51
PARTECIPAZIONI COOPERATIVE S.r.l.	Trento	Trento	4	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	13.92	13.92
				CASSA RURALE DI TRENTO, LAVIS, MEZZOCORONA E VALLE DI CEMBRA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	6.96	6.96

NAME	Registered office	Operating headquarters	Relationship type *	Investment relationship		Votes available %
				Investing company	% Share	
				CASSA RURALE ALTA VALSUGANA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	5.10	5.10
				CASSA RURALE VAL DI NON - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	3.71	3.71
				CASSA RURALE ALTO GARDA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	3.48	3.48
				CASSA RURALE DOLOMITI DI FASSA PRIMIERO E BELLUNO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	2.32	2.32
				CASSA RURALE DI ROVERETO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	2.32	2.32
				CASSA RURALE VALLAGARINA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	2.09	2.09
				OTHER MINORITY INTERESTS	7.89	7.89
					47.79	47.79
CENTRALE TRADING	Trento	Trento	4	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	32.5	32.5
				ALLITUDE S.p.A.	10.00	10.00
					42.50	42.50
SERENA S.r.l.	Manzano (UD)	Manzano (UD)	4	BANCATER CREDITO COOPERATIVO FVG - COOPERATIVE COMPANY	29.05	29.05
RITTNERHORN SEILBAHNEN AG	Renon (BZ)	Renon (BZ)	4	CASSA RURALE RENON - COOPERATIVE COMPANY	26.51	26.51
SCOUTING S.p.A.	Bellaria - Igea Marina (RN)	Bellaria - Igea Marina (RN)	4	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	8.26	8.26
				ROMAGNABANCA CREDITO COOPERATIVO ROMAGNA EST E SALA DI CESENATICO - COOPERATIVE COMPANY	6.29	6.29
				CASSA RURALE ALTA VALSUGANA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	6.29	6.29
				BANCA PREALPI SAN BIAGIO CREDITO COOPERATIVO - COOPERATIVE COMPANY	4.88	4.88

NAME	Registered office	Operating headquarters	Relationship type *	Investment relationship		Votes available %
				Investing company	% Share	
				BANCA MALATESTIANA - CREDITO COOPERATIVO - COOPERATIVE COMPANY	4.65	4.65
					30.37	30.37
CABEL HOLDING S.p.A.	Empoli (FI)	Empoli (FI)	4	BANCA DI CREDITO COOPERATIVO DI CASTAGNETO CARDUCCI - COOPERATIVE COMPANY	19.50	19.50
				CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	7.66	7.66
				BANCA LAZIO NORD CREDITO COOPERATIVO - COOPERATIVE COMPANY	2.01	2.01
					29.17	29.17
SENIO ENERGIA S.r.l.	Faenza (RA)	Faenza (RA)	4	BANCA DI CREDITO COOPERATIVO DELLA ROMAGNA OCCIDENTALE - COOPERATIVE COMPANY	22.22	22.22
RENDENA GOLF S.p.A.	Bocenago (TN)	Bocenago (TN)	4	LA CASSA RURALE - CREDITO COOPERATIVO ADAMELLO GIUDICARIE VALSABBIA PAGANELLA - COOPERATIVE COMPANY	24.76	24.76
SERVIZI E FINANZA FVG S.r.l.	Udine	Udine	4	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	24.51	24.51
CONNESSIONI - IMPRESA SOCIALE S.r.l.	Brescia	Brescia	4	CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	30.00	30.00

*Relationship type:

1 - majority of voting rights in the ordinary shareholders' meeting

2 - dominant influence in the ordinary shareholders' meeting

3 - agreements with other shareholders

4 - company subject to a significant influence

5 - unitary management pursuant to Article 26, paragraph 1, of "Legislative Decree 87/92"

6 - unitary management pursuant to Article 26, paragraph 2, of "Legislative Decree 87/92"

7 - joint ventures

8 - Other type of Relationship.

Jointly controlled companies

A joint arrangement is a contractual agreement in which two or more counterparties have joint control.

Joint control is the sharing, on a contractual basis, of control of an agreement, which exists solely when the unanimous consent of all parties that share control is required for decisions relating to significant assets. According to IFRS 11, joint arrangements must be classified as joint operations or joint ventures based on the contractual rights and obligations held by the Group.

A joint operation is a joint arrangement in which the parties have rights over the assets and obligations with respect to the liabilities of the agreement. A joint venture is a joint arrangement in which the parties have rights over the net assets of the agreement. These equity investments are measured according to the equity method.

The full scope of the investments in jointly controlled companies forming part of the Cassa Centrale Group as at 30 June 2021 is shown below.

NAME	Registered office	Operating headquarters	Relationship type *	Investment relationship		Votes available %
				Investing company	% Share	
A. JOINTLY CONTROLLED COMPANIES						
CASSE RURALI RAIFFEISEN FINANZIARIA S.p.A.	Bolzano	Bolzano	7	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	50.00	50.00
FRONTE PARCO IMMOBILIARE S.r.l.	Bologna	Bologna	7	BANCA DI BOLOGNA CREDITO COOPERATIVO - COOPERATIVE COMPANY	50.00	50.00

*Relationship type:

1 - majority of voting rights in the ordinary shareholders' meeting

2 - dominant influence in the ordinary shareholders' meeting

3 - agreements with other shareholders

4 - company subject to a significant influence

5 - unitary management pursuant to Article 26, paragraph 1, of "Legislative Decree 87/92"

6 - unitary management pursuant to Article 26, paragraph 2, of "Legislative Decree 87/92"

7 - joint ventures

8 - Other type of Relationship.

Significant valuations and assumptions for determining the scope of consolidation

The scope of consolidation is determined in compliance with the provisions contained in international accounting standard IFRS 10 Consolidated Financial Statements. Based on this principle, the control requirement forms the basis of the consolidation of all types of entities, including structured entities when the conditions are met, and is realised when an investor simultaneously has:

- the power to determine the relevant activities of the entity;
- is exposed to or benefits from the variable returns deriving from its involvement with the entity;
- the ability to exercise its power to influence the amount of its returns (link between power and returns).

IFRS 10 establishes that, to have control, the investor must have the ability to direct the relevant activities of the entity, based on a legal right or mere de facto situation, and also be exposed to the variability of the results stemming from this power.

Therefore, the Cassa Centrale Group consolidates all types of entities when all three aspects of control are present.

Generally, when an entity is directed through voting rights, control derives from holding more than half of the voting rights.

In other cases, determination of the scope of consolidation calls for consideration of all factors and circumstances that give the investor the practical ability to unilaterally manage the relevant activities of the entity (de facto control). To this end, it is necessary to consider a combination of factors, such as, merely by way of an example:

- the scope and design of the entity;
- the identification of the relevant activities and how they are managed;
- any right held through contractual agreements which confer the power to govern the relevant activities, such as the power to determine the financial and operating policies of the entity, the power to exercise the majority of voting rights in the decision-making body or the power to appoint or remove the majority of the body with decision-making functions;
- any potential voting rights exercisable and considered substantial;
- the involvement in the entity in the role of agent or principal;
- the nature and the dispersion of any rights held by other investors.

With reference to the Group's situation at the date of these condensed consolidated half-yearly financial statements, all companies in which the majority of voting rights in the ordinary shareholders' meeting are held are considered wholly-owned subsidiaries, given that no evidence has been highlighted that the other investors have the practical ability to direct the relevant activities.

For companies in which half or less of voting rights are held, at the date of these condensed consolidated half-yearly financial statements, no agreements, statutory clauses or situations able to attribute the Cassa Centrale Group the practical capacity to unilaterally govern the relevant activities were identified.

Equity investments in wholly-owned subsidiaries with significant third-party interests

At the date of these condensed consolidated half-yearly financial statements, there are no subsidiaries through an equity relationship with significant third-party interests.

Significant restrictions

At the date of these condensed consolidated half-yearly financial statements, there are no legal or substantive obligations or restrictions able to obstruct the rapid transfer of capital resources within the Group. The only restrictions are those attributable to regulatory provisions which may require a minimum amount of regulatory capital to be retained, or to the provisions of the Italian Civil Code on distributable profits and reserves.

It should be noted that there are no protective rights held by minorities able to limit the Group's capacity to access or transfer assets between Group companies or settle the Group's liabilities, including in relation to the fact that, as at 30 June 2021, there are no subsidiaries with significant third-party interests, as stated in the previous paragraph.

Other information

The accounting positions forming the basis of the line-by-line consolidation process are those relating to 30 June 2021, as approved by the competent bodies of the consolidated companies adjusted, where necessary, to bring them into line with the homogeneous accounting standards of the Group.

For the consolidation of companies subject to joint control and investments in associates, the most recent financial statements (annual or interim) approved by the companies have been used. In cases where the companies do not apply IAS/IFRS, it is verified that any application of IAS/IFRS would not have had a significant impact on the Consolidated Financial Statements of the Cassa Centrale Group.

Section 4 - Subsequent events

In relation to the provisions of IAS 10, in the period between the reference date of this document and its approval by the Board of Directors, which took place on 7 October 2021, no events occurred such as to entail a change in the data presented in the financial statements.

The accounting estimates as at 30 June 2021 were made on the basis of a series of macroeconomic and financial indicators expected at that date.

Given the above, a description of the main events occurred after the end of the year is provided below.

Comprehensive Assessment

On 9 July 2021, the results of the Comprehensive Assessment exercise carried out by the European Central Bank (ECB), concluded in the first months of 2021, were made public by the European supervisor.

The overall results for the year are as follows:

- CET1 ratio of 17.14% in the "baseline" scenario compared to the starting value of 19.72% in December 2019, significantly higher than the warning threshold of 8% set by the ECB;
- CET1 ratio of 10.59%, in the "adverse" scenario, compared to the minimum threshold defined by the ECB of 5.5%.

The results are to be considered very positive given the actual situation of the Group, which sees a CET1 ratio of 21.46% as at 31 December 2020, significantly higher than the 17.14% generated in the first year of the Comprehensive Assessment simulation in the baseline scenario. This ratio becomes even more important when compared to the Group's 2020 financial statements, where the ratio of net impaired loans to total loans (net NPL ratio) at 2.6%.

The Comprehensive Assessment, which has a prudential rather than an accounting nature (therefore without automatic effects on the Group financial statements), consists of two main areas that were based on the Group data as at 31 December 2019:

- an Asset Quality Review (hereinafter also referred to as "AQR") aimed at improving the transparency of bank exposures through an analysis of the quality of banks' assets;
- a stress test to verify the resilience of the Group's assets in the three-year period 2020-2022 in ordinary and adverse scenarios (Comprehensive Assessment Stress Test, hereinafter also "CAST").

Ultimately, the Group successfully passed the Comprehensive Assessment, confirming its high capital strength and resilience also with respect to the "catastrophic" Covid-19 scenarios defined at the level of the stress test.

CARIGE transaction

On 22 July 2021, Cassa Centrale Banca informed FITD/SVI and Consob that it had formally and definitively waived the option rights relating to the Carige shares held by FITD/SVI pursuant to the option agreement dated 9 August 2019.

Inspection by the Bank of Italy on Anti-Money Laundering and Transparency

On 6 August, the Bank of Italy's inspection, started on 12 April on the Cassa Centrale Group, was completed. Investigations were aimed at assessing compliance with regulations on the transparency and fairness of transactions with customers and on combating money laundering and terrorist financing. At the date of preparation of this Report, the outcome is not yet known, which is normally expected within 90 days from the conclusion of the inspection.

ECB inspection on capital adequacy

Starting from 27 September 2021, the Cassa Centrale Group is subject to an inspection by the ECB on capital adequacy for an expected duration of eight weeks, aimed at assessing the calculation of Pillar 1 capital requirements.

Section 5 - Other aspects

a) Accounting standards newly applied as of 1 January 2021

In the first half of 2021, the following new accounting standards and interpretation or changes to existing standards and interpretations have entered into effect:

- amendments to IFRS 4 Insurance Contracts: Extension of the Temporary Exemption from Applying IFRS 9 (Regulation (EU) 2020/2097);
- Interest Rate Benchmark Reform - Phase 2 - which has amended IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Regulation (EU) 2021/25);
- amendments to IFRS 16: amendment entitled "Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendments to IFRS16)" extending by one year the period of application of the amendment to IFRS 16, issued in 2020, relating to the accounting of facilities granted, due to Covid-19, to lessees.

The above amendments did not have an impact on the Group's financial position and economic results as at 30 June 2021.

b) Endorsed accounting standards that will enter into force after the reporting date

The accounting standards and accounting interpretations or amendments to existing accounting standards that will enter into force after 30 June 2021 are shown below:

- amendments to IFRS 3 Business Combinations; IAS16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements Cycle (EU Reg. 2021/1080), applicable to reporting with effect on or after 1 January 2022;
- Annual Improvements 2018-2020: the amendments were made to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples of IFRS 16 Leases.

c) Accounting standards still not endorsed which will enter into force in the next few years

The following amended accounting principles, instead, have not yet been endorsed by the European Commission:

- amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current (January 2020);
- IFRS 17 Insurance Contracts (May 2017) including amendments to IFRS 17 (June 2020).

In addition, in the first half of 2021 the IASB has published the following amendments, not yet endorsed by the European Commission:

- amendments to IAS 1 Presentation of Financial Statements and to IFRS Practice Statement 2: Disclosure of Accounting Policies;
- amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates;
- Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction.

d) Methods of application of the international accounting standards in the context of the Covid-19 pandemic

The European regulatory and supervisory bodies, as well as the standard setters, have published, especially in 2020, a number of interventions aimed also at clarifying the methods of application of the international accounting standards, with particular reference to IFRS 9, in the current context of the Covid-19 pandemic. The aforementioned interventions published during 2020 were extensively described in the Annual Financial Report as at 31 December 2020, to which reference should be made.

During the first half of 2021 (29 January 2021) the EBA updated its report on the implementation of the prudential regulatory framework defined in relation to the COVID-19 pandemic ("*EBA Report on the implementation of selected COVID-19 policies, EBA/Rep/2021/02*"), clarifying that, in the event that a bank enters into a second moratorium on the same credit facility, any suspension of payments scheduled to occur on or after 1 April 2021 is treated as an individual moratorium measure (and therefore the general rules regarding the definition of default, forbearance and distressed restructuring apply).

Regarding the use of macroeconomic projections, the ECB recommended using as an anchor point the projections formulated by its staff on 12 March 2020 and subsequently updated on 4 June 2020 and 10 December 2020 for the accounting periods ending 31 March 2020, 30 June 2020 and 31 December 2020 respectively.

The December 2020 projections showed, with reference to the baseline scenario, a drastic reduction in Euro Area GDP in 2020, in the order of 7.3% (as an actual figure more resilient than the June 2020 forecast of 8.7%) and a subsequent rebound of +3.9%, +4.2% and 2.1% respectively for the three-year period 2021-2023 (with lower intensity than the June 2020 forecast of +5.2% and +3.3%, respectively in 2021 and 2022). The ECB subsequently published new three-year forecasts in March 2021 and June 2021, which show that Euro Area GDP in actual final terms is impacted less than previously forecast by about -6.8% in 2020, the economic rebound is also seen to be upwards of +4.6%, +4.7% and 2.1% for the three-year period 2021-2023 respectively.

On 5 June 2020, the Bank of Italy released the baseline forecasts included in the aforementioned projections issued by the ECB on 4 June 2020, highlighting a more pronounced reduction in Italian GDP, in the order of 9.2% in 2020 and a subsequent rebound of 4.8% and 2.5%, respectively in 2021 and 2022. On 11 December 2020, the Bank of Italy updated its macroeconomic forecasts, highlighting a more pronounced reduction in Italian GDP, in the order of 9.2% in 2020 and a subsequent rebound of 4.8% and 2.5%, in 2021 and 2022 respectively. Finally, in June 2021, the Bank of Italy published the latest projection outlook for the three-year period 2021-2023, which shows a substantially stronger than expected rebound of + 4.4%, + 4.5% and 2.3% respectively.

The Cassa Centrale Group, in preparing the financial statement disclosures as at 30 June 2021, continued to implement the guidelines and recommendations issued by the aforementioned European regulatory bodies, supervisory bodies and standard setters, while at the same time taking into account in the assessments of the significant business activities the support measures put in place by the Government in favour of households and businesses.

Lastly, the management of the Cassa Centrale Group has placed, as usual, particular attention on the causes of uncertainty in the estimates that influence the quantification of the items relating to the financial statements assets and liabilities. Due to the persistence of the Covid-19 pandemic, the main areas of uncertainty in estimates include those relating to credit losses, the fair value of financial instruments, income taxes, goodwill and intangible assets.

The main areas of the financial statements most affected by the effects of the pandemic and the related accounting decisions made by the Cassa Centrale Group as at 30 June 2021 are shown below.

Classification and measurement of loans to customers based on the IFRS 9 general impairment model

For the purpose of calculating the expected loss as at 30 June 2021, the Cassa Centrale Group incorporated in its IFRS 9 impairment model the macroeconomic scenarios integrating the effects of the Covid-19 health emergency, as indicated by the European Central Bank in the aforementioned letter of 1 April 2020 and subsequent letter dated 4 December 2020.

In order to determine the IFRS9 value adjustments on the customer loan portfolio as at 30 June 2021, conservative criteria were adopted, as the socio-economic effects resulting from the pandemic crisis were taken into account, which, albeit to a lesser extent, continue to manifest themselves in the first months of 2021.

More generally, in the process of identifying and measuring credit risk, account was also taken of the technical indications and recommendations contained in the communication of 4 December 2020 of the European Central Bank ("Identification and measurement of credit risk in the context of the coronavirus (COVID-19) pandemic").

In particular, for the valuation of loans to customers as at 30 June 2021, the macroeconomic forecasts relating to the growth prospects of Euro Area countries prepared by the ECB jointly with the individual Central Banks, including the Bank of Italy, and published on 10 December 2020, were used as the "anchor point" for internal forecasts, the outlook for which was subsequently corrected by more recent publications from the scenario internal information provider. These scenarios were therefore updated with respect to those used in the valuation of loans to customers as at 31 December 2020, as they are considered more consistent with the economic and health conditions in place at the reference date of 30 June 2021.

For the purposes of calculating the expected loss as at 30 June 2021, the Cassa Centrale Group has used the three scenarios ("mild", "baseline", "adverse"), appropriately averaging their contributions, in accordance with the assessment of a context still of high future variability and potential uncertainty linked to the possible resolution and evolution of the health emergency, and increasing the weight of the most severe scenario.

The gradual improvement of some macro-economic variables, which incorporate the robust growth expectations forecast for the three-year period 2021-2023, has had a significant positive impact on the medium-long term forecasts: in order to adopt a conservative approach, the Cassa Centrale Group has adopted a variable weighting mechanism between the short-term and medium-long term forecast components.

Moreover, in the first quarter of 2021, the Cassa Centrale Group implemented several changes to the models for quantifying flat-rate analytical impairment provisions for credit risk in response to the effects of the Covid-19 health emergency and in compliance with the requirements of IFRS 9. These actions were carried out to incorporate the guidance resulting from ECB publications (SSM-2020-0154 and SSM-2020-0744) and EBA GL (EBA-GL-2020-02) as well as any directions provided by other Standard Setters. The defined interventions, guided primarily by a conservative approach, pursued the objective of limiting potential future "cliff effects" as well as identifying the economic sectors at greatest risk, while ensuring, at the same time, the reduction of elements of potential distortion in estimates.

In order to reflect, from a forward-looking perspective, the greater riskiness developed during the previous year, as well as the uncertainty on the prospective dynamics of certain sectors of the economy and in line with ECB provisions, the PD curves were differentiated from a sectoral perspective, with effects both on staging and on the calculation of expected losses, refining the previous approach of penalisations (by downgrading creditworthiness) in certain economic sectors and geographical areas assessed as more exposed to the negative effects of the pandemic.

The evolution of geo-sectoral treatment, through the use of specific curves for some economic sectors, has contributed to maintaining conservative assessments of the sectors most affected by the pandemic, as well as improving the degree of identification of exposures to which more stable and robust criteria should be adopted.

With reference to the calculation of expected losses, access to support measures was treated with a particularly conservative approach, as shown below:

- for positions under moratorium, in line with GL ECB SSM 2020 0744, potential credit improvement of counterparties with an operational moratorium at the reporting date or in the preceding three months have been eliminated; this action results in the sterilisation of any credit improvement in the rating of the counterparty during the moratorium period and until a situation is restored that demonstrates the start of and compliance with the repayment schedule for the identified positions;
- for government guarantees issued as part of new lending or existing exposures, a specific LGD has been consistently factored into the expected loss calculation that also reflects the collection capacity of the guarantees.

In compliance with the requirements of Article 14 of the "*Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis*" issued by the EBA (EBA/GL/2020/02), the Cassa Centrale Group has set up an enhanced monitoring system aimed at verifying punctually the positions that have benefited from a Covid-19 moratorium; this test was focused on exposures to customers that benefited from the Covid-19 moratorium and that present risk indicators such as to determine a potential downgrading of the same to unlikely to pay. The above considerations had a significant impact, all other conditions being equal, on the level of conservatism of net value adjustments to loans for the first half of 2021.

With regard to credit positions for which recovery is assumed, including through their possible transfer to third parties, the Group periodically updates the parameters adopted for valuation purposes in the following, based on any developments relating to the possible transfer transaction:

- perimeter of the positions that can be effectively transferred;
- probability of realisation associated with these scenarios; as well as
- prices of the sales scenario.

Accounting treatment of Covid-19 moratoria

The Cassa Centrale Group has adopted a policy that governs, among other aspects, the accounting treatment of contractual amendments relating to financial assets. This policy states that changes made to exposures for which the debtor has been found to be in financial difficulty (known as Forborne) lead to a change in the carrying amount of the financial asset, resulting in the need to recognise a gain or loss in item 140. "Profits/losses from contractual changes without derecognition" of the consolidated income statement (so-called Modification accounting).

On the basis of the indications provided by the European Banking Authority in the document "*Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis*" of 4 April 2020 (EBA/GL/2020/02), the moratoria granted to customers ex lege (mainly Law Decree 18 of 17 March 2020) and in application of trade agreements (ABI Agreements), have not been considered as an expression of the financial difficulty of the debtor, for all renegotiations implemented by 30 September 2020. Therefore, the aforementioned positions were not classified as Forborne exposures. In the case of concessions that also refer to legislation or national agreements, but were granted after 1 October 2020, the banks made a specific assessment of whether or not the requirements for the assignment of the Forborne attribute were met, given that with the communication of 21 September 2020, EBA declared the interruption of the exemptions previously recognised for the moratoria granted as a result of the health emergency to 30 September 2020. However, the subsequent resurgence of the pandemic led the EBA to change its stance, as per the Amendment of 2 December 2020, date from which the continuation of moratoria, already granted before 30 September 2020 and based on national law or agreements, has made it possible to further benefit from the exemption from the requirement to assess the state of distress of the counterparty.

On the basis of the various guidelines issued by the European Banking Authority in 2020 and early 2021, the conduct adopted by the Parent Company and by the Affiliated Banks in granting moratoria can be outlined as follows:

- from 17 March 2020 to 30 September 2020, there was an almost complete exclusion of the moratoria from the scope of assessment and application of forbearance for all suspensions based on law or general agreements;
- from 1 October 2020 to 1 December 2020, the forborne attribute was assigned by applying the ordinary rules envisaged by the "Group Policy for the classification and valuation of loans";
- from 2 December 2020, the presumption of absence of the conditions for the forbearance of the Covid-19 moratoria granted in the first instance between 17 March 2020 and 30 September 2020, for which a possible extension did not result in the total of 9 months of suspension being exceeded, while for new requests for moratorium the individual assessment regime for each position as described above was maintained;
- finally, from 1 April 2021, following the publication by the EBA of the "*Report on the implementation of selected COVID-19 policies*, EBA/Rep/2021/02", all the suspensions granted starting from 1 April 2021 are no longer considered "EBA Compliant". Therefore, starting from that date, it is necessary to assess the individual position, so as to define whether it is to be reclassified as a forborne exposure or in default.

In relation to the above, therefore, all moratoria granted to customers in the first and third points, to which the forborne attribute has not been assigned, have not been treated according to modification accounting as they do not qualify as forbearance measures.

For all other moratoria granted by the Parent Company and the banks belonging to the Cassa Centrale Group on the basis of common initiatives promoted, or in any case in the absence of the objective and subjective requirements provided for by legislation or general agreements of national scope, the criteria for distinguishing between commercial renegotiations (non-forborne) and forbearance measures (forborne) were applied, as provided for by the aforementioned "Group Policy for the classification and measurement of loans".

Starting from the second half of 2020, in line with the provisions of the "*Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis*", a specific monitoring action was also implemented to promptly identify situations of default on counterparties benefiting from the moratorium. To this end, customers that benefited from the moratorium were divided into homogeneous risk clusters according to the sector they belong to and the early warning-triggers detected by the monitoring system implemented in 2020. On the clusters judged to be most risky, a specific assessment of the individual counterparties was carried out, with priorities varying according to the materiality of the exposures at the individual Affiliated Bank level. This initiative led to the classification in the non-performing segment of counterparties deemed in default, reducing the potential cliff-effect that could occur at the end of the moratorium period.

Finally, as part of the monitoring of the same sector, in the first half of 2021 the Group carried out an intervention concerning the verification of internal controls on the identification of the status of financial difficulty of the counterparty when granting the measures (legislative or contractual), or provided by the Cooperative Banking Group to support customers affected by the recession induced by the pandemic; this activity took the form of an analysis of the Banking Group in terms of risk profile, regulatory framework and compliance and functionality of information systems. The audits were also conducted at the level of the individual Affiliates, in order to assess the effectiveness of the controls in relation to the identification of conditions of financial difficulty of the customers benefiting from the support measures (moratoria and/or new liquidity), also taking account of the risk profile that characterises the sector at the Bank and also resorting to sample controls. The "reclassification" results are also expected with effect on the accounting date of 30 June 2021.

Measurement of securities at fair value

The Cassa Centrale Group's securities portfolio at fair value mainly consists of listed government securities with fair value level 1 that do not give rise to valuation issues arising from the effects of the pandemic crisis.

The remaining investments in unlisted non-controlling interests and recognised in the portfolio of financial assets measured at fair value through other comprehensive income, exceeding certain thresholds, were measured as at 30 June 2021. Considering that, for these securities, the prevailing valuation methods are those of the market (market approach), it is believed that they incorporate the current market context. In this regard, in order to normalise the impacts of significant short-term fluctuations in stock market prices due to the context of high market volatility, in the application of market methods (stock market multiples and regression analysis), it was considered appropriate to extend the time period of the stock market capitalisations of the comparable companies used as a reference for the valuations to at least 6 months.

Impairment test of goodwill

The Cassa Centrale Group tested its goodwill for impairment when preparing the financial statements as at 31 December 2020: considering that the pandemic and the related socio-economic effects as at 30 June 2021 show progressive improvement, no trigger events were found that would require an intra-year impairment test of goodwill. Therefore, the impairment test will be carried out at the time of the 2021 annual financial statements, 12 months after the previous impairment test, in compliance with the maximum time horizon required by the international accounting standards.

e) Updating of the IFRS 9 impairment model to reflect the new definition of default

On 1 January 2021, the new definition of default under the European Regulation on prudential requirements for credit institutions and investment firms (article 178 of EU Reg. no. 575/2013) came into force. In this context, the IFRS 9 Impairment models of the Cassa Centrale Banca Group were appropriately revised, already in the first quarter of 2021, to take into account the effects of the application of the new regulations.

f) Disclosure regarding Targeted Longer-Term Refinancing Operations (TLTRO III)

At the reporting date of these condensed consolidated half-yearly financial statements, the Cassa Centrale Group has outstanding refinancing operations through the Eurosystem forming part of the TLTRO-III programme for a book value of approximately EUR 15 billion, which resulted in a positive contribution to interest margin of approximately EUR 64 million as at 30 June 2021, recognised at the special interest rate for the period since the Group has achieved the performance objectives for loan disbursements set out for the first half of 2021.

The Group has assessed that the transactions of the TLTRO-III programme cannot be assimilated to loans at an interest rate lower than the market rate, as:

- there is no reference market where financing transactions with comparable characteristics can be negotiated;
- the European Central Bank defines the economic conditions applied to the refinancing operations in order to achieve monetary policy objectives for the benefit of the entire economic system of the Eurozone.

At the reporting date, the first time window for monitoring the achievement of the lending performance targets under the TLTRO-III programme has ended, while the second time window, introduced at the Governing Council meeting on 10 December 2020 and expiring on 31 December 2021, is still open.

Consequently, the methodology used to apply the interest rate to the existing TLTRO-III transactions envisaged the following assumptions:

- achievement of performance targets for loan disbursements over the time window of the "special reference period";
- failure to achieve the performance targets for loan disbursements over the time window of the "additional special reference period" window;
- stability of the reference rates of the European Central Bank until the maturity of the operations;
- maintenance of transactions until natural maturity.

g) Interest Rate Benchmark Reform: disclosure required according to IFRS 7

The hedging derivatives of the Group's fixed-rate loans (fair value hedges) are entirely at Euribor, whose calculation method was revised in 2019 in order to continue to use this parameter even after 1 January 2022, for both existing and new contracts.

To make the Euribor compliant with the EU benchmark regulation (Benchmarks Regulation, BMR - Regulation no. 2016/1011/EU), the EMMI – European Money Markets Institute – has transitioned to a new "hybrid" calculation method. The current calculation system – whose activities were completed at the end of November 2019 – does not change the economic variable measured by the index: the Euribor expresses the actual cost of funding for contributing European banks and is always available for consultation. Therefore, the Group does not believe that there is any uncertainty about the timing or amount of Euribor cash flows and does not consider Euribor-linked fair value hedges to be impacted by the reform at 30 June 2021.

Therefore, as at 30 June 2021, there were no derivatives indexed to benchmarks impacted by the reform, in particular at EONIA and LIBOR.

At the same date, there were no cash flow hedging derivatives.

In the broader context of the complex process of reform of the indices, the Group has launched a project to adjust to the European Regulation 1011/2016 ("BMR Regulation"), which provides for areas of adjustment both in customer relations and in its own organisational and operational structures. However, it should be noted that the assets and liabilities indexed to rates other than the EURIBOR are negligible for the Group, therefore, no significant impact is expected from rate substitution.

h) Tax realignment of real estate assets

Legislative Decree no. 104 of 14 August 2020 (Legislative Decree 104/2020) allows the realignment between:

- the tax values of real estate properties (both held for investment purposes and for business use);
- the higher book values, providing for a substitute tax rate of 3% to be

paid in a maximum of three annual instalments, with the possibility of offsetting with pre-existing tax credits.

The amount to be realigned must be determined with reference to the book values resulting from the company's 2019 financial statements, but within the limits of the amount of the 2020 financial statements. As at 30 June 2021, the tax realignment of the properties was carried out with reference to a portion of the Group properties. On the basis of the scope, the tax value was realigned for a total realignment amount of approximately EUR 51 million. The realignment led to the release of deferred tax liabilities (DTLs) in the amount of approximately EUR 17 million. Pursuant to IAS 12, the release of DTLs was recognised as a contra-entry to the consolidated income statement as they refer to differences due to events originally recognised as a contra-entry to the income statement. Lastly, as required by Law Decree 104/2020, an equity reserve was restricted for the amount corresponding to the higher tax values realigned, net of the substitute tax due.

i) Audit of the accounts

These condensed consolidated half-yearly financial statements are subject to a limited audit by Deloitte & Touche S.p.A..

On 16 June 2021, the Shareholders' Meeting of Cassa Centrale Banca S.p.A. appointed Deloitte & Touche S.p.A. to audit the Parent Company's separate and consolidated financial statements for the nine-year period 2021-2029, since the two-year extension granted to KPMG S.p.A. by CONSOB at the request of Cassa Centrale Banca expired with the approval of the financial statements as at 31 December 2020.

A.2 – Part relating to the main items in the accounts

The accounting standards adopted for the preparation of these condensed consolidated half-year financial statements are shown below.

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

Classification criteria

Financial assets measured at fair value through profit or loss include:

- financial assets which, according to the business model of the Group, are held for trading purposes, i.e. debt and equities and the positive value of derivative contracts held for trading purposes. These assets are included under consolidated asset item 20. Financial assets measured at fair value through profit or loss, sub-item "a) financial assets held for trading";
- the financial assets measured at fair value at the moment of initial recognition where the conditions are satisfied (that happens if, and only if, on designation at fair value an accounting asymmetry is eliminated or significantly reduced). These assets are included under consolidated asset item 20. Financial assets measured at fair value through profit or loss, sub-item "b) financial assets measured at fair value";
- the financial assets that do not pass the so-called SPPI Test (financial assets whose contractual terms do not make exclusive provision for the repayments of principal and interest payments on the amount of principal to be repaid) or that in any case, are mandatorily measured at fair value. These assets are included under consolidated asset item 20. Financial assets measured at fair value through profit or loss, sub-item "c) other financial assets obligatorily measured at fair value".

Therefore, the Group recognises the following in this item:

- debt securities and loans included in an Other business model (not attributable to Hold to Collect or Hold to Collect and Sell business models) or that do not pass the SPPI Test (including therein UCITS units);
- equity instruments, excluded from those addressed by IFRS 10 and IAS 27 (controlling interests, associates or joint ventures), not measured at fair value through other comprehensive income. In fact, IFRS 9 provides for the possibility of exercising, at the time of initial recognition, the irreversible option (so-called OCI option) to recognise an equity instrument at fair value through other comprehensive income.

This item also includes derivative contracts held for trading that have a positive fair value. The offsetting between the positive and negative present values deriving from transactions with the same counterparty is only possible if there is a legal right to offset the amounts recognised in the accounts and if there is an intention to settle on a net basis the items subject to offsetting.

The reclassification of a financial asset to a different accounting category is permitted only in the event of a change in the business model. Exceptions to this rule are equities for which no reclassification is permitted. More specifically, changes in business model - which in any case should very rarely happen - must be decided by senior management as a result of external or internal changes, must be relevant to the Group's operations and must be demonstrable to external parties. A change in business model could, for example, occur in the case of the acquisition, termination or divestment of a business line or branch of business. In the rare cases of changes to the business model, financial assets measured at fair value through profit or loss may be reclassified to financial assets measured at amortised cost or to financial assets measured at fair value through other comprehensive income.

The reclassification is applied prospectively from the date of reclassification which, in fact, coincides with the first day of the first financial year following that in which the change to the business model was approved.

In the event of reclassification from this category to the amortised cost category, the fair value at the date of reclassification represents the new gross carrying amount on the basis of which the effective interest rate is determined.

If, on the other hand, the category in question is reclassified to the category of financial assets measured at fair value through other comprehensive income, the fair value at the date of reclassification is the new gross carrying amount and the effective interest rate is determined on the basis of this value at the date of reclassification. In addition, for the purposes of applying the provisions on write-downs from the date of reclassification, the latter is considered to be the date of initial recognition.

Recognition criteria

The initial recognition of financial assets takes place at the settlement date if settled with the time intervals set by market practices (regular way), otherwise at the trade date. In the case of recognising the financial assets at the settlement date, the profits and losses recorded between the trade date and the settlement date are recognised in the income statement. Upon initial recognition the financial assets held for trading are recorded at the fair value; unless otherwise indicated, this is represented by the amount paid for executing the transaction, without considering the costs or income referring to it and attributable to the same instrument, which are recorded directly in the income statement.

Measurement criteria

Following initial recognition, the financial assets measured at fair value through profit or loss are valued at fair value with recognition of the related changes in the income statement. If the fair value of a financial asset becomes negative, this entry is booked as a financial liability. The change in the fair value of derivative contracts with "customers" counterparties takes their credit risk into account.

To calculate the fair value of the financial instruments listed in an active market, the market listings are used. In the absence of an active market, commonly adopted estimation methodologies are used to factor in all relevant risk factors related to the instruments.

For further details on how fair value is determined, please refer to paragraph "A.4 - Information on fair value" of this part A.

Derecognition criteria

The financial assets measured at fair value through profit or loss are derecognised when the contractual rights on the cash flows deriving from the same expire or when the financial asset is sold substantially transferring all the associated risks and rewards.

When it is not possible to ascertain the substantial transfer of the risks and rewards, the financial assets are derecognised from the financial statements unless control of said assets has been maintained. Conversely, if control is not maintained, even only partial, it is necessary to retain the assets in the financial statements to the extent of the continuing involvement, measured by the exposure to changes in value of the assets transferred and the changes in their cash flows.

The securities delivered as part of a transaction which contractually envisages their repurchase are not derecognised from the financial statements.

Criteria for the recognition of the income components

The positive income components represented by the interest income on securities and relating similar income, as well as the differentials and margins accrued until the date of the financial statements relating to the derivative contracts classified to the item, but managerially connected to the assets or liabilities measured at fair value (so-called fair value option), are entered in the income statement items relating to interest on an accrual basis. The profits and losses from the disposal or repayment and the profits and losses not realised deriving from the changes in the fair value of the trading book are classified in the consolidated income statement under item 80. Net result from trading for instruments held for trading and in item 110. Net result of other financial assets and liabilities measured at fair value through profit or loss for instruments mandatorily measured at fair value and for instruments measured at fair value.

2 - Financial assets measured at fair value through other comprehensive income

Classification criteria

The financial assets recorded under this item include:

- debt securities, loans and receivables for which:
  - the business model associated to financial assets aims at collecting both the cash flows envisaged contractually and the flows deriving from sale (Hold to Collect and Sell business model);
  - the SPPI test is passed as the contractual terms only provide for repayments of principal and interest payments on the amount of principal to be repaid;
- equities for which the so-called OCI option has been exercised as an irrevocable choice to present subsequent changes in the fair value of these instruments in other comprehensive income. In this respect, it should be noted that the exercise of the so-called OCI option:
  - shall be made at the time of initial recognition of the instrument;
  - must be carried out at the level of the individual financial instrument;
  - is irrevocable;
  - is not applicable to instruments that are held for trading or represent contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies.

The reclassification of a financial asset to a different accounting category is permitted only in the event of a change in the business model. Exceptions to this rule are equities for which no reclassification is permitted. More specifically, changes in business model - which in any case should very rarely happen - must be decided by senior management as a result of external or internal changes, must be relevant to the Group's operations and must be demonstrable to external parties. A change in business model could, for example, occur in the case of the acquisition, termination or divestment of a business line or branch of business. In the rare cases of changes to the business model, financial assets measured at fair value through other comprehensive income may be reclassified to financial assets measured at amortised cost or to financial assets measured at fair value through profit or loss.

The reclassification is applied prospectively from the date of reclassification which, in fact, coincides with the first day of the first financial year following that in which the change to the business model was approved.

In the event of reclassification from this category to the amortised cost category, the fair value at the date of reclassification becomes the new gross value for the purposes of amortised cost. The cumulated profits and losses recorded in the OCI reserve are eliminated from equity and adjusted for the fair value of the financial assets at the date of reclassification. Consequently, the financial asset is valued at the date of reclassification as if it had always been valued at amortised cost. The effective interest rate and the valuation of expected losses are not restated following the reclassification.

If, on the other hand, this category is reclassified to the category of financial assets measured at fair value through profit or loss, the fair value at the date of reclassification becomes the new gross carrying amount. The cumulated profits and losses recognised in the OCI reserve are reclassified to the income statement at the date of reclassification.

Recognition criteria

The initial recognition of financial assets takes place at the settlement date if settled with the time intervals set by market practices (regular way), otherwise at the trade date. In the event of recognising financial assets at the settlement date, the profits and losses recorded between the trade date and the settlement date are recognised in the equity. Upon initial recognition, the financial assets are recognised at fair value; it is represented, unless otherwise indicated, by the amount paid for executing the transaction, including the transaction costs or income directly attributable to the same instrument.

Measurement criteria

Following initial recognition, the debt securities, loans and receivables classified in this item continue to be measured at fair value. For the aforementioned financial assets the following are recognised:

- in the income statement, the interest calculated with the effective interest rate method, which considers the depreciation of both the transaction costs and the differential between the cost and the repayment value;
- in equity, in a specific reserve, changes in fair value (net of tax) until the asset is derecognised. When the instrument is fully or partially disposed, the cumulated profit or loss in the OCI reserve are booked to the income statement (so-called recycling).

Equities classified under this item also continue to be measured at fair value after initial recognition. In this case, however, unlike in the case of debt securities, loans and receivables, the cumulated profit or loss included in the OCI reserve must never be reversed to the income statement (in this case there will be no recycling). In fact, in case of transfer, the OCI reserve may be transferred to a specific available equity reserve. For these equities, only the component relating to dividends received is recorded in the income statement.

With reference to the methods used to determine the fair value of financial assets, please refer to paragraph "A.4 - Information on fair value" of this Part A.

It should also be noted that "Financial assets measured at fair value through other comprehensive income", both in the form of debt securities, loans and receivables, are subject to impairment in accordance with IFRS 9 in the same way as "Financial assets measured at amortised cost". Therefore, for the aforementioned instruments, a value adjustment to cover expected losses will be recognised in the income statement. The estimate of the expected loss using the expected credit loss (hereinafter also referred to as "ECL") method is based on the allocation of each position to the three reference stages as explained in more detail in the paragraph "Impairment of financial assets".

The equity instruments are not subject to the impairment process.

Derecognition criteria

The financial assets measured at fair value through other comprehensive income are derecognised when the contractual rights on the cash flows deriving from the same expire or when the financial asset is sold substantially transferring all the associated risks and rewards.

When it is not possible to ascertain the substantial transfer of the risks and rewards, the financial assets are derecognised from the financial statements unless control of said assets has been maintained. Conversely, if control is not maintained, even only partial, it is necessary to retain the assets in the financial statements to the extent of the continuing involvement, measured by the exposure to changes in value of the assets transferred and the changes in their cash flows.

The securities delivered as part of a transaction which contractually envisages their repurchase are not derecognised from the financial statements.

Criteria for the recognition of the income components

Interest income on debt securities, loans and receivables - calculated on the basis of the effective interest rate - is recognised in the income statement on an accruals basis. For these instruments, the effects of impairment and any changes in exchange rates are also recognised in the income statement, while other gains or losses deriving from changes in fair value are recognised in a specific equity reserve. At the moment of full or partial disposal, the cumulated profit or loss in the valuation reserve are reversed, wholly or partly to the income statement (recycling).

With reference to equity instruments, the only component that is recognised in the income statement is dividends. The latter are recognised in the income statement only when (par. 5.7.1A of IFRS 9):

- the right of the entity to receive the dividend payment arises;
- it is likely that the economic benefits from the dividend will flow to the entity;
- the amount of the dividend may be reliably estimated.

Normally the aforementioned conditions occur at the time of collection of the dividend following the shareholders' resolution approving the financial statements and distribution of the result for the year by the investee company.

In the case of equities, changes in fair value are recognised as a contra-entry to equity and must not be subsequently transferred to the income statement even if they are realised (no recycling).

3 - Financial assets measured at amortised cost

Classification criteria

Financial assets measured at amortised cost include debt securities, loans and receivables that jointly meet the following conditions:

- the business model associated to financial assets aims at collecting the cash flows envisaged contractually (Hold to Collect business model);
- the SPPI Test is passed as the contractual terms only provide for repayments of principal and interest payments on the amount of principal to be repaid.

Therefore, in the presence of the aforementioned conditions, the Group recognises in this item:

- loans to banks (current accounts, security deposits, debt securities, etc.). This includes operating receivables related to the provision of financial activities and services as defined by the TUB and the TUF (e.g. distribution of financial products). Also included are loans to Central Banks (e.g. compulsory reserve), other than deposits on demand included in the consolidated balance sheet item 10. Cash and cash equivalents;
- loans to customers (mortgages, finance lease transactions, factoring transactions, debt securities, etc.). Also included are loans to post offices and the Cassa Depositi e Prestiti, variation margins with compensation bodies for transactions on derivative contracts and operating receivables related to the provision of financial activities and services as defined by the TUB and the TUF (e.g. servicing activities).

The reclassification of a financial asset to a different accounting category is permitted only in the event of a change in the business model. Exceptions to this rule are equities for which no reclassification is permitted. More specifically, changes in business model - which in any case should very rarely happen - must be decided by senior management as a result of external or internal changes, must be relevant to the Group's operations and must be demonstrable to external parties. A change in business model could, for example, occur in the case of the acquisition, termination or divestment of a business line or branch of business. In the rare cases of changes to the business model, financial assets measured at amortised cost may be reclassified to financial assets measured at fair value through other comprehensive income or to financial assets measured at fair value through profit or loss.

The reclassification is applied prospectively from the date of reclassification which, in fact, coincides with the first day of the first financial year following that in which the change to the business model was approved.

In the event of reclassification from this category to the fair value category through other comprehensive income, any differences between the previous amortised cost and the fair value at the date of reclassification are recognised in the OCI reserve. The effective interest rate and the valuation of expected losses are not restated following the reclassification.

If, on the other hand, the category in question is reclassified to the category of financial assets measured at fair value through profit or loss, any difference between the previous amortised cost and the fair value at the date of reclassification is recognised in the income statement.

Recognition criteria

Financial assets are first recognised on the disbursement date (in the case of loans or receivables) or on the settlement date (in the case of debt securities) based on the fair value of the financial instrument. The fair value is normally equal to the amount disbursed or the subscription price, including income and charges directly attributable to the individual instrument and determinable from the origin of the transaction, even when liquidated at a subsequent time. Excluded are the costs that, though having the above mentioned characteristics, are subject to repayment by the debtor counterparty or can be classified among the normal internal costs of an administrative nature.

In the case of assets for which the net amount of the loan disbursed or the price paid on subscription of the security does not correspond to the fair value of the asset, for example due to the application of an interest rate significantly lower than the market rate, initial recognition is made on the basis of the fair value determined using valuation techniques (e.g. discounting future cash flows at an appropriate market rate).

In some cases the financial asset is considered impaired upon initial recognition (so-called impaired financial assets acquired or originated), for example because the credit risk is very high and, in the case of acquisition, it is acquired with large discounts. In such cases, at the time of initial recognition, an adjusted effective interest rate is calculated for the receivable which includes, in the cash flow estimates, the expected losses calculated over the life of the receivable. The above rate will be used for the application of the amortised cost criterion and the related calculation of interest to be recognised in the income statement.

Measurement criteria

After initial recognition, financial assets are measured at amortised cost using the effective interest rate method. Amortised cost is the amount at which the financial asset is measured on initial recognition less repayments of principal, plus or minus the cumulated amortisation, according to the effective interest criterion, of any difference between that initial amount and the amount at maturity and, for financial assets, adjusted for any provision to cover losses. The effective interest rate is identified by calculating the rate that equals the current value of the future flows of the asset, for principal and interest, to the disbursed amount including the costs/income attributable to said financial asset.

The exceptions to the application of the amortised cost method concern short-term assets, assets that do not have a defined maturity date and receivables subject to revocation. For the above cases, the application of the amortised cost criterion is considered not significant and the valuation is maintained at cost.

It should also be noted that financial assets measured at amortised cost, both in the form of debt securities and loans and receivables, are subject to impairment in accordance with IFRS 9. Therefore, for the aforementioned instruments, a value adjustment to cover expected losses will be recognised in the income statement. The estimate of the expected loss using the expected credit loss (ECL) method is based on the allocation of each position to the three reference stages as explained in more detail in the paragraph "Impairment of financial assets".

In such cases, for the purpose of calculating amortised cost, the entity is required to include in its cash flow estimates, the expected losses on initial receivables when calculating the credit-adjusted effective interest rate for financial assets that are considered impaired financial assets acquired or originated on initial recognition (IFRS 9 para. B5.4.7).

Derecognition criteria

The financial assets measured at amortised cost are derecognised when the contractual rights on the cash flows deriving from the same expire or when the financial asset is sold by substantially transferring all the risks and rewards connected to it.

When it is not possible to ascertain the substantial transfer of the risks and rewards, the financial assets are derecognised from the financial statements unless control of said assets has been maintained. Conversely, if control is not maintained, even only partial, it is necessary to retain the assets in the financial statements to the extent of the continuing involvement, measured by the exposure to changes in value of the assets transferred and the changes in their cash flows.

The securities delivered as part of a transaction which contractually envisages their repurchase are not derecognised from the financial statements.

If the contractual cash flows of a financial asset are subject to renegotiation or, in any case, to an amendment, in accordance with IFRS 9, it is necessary to assess whether or not these amendments have the characteristics to determine the derecognition of the financial asset. More specifically, contractual changes lead to the derecognition of the financial asset and the recognition of a new one when they are considered substantial. In order to assess the substantiality of the change, a qualitative analysis of the reasons why the changes were made is necessary. Distinguishments can be made between:

- renegotiations made for commercial purposes with performing customers for reasons other than the economic and financial difficulties of the debtor. These refer to renegotiations which are granted at market conditions, in order to avoid losing customers in cases where they require the cost of the loan to be adjusted to the conditions applied by other banking institutions. These types of contractual changes are considered substantial as they are aimed at avoiding a decrease in future revenues that would occur if the customer decides to turn to another operator. They entail the recognition in the income statement of any differences between the carrying amount of the derecognised financial asset and the carrying amount of the newly recognised asset;
- renegotiations due to financial difficulties of the counterparty: this scenario includes concessions made to counterparties in financial difficulty (forbearance measures) that aim to maximise the repayment of the original loan by the customer and thus avoid or contain any future losses, by granting contractual conditions that are potentially more favourable to the counterparty. In these cases, as a rule, the change is closely related to the debtor's inability to repay the cash flows originally established and, therefore, in the absence of other factors, this indicates that there was in substance no extinction of the original cash flows such as to lead to the derecognition of the asset. As a result, the aforementioned renegotiations or contractual amendments qualify as non-substantial. Therefore, they do not generate the derecognition of the financial asset and, according to paragraph 5.4.3 of IFRS 9, involve the recognition in the income statement of the difference between the pre-amendment carrying amount and the value of the financial asset recalculated by discounting the renegotiated or modified cash flows at the original effective interest rate.

In order to assess the substantiality of the contractual amendment, in addition to understanding the reasons underlying the amendment itself, it is necessary to assess the possible presence of elements that alter the original nature of the contract because they introduce new elements of risk or have a significant impact on the original contractual flows of the asset so as to lead to its derecognition and the consequent recognition of a new financial asset. This includes, for example, the introduction of new contractual clauses which change the reference currency of the contract, which allow the credit to be converted/replaced into equity instruments of the debtor or which lead to the failure of the SPPI Test.

Criteria for the recognition of the income components

Interest on loans to banks and customers is classified under consolidated income statement item 10. Interest income and similar revenues and is recorded on an accrual basis, based on the effective interest rate, i.e. applying the latter to the gross carrying amount of the financial asset, except for:

- impaired financial assets acquired or originated. As noted above, for these financial assets, the effective interest rate adjusted for the receivable at the amortised cost of the financial asset from initial recognition is applied;
- financial assets that are performing financial assets acquired or originated but have become impaired financial assets in a second phase. For these financial assets, the effective interest rate is applied to the amortised cost of the financial asset in subsequent years.

If there is an improvement in the credit risk of the financial instrument, as a result of which the financial asset is no longer impaired, and the improvement can be objectively linked to an event occurring after the application of the requirements referred to in the second point of the previous list, interest income shall be calculated in subsequent years by applying the effective interest rate to the gross carrying amount.

It should be noted that the Group applies the criterion referred to in the second point of the previous list only to impaired assets measured using a specific analytical method. Therefore, stage 3 financial assets valued on a flat-rate analytical basis, for which interest is calculated on the gross value of the exposure, are excluded.

Adjustments and write-backs are recorded at each reporting date in the consolidated income statement under item 130. Net value adjustments/

write-backs due to credit risk. Profits and losses resulting from the sale of receivables are recorded in the consolidated income statement under item 100. Profit (loss) from disposal/repurchase.

The positive income components represented by the interest income and similar revenues relating to securities are entered on an accrual basis, based on the effective interest rate, in the income statement items relating to interest.

Profits and losses relating to securities are recognised in the consolidated income statement under item 100. Profit (loss) from disposal/repurchase at the time the assets are sold.

Any impairment of securities is recognised in the consolidated income statement under item 130. Net value adjustments/write-backs due to credit risk. If the reasons that led to the evidence of the decline in value are removed, the write-back is included with recognition in the income statement in the same item.

4 - Hedging transactions

With regard to hedging transactions (hedge accounting), the Group avails itself of the option, provided by the introduction of IFRS 9, to continue to apply IAS 39 in full with regard to both specific hedges and macro hedges.

Classification criteria

This item includes derivative contracts designated as effective hedging instruments. In this regard, hedging transactions are designed to neutralise any losses, that may be incurred on a specific item or group of items, linked to a specific risk should the aforementioned risk actually occur.

The types of hedging provided for by IAS 39 are:

- fair value hedge, aimed at hedging against the exposure to the change in fair value of a balance sheet entry (asset or liability) attributable to a particular risk. The objective of macro fair value hedges is to reduce fluctuations in fair value, attributable to interest rate risk, by a monetary amount arising from a portfolio of financial assets or liabilities;
- cash flow hedge, aimed at hedging against the exposure to the change in future cash flows attributable to a particular risk associated to a highly probable present or future balance sheet entry;
- hedging instruments of a net investment in a foreign company for which the assets were or are managed in a non-euro country or currency.

Only instruments involving a counterparty outside the Cassa Centrale Group may be designated as hedging instruments.

Recognition criteria

The hedging derivative financial instruments are initially entered at fair value and classified in the balance sheet asset or liability item, depending on whether, as at the reporting date, they show a positive or negative fair value.

The hedge is attributable to a predefined strategy set by the Risk Management Department and must be consistent with the risk management policies adopted; it is designated as a hedge if there is formal documentation of the relationship between the hedged instrument and the hedging instrument, including the high initial and prospective effectiveness during its entire life cycle.

The effectiveness of the hedge depends on the extent to which the changes in fair value of the hedged instrument or the related expected cash flows are offset by those of the hedging instrument. Thus the effectiveness is measured by comparison between these changes.

The hedging is assumed as highly effective when the expected and effective changes in fair value or the cash flows of the hedging financial instrument neutralise almost completely the changes in the hedged element, within the limits set by the interval 80%-125%.

The assessment of the effectiveness is performed at each year-end and interim period using:

- perspective tests, which justify the application of the hedge accounting, since they show its expected effectiveness;

- retrospective tests, which show the level of effectiveness of the hedging reached in the period they refer to.

If the checks do not confirm that the hedging is highly effective, the accounting of the hedging transactions, according to the above, is interrupted and the hedging derivative contract is reclassified among the trading instruments, while the financial instrument subject to hedging goes back to being measured according to the criterion of the original pertinence class and, in case of cash flow hedge, any reserve is reclassified in the income statement along the residual duration of the instrument.

The hedging links also cease when the derivative expires or is sold or exercised and the hedged element is sold or expires or is repaid.

Measurement criteria

After initial recognition, hedging derivatives are measured at fair value. The calculation of the fair value of the derivatives is based on the prices inferred from regulated markets or supplied by operators, on option measurement models or future cash flow discounting models.

For further details on how fair value is determined, please refer to paragraph “A.4 - Information on fair value” of this part A.

Derecognition criteria

The hedging derivatives are derecognised when the right to receive the cash flows from the asset/liability has expired, or where the derivative is sold, or when the conditions for continuing to book the financial instrument under the hedging derivatives no longer apply.

Criteria for the recognition of the income components

Fair value hedge

In the case of a fair value hedge, the change in the fair value of the hedged item is offset by the change in the fair value of the hedging instrument. This offsetting actually takes place through the recognition in the income statement of changes in value, referring both to the hedged item and the hedging instrument. Any difference represents the ineffectiveness of the hedge and is reflected in the income statement in terms of net effect. In the case of macro fair value hedges, changes in fair value with reference to the hedged risk of the hedged assets and liabilities are recognised in the balance sheet, respectively, in the consolidated financial statements item 60. Adjustment of the financial assets subject to macro-hedging or item 50. Adjustment of the financial liabilities subject to macro-hedging.

If the hedging relationship no longer satisfies the conditions for the application of hedge accounting and the hedging relationship is revoked, the difference between the carrying amount of the hedged element at the time when the hedge ceases and that which would have been its carrying amount if the hedge had never existed, is amortised in the income statement along the residual lifespan of the hedged element based on the effective rate of return in case of instruments entered at amortised cost. In the event that it is excessively costly to recalculate the internal rate of return, it is considered acceptable to amortise the delta fair value relating to the hedged risk over the residual life of the instrument in a linear manner or in relation to the residual portions of capital.

If this difference refers to non interest bearing financial instruments, it is recorded immediately in the income statement. If the hedged element is sold or repaid, the portion of fair value not yet amortised is recognised immediately in the income statement.

Cash flow hedges and hedging instruments of a net investment in a foreign currency

In the case of cash flow hedges, changes in the fair value of the derivative are recognised, limited to the effective portion of the hedge, in an equity reserve. The above changes are recognised in the income statement only when, with reference to the hedged item, there is a change in the cash flows to be offset or if the hedge is ineffective.

When the hedging relationship no longer meets the conditions for the application of hedge accounting, the relationship is terminated and all losses and gains recognised in the equity reserve up to that date remain suspended within it and reversed to the income statement when the flows relating to the risk originally hedged occur.

5 - Equity investments

Classification criteria

This item includes interests held in associates and jointly controlled companies.

The following definitions in particular apply:

- associate: equity investments in companies for which, despite the conditions of control not being satisfied, the Group, directly or indirectly, is able to exercise a significant influence as it has the power to participate in determining the financial and management policies of the investing company. Such influence is presumed (relative presumption) to exist for companies in which the Group owns at least 20% of the voting rights of the investee company;
- jointly controlled company (joint venture): an equity interest in a company that is achieved through a contractual agreement that collectively grants all parties or a group of parties control of the agreement.

Recognition criteria

Equity investments are initially entered at cost, including the directly attributable ancillary charges.

Measurement criteria

Investments in associates and investments in jointly controlled companies are valued using the equity method. This means that, after initial recognition, the carrying amount is subsequently increased or decreased to record the Group's share of the profits and losses of the investee companies realised after the acquisition date, as a contra-entry to consolidated income statement item 250. Profits (losses) on equity investments.

The dividends received from an investee are deducted from the carrying amount of the equity investment.

If there is objective evidence of impairment, an estimate is made of the recoverable value of the same investment, considering the current value of the future cash flows the same may generate, including the final disposal value of the investment. If the recoverable value of the asset is lower than its carrying amount, the impairment loss is recognised in the income statement under item 250. Profits (losses) on equity investments in the consolidated financial statements.

Derecognition criteria

Equity investments are derecognised when the right to receive the cash flows from the asset has expired, or where the equity investment is sold by substantially transferring all the risks and benefits connected to it.

Criteria for the recognition of the income components

Dividends from investee companies are recorded under the consolidated income statement item 70. Dividend and similar income. The latter are recognised in the income statement only when (par. 5.7.1A of IFRS 9):

- the right of the entity to receive the dividend payment arises;
- it is likely that the economic benefits from the dividend will flow to the entity;
- the amount of the dividend may be reliably estimated.

Normally the aforementioned conditions occur at the time of collection of the dividend following the shareholders' resolution approving the financial statements and distribution of the result for the year by the investee company.

In the consolidated financial statements, dividends received are deducted from the carrying amount of the investee company.

Any value adjustments/write-backs connected to the valuation of the equity investments as well as profits or losses deriving from the disposal are recognised under item 250. Profits (losses) on equity investments in the consolidated financial statements.

6 - Tangible assets

Classification criteria

This item mainly includes land, properties for business use (IAS 16) and properties held for investment purposes (IAS 40), the plants, vehicles, furniture, furnishings and equipment of any type for long-lasting use.

Property for business use is defined as those tangible fixed assets that are functional to the pursuit of the corporate purpose (including those held for use in the provision of services or for administrative purposes). On the other hand, property held for investment purposes includes property held for the purpose of receiving rental fees and/or for the appreciation of the invested capital.

The item also includes tangible assets classified under IAS 2 Inventories, which refer both to assets arising from the enforcement of guarantees or the purchase at auction that the company intends to sell in the near future, without carrying out major renovation work, and which do not qualify for classification in the previous categories, and to the real estate portfolio including buildable areas of land, properties under construction, completed properties for sale and real estate development initiatives, held with a view to disposal.

Included are rights of use acquired through lease and relating to the use of a tangible asset (for lessees), assets under operating leases (for lessors), and improvements and incremental expenses incurred on third party assets, provided they relate to identifiable and separable tangible assets.

Recognition criteria

The tangible assets are initially entered at purchase or construction cost, including any ancillary charges directly attributable to the purchase and commissioning of the asset.

The unscheduled maintenance expenses and the costs of an increasing nature that imply increased future benefits being generated by the asset, if these can be identified and separated, are attributed to the assets they refer to and depreciated in relation to the residual possibility of using the same. If these improvements cannot be identified and separated, they are recorded in the consolidated financial statements under 'Other Assets' and subsequently depreciated based on the length of the contracts they refer to for the third-party assets, or along the residual life of the asset, if owned.

The expenses for repairs, maintenance or other actions to ensure the ordinary operation of the assets are instead recognised in the income statement of the year when they are incurred.

According to IFRS 16, leases are accounted for on the basis of the right of use model for which, at the initial date, the lessee has a financial obligation to make payments due to the lessor to offset its right to use the underlying asset during the lease term. When the asset is made available to the lessee for use (start date), the lessee recognises both the liability and the asset consisting of the right of use.

Measurement criteria

After initial recognition, the tangible assets, including non-instrumental properties, notwithstanding the specifications below, are entered in the accounts at cost, net of accumulated depreciation and any write-downs for the long-lasting reductions in value, in compliance with the 'cost model'.

Tangible assets are systematically depreciated each year based on their useful life by adopting the straight line method as the depreciation criterion. The following are not subject to depreciation:

- land, whether purchased individually or incorporated in the value of the buildings, since considered to have an undefined useful life. If their value is incorporated in the value of the building, assets which are separate from the building are only the 'free-standing' property assets; the subdivision between the value of the land and a value of the building is based on the appraisal of independent appraisers;
- works of art, the useful life of which may not be estimated, also since their value normally increases over time;
- real estate investments measured at fair value in compliance with accounting standard IAS 40;
- inventories of tangible assets, in accordance with IAS 2;

- tangible assets classified as held for disposal in accordance with IFRS 5.

The depreciation process starts when the asset is available for use. For the assets acquired during the year, the depreciation is calculated on a daily basis starting from the date of using the asset.

A write-down for value impairment is recorded for an amount corresponding to the excess in the carrying amount compared to the recoverable value. The recoverable value of an asset is equal to the higher of the fair value, net of any sales costs, and the related value of using the asset, meant as the current value of the future flows originating from the asset. Any adjustments are recognised in the income statement.

If the reasons leading to recording the loss cease to apply, a write-back is accounted for, which may not exceed the value that the asset would have had, net of depreciation calculated in the absence of previous impairment losses.

Tangible assets recognised in accordance with IAS 2 are valued at the lower of cost and net realisable value, it being understood that the carrying amount of the asset is compared with its recoverable value if there is any indication that the asset may have suffered an impairment. Any adjustments are recognised in the income statement.

With reference to the asset consisting of the right of use, accounted for in accordance with IFRS 16, it is measured using the cost model in accordance with IAS 16 Property, plant and equipment; in this case the asset is subsequently depreciated and subject to impairment testing if indicators of impairment emerge.

Derecognition criteria

Tangible assets are eliminated from the balance sheet at the time of disposal or when they are permanently withdrawn from use and, as a consequence, no future economic benefits are expected which derive from their sale or use.

Capital gains and losses deriving from the release or disposal of the tangible assets are determined as the difference between the net sale payment and the carrying amount of the asset; they are recorded in the income statement at the same date when they are eliminated from the accounts.

Criteria for the recognition of the income components

Depreciation, value adjustments and write-backs of tangible assets are recorded in the income statement, in consolidated financial statements item 210. Net value adjustments/write-backs to tangible assets.

In the first year the depreciation is recorded proportionally to the effective period of using the asset.

The assets subject to depreciation are adjusted for possible impairment losses each time events or changes in situations indicate that the carrying amount might not be recoverable. These impairment losses are recognised in the income statement, as are any reversals to be recognised if the reasons for the impairment no longer apply.

In the consolidated income statement item 280. Profit (loss) from disposal of investments, the positive or negative balance between the profits and losses on investments is recognised.

7 - Intangible assets

Classification criteria

Accounting standard IAS 38 defines intangible assets as non-monetary assets without physical substance owned for use in a multi-year or undefined period, which meet the following characteristics:

- identifiability;
- the company holds the control;
- it is probable that the expected future economic benefits attributable to the asset will flow into the company;
- the cost of the asset may be reliably measured.

In the absence of one of these characteristics, the expense to acquire or generate the same internally is recorded as a cost in the year when it was incurred.

Intangible assets include, in particular, the application software with multi-year use and the other identifiable intangible assets that originate from legal or contractual rights.

Intangible assets also include goodwill, which represents the positive difference between the purchase cost and the fair value of the assets and liabilities of the acquired company.

Recognition criteria

Intangible assets are entered at cost, adjusted for any ancillary costs incurred to arrange the use of the asset, only if it is probable that the future economic benefits attributable to the asset will be realised and if the cost of the same asset may be determined reliably. Otherwise the cost of the tangible asset is recorded in the income statement in the year when it was incurred.

Measurement criteria

After initial recognition, intangible assets with a definite useful life are recognised at cost, net of the accumulated amortisation and impairment losses.

The amortisation process starts when the asset is available for use, or when it is in the place and conditions suitable to be able to work in the set manner.

Amortisation is carried out with the straight line method, in a way to reflect the multi-year use of the assets based on the estimated useful life. In the first year the amortisation is recorded proportionally to the effective period of using the asset. Amortisation ends from the date when the asset is eliminated from the accounts.

At each year-end, given the presence of evidence of impairment losses, an estimate is made of the recoverable value of the asset. The amount of the impairment, recorded in the income statement, is equal to the difference between the carrying amount of the asset and its recoverable value.

Derecognition criteria

Intangible assets are eliminated from the balance sheet at the time of their disposal or when future economic benefits are not expected. Capital gains and losses from the release or disposal of an intangible asset are calculated as the difference between the net sale payment and the carrying amount of the asset and entered in the income statement.

Criteria for the recognition of the income components

In the first year the amortisation is recorded proportionally to the effective period of using the asset.

In the consolidated income statement item 220. Net value adjustments/write-backs to intangible assets, the positive or negative balance between the value adjustments, amortisation and write-backs relating to the intangible assets is indicated. In the item 280. Profit (loss) from disposal of investments, in the consolidated income statement, the balance, positive or negative between the profits and losses on disposal of investments is recognised.

8 - Non-current assets and groups of assets held for disposal

Classification criteria

This item includes the non-current assets held for sale and the associated groups of assets and liabilities held for disposal, according to the provisions of IFRS 5.

More specifically, assets and groups of assets are classified in this item whose carrying amount will be mainly recovered with a sale rather than their continuous use.

For the recovery of a non-current asset or a group held for disposal through a sale to materialise, two conditions must be met:

- the asset must be available for immediate sale in its current condition, subject to conditions, which are usual and customary, for the sale of such assets (or groups held for disposal);
- the sale of the non-current asset (or group held for disposal) must be highly probable.

Since the sale is highly probable, Management at a suitable level must be committed to an asset disposal programme, and activities must be started to identify a buyer and complete the programme. In addition, the asset must be actively exchanged in the market and put up for sale, at a reasonable price compared to its current fair value. The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification and actions required to complete the sale plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Non-current assets and groups of assets held for disposal and discontinued operations and related liabilities are shown under specific items of consolidated assets (120. Non-current assets and groups of assets held for disposal) and consolidated liabilities (70. Liabilities associated to assets held for disposal).

Recognition criteria

The non-current assets and groups of assets held for disposal are initially recognised at the lower between the carrying amount and the fair value net of costs to sell. With the exception of certain types of assets (e.g. financial assets falling within the scope of IFRS 9), IFRS 5 specifically provides that the measurement criteria of the relevant accounting standard must be applied.

Measurement criteria

In the measurements subsequent to initial recognition, non-current assets and groups of non-current assets held for disposal continue to be valued at the lower of their carrying amount and their fair value net of costs to sell, with the exception of certain types of assets (e.g. financial assets falling within the scope of IFRS 9) for which IFRS 5 specifically provides that the measurement criteria of the relevant accounting standard must be applied.

In cases where assets held for disposal are depreciable, the depreciation process is interrupted from the time when classification as non-current assets held for disposal takes place.

Derecognition criteria

The non-current assets and groups of assets held for disposal are eliminated from the balance sheet at the time of disposal.

If an asset (or group held for disposal) classified as held for sale loses the criteria for inclusion in accordance with accounting standard IFRS 5, the asset (or group held for disposal) must no longer be classified as held for sale.

It is necessary to assess a non-current asset that ceases to be classified as held for sale (or ceases to be part of a group held for disposal and classified as held for sale) at the lower between:

- the accounting value before the asset (or group held for disposal) was classified as held for sale, adjusted for all the amortisation, write-downs or write-backs that would have otherwise been recorded if the asset (or group held for disposal) had not been classified as held for sale;
- its recoverable value at the date of the subsequent decision to not sell.

The items include the current and deferred tax assets and current and deferred tax liabilities recognised in application of IAS 12.

Income taxes relating to discontinued operations are calculated in compliance with current taxation regulations and are recognised in the income statement on an accrual basis, in line with the recognition in the accounts of the costs and revenues that generated them, except for those relating to the entries charged or credited directly in the equity, for which the recognition of the related taxation takes place, for consistency, in the equity.

Criteria for the recognition of the income components

Income and expenses, valuation results and profits/losses on sale (net of the tax effect) attributable to groups of assets held for disposal or recognised as such during the year are shown in the relevant consolidated income statement item 320. Profit (loss) after tax from discontinued operations.

9 - Current and deferred taxes

Current taxes

Current tax assets and liabilities are recorded at the value due or recoverable against the tax profit (loss) by applying the rates and the current taxation regulations. Current taxes that are entirely or partially unpaid at the reference date are posted under 'Current tax liabilities' of the consolidated balance sheet.

In the event of overpayment, which gave rise to a recoverable receivable, this is accounted for among the 'Current tax assets' of the consolidated balance sheet.

In accordance with IAS 12, the Group compensates current tax assets and liabilities if, and only if, it:

- has an enforceable right to offset the amounts recognised;
- intends to settle for the net residual, or realise the asset and simultaneously settle the liability.

Deferred taxes

Deferred tax assets and liabilities are booked by using the so-called balance sheet liability method, taking into account the temporary differences between the carrying amount of an asset or a liability and its value recognised for tax purposes. They are calculated using the applicable tax rates according to current laws, in the year when the deferred tax asset will be realised or the deferred tax liability will be settled.

Tax assets are recorded only if it is deemed probable that in the future a taxable income will be realised, against which this asset may be used.

In particular, tax regulations may lead to differences between taxable income and statutory income that, if temporary, only cause a temporal mismatch that implies the advance or deferment of the time of taxation compared to the period of accrual, thus determining a difference between the carrying amount of an asset or a liability in the balance sheet and its value recognised for tax purposes. These differences are distinguished between 'deductible temporary differences' and 'taxable temporary differences'.

Deferred tax assets

Deductible temporary differences indicate a future reduction in taxation, against a prepayment of tax compared to the economic-statutory accrual. They generate deferred tax assets since they will determine a lower tax burden in the future, on the condition that in the following years, taxable profits are realised in a sufficient measure to cover the realisation of the taxes paid in advance.

Deferred tax assets are recorded for all the deductible temporary differences if it is probable that a taxable income will be realised against which the deductible temporary differences may be used. However the probability of recovering advance taxes relative to goodwill, other intangible assets and adjustments to receivables is to be considered automatically fulfilled pursuant to the provisions of the law that provide for their transformation into a tax credit in the event of a statutory and/or tax loss.

The transformation enters into effect from the date of the approval of the shareholders' meeting of the separate financial statements of the entities in which the loss is recognised.

The origin of the difference between the higher fiscal income and the statutory one is mainly due to negative income components fiscally deductible in years that are subsequent to those of recognition in the financial statements.

Deferred tax liabilities

Taxable temporary differences indicate a future increase in taxation and consequently generate deferred tax liabilities, since these differences give rise to taxable amounts in the following years to those when they are attributed to the statutory income statement, determining a deferment of the taxation compared to the economic-statutory accrual.

Deferred tax liabilities are recorded for all the taxable temporary differences with the exception of the deferred tax reserves since transactions that determine the taxation are not envisaged.

The origin of the difference between the lower fiscal income and the statutory one is due to:

- positive income components taxable in years after those when they were entered in the accounts;
- deductible negative income components in years prior to the one when they will be entered in the accounts according to statutory criteria.

Assets and liabilities entered for advance and deferred taxes are systematically measured to take into account any amendments taking place in the regulations or in the rates.

Advance taxes and deferred taxes are accounted for at capital level with open balances and without offsetting and are booked in consolidated balance sheet item 110. Tax assets, sub-item "b) deferred" and 60. Tax liabilities, sub-item "b) deferred".

If the deferred tax assets and liabilities refer to components which concerned the income statement, the contra-entry is represented by income tax. In case the advance and deferred taxes concern transactions which directly affect the equity without impacting the income statement (such as the valuation of financial instruments measured at fair value through other comprehensive income), they are recorded as a contra-entry to equity, affecting the specific reserve when applicable.

10 - Provisions for risks and charges

Classification criteria

In compliance with the provisions of IAS 37, the provisions for risks and charges include the provisions relating to current (legal or implicit) obligations originating from a past event, for which the use of economic resources is probable to fulfil the same obligation, as long as a reliable estimate of the related amount can be made.

Recognition criteria

Therefore, this item includes the following:

- provision for credit risk relative to commitments and financial guarantees issued: the value of the total provisions for credit risk is recognised in respect of the commitments to disburse funds and financial guarantees issued which are subject to the impairment rules of IFRS 9 (see paragraph 2.1, letter e); paragraph 5.5; appendix A), including therein the financial guarantees issued and the commitments to disburse funds which are measured at the first-time recognition value, net of the total revenues booked in compliance with IFRS 15;
- provision for other commitments and guarantees issued: the value of the total provisions in respect of other commitments and other guarantees issued which are not subject to the impairment rules of IFRS 9 is recognised (see IFRS 9, paragraph 2.1, letters e) and g));
- provisions for retirement and similar obligations includes the provisions in respect of benefits provided to the employee after terminating the employment relationship in the form of defined contribution plans or defined benefit plans;
- other provisions for risks and charges: these include other provisions for risks and charges established in compliance with the provisions of the international accounting standards (e.g. personnel expenses, tax disputes).

Measurement criteria

The amount recorded as allocation represents the best estimate possible of the charge requested to fulfil the existing obligation at the reference date.

Where the time element is significant, the provisions are discounted by using current market rates.

The allocated funds are periodically reviewed and adjusted, if necessary, to reflect the best current estimate. If, following the review, the charge becomes unlikely to be incurred, the provision is cancelled. With regard to provisions for employee benefits, please refer to paragraph "15.2 - Provision for severance indemnity and seniority bonuses" below.

Derecognition criteria

If it is unlikely that the use of resources to produce economic benefits to fulfil the obligation will be necessary, the provision must be cancelled. A provision must be used only for those expenses for which it was originally entered.

Criteria for the recognition of the income components

The provision is recognised in the income statement, in consolidated financial statements item 200. Net allocations to provisions for risks and charges.

The item includes the positive or negative balance between the allocations and any re-attributions to the income statement of funds deemed redundant.

The net allocations also include the decreases in funds for the discounting effect as well as the corresponding increases due to the passing of time (accrual of the interest implicit in discounting).

11 - Financial liabilities measured at amortised cost

Classification criteria

Financial liabilities measured at amortised cost include amounts due to banks and customers, whatever their technical form (deposits, current accounts, loans, leases), other than Financial liabilities held for trading and Financial liabilities measured at fair value.

This item also includes securities issued for funding purposes (e.g. certificates of deposit, bonds) valued at amortised cost. Securities that, at the reference date, are expired but still not repaid are included.

Recognition criteria

The initial recognition of these financial liabilities takes place upon receiving the sums collected or issuing the debt securities. The value at which they are entered corresponds to the related fair value, normally equal to the amount collected or the issue price, increased by any additional costs/income directly attributable to the individual funding or issue transaction and not repaid by the creditor counterparty. Internal costs of an administrative nature are excluded.

The fair value of the financial liabilities, possibly issued at different conditions from market conditions, is subject to a suitable estimate and the difference compared to the amount collected is, where appropriate, directly recognised in the income statement.

Measurement criteria

Following initial recognition, carried out at fair value, on the date of signing of the contract, the financial liabilities are measured at the amortised cost, using the effective interest rate method.

Excluded are the short-term liabilities, where the time factor is negligible, which remain recorded at their collected value, and whose costs and income directly attributable to the transaction are entered in the relevant items of the income statement.

Derecognition criteria

The financial liabilities are derecognised from the financial statements when settled or expired, or when securities issued by the Group are reacquired, with a consequent redefinition of the debt entered for debt securities in issue.

Criteria for the recognition of the income components

The negative income components represented by the interest expense are entered on an accrual basis in the items in the income statement relating to interest.

Any difference between the value of repurchasing own securities and the corresponding carrying amount of the liability is entered in the income statement, under the consolidated financial statements item 100. Profit (loss) from disposal/repurchase of: c) Financial liabilities.

12 – Financial liabilities held for trading

Classification criteria

Subject to recognition in this item are the financial liabilities, whatever their technical form (debt securities, loans, etc.) classified in the trading book.

The item includes, where present, the negative value of the trading derivative contracts. Derivatives connected to the fair value option are also included in this category (as defined in IFRS 9, paragraph 4.2.2) which are operationally related to the assets and liabilities measured at fair value which on the reporting date have a negative fair value, except for derivatives which are designated as effective hedging instruments and recognised in a separate liability item in the balance sheet; if the fair value of a derivative subsequently becomes positive, it shall be recognised among "Financial assets measured at fair value through profit or loss".

Recognition criteria

The derivative financial instruments are entered at the subscription date and measured at fair value through profit or loss.

Measurement criteria

Subsequently to the initial recognition, the financial liabilities are measured at fair value through profit or loss.

For further details on how fair value is determined, please refer to paragraph "A.4 - Information on fair value" of this part A.

Derecognition criteria

Financial liabilities held for trading are derecognised from the financial statements when the contractual rights to the relevant cash flows expire or when the financial liability is transferred with the substantial transfer of all the risks and rewards deriving from its ownership.

Criteria for the recognition of the income components

Profits and losses deriving from changes in fair value and/or from the disposal of financial liabilities held for trading are recognised in the income statement under consolidated financial statements item 80. Net result from trading.

13 - Financial liabilities measured at fair value

Classification criteria

Classified in this item are those financial liabilities measured at fair value with valuation results entered in the income statement as a result of the exercise of the fair value option provided by IFRS 9, i.e. when:

- an inconsistency in the valuation or recognition is eliminated or significantly reduced (sometimes defined as an accounting mismatch), which would otherwise result from the measurement of assets or liabilities or the recognition of the associated profits and losses on a different basis;

- there is an implicit derivative;
- a group of financial liabilities or financial assets and liabilities is managed and its return is measured at fair value according to a documented risk management or investment strategy and the information relating to the group is provided internally on said basis to executives with strategic responsibilities.

Recognition criteria

Financial liabilities measured at fair value are initially recognised at fair value on the issue date, which normally corresponds to the amount collected without considering the transaction costs or income directly attributable to the same instrument, which are instead attributed to the income statement.

Measurement criteria

Liabilities are measured at fair value. The income components are reported according to the provisions of IFRS 9, as below:

- changes in fair value attributable to the change of its creditworthiness are stated in the appropriate equity reserve ('Statement of consolidated comprehensive income');
- the remaining changes in fair value are recognised in the income statement, under consolidated financial statements item 110. Net result of other financial assets and liabilities measured at fair value through profit or loss.

For further details on how fair value is determined, please refer to paragraph "A.4 - Information on fair value" of this part A.

Derecognition criteria

The financial liabilities measured at fair value are derecognised from the financial statements when they have expired or are extinct.

Derecognition also takes place in case of repurchasing previously issued securities. The difference between the carrying amount of the liability and the amount paid to purchase is recorded in the income statement.

The re-placement on the market of own shares after their repurchase is considered as a new issue with entry at the new placement price, without any effect on the income statement.

Criteria for the recognition of the income components

The cost for interest on debt instruments is classified among the interest expense and similar charges of the consolidated income statement.

The income components relating to this financial statements item are reported according to the provisions of IFRS 9, as below:

- changes in fair value attributable to the change of its creditworthiness are stated in the appropriate equity reserve ('Statement of consolidated comprehensive income');
- the remaining changes in fair value are recognised in the income statement, under consolidated financial statements item 110. Net result of other financial assets and liabilities measured at fair value through profit or loss.

14 - Foreign exchange transactions

Classification criteria

Among the assets and liabilities in foreign currencies, in addition to those explicitly expressed in a currency other than the Euro, are also those to which financial indexing clauses apply, connected to the Euro exchange rate with a certain currency or a given basket of currencies.

For the purpose of the conversion method to be used, the assets and liabilities in foreign currencies are subdivided into monetary items (classified among the current items) and non-monetary items (classified among the non-current items).

The monetary elements consist of cash at hand and in the assets and liabilities to be received or paid, in cash amounts that are fixed or to be determined. In non-monetary elements, the right to receive or the obligation to deliver a cash amount that is fixed or to be determined is absent.

Recognition criteria

Transactions in foreign currencies are recorded, at the time of initial recognition, in a currency account, by applying the exchange rate in force at the transaction date to the amount in a foreign currency.

Measurement criteria

At the time of closing the financial statements or the interim period, the elements originally denominated in foreign currencies are valued as follows:

- the monetary items are converted at the exchange rate at year-end;
- the non-monetary items valued at the historical cost are converted at the exchange rate in force at the transaction date;
- the non-monetary items carried at fair value are converted at the spot exchange rate at year-end.

Criteria for the recognition of the income components

The exchange rate differences found between the transaction date and the related payment date, on the monetary elements, are booked in the income statement in the year when they arise, together with those which derive from the conversion of monetary elements at different rates from the initial conversion rates or the conversion at the previous year-end.

When a profit or loss relating to a non-monetary element is recorded in the equity, the exchange rate difference relating to this element is also recorded in the equity.

When a profit or loss is recorded in the income statement, the related exchange rate difference is also recorded in the income statement.

15 - Other information

15.1 SALES AND REPURCHASE CONTRACTS (REPOS)

Securities sold and subject to a repurchase agreement are classified as committed financial instruments when the purchaser has the right to resell or re-commit the underlying asset by contract or agreement; the liability of the counterparty is included in the liabilities to other banks, other deposits or customer deposits.

The securities purchased in relation to a resale contract are accounted for as loans or advances to other banks or customers.

The difference between the sales price and the purchase price is booked as interest and recorded on an accrual basis along the lifespan of the transaction.

15.2 PROVISION FOR SEVERANCE INDEMNITY AND SENIORITY BONUSES

Provision for severance indemnity (TFR) is similar to a post-employment benefit of the defined benefit plan type the value of which IAS 19 requires to be determined using actuarial methodologies.

Consequently, the valuation at the end of the year is made on the basis of the benefits accrued using the projected unit credit method.

This method provides for a projection of future outflows based on historical, statistical and probability analysis as well as by virtue of adopting the appropriate basic demographic techniques.

It makes it possible to calculate the TFR accrued on a certain day in actuarial terms, distributing the expense for all the years of expected residual permanence of the existing employees and no longer as an expense to be settled in the event that the company ceases its operations on the reference date.

The valuation of the employee TFR is carried out by an independent actuary pursuant to the method indicated above.

Following the entry into effect of the supplementary pension reform, pursuant to Italian Legislative Decree 252/2005, the portions of the provision for severance indemnity (TFR) accrued to 31 December 2006 will remain in the company, while the portions that accrue from 1 January 2007 have been, at the option of the employee, applied to supplementary pension plans or the INPS fund.

The latter were therefore recognised in the income statement based on the contributions due in each year; the obligation to the supplementary fund or INPS has not been discounted, due to a maturity of less than 12 months.

Based on IAS 19, the TFR paid to the Pension Fund Treasury (INPS) is considered as a defined contribution plan, as is the amount paid into the supplementary fund.

The portions accrued and paid into the supplementary pension funds are recognised in the consolidated income statement sub-item 190. a) personnel costs.

These portions are configured as a defined contribution plan since the obligation of the company towards the employee ends with the payment of the accrued amounts. Therefore, for these cases, only the portion of the debt can be recorded under the liabilities (among 'Other liabilities') for payments still to be made to the INPS or the supplementary funds, on the reference date.

IAS 19 requires all actuarial gains and losses accrued on the reference date to be immediately recognised in the "Statement of consolidated comprehensive income".

The 'other long-term benefits' described by IAS 19 include the seniority bonuses to employees. These benefits must be valued, in compliance with IAS 19, with the same methodology used to determine the provision for severance indemnity, as these are compatible.

The liability for the seniority bonus is recorded under the provisions for risks and charges of the balance sheet.

The allocation, as the reattribution to the income statement of any excesses of the specific fund (due for example to changes to the actuarial assumptions) are recognised in the income statement among the "personnel costs".

15.3 RECOGNITION OF REVENUES AND COSTS

Revenues are recognised when control of the goods or services is transferred to the customer at an amount that represents the amount of the consideration to which the customer is deemed to be entitled.

Revenues are recorded through a process of analysis that involves the following steps:

- identification of the contract, defined as an agreement in which the parties have undertaken to fulfil their respective obligations;
- identification of the individual performance obligations contained in the contract;
- determination of the transaction price, i.e. the expected consideration for the transfer of the goods or services to the customer;
- allocation of the transaction price to each performance obligation, based on the sales prices of the individual obligation;
- recognition of revenues when (or as) the performance obligation is fulfilled by transferring the promised good or service to the customer.

That said, the recognition of revenues may occur:

- at a given time, when the entity meets its obligation to do so by transferring the promised good or service to the customer; or
- over a period of time, as the entity meets its performance obligation by transferring the promised good or service to the customer.

With reference to point above, a performance obligation is satisfied over a period of time if at least one of the following conditions is met:

- the customer controls the asset involved in the contract at the moment in which it is created or enhanced;
- the customer simultaneously receives or consumes the benefits provided by the entity's performance as the entity performs;
- the company's performance creates a personalised asset for the customer and the company has a payment right for the services completed at the date of transfer of the asset.

If none of the above criteria are met, then the revenue is recognised at a given moment.

The indicators of the transfer of control are:

- the obligation to pay;
- the legal title of the right to the consideration accrued;
- the physical possession of the asset;
- the transfer of risks and benefits related to ownership;
- the acceptance of the asset.

With regards to revenues realised over a period of time, the Group adopts a time-based accounting method. In relation to the above, the main approaches adopted by the Group are summarised below:

- the interest is recognised on a temporal basis, based on the contractual interest rate or the effective rate in the case of applying the amortised cost;
- the overdue interest, possibly set contractually, is booked in the income statement only at the time of its actual collection;
- the dividends are recorded in the income statement in the period in which their distribution is resolved, which coincides with the period when they are collected;
- the commissions for revenues from services are entered, based on the existence of contractual agreements, in the period when the same services were rendered.

The revenues from the sale of non-financial assets are recorded at the time of finalising the sale, unless most of the risks and benefits associated with the asset have been maintained.

The costs are booked to the income statement according to the accrual principle; the costs relating to the obtainment and fulfilment of the contracts with the customer are recognised in the income statement in the periods in which the associated revenues are recognised.

15.4 IMPROVEMENTS TO THIRD-PARTY ASSETS

The restoration costs on third party properties are capitalised in consideration of the fact that, throughout the duration of the lease, the using company has the control of the goods and may gain future economic benefits from them. The aforementioned costs are classified among the 'Other assets' and are amortised for a period not exceeding the duration of the lease.

15.5 METHODS OF RECOGNITION OF IMPAIRMENT LOSSES

Impairment of financial assets

Financial assets other than those measured at fair value through profit or loss, in accordance with IFRS 9, are subject to an assessment - to be carried out at each reporting date - to verify whether there are any indicators that these assets may be impaired (so-called impairment indicators).

If the above indicators exist, the financial assets in question are considered impaired (stage 3) and value adjustments equal to the expected losses over their entire residual life must be recorded against them.

For financial assets for which there are no impairment indicators (stage 1 and stage 2), it is necessary to verify whether there are indicators such that the credit risk of the individual transaction is significantly increased compared to the time of initial recognition and apply, consequently, the criteria underlying the IFRS 9 impairment model.

The IFRS 9 impairment model

The scope of application of the IFRS 9 impairment model adopted by the Group, on which the requirements for the calculation of allocations are based, includes financial instruments such as debt securities, loans, trade receivables, assets deriving from contracts and receivables originating from lease transactions, measured at amortised cost or fair value through other comprehensive income, as well as off-balance sheet exposures (financial guarantees and commitments to disburse funds).

The aforementioned impairment model is characterised by a forward looking approach and in given circumstances, may require the immediate recognition of all expected losses over the life of a loan. This estimate will also need to be continuously adjusted to take account of the credit risk of the counterparty. In order to prepare this estimate, the impairment model must not only consider past and present data, but also information relating to future events.

As a result of the Covid-19 pandemic, during the first half of 2021 the Group implemented some adjustments to the IFRS 9 impairment model to reflect the guidance contained in the EBA guidelines (GL-2020-02), the ECB publication (SSM-2020-0154) as well as the update of previous macroeconomic scenarios published by the ECB and the Bank of Italy. For more details on the aforementioned refinements, please refer to paragraph "d) Methods of application of international accounting standards in the context of the Covid-19 pandemic" included in "A.1 - General Part, Section 5 - Other Aspects" of this Part A.

For credit exposures falling within the scope of application of the impairment model, the accounting standard provides for the allocation of the individual positions in one of the 3 stages listed below:

- in stage 1, positions that do not present, at the valuation date, a significant increase in credit risk or which can be identified as 'low credit risk';
- in stage 2, positions that, at the reference date, present a significant increase of the credit risk or that do not present the characteristics to be identified as 'low credit risk';
- in stage 3, non-performing positions.

More specifically, the Group made provision for the allocation of the individual credit, cash and off-balance sheet positions, in one of the three stages listed below, based on the following criteria:

- in stage 1, positions with generation date of less than three months from the measurement date or that do not present any of the characteristics described in the following point;
- in stage 2, the positions, which at the reference date, showed a significant increase in credit risk:
  - positions which, at the valuation date, are classified to 'watch list', i.e. 'performing under observation';
  - positions which, at the valuation date, show an increase in PD compared to that at origination, which exceeds certain thresholds calculated using quantile regression methods;
  - presence of a 'forborne performing' attribute;
  - presence of past due amounts and/or overrun by more than 30 days;

- positions (without 'lifetime PD' at the disbursement date) that, at the measurement date, do not present the characteristics to be identified as 'low credit risk' (as described below);

- in stage 3, non-performing loans. These concern individual positions relating to counterparties classified in one of the impaired loan categories set forth by Bank of Italy Circular no. 272/2008 and subsequent updates. Falling into this category are impaired past due and/or overrun, 'unlikely to pay' and non-performing exposures.

Performing positions that possess the following characteristics at the measurement date are considered 'low credit risk':

- absence of 'lifetime PD' at the disbursement date;
- rating class of less than or equal to 4.

Positions are allocated automatically to the stages set out in IFRS 9 according to the criteria defined above.

The estimate of expected loss using the ECL methodology, for the classes defined above, takes place on the basis of the allocation of each position into the three reference stages, as detailed below:

- stage 1, expected loss is calculated on a time horizon of one year;
- stage 2, the expected loss is calculated by considering all the losses that it is presumed will be incurred during the entire life of the financial asset (lifetime expected loss);
- stage 3, the expected loss must be calculated from a lifetime perspective, but unlike the positions in stage 2, the calculation of lifetime expected loss will be analytical. In addition, where appropriate, forward looking elements will be introduced to the measurement of the aforementioned positions represented, in particular, by the inclusion of different scenarios (e.g. sale), weighted for the relevant probability of occurrence. More specifically, as part of the estimate of the recovery value of the positions (in particular those classified as non-performing), the inclusion of a transfer scenario, as an alternative to the internal management scenario, normally involves the recognition of greater value adjustments connected with the application of weighted sale prices for the relative probability of occurrence of the transfer scenario.

With specific reference to loans to banks, the Group has adopted a model for determining the significant increase in credit risk that differs slightly from that applied to loans to customers, although the stage allocation logic adopted for loans to banks has been defined as consistently as possible with those implemented for loans to customers.

More specifically, with reference to loans to banks, the low credit risk ratios are performing ratios which at the valuation date have the following characteristics:

- absence of 'lifetime PD' at the disbursement date;
- PD Point in Time lower than 0.3%.

Interbank positions are allocated automatically to the stages set out in IFRS 9 according to the criteria defined above. Now, therefore, for loans to banks, the Group adopts the IFRS 9 impairment model developed on an ad hoc basis for the specific counterparty type and, therefore, different from the model used for loans to customers.

Also for loans to banks, the estimate of expected loss using the Expected Credit Loss (ECL) methodology, for the classes defined above, takes place on the basis of the allocation of each position into the three reference stages, as detailed below:

- stage 1: expected loss is calculated on a time horizon of 12 months;
- stage 2: expected loss is calculated on a time horizon that incorporates the entire duration of the position until maturity (so-called lifetime expected loss or LEL);
- stage 3, expected loss must be calculated from a lifetime perspective, but unlike the positions in stage 2, the calculation of lifetime expected loss is analytical.

The probability of default and exposure at default (hereinafter also "PD" and "EAD") risk parameters are calculated by the impairment model.

The loss given default (hereinafter also "LGD") parameter is prudentially set at the regulatory level of 45% valid in the IRB Foundation model, for portfolios composed of risk assets other than subordinated and guaranteed instruments.

With reference to the portfolio of securities, the use of the approach for loans is confirmed, i.e. allocation of securities into one of the three stages set forth by IFRS 9, which correspond to the three different expected loss calculation methodologies.

In stage 1, expected loss is measured within a time horizon of one year, therefore with a probability of default at 12 months.

In the first stage of creditworthiness, securities were placed:

- at the moment of purchase, regardless of their risk;
- which, at the measurement date, have not experienced a significant increase in credit risk with respect to the moment of purchase;
- which have experienced a significant decrease in credit risk.

In the second stage, the ECL is calculated by using the probability of lifetime default. This stage will include those securities that possess the following characteristics:

- at the measurement date, the instrument presents an increase in credit risk with respect to the purchase date as such to request the recognition of an expected loss until maturity;
- instruments that fall under stage 3 on the basis of a significant decrease in risk.

The third and final stage includes exposures for which the ECL is calculated using a probability of default of 100%.

The decision to place instruments in stage 1 or in stage 2 is connected with the quantification of the thresholds that identify a significant increase in the credit risk of the individual tranche subject to valuation. These thresholds are calculated from the characteristics of the portfolio. As regards stage 3, an analysis is conducted as to whether the increase in risk was high enough, from the moment of initial recognition, to consider the assets 'impaired', i.e. whether events were verified as such to negatively impact future cash flows. As outlined previously, an incremental loss must be recognised from stage 1 to stage 3. In more detail:

- the 12-month ECL represents the expected value of the loss estimated on an annual basis;
- the lifetime ECL is the estimate of expected loss until maturity of the security;
- the estimate parameters of the ECL are the probability of default, the 'Loss Given Default' and the 'Exposure at Default' of the individual tranche (PD, LGD, EAD).

Analytical impairment of receivables in stage 3

With reference to the analytical valuation of loans, the model used by the Group to determine allocations for impaired loans (stage 3) measured at amortised cost or at fair value through other comprehensive income requires, depending on their characteristics, the use of a specific analytical valuation or a flat-rate analytical valuation.

The specific analytical valuation method is designed to determine the correct quantification of the allocations for each position, considering both the characteristics of the individual position being valued and the characteristics of the counterparty to which the same is registered.

The purpose of the flat-rate analytical valuation is to determine the correct quantification of allocations for each position and is carried out by estimating risk parameters defined by a statistical model, in line with the provisions for the collective assessment of performing exposures with reference to stage 2 credit exposures.

The flat-rate analytical valuation shall apply to credit exposures with the following characteristics:

- impaired past due and/or overrun exposures;
- impaired off-balance sheet exposures (e.g. endorsement exposures, available margins on credit);
- cash exposures classified as unlikely to pay that do not exceed an amount threshold defined at the individual debtor level (so-called size threshold);
- cash exposures classified as non-performing that do not exceed the size threshold.

The specific analytical valuation applies to credit exposures that have the following characteristics:

- cash exposures classified as unlikely to pay that exceed the size threshold;
- cash exposures classified as non-performing that exceed the size threshold.

For the purposes of applying the size threshold, the overall credit exposure is taken as a reference at the level of the individual debtor, thus determining, alternatively, a flat-rate or specific analytical valuation for all cash relationships in the name of the same debtor. The size threshold for counterparties classified as unlikely to pay and non-performing is EUR 200,000.

The assessment of expected losses, in particular with regard to non-performing exposures, shall be carried out taking into account the probability that different credit realisation scenarios will occur, such as the assignment of the exposure or, conversely, internal management.

With regard to the specific analytical valuation of recoverable value (valuation component), the Group adopts two alternative approaches that reflect the characteristics and riskiness of individual credit exposures:

- going concern approach, which applies only to business counterparties, operating in sectors other than real estate, that have objective prospects of going concern that are assumed when:
  - the debtor's future operating cash flows are pertinent and can be reliably estimated from documentable sources, such as:
    - updated, complete and regular official financial statements;
    - the business plan, the use of which for estimating cash flows is subject to (i) verification of the reliability and feasibility of the assumptions underlying the plan and (ii) full compliance with the plan, if it is already in progress;
    - the plan provided for in relation to agreements pursuant to the Bankruptcy Law such as, for example, pursuant to Article 67 letter d), Article 182 bis and septies, Article 186 bis, Article 160 et seq., it being understood that as long as the plans have only been submitted and not sworn in by the external professional appointed, the participating banks must carry out the same checks as those provided for with reference to the business plans;
  - the debtor's future operating cash flows are adequate to repay the financial debt to all creditors.
- gone concern approach, which applies mandatorily to credit exposures in the name of individuals and for companies with a view to business cessation or where it is not possible to estimate operating cash flows.

The discounting of the recoverable value (financial component), applied for non-performing loans and unlikely to pay, is based on the determination of the discount rate and the recovery time.

Impairment of equity investments

At each reporting date, investments in associates or jointly controlled companies are subject to an impairment test to verify whether there is objective evidence that the carrying amount of the assets in question is not fully recoverable.

The presence of impairment indicators (such as the presence of lower than expected economic performance of the investee company, significant changes in the environment or in the market where the company operates or in market interest rates, etc.) leads to the recognition of an impairment loss to the extent that the recoverable value of the investment is lower than its carrying amount.

The recoverable value is represented by the higher of the fair value, net of costs to sell and the value in use of the equity investment. As a consequence, the need to estimate both values does not apply if one of them has been valued above the carrying amount.

For the valuation methods used to determine fair value, reference should be made to paragraph "A.4 - Information on fair value" in this part A.

The value in use of the investment is the present value of the expected cash flows from the asset. This quantity responds to a general logic according to which the value of an asset is a direct expression of the cash flows it is able to generate over the period of its use. The determination of value in use therefore presupposes the estimate of the cash flows expected from the use of the assets or their final disposal expressed in terms of present value through the use of appropriate discount rates.

When an equity investment does not generate cash flows that are largely independent from other assets, it is subject to an impairment test not independently, but at the level of the cash generating unit (hereinafter also referred to as "CGU"). Therefore, when assets attributable to a subsidiary are included in a CGU larger than the investment itself, the impairment test can only be carried out at the latter level and not at the level of the individual investee company for which a value in use cannot be correctly estimated.

If the outcome of the impairment test shows that the recoverable value is higher than the carrying amount of the equity investment, no impairment loss is recognised; otherwise, an impairment loss is recognised in consolidated income statement item 250. Profits (losses) on equity investments.

Should the recoverable value subsequently be higher than the new carrying amount because it can be demonstrated that the elements that led to the write-down are no longer present, a write-back is permitted up to the amount of the previously recorded adjustment.

Impairment of other fixed assets

Tangible assets

IAS 36 establishes that, at least once a year, the company must verify whether the tangible assets held show one or more indicators of impairment. If such indicators are found, the company must carry out an impairment test in order to detect any impairment loss.

The impairment test does not apply to the tangible assets that constitute:

- real estate investments measured at fair value (IAS 40);
- inventories (IAS 2);
- assets within the scope of IFRS 5.

The impairment indicators to be considered are those defined by para. 12 of IAS 36. In this regard, impairment indicators specific to tangible assets may occur, for example, in the presence of obsolescence that prevents normal use of the same such as fire, collapse, unusability and other structural defects.

Although IAS 36 is applicable to individual assets, it is often very difficult or, in some cases, impossible to calculate the value in use of an individual tangible asset. For example, it is not always possible to attribute specific incoming or outgoing cash flows to a property where Management is located (so-called corporate asset) or to a plant or machinery. In these cases, IAS 36 states that the CGU, i.e. the smallest grouping of assets that generates independent cash flows, must be identified and tested at this higher level (rather than on the individual asset). This is precisely because it is often a group of assets - and not a single asset - that generates cash flow and for this reason it is not possible to calculate the value in use of the individual asset.

Without prejudice to the above, the impairment test involves the need to compare the recoverable value (which in turn is the higher of value in use and fair value net of costs to sell) of the tangible asset or the CGU with the relative carrying amount.

If and only if the recoverable value of an asset or of the CGU is lower than its carrying amount, the latter must be reduced to the recoverable value, configuring an impairment loss.

Intangible assets

Pursuant to IAS 36, the Group is required to perform an impairment test at least once a year, irrespective of the presence of impairment indicators, on the following assets:

- intangible assets with an indefinite useful life (including goodwill);
- intangible assets not yet available for use (including those in progress);

Other intangible assets (e.g. those with a defined useful life such as core deposits acquired in a business combination) must be subject to an impairment test only if there is an indicator of impairment.

In this regard, the impairment indicators to be considered for intangible assets are those defined by para. 12 of IAS 36. Specific impairment indicators for intangible assets (and in particular for goodwill) may occur, for example, in the event of actual results significantly below budget forecasts (which suggests a downward revision of the projections used for the test) or in the event of an increase in the discount rate or a reduction in the long-term growth rate.

Intangible assets with a definite life, such as any value of the asset management portfolio acquired as part of business combinations, in the presence of impairment indicators are subject to a new assessment process to verify the recoverability of the values recorded in the financial statements. The recoverable value is determined on the basis of the value in use, i.e. the present value, estimated using a rate representative of the time value of money and the risks specific to the asset, the profit margins generated by the relationships existing at the date of the valuation over a time horizon expressing the expected residual duration of the same.

Intangible assets with an indefinite life, represented mainly by goodwill, as mentioned above, are tested annually for impairment. As there are no independent cash flows, the impairment test is carried out for the above mentioned assets with reference to the Cash Generating Unit (CGU) to which the values have been attributed.

The CGU represents the smallest identifiable group of assets generating cash inflows (revenues) that are largely independent of the flows generated by other assets or groups of assets. It identifies the lowest possible level of aggregation of assets provided that it is, at that level, possible to identify cash inflows that are objectively independent and autonomous from other assets.

Once the CGUs have been identified, it is necessary to determine their recoverable value, which will be compared with their carrying amount in order to quantify any impairment. The recoverable value is defined as the greater of:

- value in use;
- fair value less costs to sell.

IAS 36 at para. 19 states that if one of the two values (value in use or fair value less costs to sell) is higher than the carrying amount of the CGU, it is not necessary to estimate the other.

Value in use represents the present value of future cash flows expected to arise from a CGU. The value in use, therefore, responds to a general logic according to which the value of an asset is a direct expression of the cash flows it is able to generate over the period of its use. The determination of value in use requires an estimate of the expected cash inflows and outflows from the CGU and the appropriate discount rate depending on the level of risk of these flows.

Fair value is the amount obtainable from the sale of an asset or Cash Generating Unit (CGU) in a free transaction between knowledgeable and independent counterparties. Costs to sell include those directly associated with the potential sale (e.g. legal fees).

A CGU is written down when its carrying amount is higher than its recoverable value. In essence, an asset or CGU needs to be written down because it is impaired, either because the cash flows that will be generated from the use of the asset are not sufficient to recover the carrying amount of the asset, or because the asset would be sold for less than its carrying amount.

15.6 BUSINESS COMBINATIONS

A business combination consists of the bringing together of companies or company activities into a single entity required to prepare financial statements.

A business combination may give rise to an investment link between the parent company (acquiror) and subsidiary (acquiree). A business combination may also make provision for the purchase of the net assets of another company, including any goodwill, or the acquisition of the capital of another company (mergers and contributions).

Based on the provisions of IFRS 3, business combinations must be accounted for by applying the purchase method which envisages the following phases:

- identification of the purchaser;
- determination of the cost of the business combination;

- allocation, at the acquisition date, of the cost of the business combination to the assets acquired and liabilities assumed, including therein any contingent liabilities.

In particular, the cost of a business combination is determined as the sum of the fair value, at the date of the exchange, of the assets transferred, the liabilities incurred or assumed and the equity instruments issued, in exchange for control of the acquiree augmented by any cost directly attributable to the business combination.

The acquisition date is the date on which control of the business acquired is effectively obtained. When the acquisition is carried out via a single exchange, the exchange date coincides with the acquisition date.

When the business combination is achieved through several exchange transactions:

- the cost of the combination is the total cost of the individual transactions;
- the exchange date is the date of each exchange transaction (i.e. the date on which each investment is recognised in the financial statements of the acquiring company), while the acquisition date is the date on which control of the business acquired is obtained.

The cost of a business combination is allocated by recognising the identifiable assets, liabilities and contingent liabilities of the acquiree at the associated fair values at the acquisition date.

The identifiable assets, liabilities and contingent liabilities of the acquiree are recognised separately at the acquisition date only if, at said date, they satisfy the following criteria:

- in the event of an asset other than an intangible asset, it is likely that any future related economic benefits flow to the acquiror and it is possible to reliably measure its fair value;
- in the event of a liability other than a contingent liability, it is likely that, to extinguish the obligation, the use of resources aimed at generating economic benefits will be necessary and it is possible to reliably measure its fair value;
- in the event of an intangible asset or a contingent liability, the relevant fair value can be reliably measured.

The positive difference between the cost of the business aggregation and the acquiror's interest at the net fair value of the identifiable assets, liabilities and contingent liabilities must be accounted for as goodwill.

Following initial recognition, the goodwill acquired in a business combination is measured at the relevant cost, and is subject to an impairment test at least annually. In the event of a negative difference, a new measurement is performed. This negative difference, if confirmed, is booked immediately as revenue in the income statement.

15.7 ACCRUALS AND DEFERRALS

Accruals and deferrals that include expenses and income pertaining to the period accrued on assets and liabilities are booked to the financial statements as an adjustment to the assets and liabilities to which they refer.

15.8 OWN SHARES

Any own shares held are deducted from equity. Similarly, the original cost of the same and the profits or losses arising from their subsequent sale are recognised as movements in equity. Similarly, shares issued by the Parent Company and subscribed by the Affiliated Banks as part of the sole consolidating entity are also deducted from Group's equity.

15.9 PAYMENTS BASED ON SHARES

This case does not apply to the Group, as it does not have a so-called 'stock option plan' in place on Group-issued shares.

A.3 - Information on transfers between portfolios of financial assets

The Group has not performed any transfer between the portfolios of the financial instruments during the current year. Thus the compilation of the envisaged tables is omitted.

A.4 - Information on fair value

The accounting standard IFRS 13 defines fair value as the price that would be received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The "Fair value policy" of the Cassa Centrale Group has defined the principles and methods for determining the fair value of financial instruments and the criteria for determining the so-called "fair value hierarchy".

A fair value measurement assumes that the sale of the asset or the transfer of the liability takes place:

- in the main market for the asset or liability;
- in the absence of a main market, in the most advantageous market for the asset or liability.

In the absence of a main market, all reasonably available information is taken into consideration in order to identify an active market among the available markets where the fair value of an asset/liability can be measured: in general, a market is active in relation to the number of contributors and the type of the same (dealer, market maker), the frequency of price updating and deviation, the presence of an acceptable bid-offer spread. These prices are immediately executable and binding and express the actual and regular levels of exchange on the valuation date.

In order to identify these markets, the Group has equipped itself with tools to identify and monitor whether or not a market can be considered active, in particular with regard to bonds, shares and funds.

In this respect, in general, a financial instrument is considered to be quoted on an active market if prices are readily and regularly available, are immediately executable and binding and represent actual market transactions that occur regularly in normal trading on a regulated market or Multilateral Trading Facilities (MTF).

The presence of official prices in an active market is the best evidence of fair value; these prices therefore represent the prices to be used in priority for fair value measurements.

In the absence of an active market, fair value is determined using prices recorded on non-active markets, valuations provided by info providers or techniques based on valuation models.

When using such models, the use of relevant observable inputs shall be maximised where possible and the use of non-observable inputs shall be minimised. Observable inputs refer to prices formed within a market and used by market participants in determining the exchange price of the financial instrument being valued. This includes prices of the same asset/liability in a non-active market, parameters supported and confirmed by market data and valuation estimates based on daily observable inputs.

The non-observable inputs, on the other hand, are those not available on the market, processed on the basis of assumptions that the operators/

assessors would use in determining the fair value for the same instrument or similar instruments of the same type.

IFRS 13 defines a fair value hierarchy that classifies the inputs of the valuation techniques adopted to measure fair value into three distinct levels. In particular, there are three levels of fair value:

- Level 1: fair value is determined on the basis of quoted prices observed on active markets. The Group has equipped itself with tools to identify and monitor whether or not a market can be considered active with regard to bonds, shares and funds. A financial instrument is considered to be listed on an active market if prices are readily and regularly available, are immediately executable and binding and represent actual market transactions that occur regularly in normal trading on a regulated market or Multilateral Trading Facilities (MTF). For example, the following are classified at this level of fair value:
  - bonds listed on Bloomberg MTF and valued with composite prices or, limited to Italian government securities, with MOT reference price;
  - shares and ETFs listed on markets where in the last five sessions the volumes traded are not zero and the prices recorded are not identical;
  - UCITS mutual funds, i.e. undertakings for collective investment in transferable securities.
- Level 2: fair value is determined on the basis of valuation techniques that envisage:
  - reference to market values that do not reflect the stringent active market requirements envisaged for Level 1;
  - valuation models using inputs observable on active markets. More specifically, with regard to financial instruments for which it is not possible to identify a fair value in active markets, the Group refers to prices in markets where the stringent requirements of the active market are not met or to valuation models - also developed by info providers - aimed at estimating the price at which a regular sale or transfer of a liability between market participants would take place on the valuation date. These models for determining fair value (e.g. discounting cash flow model, option pricing models) include the representative risk factors that condition the valuation of a financial instrument (cost of money, credit risk, volatility, exchange rates, etc.) and that are observed in active markets such as:
    - the prices of similar financial assets/liabilities;
    - interest rates and yield curves observable at commonly quoted intervals;
    - implied volatility;
    - credit spread;
    - inputs corroborated by the market based on observable market data.

  The fair value thus determined is assigned a level of 2. Some examples of securities classified at this level are:
  - non-governmental bonds for which a price is available on a non-active market;
  - securities for which the valuation is provided by a third party provider using inputs observable on active markets;
  - securities for which valuation is provided using internal models based on inputs observable on active markets (e.g. bonds measured at fair value option);
  - shares that are not listed on an active market;
  - OTC (Over the counter) financial derivatives concluded with institutional counterparties measured mainly through observable market data.
- Level 3: the estimate of fair value is carried out using valuation techniques that make significant use of inputs that are not observable on the market and assumptions made by operators using historical evidence or statistical assumptions. Where present, as examples, the following are classified at this level:
  - unlisted minority equity investments;
  - insurance investment products;

- unlisted non-UCITS funds;
- junior securitisation securities;
- unlisted Additional Tier 1 bonds.

The classification of fair value is a figure that may vary over the life of a financial instrument. Consequently, it is necessary to verify on an ongoing basis the significance and observability of market data in order to proceed with any change in the level of fair value attributed to an instrument.

Information of a qualitative nature

A.4.1 FAIR VALUE LEVELS 2 AND 3: VALUATION TECHNIQUES AND INPUTS USED

In the absence of an active market, fair value is determined using valuation techniques appropriate to the circumstances. Below is an illustration of the main valuation techniques adopted for each type of financial instrument, where an internal model is used to determine fair value.

The valuation models are reviewed periodically to ensure their full and constant reliability and are updated to the most up-to-date techniques used on the market.

Unlisted bonds not contributed by info providers

The procedure for estimating the fair value of bonds is based on a discounted cash flow model.

The yield curve used in the discounting is constructed from liquid bonds, with the same seniority and currency of the instrument being valued, issued by companies belonging to the same sector and with a similar rating class.

As part of the fair value measurement of bonds issued by the issuer, the estimate of fair value takes into account changes in the issuer's creditworthiness. In particular, for securities issued by Affiliated Banks or other cooperative credit banks, the rating class is determined on the basis of the creditworthiness of the parent company. Changes in the rating may also lead to changes in the fair value calculated according to the characteristics of the security and the discount curve used.

Given the predominant use of observable inputs, the fair value thus determined is classified at level 2.

Derivatives

The fair value of OTC derivatives, for which there is no price quoted on regulated markets, is determined using different quantitative models depending on the type of instrument. In detail, for non-optional instruments the valuation techniques adopted belong to the discount cash flow model category (e.g. interest rate swaps, FX swaps). For instruments of an optional rate nature, the Black model is used.

The models are supplied using market-observable inputs such as rate curves, exchange rates and volatility.

With regards to the determination of the fair value of OTC derivatives in consolidated balance sheet assets, IFRS 13 confirmed the rule of applying the credit valuation adjustment - CVA. With regard to financial liabilities represented by OTC derivatives, IFRS 13 introduces a debt valuation adjustment (DVA), i.e. a fair value adjustment to reflect its own default risk on such instruments.

The Group therefore considered it reasonable not to recognise a correction in the fair value of derivatives for CVA and DVA in the cases in which agreements had been made and remained operative for collateralisation of the positions in derivatives with the following characteristics:

- a bilateral exchange of guarantees with a high frequency (daily or at the most weekly);
- the type of guarantee provided in cash or highly liquid government securities with a high credit rating, subject to an appropriate spread;
- absence of a threshold of the fair value of the derivative under which an exchange of guarantees is not required or setting the level to such a threshold which is adequate to allow for effective and significant mitigation of the counterparty risk;
- MTA - minimum transfer amount (that is the difference between the fair value of the contract and the value of the guarantee) under

which there is no adjustment of the collateralisation of the positions, identified contractually at a level that allows for essential mitigation of the counterparty risk.

Unlisted minority equity investments

The main valuation methods adopted by the Group, in accordance with the provisions of IFRS 13, in the valuation of unlisted minority equity investments are set out below:

- market methodologies (market approach): these are based on the idea of comparability with other market participants assuming that the value of an asset can be determined by comparing it to similar assets for which market prices are available. In particular, in practice, two reference sources of market prices are taken into account: stock market prices in active markets and observable information from merger transactions, acquisition or sale of share packages (direct transaction method, transaction multiples, market multiples);
- income approach: these are based on the assumption that future cash flows (e.g. cash flows or dividends) are convertible into a single (discounted) current value. In particular, the main methodologies that fall into this category include i) discounted cash flow (DCF); ii) dividend discount model (DDM); iii) appraisal value;
- adjusted net asset value or ANAV: this method is based on the principle of expressing, at current values, the individual elements of the assets (represented, essentially, by equity investments, whether controlling or not) and liabilities with the emergence also of any items not recorded in the financial statements. This method is normally used to determine the economic value of holding companies and investment companies whose value is closely related to the portfolio of equity investments held.

In accordance with the provisions of IFRS 13, the Group verifies, depending on the specific case, whether it is necessary to apply certain adjustments to the economic value resulting from the application of the aforementioned valuation methods to determine the fair value of the investment under analysis (e.g. liquidity discount, control premium, minority discount).

The choice of valuation approach is left to the judgement of the valuer as long as it favours, compatibly with the available information, methodologies that maximise the use of observable inputs on the market and minimise the use of non-observable inputs.

Lastly, it should be noted that the Group uses the net asset value or cost method (as a proxy for fair value) for minority interests below certain materiality thresholds for which no fair value measurement based on the aforementioned methods is available, based on specific parameters defined within the Fair Value Policy approved by the Board of Directors.

Unlisted mutual investment funds

Mutual investment funds such as unlisted real estate funds, private equity funds and alternative investment funds (hereinafter also referred to as 'AIFs') are characterised by a portfolio of assets generally valued with subjective inputs and provide for the redemption of the subscribed portion only at a certain maturity.

For this reason, the net asset value (NAV) used as a fair value estimation technique is considered to be level 3.

Insurance investment products

The valuation of these assets provides for the discounting of expected future cash flows from the investment. In this regard, the estimate of cash flows is based on the use of risk-free financial scenarios in which a Monte-Carlo simulative approach is used for the projection of future returns from the separate holding. The input data of the functional model for the estimation of flows consist of:

- historical information on the performance of the separate holdings involved;
- risk-free rates;
- the average asset allocation of the Italian separate holdings taken from market data (source: ANIA) at the last available survey compared to the valuation date.

Cash flow projections are made using a financial-actuarial model that incorporates the data of the policyholder, the financial structure of the insurance investment product (minimum guaranteed rates, management fees), demographic assumptions and financial data in order to consider the value of the financial options included in the insurance investment product. These cash flows are finally discounted using the same risk-free curve specific to the individual scenario.

Loans and receivables

The fair value measurement of loans mainly takes place in cases where the relationship fails the SPPI test (as set forth in IFRS 9) or in cases of hedge accounting or application of the fair value option.

The valuation method consists of discounting the contractual cash flows net of the expected loss calculated in accordance with the provisions of the IFRS 9 model used to estimate value adjustments.

With reference to loans to customers and banks, recorded under financial assets measured at amortised cost, the fair value of which is provided for disclosure purposes, it should be noted that the fair value of short-term or revocable loans has been conventionally assumed to be equal to the carrying amount.

With regard to non-performing positions – except for situations in which, given the presence of objective elements deriving from valuations on portfolios and/or specific positions expressed by third parties, the values deriving from such valuations are used – the book value has been assumed as an approximation of fair value.

Unlisted Additional Tier 1 (AT1) subordinated bank securities issued by Affiliated Banks

The procedure for estimating the fair value of Additional Tier 1 securities is based on a discounted cash flow model. The yield curve used in discounting is constructed from liquid bonds, taking into account the seniority of the instrument, the sector and the rating class of the issuer. Taking into account the presence, within the model, of assumptions on the evolution of future cash flows, the fair value thus determined is classified at level 3.

A.4.2 PROCESSES AND SENSITIVITIES OF THE VALUATIONS

The Group generally carries out a sensitivity analysis of non-observable inputs, through a stress test on non-observable inputs that are significant for the evaluation of the different types of financial instruments belonging to level 3 of the fair value hierarchy.

On the basis of this analysis, potential changes in fair value are determined, by type of instrument, attributable to plausible changes in non-observable inputs. The sensitivity analysis was developed for the financial instruments for which the valuation techniques adopted made it possible to carry out this exercise.

That said, financial instruments with a fair value level 3 represent a residual portion (approximately 8%) of the total portfolio of financial assets. They consist mainly of unlisted minority equity investments and insurance investment products (typically life insurance policies).

With reference to the unlisted minority equity investments, the investment in Iccrea Banca S.p.A. (hereinafter also "Iccrea"), amounting to approximately EUR 95 million at the reporting date is notable. This was not subject to sensitivity analysis considering that the fair value was determined on the basis of the price defined in the agreement signed in October 2019 between the Parent Company and Iccrea regarding the definition of reciprocal participation arrangements. Given that the value of the equity investment will be realised at the price already established in the agreement, which cannot therefore be subject to change, it was considered that the sensitivity analysis has no significant informative value.

With reference to insurance investment products, as highlighted above, these are valued on the basis of a calculation model that provides for the discounting of future cash flows expected from the same investment, taking into account financial, demographic and contractual assumptions.

For the above instruments, considering that the financial and demographic assumptions are derived from observable market data (e.g. Italian risk-free interest rate maturity structure with volatility adjustment, ISTAT mortality table, etc.), the sensitivity analysis was carried out with reference to the non-observable inputs underlying the contractual assumptions (relatively less relevant for valuation purposes).

In particular, the sensitivity analysis concerned the spread (obtained by weighting the historical yields of the reference separate holding) added to the Euroswap rate in order to determine the functional capitalisation rate to calculate, starting from the last insured capital communicated by the insurance companies, the insured capital at the valuation date. The above analysis was carried out on a sample of instruments of this type and showed little significant effects on the fair value of the insurance investments resulting from the change in the non-observable inputs under examination, also due to the aforementioned circumstance that the non-observable inputs underlying the contractual assumptions are in relative terms less relevant for valuation purposes.

With reference to the other fair value level 3 instruments, the sensitivity analysis is not produced because the effects deriving from the change in the non-observable inputs are considered not relevant.

With reference to the equity investment in Banca Carige S.p.A. - Cassa di Risparmio di Genova e Imperia (hereinafter also referred to as "Carige"), in view of the valuation model adopted, it was not considered relevant to perform sensitivity analyses on significant unobservable inputs.

A.4.3 FAIR VALUE HIERARCHY

For a description of the fair value hierarchy levels envisaged by the Group, please refer to paragraph "A.4 - Information on fair value" above.

With reference to assets and liabilities measured at fair value, classification at the correct level is carried out with reference to the rules and methods set out in internal regulations.

Any transfers to a different level of hierarchy are identified on a monthly basis. The transition from level 3 to level 2 occurs when the relevant parameters used as input to the valuation technique are, at the reference date, observable on the market. The transition from level 2 to level 1 takes place when the presence of an active market, as defined by IFRS 13, has been successfully verified. The transition from level 2 to level 3 occurs when, at the reference date, several of the significant parameters in determining fair value are not directly observable on the market.

A.4.4 OTHER INFORMATION

The Group does not hold groups of financial assets and liabilities based on its net exposure to market risks or credit risk.

The Group, with reference to derivatives concluded with financial counterparties with which it stipulated framework offsetting agreements, availed itself of the possibility to measure the fair value at overall portfolio exposure level in order to take account of the offsetting of counterparty risk.

Information of a quantitative nature

A.4.5 FAIR VALUE HIERARCHY

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

	30/06/2021			31/12/2020		
FINANCIAL ASSETS/LIABILITIES MEASURED AT FAIR VALUE	L1	L2	L3	L1	L2	L3
1. Financial assets measured at fair value through profit or loss	208	17	368	212	20	375
a) financial assets held for trading	-	5	-	-	7	-
b) financial assets measured at fair value	-	-	2	-	-	2
c) other financial assets obligatorily measured at fair value	208	12	366	212	13	373
2. Financial assets measured at fair value through other comprehensive income	9,945	55	196	9,137	73	230
3. Hedging derivatives	-	2	-	-	2	-
4. Tangible assets	-	-	15	-	-	15
5. Intangible assets	-	-	-	-	-	-
Total	**10,153**	**74**	**579**	**9,349**	**95**	**620**
1. Financial liabilities held for trading	-	4	-	-	9	-
2. Financial liabilities measured at fair value	-	1	-	-	15	-
3. Hedging derivatives	-	39	-	-	57	-
Total	**-**	**44**	**-**	**-**	**81**	**-**

KEY:

L1 = Level 1

L2 = Level 2

L3 = Level 3

During the year, there were no significant transfers of assets and liabilities between level 1 and level 2 as defined by IFRS 13, para. 93, letter c).

A.4.5.2 Changes during the period in assets measured at fair value on a recurring basis (level 3)

	Financial assets measured at fair value through profit or loss				Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Tangible assets	Intangible assets
	TOTAL	of which: a) financial assets held for trading	of which: b) financial assets measured at fair value	of which: c) other financial assets obligatorily measured at fair value				
1. OPENING BALANCES	**375**	**-**	**2**	**373**	**230**	**-**	**15**	**-**
2. INCREASES	**15**	**-**	**-**	**15**	**8**	**-**	**-**	**-**
2.1. Purchases	3	-	-	3	6	-	-	-
2.2. Profit attributed to:	8	-	-	8	1	-	-	-
2.2.1. Income Statement	8	-	-	8	-	-	-	-
- of which capital gains	6	-	-	6	-	-	-	-
2.2.2. Equity	-	X	X	X	1	-	-	-
2.3. Transfers from other levels	1	-	-	1	-	-	-	-
2.4. Other increases	3	-	-	3	1	-	-	-
3. DECREASES	**22**	**-**	**-**	**22**	**42**	**-**	**-**	**-**
3.1. Sales	3	-	-	3	7	-	-	-
3.2. Repayments	7	-	-	7	-	-	-	-
3.3. Losses attributed to:	8	-	-	8	32	-	-	-
3.3.1. Income Statement	8	-	-	8	-	-	-	-
- of which capital losses	6	-	-	6	-	-	-	-
3.3.2. Equity	-	X	X	X	32	-	-	-
3.4. Transfers to other levels	-	-	-	-	1	-	-	-
3.5. Other decreases	4	-	-	4	2	-	-	-
4. CLOSING BALANCES	**368**	**-**	**2**	**366**	**196**	**-**	**15**	**-**

A.4.5.3 Changes during the period in liabilities measured at fair value on a recurring basis (level 3)

As at the reporting date, the Group does not hold any liabilities measured at fair value on a recurring basis classified to level 3.

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

	30/06/2021				31/12/2020			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Financial assets measured at amortised cost	76,920	26,191	495	52,338	73,068	27,569	484	47,688
2. Tangible assets held for investment purposes	83	-	-	79	87	-	-	93
3. Non-current assets and groups of assets held for disposal	6	-	-	6	7	-	-	5
Total	**77,009**	**26,191**	**495**	**52,423**	**73,162**	**27,569**	**484**	**47,786**
1. Financial liabilities measured at amortised cost	81,222	-	1,472	79,751	77,873	-	2,112	75,760
2. Liabilities associated to assets held for disposal	-	-	-	-	-	-	-	-
Total	**81,222**	**-**	**1,472**	**79,751**	**77,873**	**-**	**2,112**	**75,760**

KEY:

CA = Carrying amount

L1 = Level 1

L2 = Level 2

L3 = Level 3

A.5 - Information on day one profit/loss

The Group did not carry out any transactions for which, at the moment of first-time recognition of a financial instrument, a difference emerges between the purchase value and the value of the instrument obtained using internal valuation techniques.

Part B - Information on the consolidated balance sheet

Assets

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

2.1 Financial assets held for trading: breakdown by category

ITEMS/VALUES	Total 30/06/2021			Total 31/12/2020		
	L1	L2	L3	L1	L2	L3
A CASH ASSETS						
1. Debt securities	-	-	-	-	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	-	-	-	-	-
2. Equities	-	-	-	-	-	-
3. UCITS units	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Repos	-	-	-	-	-	-
4.2 Others	-	-	-	-	-	-
Total (A)	**-**	**-**	**-**	**-**	**-**	**-**
B. DERIVATIVE INSTRUMENTS						
1. Financial derivatives	-	5	-	-	7	-
1.1 trading	-	5	-	-	7	-
1.2 connected to the fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 trading	-	-	-	-	-	-
2.2 connected to the fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total (B)	**-**	**5**	**-**	**-**	**7**	**-**
Total (A+B)	**-**	**5**	**-**	**-**	**7**	**-**

KEY:

L1 = Level 1

L2 = Level 2

L3 = Level 3

As at 30 June 2021, this item includes derivative instruments classified in the trading book.

2.3 Financial assets measured at fair value: breakdown by category

ITEMS/VALUES	Total 30/06/2021			Total 31/12/2020		
	L1	L2	L3	L1	L2	L3
1. DEBT SECURITIES	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	-	-	-	-	-
2. LOANS	**-**	**-**	**2**	**-**	**-**	**2**
2.1 Structured	-	-	-	-	-	-
2.2 Other	-	-	2	-	-	2
Total	**-**	**-**	**2**	**-**	**-**	**2**

KEY:

L1 = Level 1

L2 = Level 2

L3 = Level 3

2.5 Other financial assets obligatorily measured at fair value: breakdown by category

VITEMS/VALUES	Total 30/06/2021			Total 31/12/2020		
	L1	L2	L3	L1	L2	L3
1. Debt securities	-	12	4	-	13	4
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	12	4	-	13	4
2. Equities	14	-	-	26	-	-
3. UCITS units	194	-	80	186	-	83
4. Loans	-	-	282	-	-	286
4.1 Repos	-	-	-	-	-	-
4.2 Others	-	-	282	-	-	286
Total	**208**	**12**	**366**	**212**	**13**	**373**

KEY:

L1 = Level 1

L2 = Level 2

L3 = Level 3

The sub-item "1.2. Other debt securities" includes junior and mezzanine securities related to securitisation transactions for approximately EUR 4 million classified in fair value level 3.

Loans include approximately EUR 226 million in life insurance policies issued by insurance companies, linked to the return on a separate holding, and obligatorily measured at fair value following the failure of the SPPI test.

The item 'UCITS units' is composed of the following main categories of funds:

- bonds for approximately EUR 130 million;
- stocks for approximately EUR 59 million;
- balanced for approximately EUR 24 million;
- real estate totalling approximately EUR 31 million;
- NPLs totalling approximately EUR 29 million;
- private equity totalling approximately EUR 1 million.

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

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

ITEMS/VALUES	Total 30/06/2021			Total 31/12/2020		
	L1	L2	L3	L1	L2	L3
1. DEBT SECURITIES	9,926	55	1	9,129	73	1
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	9,926	55	1	9,129	73	1
2. EQUITIES	19	-	195	8	-	229
3. LOANS	-	-	-	-	-	-
Total	**9,945**	**55**	**196**	**9,137**	**73**	**230**

KEY:

L1 = Level 1

L2 = Level 2

L3 = Level 3

The item "1. Debt securities" is mainly composed of government securities.

The item "2. Equities" includes residual Iccrea Banca S.p.A. securities held by Affiliated Banks for approximately EUR 95 million, representing an interest of approximately 6.6%. These securities are part of the sale agreement entered into in 2019 with ICCREA Banca S.p.A., which will allow the position to be completely eliminated by 2022.

This item also includes equities relating to Cassa Centrale Banca's investment in Carige for a countervalue of approximately EUR 6.8 million (equal to 8.34% of the share capital).

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

	Gross value				Total value adjustments			Overall partial write-offs*
	First stage	of which: Instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	
Debt securities	9,982	32	2	1	2	-	1	-
Loans	-	-	-	-	-	-	-	-
Total 30/06/2021	**9,982**	**32**	**2**	**1**	**2**	**-**	**1**	**-**
Total 31/12/2020	**9,202**	**67**	**3**	**1**	**2**	**-**	**1**	**-**
of which: impaired financial assets acquired or originated	X	X	-	-	X	-	-	-

*Value to be displayed for information purposes

The division by stage of risk of financial assets measured at fair value through other comprehensive income is applied in compliance with the provisions of the impairment model in application of IFRS 9.

For more detailed information, please refer to Part A – Accounting policies in paragraph "15.5 Methods of recognition of impairment losses" and Part E – Information on risks and related hedging policies.

3.3a Loans measured at fair value through other comprehensive income subject to Covid-19 support measures: gross value and total value adjustments

The table does not contain information and therefore was not filled in.

Section 4 - Financial assets measured at amortised cost - Item 40

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

TYPE OF TRANSACTIONS/ VALUES	Total 30/06/2021						Total 31/12/2020					
	Carrying amount			Fair value			Carrying amount			Fair value		
	First and second stage	Third stage	of which: impaired acquired or originated	L1	L2	L3	First and second stage	Third stage	of which: impaired acquired or originated	L1	L2	L3
A. LOANS TO CENTRAL BANKS	**5,655**	**-**	**-**	**-**	**-**	**5,655**	**2,089**	**-**	**-**	**-**	**-**	**2,090**
1. Fixed-term deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Compulsory reserve	5,655	-	-	X	X	X	2,089	-	-	X	X	X
3. Repos	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	-	-	-	X	X	X	-	-	-	X	X	X
B. LOANS TO BANKS	**892**	**-**	**-**	**288**	**174**	**442**	**913**	**-**	**-**	**167**	**176**	**591**
1. Loans	**434**	**-**	**-**	**-**	**-**	**432**	**583**	**-**	**-**	**2**	**-**	**581**
1.1 Current accounts and deposits on demand	179	-	-	X	X	X	209	-	-	X	X	X
1.2. Fixed-term deposits	126	-	-	X	X	X	186	-	-	X	X	X
1.3. Other loans	129	-	-	X	X	X	188	-	-	X	X	X
- Repos receivables	-	-	-	X	X	X	-	-	-	X	X	X
- Financing for leases	-	-	-	X	X	X	-	-	-	X	X	X
- Other	129	-	-	X	X	X	188	-	-	X	X	X
2. Debt securities	**458**	**-**	**-**	**288**	**174**	**10**	**330**	**-**	**-**	**165**	**176**	**10**
2.1 Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt securities	458	-	-	288	174	10	330	-	-	165	176	10
Total	**6,547**	**-**	**-**	**288**	**174**	**6,097**	**3,002**	**-**	**-**	**167**	**176**	**2,681**

KEY:

L1 = Level 1

L2 = Level 2

L3 = Level 3

The balance of "Other debt securities" includes the subscription, by the Cassa Centrale Group, of the subordinated bond issued by Carige at an annual rate of 8.25%. This subordinated loan was subscribed by Cassa Centrale Banca and its Affiliated Banks for a nominal value of EUR 100 million.

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

TYPE OF TRANSACTIONS/ VALUES	Total 30/06/2021						Total 31/12/2020					
	Carrying amount			Fair value			Carrying amount			Fair value		
	First and second stage	Third stage	of which: impaired acquired or originated	L1	L2	L3	First and second stage	Third stage	of which: impaired acquired or originated	L1	L2	L3
1. LOANS	**43,761**	**1,101**	**-**	**72**	**200**	**45,940**	**42,144**	**1,201**	**-**	**-**	**184**	**44,676**
1. Current accounts	3,332	157	-	X	X	X	3,440	181	-	X	X	X
2. Repos receivables	-	-	-	X	X	X	-	-	-	X	X	X
3. Mortgages	35,710	889	-	X	X	X	33,992	965	-	X	X	X
4. Credit cards, personal loans and salary-backed loans	801	12	-	X	X	X	707	9	-	X	X	X
5. Financing for leases	621	17	-	X	X	X	605	18	-	X	X	X
6. Factoring	-	-	-	X	X	X	-	-	-	X	X	X
7. Other loans	3,297	26	-	X	X	X	3,400	28	-	X	X	X
2. DEBT SECURITIES	**25,511**	**-**	**-**	**25,831**	**121**	**301**	**26,721**	**-**	**-**	**27,402**	**124**	**331**
2.1. Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2. Other debt securities	25,511	-	-	25,831	121	301	26,721	-	-	27,402	124	331
Total	**69,272**	**1,101**	**-**	**25,903**	**321**	**46,241**	**68,865**	**1,201**	**-**	**27,402**	**308**	**45,007**

KEY:

L1 = Level 1

L2 = Level 2

L3 = Level 3

Loans to customers are shown net of value adjustments from write-downs. Impaired assets include the non-performing loans, unlikely to pay and past due exposures according to Bank of Italy Circular no. 272 of 30 July 2008 and subsequent updates. Details of these exposures, the amounts and the breakdown of the value adjustments, are shown in Part E of the Explanatory Notes – 'Credit quality'. The fair value of short-term or revocable receivables was conventionally assumed to be equal to the carrying amount.

For impaired positions, the fair value was deemed to be equal to the net book value on the basis of the considerations set out in Part A, Section A.4 – Information on fair value, to which reference is made.

The item "2.2 Other debt securities" includes senior securities relating to securitisation transactions for approximately EUR 279 million classified at fair value level 3.

Loans to customers include loans from third-party funds under administration with risk borne by the Group amounting to approximately EUR 130 million.

The increase in the item "Mortgages", partially offset by a contraction in current accounts, continues to be predominantly attributable to the reshaping of on-demand exposures to state-guaranteed forms of financing, as well as the effects of moratoria on mortgages that have temporarily suspended their pre-established amortisation schedules and new loans granted with state guarantees. These measures are envisaged by government decrees issued following the crisis triggered by the Covid-19 pandemic. For more information, see table "4.4a Loans measured at amortised cost subject to Covid-19 support measures: gross value and total value adjustments".

4.4 Financial assets measured at amortised cost: gross value and total value adjustments

	Gross value				Total value adjustments			Overall partial write-offs*
	First stage	of which: Instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	
Debt securities	25,961	338	67	1	19	40	1	-
Loans	43,440	1	6,815	3,282	112	293	2,181	300
Total 30/06/2021	**69,401**	**339**	**6,882**	**3,283**	**131**	**333**	**2,182**	**300**
Total 31/12/2020	**66,676**	**353**	**5,686**	**3,337**	**152**	**343**	**2,136**	**302**
of which: impaired financial assets acquired or originated	X	X	-	-	X	-	-	-

* Value to be displayed for information purposes

The division by stage of risk of financial assets measured at amortised cost is applied in compliance with the provisions of the impairment model in application of IFRS 9.

For more detailed information, please refer to Part A – Accounting policies in paragraph "15.5 Methods of recognition of impairment losses" and Part E – Information on risks and related hedging policies.

4.4a Loans measured at amortised cost subject to Covid-19 support measures: gross value and total value adjustments

	Gross value				Total value adjustments		
	First stage	of which: Instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage
1. Loans subject to concession compliant with GL	1,592	-	385	39	8	26	14
2. Loans subject to other forbearance measures	1	-	57	61	-	6	33
3. New loans	4,021	-	620	32	7	12	9
Total 30/06/2021	**5,614**	**-**	**1,062**	**132**	**15**	**44**	**56**
Total 31/12/2020	**9,689**	**-**	**1,938**	**256**	**36**	**111**	**105**

Loans shown in items "1. Loans subject to concession compliant with GL" and "2. Loans subject to other forbearance measures" in the table above, are subject to moratoria that are still in place as at 30 June 2021.

The new loans represented under item no. 3 constitute new liquidity granted through public guarantee mechanisms.

Section 7 - Equity investments - Item 70

This section includes the equity investments in companies under joint control or subject to a significant influence (IAS 28 and IFRS 11).

As at the reporting date, the value of the equity investments amounted to EUR 70 million, relating:

- to "significant" equity investments totalling EUR 45 million (as represented in the following table 7.2);
- to "non significant" equity investments of EUR 25 million.

The scope of 'significant equity investments' was determined by considering the materiality of the carrying amount of the investment and the share of the investee's assets with respect to the homogeneous balances relating to the current financial statements.

7.1 Equity investments: information on investment ratios

NAME	Registered office	Operating headquarters	Relationship type	Investment relationship		Votes available %
				Investing company	% Share	
A. JOINTLY CONTROLLED COMPANIES						
CASSE RURALI RAIFFEISEN FINANZIARIA S.p.A.	Bolzano	Bolzano	7	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	50.00	50.00
FRONTE PARCO IMMOBILIARE S.r.l.	Bologna	Bologna	7	BANCA DI BOLOGNA CREDITO COOPERATIVO - COOPERATIVE COMPANY	50.00	50.00
B. COMPANIES SUBJECT TO A SIGNIFICANT INFLUENCE						
LE CUPOLE	Manerbio (BS)	Manerbio (BS)	4	CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	22.00	22.00
FINANZIARIA TRENTINA DELLA COOPERAZIONE	Trento	Trento	4	CASSA RURALE DI TRENTO, LAVIS, MEZZOCORONA E VALLE DI CEMBRA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	8.48	8.48
				CASSA RURALE ALTA VALSUGANA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	7.19	7.19
				CASSA RURALE ALTO GARDA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	6.53	6.53
				CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	4.08	4.08
				CASSA RURALE DOLOMITI DI FASSA PRIMIERO E BELLUNO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	3.26	3.26
				LA CASSA RURALE - CREDITO COOPERATIVO ADAMELLO GIUDICARIE VALSABBIA PAGANELLA - COOPERATIVE COMPANY	3.15	3.15
				CASSA RURALE VAL DI FIEMME - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	3.12	3.12
				CASSA RURALE VAL DI NON - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	2.96	2.96
				CASSA RURALE VALSUGANA E TESINO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	2.88	2.88
				OTHER MINORITY INTERESTS	5.86	5.86
					47.51	47.51

NAME	Registered office	Operating headquarters	Relationship type	Investment relationship		Votes available %
				Investing company	% Share	
PARTECIPAZIONI COOPERATIVE S.r.l.	Trento	Trento	4	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	13.92	13.92
				CASSA RURALE DI TRENTO, LAVIS, MEZZOCORONA E VALLE DI CEMBRA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	6.96	6.96
				CASSA RURALE ALTA VALSUGANA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	5.1	5.1
				CASSA RURALE VAL DI NON - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	3.71	3.71
				CASSA RURALE ALTO GARDA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	3.48	3.48
				CASSA RURALE DOLOMITI DI FASSA PRIMIERO E BELLUNO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	2.32	2.32
				CASSA RURALE DI ROVERETO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	2.32	2.32
				CASSA RURALE VALLAGARINA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	2.09	2.09
				OTHER MINORITY INTERESTS	7.89	7.89
					47.79	47.79
CENTRALE TRADING	Trento	Trento	4	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	32.5	32.5
				ALLITUDE S.p.A.	10	10
					42.5	42.5
SERENA S.r.l.	Manzano (UD)	Manzano (UD)	4	BANCATER CREDITO COOPERATIVO FVG - COOPERATIVE COMPANY	29.05	29.05
RITTNERHORN SEILBAHNEN AG	Renon (BZ)	Renon (BZ)	4	CASSA RURALE RENON - COOPERATIVE COMPANY	26.51	26.51
SCOUTING S.p.A.	Bellaria - Igea Marina (RN)	Bellaria - Igea Marina (RN)	4	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	8.26	8.26
				ROMAGNABANCA CREDITO COOPERATIVO ROMAGNA EST E SALA DI CESENATICO - COOPERATIVE COMPANY	6.29	6.29

NAME	Registered office	Operating headquarters	Relationship type	Investment relationship		Votes available %
				Investing company	% Share	
				CASSA RURALE ALTA VALSUGANA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	6.29	6.29
				BANCA PREALPI SAN BIAGIO CREDITO COOPERATIVO - COOPERATIVE COMPANY	4.88	4.88
				BANCA MALATESTIANA - CREDITO COOPERATIVO - COOPERATIVE COMPANY	4.65	4.65
					30.37	30.37
CABEL HOLDING S.p.A.	Empoli (FI)	Empoli (FI)	4	BANCA DI CREDITO COOPERATIVO DI CASTAGNETO CARDUCCI - COOPERATIVE COMPANY	19.5	19.5
				CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	7.66	7.66
				BANCA LAZIO NORD CREDITO COOPERATIVO - COOPERATIVE COMPANY	2.01	2.01
					29.17	29.17
SENIO ENERGIA S.r.l.	Faenza (RA)	Faenza (RA)	4	BANCA DI CREDITO COOPERATIVO DELLA ROMAGNA OCCIDENTALE - COOPERATIVE COMPANY	22.22	22.22
RENDENA GOLF S.p.A.	Bocenago (TN)	Bocenago (TN)	4	CASSA RURALE ADAMELLO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	24.76	24.76
SERVIZI E FINANZA FVG S.r.l.	Udine	Udine	4	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	24.51	24.51
CONNESSIONI - IMPRESA SOCIALE S.r.l.	Brescia	Brescia	4	CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	30	30

1 - majority of voting rights in the ordinary shareholders' meeting
2 - dominant influence in the ordinary shareholders' meeting
3 - agreements with other shareholders
4 - company subject to a significant influence
5 - unitary management pursuant to Article 26, paragraph 1, of "Legislative Decree 87/92"
6 - unitary management pursuant to Article 26, paragraph 2, of "Legislative Decree 87/92"
7 - joint ventures
8 - Other type of Relationship.

For the criteria and methods of determination of the consolidation scope and the reasons for which there is recourse to joint control or significant influence, please refer to Part A – Accounting policies of these Explanatory Notes.

7.2 Significant equity investments: carrying amount, fair value and dividends received

NAME	Carrying amount	Fair value	Dividends received
A. JOINTLY CONTROLLED COMPANIES			
CASSE RURALI RAIFFEISEN FINANZIARIA S.p.A.	17	-	-
B. COMPANIES SUBJECT TO A SIGNIFICANT INFLUENCE			
CABEL HOLDING S.p.A.	15	-	-
FINANZIARIA TRENTINA DELLA COOPERAZIONE	7	-	-
ASSICURA S.r.l.	6	-	-
Total	**45**	**-**	**-**

Section 9 - Tangible assets - Item 90

9.1 Tangible assets for business use: breakdown of the assets measured at cost

ASSETS/VALUES	Total 30/06/2021	Total 31/12/2020
1. ASSETS OWNED	**958**	**965**
a) land	138	146
b) buildings	682	683
c) furniture	48	49
d) electronic systems	37	35
e) other	53	52
2. RIGHTS OF USE ACQUIRED THROUGH LEASE	**138**	**131**
a) land	6	5
b) buildings	126	119
c) furniture	1	-
d) electronic systems	4	5
e) other	1	2
Total	**1,096**	**1,096**
of which: obtained through the enforcement of guarantees received	7	7

9.2 Tangible assets held for investment purposes: breakdown of the assets measured at cost

ASSETS/VALUES	Total 30/06/2021				Total 31/12/2020			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. ASSETS OWNED	**83**	**-**	**-**	**79**	**87**	**-**	**-**	**93**
a) land	28	-	-	23	29	-	-	29
b) buildings	55	-	-	56	58	-	-	64
2. RIGHTS OF USE ACQUIRED THROUGH LEASE	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-	-	-
Total	**83**	**-**	**-**	**79**	**87**	**-**	**-**	**93**
of which: obtained through the enforcement of guarantees received	40	-	-	41	42	-	-	41

KEY:

L1 = Level 1

L2 = Level 2

L3 = Level 3

9.3 Tangible assets for business use: breakdown of the revalued assets

ASSETS/VALUES	Total 30/06/2021			Total 31/12/2020		
	L1	L2	L3	L1	L2	L3
1. ASSETS OWNED	**-**	**-**	**3**	**-**	**-**	**3**
a) land	-	-	1	-	-	1
b) buildings	-	-	2	-	-	2
c) furniture	-	-	-	-	-	-
d) electronic systems	-	-	-	-	-	-
e) other	-	-	-	-	-	-
2. RIGHTS OF USE ACQUIRED THROUGH LEASE	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-
c) furniture	-	-	-	-	-	-
d) electronic systems	-	-	-	-	-	-
e) other	-	-	-	-	-	-
Total	**-**	**-**	**3**	**-**	**-**	**3**
of which: obtained through the enforcement of guarantees received	-	-	-	-	-	-

KEY:

L1 = Level 1

L2 = Level 2

L3 = Level 3

9.4 Tangible assets held for investment purposes: breakdown of the assets measured at fair value

ASSETS/VALUES	Total 30/06/2021			Total 31/12/2020		
	L1	L2	L3	L1	L2	L3
1. ASSETS OWNED	**-**	**-**	**12**	**-**	**-**	**12**
a) land	-	-	-	-	-	1
b) buildings	-	-	12	-	-	11
2. RIGHTS OF USE ACQUIRED THROUGH LEASE	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-
Total	**-**	**-**	**12**	**-**	**-**	**12**
of which: obtained through the enforcement of guarantees received	-	-	2	-	-	2

KEY:

L1 = Level 1

L2 = Level 2

L3 = Level 3

9.5 Inventories of tangible assets disciplined by IAS 2: breakdown

ASSETS/VALUES	Total 30/06/2021	Total 31/12/2020
1. INVENTORIES OF ASSETS OBTAINED THROUGH THE ENFORCEMENT OF GUARANTEES RECEIVED	**38**	**39**
a) land	29	29
b) buildings	9	10
c) furniture	-	-
d) electronic systems	-	-
e) other	-	-
2. OTHER INVENTORIES OF TANGIBLE ASSETS	**32**	**33**
Total	**70**	**72**
of which: measured at fair value net of costs to sell	-	-

Section 10 - Intangible assets - Item 100

10.1 Intangible assets: breakdown by type of asset

ASSETS/VALUES	Total 30/06/2021		Total 31/12/2020	
	Definite duration	Indefinite duration	Definite duration	Indefinite duration
A.1 GOODWILL	**X**	**28**	**X**	**28**
A.1.1 pertaining to the Group	X	28	X	28
A.1.2 pertaining to minority interests	X	-	X	-
A.2 OTHER INTANGIBLE ASSETS	**52**	**-**	**54**	**-**
A.2.1 Assets valued at cost:	52	-	54	-
a) intangible assets generated internally	-	-	-	-
b) other assets	52	-	54	-
A.2.2 Assets measured at fair value:	-	-	-	-
a) intangible assets generated internally	-	-	-	-
b) other assets	-	-	-	-
Total	**52**	**28**	**54**	**28**

In compliance with the relevant accounting regulations:

- all the intangible assets are valued at cost;
- no amortisation has been calculated for intangible assets with an indefinite life.

No internally generated intangible assets were posted.

Information on the impairment test of goodwill

The Cassa Centrale Group tested its intangible assets for impairment when preparing the financial statements as at 31 December 2020: considering that the pandemic and the related socio-economic effects as at 30 June 2021 show progressive improvement, no trigger events were found that would require an intra-year impairment test on goodwill and intangible assets. Therefore, the impairment test will be carried out at the time of the 2021 annual financial statements, 12 months after the previous impairment test, in compliance with the maximum time horizon required by the international accounting standards.

Section 11 - Tax assets and tax liabilities - Item 110 of assets and item 60 of liabilities

11.1 Deferred tax assets: breakdown

THROUGH THE INCOME STATEMENT	30/06/2021		
	IRES	IRAP	TOTAL
Loans	472	63	**535**
Tangible fixed assets	10	1	**11**
Provisions for risks and charges	65	9	**74**
Tax losses	11	-	**11**
Administrative expenses	-	-	**-**
Other items	17	2	**19**
Total	**575**	**75**	**650**

THROUGH EQUITY	30/06/2021		
	IRES	IRAP	TOTAL
Negative reserves for HTCS financial assets	4	5	**9**
Severance indemnity (TFR)	3	-	**3**
Other items	-	-	**-**
Total	**7**	**5**	**12**

The item "Loans" in the table above shows Deferred Tax Assets (or "DTA") mainly relating to:

- write-downs and losses on loans to customers not yet deducted from taxable income pursuant to paragraph 3 of Article 106 of the Consolidated Income Tax Act (TUIR) and Article 6, paragraph 1, letter c-bis) of IRAP Decree 446/1997 that may be converted into a tax credit, regardless of the future profitability of the company, both in the event of statutory loss and IRES tax loss or negative IRAP value of production pursuant to Law no. 214 of 22 December 2011 (so-called "Qualified DTAs") for EUR 507 million;
- adjustments from the expected credit loss (ECL) model in IFRS 9 FTA on loans to customers that cannot be converted into a tax credit and can therefore only be recognised in the presence of probable and sufficient future taxable income of EUR 28 million (Article 1, paragraphs 1067-1069, Law no. 145 of 30 December 2018). Advance taxes, where recognised, correspond to the future benefit relating to the deductibility in subsequent years of the reserve for first-time application of IFRS 9 relating to expected losses recognised on loans to customers.

"Other items" in the table above mainly include deferred tax assets arising from misalignments between statutory and tax items arising from IFRS3 business combinations for EUR 9 million.

It should be noted that, with specific reference to the aforementioned qualified DTAs on write-downs and losses on loans to customers and goodwill, the maintenance of their convertibility into tax credits is subject to the payment of the fee, where due, pursuant to Law Decree no. 59 of 3 May 2016, amended and converted into law by Law no. 15 of 17 February 2017.

In addition, it should be noted that the tax regulations relating to the convertibility of advance taxes relating to adjustments to loans, goodwill and intangible assets into tax credits, in giving "certainty" to the recovery of qualified DTAs, affect the "probability test" provided for by IAS 12, making it automatically satisfied for this particular type.

Information on the deferred tax assets probability test

According to paragraph 5 of IAS 12, deferred tax assets are defined as the amount of income taxes for the year that may be recovered in future years with regard to the following scenarios:

- deductible temporary differences;
- carry-over of unused tax losses (and also of ACE);
- carry-over of unused tax credits.

With particular reference to "temporary differences", these are defined as differences that are formed transiently between the carrying amount of assets (liabilities) and their tax value. These are defined as "deductible" when they generate amounts that can be deducted in determining future taxable income in connection with the realisation of assets (settlement of liabilities).

In the presence of a deductible temporary difference, paragraph 24 of IAS 12 provides for the recognition in the financial statements of a deferred tax asset - equal to the product of the deductible temporary difference and the expected tax rate in the year in which it will be paid - only if and to the extent that it is probable that there will be future taxable income against which the deductible temporary differences can be used (so-called probability test). In fact, the economic benefit of reducing future tax payments is only achievable if the taxable income is a large amount (IAS 12, para. 27).

Having said this, the Group has deferred tax assets (DTA) of EUR 662 million in its consolidated balance sheet. Of these, EUR 507 million fall within the scope of Law no. 214/2011 and, therefore, for that already described, are considered "qualified" DTA (and therefore of certain recoverability).

On the remaining portion of DTA (those that cannot be converted into tax credits) amounting to EUR 155 million, there are no critical elements as the Group entities will be reasonably able to produce future taxable income such as to guarantee their recoverability.

11.2 Deferred tax liabilities: breakdown

THROUGH THE INCOME STATEMENT	30/06/2021		
	IRES	IRAP	TOTAL
Tangible fixed assets	3	-	**3**
Capital gains by instalments	-	-	**-**
Other items	12	1	**13**
Total	**15**	**1**	**16**

THROUGH EQUITY	30/06/2021		
	IRES	IRAP	TOTAL
Positive reserves for HTCS financial assets	27	10	**37**
Other items	-	-	**-**
Total	**27**	**10**	**37**

Deferred tax liabilities as a contra-entry to the consolidated income statement mainly relate to:

- revaluations of tangible fixed assets made during the transition to international accounting standards;
- misalignments between statutory and tax items arising from the application of business combinations pursuant to IFRS 3 carried out in previous years.

Deferred taxes refer mainly to revaluations of Financial assets measured at fair value through other comprehensive income. These changes have a contra-entry in the valuation reserve for financial assets measured at fair value through other comprehensive income.

The decrease in deferred tax liabilities recognized in the income statement compared to EUR 30 million as at 31 December 2020 is essentially attributable to the release of DTL following the tax realignment of the real estate assets as described in Part A, in Section 5 - Other aspects, under point h).

LIABILITIES

Section 1 - Financial liabilities measured at amortised cost - Item 10

1.1 Financial liabilities measured at amortised cost: breakdown by category of due to banks

TYPE OF TRANSACTIONS/VALUES	Total 30/06/2021				Total 31/12/2020			
	CA	Fair value			CA	Fair value		
		L1	L2	L3		L1	L2	L3
1. DUE TO CENTRAL BANKS	**18,190**	**X**	**X**	**X**	**16,617**	**X**	**X**	**X**
2. DUE TO BANKS	**820**	**X**	**X**	**X**	**821**	**X**	**X**	**X**
2.1 Current accounts and deposits on demand	534	X	X	X	490	X	X	X
2.2 Fixed-term deposits	44	X	X	X	43	X	X	X
2.3 Loans	227	X	X	X	272	X	X	X
2.3.1 Repos payables	202	X	X	X	10	X	X	X
2.3.2 Others	25	X	X	X	262	X	X	X
2.4 Liabilities for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
2.5 Payables for leases	12	X	X	X	12	X	X	X
2.6 Other payables	3	X	X	X	4	X	X	X
Total	**19,010**	**-**	**-**	**19,010**	**17,438**	**-**	**-**	**17,438**

The fair value valuation of the financial liabilities measured at amortised cost, included only for the purpose of fulfilling reporting requirements, is broken down into levels pursuant to the requirements set forth in IFRS 13 and depending on the characteristics and significance of the inputs used in the valuation process. For more details, please refer to Part A – Accounting policies, A.4 - Information on fair value in these Explanatory Notes.

The item "1. DUE TO CENTRAL BANKS" mainly consists of funding transactions at negative rates with the ECB. For detailed information on TLTRO III loan transactions, please refer to Part A, Section 5 - Other aspects of these Explanatory Notes.

1.2 Financial liabilities measured at amortised cost: breakdown by category of due to customers

TYPE OF TRANSACTIONS/VALUES	Total 30/06/2021				Total 31/12/2020			
	CA	Fair value			CA	Fair value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and deposits on demand	54,230	X	X	X	51,602	X	X	X
2. Fixed-term deposits	2,665	X	X	X	2,582	X	X	X
3. Loans	248	X	X	X	506	X	X	X
3.1 Repos payables	74	X	X	X	337	X	X	X
3.2 Other	174	X	X	X	169	X	X	X
4. Liabilities for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Payables for leases	113	X	X	X	114	X	X	X
6. Other payables	697	X	X	X	643	X	X	X
Total	**57,953**	**-**	**-**	**57,953**	**55,447**	**-**	**-**	**55,447**

KEY:

CA = Carrying amount

L1 = Level 1

L2 = Level 2

L3 = Level 3

Sub-item "6. Other payables" mainly includes credit card and cheque debts.

1.3 Financial liabilities measured at amortised cost: breakdown by category of debt securities in issue

TYPE OF SECURITIES/VALUES	Total 30/06/2021				Total 31/12/2020			
	CA	Fair value			CA	Fair value		
		L1	L2	L3		L1	L2	L3
A. SECURITIES								
1. bonds	1,436	-	1,431	6	1,952	-	1,945	6
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	1,436	-	1,431	6	1,952	-	1,945	6
2. other securities	2,823	-	41	2,782	3,036	-	167	2,869
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	2,823	-	41	2,782	3,036	-	167	2,869
Total	**4,259**	**-**	**1,472**	**2,788**	**4,988**	**-**	**2,112**	**2,875**

KEY:

CA = Carrying amount

L1 = Level 1

L2 = Level 2

L3 = Level 3

This item includes issued securities measured at amortised cost. Securities that as at the reporting date are expired but still not repaid are included. The portion of own issue debt securities not yet placed with third parties is excluded.

The fair value valuation of the debt securities in issue in the table above is presented solely for the purpose of fulfilling reporting requirements, is broken down into levels pursuant to the requirements set forth in IFRS 13 and depending on the characteristics and significance of the inputs used in the valuation process. For more details, please refer to Part A – Accounting policies, A.4 - Information on fair value in these Explanatory Notes.

The sub-item A.2.2 “Securities - other” mainly comprises certificates of deposit.

The reduction in sub-item “A.1.2 Bonds - other” is mainly due to fixed-rate bonds repaid on maturity.

Section 2 - Financial liabilities held for trading - Item 20

2.1 Financial liabilities held for trading: breakdown by category

TYPE OF TRANSACTIONS/ VALUES	Total 30/06/2021					Total 31/12/2020				
	NV	Fair value			Fair Value*	NV	Fair value			Fair Value*
		L1	L2	L3			L1	L2	L3	
A. CASH LIABILITIES										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	X	-	-	-	-	X
3.1 Bonds	-	-	-	-	X	-	-	-	-	X
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	X	-	-	-	-	X
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total (A)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. DERIVATIVE INSTRUMENTS										
1. Financial derivatives	X	-	4	-	X	X	-	9	-	X
1.1 Trading	X	-	4	-	X	X	-	9	-	X
1.2 Connected to the fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	X	-	-	-	X	X	-	-	-	X
2.1 Trading	X	-	-	-	X	X	-	-	-	X
2.2 Connected to the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total (B)	**X**	**-**	**4**	**-**	**X**	**X**	**-**	**9**	**-**	**X**
Total (A+B)	**X**	**-**	**4**	**-**	**X**	**X**	**-**	**9**	**-**	**X**

KEY:

NV = nominal or notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

Fair value* = Fair value calculated excluding the changes in value due to change in creditworthiness of the issuer with respect to the date of issue.

Sezione 3 – Passività finanziarie designate al fair value – Voce 30

3.1 Financial liabilities measured at fair value: breakdown by category

TYPE OF TRANSACTIONS/ VALUES	Total 30/06/2021					Total 31/12/2020				
	NV	Fair value			Fair Value*	NV	Fair value			Fair Value*
		L1	L2	L3			L1	L2	L3	
1. DUE TO BANKS	**-**	**-**	**-**	**-**	**-**	**1**	**-**	**-**	**-**	**-**
1.1 Structured	-	-	-	-	X	-	-	-	-	X
1.2 Other	-	-	-	-	X	1	-	-	-	X
of which:					-					
- commitments to disburse funds	-	X	X	X	X	-	X	X	X	X
- financial guarantees issued	-	X	X	X	X	-	X	X	X	X
2. DUE TO CUSTOMERS	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Structured	-	-	-	-	X	-	-	-	-	X
2.2 Other	-	-	-	-	X	-	-	-	-	X
of which:					-					
- commitments to disburse funds	-	X	X	X	X	-	X	X	X	X
- financial guarantees issued	-	X	X	X	X	-	X	X	X	X
3. DEBT SECURITIES	**1**	**-**	**1**	**-**	**1**	**15**	**-**	**15**	**-**	**15**
3.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2 Other	1	-	1	-	X	15	-	15	-	X
Total	**1**	**-**	**1**	**-**	**1**	**16**	**-**	**15**	**-**	**15**

KEY:

NV = nominal value

L1 = Level 1

L2 = Level 2

L3 = Level 3

Fair value* = Fair value calculated excluding the changes in value due to change in creditworthiness of the issuer with respect to the date of issue.

This item includes the financial liabilities for which the so-called Fair Value Option has been exercised. In this regard, it should be noted that the aforementioned Fair Value Option was exercised mainly in relation to debt instruments containing an implicit derivative for which it was considered that the fair value measurement of the entire instrument was less costly than the separate measurement and presentation in the financial statements of the main instrument and derivative.

The illustration of the criteria to determine the fair value is reported in Part A - Accounting policies.

Section 10 - Provisions for risks and charges - Item 100

10.1 Provisions for risks and charges: breakdown

ITEMS/COMPONENTS	Total 30/06/2021	Total 31/12/2020
1. Provision for credit risk relative to commitments and financial guarantees issued	121	118
2. Provision for other commitments and guarantees issued	-	3
3. Company pension funds	-	-
4. Other provisions for risks and charges	204	218
4.1 Legal and tax disputes	42	43
4.2 Personnel expenses	49	60
4.3 Others	113	115
Total	**325**	**339**

The item "1. Provision for credit risk relative to commitments and financial guarantees issued" includes the value of the total allocations for credit risk in respect of the commitments to disburse funds and financial guarantees issued which are subject to the impairment rules of IFRS 9 (paragraph 2.1, letter e); paragraph 5.5; appendix A), including therein the financial guarantees issued and the commitments to disburse funds which are measured at the first-time recognition value, net of the total revenues booked in compliance with IFRS 15 (see IFRS 9, paragraph 4.2.1, letters c) and d)).

The item "2. Provision for other commitments and guarantees issued", on the other hand, includes the value of the total allocations in respect of other commitments and other guarantees issued, which are not subject to the impairment rules of IFRS 9 (IFRS 9, paragraph 2.1, letters e) and g)).

On 16 January 2020, the financial holding company Malacalza Investimenti S.r.l. (hereinafter also "Malacalza Investimenti") brought a civil action against Carige, FITD, SVI and Cassa Centrale Banca, contesting the validity of the resolution to increase the share capital by EUR 700 million approved by the shareholders of Banca Carige in the Shareholders' Meeting of 20 September 2019 and submitting a claim for damages of over EUR 480 million (subsequently increased to approximately EUR 539 million), on account of the alleged hyperdilutive nature of the resolution (reducing Malacalza Investimenti's shareholding from 27.555% to 2.016%).

The contested invalidity of the shareholders' meeting resolution (which can no longer be annulled as it has already been executed, with the subscription by Cassa Centrale Banca of the capital increase and the acquisition of an 8.34% shareholding) is based on the allegedly unlawful exclusion of the option right, failure to comply with the principle of accounting parity and the determination of the issue price of the new shares in breach of the criteria laid down by company law.

The same defendants, including Cassa Centrale Banca, were then sued in two further disputes by the shareholder Vittorio Malacalza and 42 other shareholders of Carige, with a claim for a further approximate total of EUR 11.4 million, plus revaluation and interest (subsequently reduced to approximately EUR 11.1 million), based on assumptions and arguments coinciding with those put forward by Malacalza Investimenti.

The proceedings were joined and are currently pending before the Court of Genoa. Cassa Centrale Banca, like the other defendants, filed a statement of appearance and response seeking a declaration of Cassa Centrale Banca's lack of legal standing and the rejection of all claims made against it by the plaintiffs.

On 17 May 2021, the case was adjourned, and time was granted for the filing of closing statements and rebuttal briefs.

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

10.3 Provision for credit risk relative to commitments and financial guarantees issued

	Provision for credit risk relative to commitments and financial guarantees issued			
	First stage	Second stage	Third stage	Total
Commitments to disburse funds	43	27	19	89
Financial guarantees issued	2	1	29	32
Total	**45**	**28**	**48**	**121**

As shown above, this table includes the value of the total allocations for credit risk in respect of the commitments to disburse funds and financial guarantees issued which are subject to the impairment rules of IFRS 9, including therein the financial guarantees issued and the commitments to disburse funds which are measured at the first-time recognition value, net of the total revenues booked in compliance with IFRS 15.

The breakdown of these provisions by risk stage is applied in accordance with the provisions of the IFRS 9 impairment model. For more detailed information, see Part A - Accounting policies, paragraph "15.5 Methods of recognition of impairment losses" and Part E - Information on risks and related hedging policies.

Section 13 - Group equity - Items 120, 130, 140, 150, 160, 170 and 180

13.1 “Capital” and “Own shares”: breakdown

As described in Part A - Accounting policies, Section 3 - Scope and methods of consolidation, in application of Law 145 of 30 December 2018 (so-called Budget Law 2019) the Parent Company Cassa Centrale Banca and the Affiliated Banks under the Cohesion Contract constitute a single consolidating entity.

In the composition of the Group’s equity, the share capital is consequently made up of the Parent Company’s share capital and the share capital of the Affiliated Banks.

The share capital of the Parent Company, equal to EUR 952,031,808, comprises 18,158,304 ordinary shares and 150,000 preference shares, both with a nominal value of EUR 52.

As at the reporting date, the capital of the Affiliated Banks belonging to the Cassa Centrale Group amounted to approximately EUR 323 million. The share capital of the Affiliated Banks is, according to their Articles of Association, variable, and consists of shares that can be issued, in principle, without limit.

As at 30 June 2021, the own shares in circulation amounted to approximately EUR 866 million and are mainly attributable to the shares of Cassa Centrale Banca held by the Affiliated Banks belonging to the Group.

13.2 Capital - Number of parent company shares: annual changes

ITEMS/TYPES	Ordinary	Other
A. SHARES AT THE START OF THE YEAR	**18,158,304**	**150,000**
- fully paid-up	18,158,304	150,000
- not fully paid-up	-	-
A.1 Own shares (-)	-	-
A.2 Outstanding shares: opening balances	18,158,304	150,000
B. INCREASES	**-**	**-**
B.1 New issues	-	-
- paid:	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- other	-	-
- free of charge:	-	-
- in favour of employees	-	-
- in favour of directors	-	-
- other	-	-
B.2 Sale of own shares	-	-
B.3 Other changes	-	-
C. DECREASES	**-**	**-**
C.1 Cancellation	-	-
C.2 Purchase of own shares	-	-
C.3 Company transfers	-	-
C.4 Other changes	-	-
D. OUTSTANDING SHARES: CLOSING BALANCES	**18,158,304**	**150,000**
D.1 Own shares (+)	-	-
D.2 Shares at year-end	18,158,304	150,000
- fully paid-up	18,158,304	150,000
- not fully paid-up	-	-

Other information

1. Commitments and financial guarantees issued

	Nominal value of commitments and financial guarantees issued			Total 30/06/2021	Total 31/12/2020
	First stage	Second stage	Third stage		
1. COMMITMENTS TO ISSUE FUNDS	**11,912**	**624**	**114**	**12,650**	**12,596**
a) Central Banks	-	-	-	-	-
b) Public bodies	257	5	-	262	290
c) Banks	844	-	-	844	796
d) Other financial companies	130	26	-	156	250
e) Non-financial companies	8,702	505	97	9,304	9,257
f) Households	1,979	88	17	2,084	2,003
2. FINANCIAL GUARANTEES ISSUED	**1,340**	**345**	**49**	**1,734**	**1,704**
a) Central Banks	-	-	-	-	-
b) Public bodies	7	-	-	7	4
c) Banks	60	224	-	284	280
d) Other financial companies	30	1	-	31	35
e) Non-financial companies	906	106	44	1,056	1,021
f) Households	337	14	5	356	364

This table shows the commitments to disburse funds and the financial guarantees issued which are subject to the impairment rules of IFRS 9. Commitments to disburse funds and financial guarantees issued that are considered derivatives are excluded, as are commitments to disburse funds and financial guarantees issued that are measured at fair value.

"Commitments to disburse funds" are commitments that may give rise to credit risks that are subject to the write-down rules of IFRS 9 (e.g. margins available on credit lines granted to customers or banks).

PART C - Information on the consolidated income statement

Section 1 - Interest - Items 10 and 20

1.1 Interest income and similar revenues: breakdown

ITEMS/TECHNICAL FORMS	Debt securities	Loans	Other transactions	Total 30/06/2021	Total 30/06/2020
1. Financial assets measured at fair value through profit or loss:	**-**	**2**	**-**	**2**	**1**
1.1 Financial assets held for trading	-	-	-	-	-
1.2 Financial assets measured at fair value	-	-	-	-	-
1.3 Other financial assets obligatorily measured at fair value	-	2	-	2	1
2. Financial assets measured at fair value through other comprehensive income	**16**	**-**	**X**	**16**	**16**
3. Financial assets measured at amortised cost:	**117**	**530**	**X**	**647**	**652**
3.1 Loans to banks	5	2	X	7	12
3.2 Loans to customers	112	528	X	640	640
4. Hedging derivatives	**X**	**X**	**-**	**-**	**-**
5. Other assets	**X**	**X**	**-**	**-**	**-**
6. Financial liabilities	**X**	**X**	**X**	**76**	**37**
Total	**133**	**532**	**-**	**741**	**706**
of which: interest income from impaired financial assets	-	21	-	21	28
of which: interest income from finance lease	-	8	-	8	7

Item "6. Financial liabilities" comprises interest income accrued on funding transactions at negative rates. For detailed information on TLTRO III loan transactions, please refer to Part A – Accounting policies, Section 5 – Other Aspects.

The line "of which: interest income from impaired financial assets" shows interest determined on the basis of the effective interest rate, including interest due to the passage of time. This interest relates exclusively to loans to customers. Interest income also includes interest from securities used in repo transactions.

1.3 Interest expenses and similar charges paid: breakdown

ITEMS/TECHNICAL FORMS	Payables	Securities	Other transactions	Total 30/06/2021	Total 30/06/2020
1. Financial liabilities measured at amortised cost	**(40)**	**(23)**		**(63)**	**(96)**
1.1 Due to central banks	-	X	X	-	-
1.2 Due to banks	(1)	X	X	(1)	(2)
1.3 Due to customers	(39)	X	X	(39)	(59)
1.4 Debt securities in issue	X	(23)	X	(23)	(35)
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
3. Financial liabilities measured at fair value	**-**	**-**	**-**	**-**	**(1)**
4. Other liabilities and provisions	**X**	**X**	**-**	**-**	**-**
5. Hedging derivatives	**X**	**X**	**(4)**	**(4)**	**(3)**
6. Financial assets	**X**	**X**	**X**	**(9)**	**(5)**
Total	**(40)**	**(23)**	**(4)**	**(76)**	**(105)**
of which: interest expense on payables for leases	-	-	-	-	-

Items “1.2 Due to banks” and “1.3 Due to customers” also include interest on repos, even if carried out against securities recorded as assets.

Section 2 - Commissions - Items 40 and 50

2.1 Commission income: breakdown

TYPE OF SERVICES/VALUES	Total 30/06/2021	Total 30/06/2020
a) guarantees issued	8	7
b) credit derivatives	-	-
c) management, trading and consulting services:	132	114
1. trading of financial instruments	-	-
2. foreign currency trading	-	-
3. portfolio management	57	46
3.1. individual	29	25
3.2. collective	28	21
4. custody and administration of securities	2	2
5. custodian bank	-	-
6. placement of securities	20	18
7. order receipt and transmission	8	9
8. consulting	1	1
8.1. pertaining to investments	1	1
8.2. pertaining to financial structures	-	-
9. distribution of third party services	44	38
9.1. portfolio management	1	1
9.1.1. individual	1	1
9.1.2. collective	-	-
9.2. insurance products	38	29
9.3. other products	5	8
d) collection and payment services	98	87
e) servicing activities for securitisation operations	-	-
f) services for factoring operations	-	-
g) collection and receiving operations	-	-
h) activities for the management of multilateral trading systems	-	-
i) current account maintenance and management	129	121
j) other services	13	17
Total	**380**	**346**

As at the reporting date, the Group does not have significant amounts of commission income (other than the amounts included in the calculation of the effective interest rate) from financial assets not measured at fair value through profit or loss in accordance with IFRS 7, paragraph 20, letter c(i).

It should also be noted that the Group does not have significant amounts relating to revenues recognised during the year included in the opening balance of liabilities arising from contracts (IFRS 15, paragraph 116 b)).

2.2 Commission expense: breakdown

SERVICES/VALUES	Total 30/06/2021	Total 30/06/2020
a) guarantees received	-	-
b) credit derivatives	-	-
c) management and trading services:	(8)	(8)
1. trading of financial instruments	(1)	(1)
2. foreign currency trading	-	-
3. portfolio management:	(5)	(5)
3.1 own portfolios	(5)	(5)
3.2 delegated to third parties	-	-
4. custody and administration of securities	(1)	(1)
5. placement of financial instruments	-	-
6. out-of-branch offer of financial instruments, products and services	(1)	(1)
d) collection and payment services	(21)	(18)
e) other services	(14)	(9)
Total	**(43)**	**(35)**

As at the reporting date, the Group does not have significant amounts of commission expense (other than the amounts included in the calculation of the effective interest rate) arising from financial liabilities not measured at fair value through profit or loss (IFRS 7, paragraph 20, letter c (i)).

Section 3 - Dividend and similar income -Item 70

3.1 Dividend and similar income: breakdown

ITEMS/INCOME	Total 30/06/2021		Total 30/06/2020	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	-	-	-	-
B. Other financial assets obligatorily measured at fair value	-	1	-	-
C. Financial assets measured at fair value through other comprehensive income	1	-	1	-
D. Equity investments	-	-	-	-
Total	**1**	**1**	**1**	**-**

Section 4 - Net result from trading - Item 80

4.1 Net result from trading: breakdown

TRANSACTIONS/INCOME COMPONENTS	Capital gains (A)	Trading profits (B)	Capital losses (C)	Trading losses (D)	Net result [(A+B) - (C+D)]
1. FINANCIAL ASSETS HELD FOR TRADING	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-
1.2 Equities	-	-	-	-	-
1.3 UCITS units	-	-	-	-	-
1.4 Loans	-	-	-	-	-
1.5 Others	-	-	-	-	-
2. FINANCIAL LIABILITIES HELD FOR TRADING	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
FINANCIAL ASSETS AND LIABILITIES: EXCHANGE RATE DIFFERENCES	**X**	**X**	**X**	**X**	**-**
3. DERIVATIVE INSTRUMENTS	**13**	**2**	**(13)**	**(2)**	**4**
3.1 Financial derivatives:	13	2	(13)	(2)	4
- On debt securities and interest rates	13	2	(13)	(2)	-
- On equities and stock market indices	-	-	-	-	-
- On currencies and gold	X	X	X	X	4
- Other	-	-	-	-	-
3.2 Credit derivatives	-	-	-	-	-
of which: natural hedges connected to the fair value option	X	X	X	X	-
Total	**13**	**2**	**(13)**	**(2)**	**4**

Section 5 - Net result from hedging - Item 90

5.1 Net result from hedging: breakdown

INCOME COMPONENTS/VALUES	Total 30/06/2021	Total 30/06/2020
A. INCOME RELATED TO:		
A.1 Fair value hedging derivatives	18	1
A.2 Hedged financial assets (fair value)	2	16
A.3 Hedged financial liabilities (fair value)	-	-
A.4 Cash flow hedge derivatives	1	-
A.5 Foreign currency assets and liabilities	-	-
Total income from hedging (A)	**21**	**17**
B. CHARGES RELATED TO:		
B.1 Fair value hedging derivatives	(1)	(16)
B.2 Hedged financial assets (fair value)	(19)	(2)
B.3 Hedged financial liabilities (fair value)	-	-
B.4 Cash flow hedge derivatives	-	-
B.5 Foreign currency assets and liabilities	-	-
Total charges from hedging (B)	**(20)**	**(18)**
C. NET RESULT FROM HEDGING (A - B)	**1**	**(1)**
of which: result of net positions hedging	-	-

The Group avails itself of the possibility, provided for in the introduction of IFRS 9, to continue to apply in full the provisions of IAS 39 on hedge accounting (in the carved out version approved by the European Commission) for each type of hedge. As a consequence, in the table above, the row "of which: result of net positions hedging" provided for those who apply IFRS 9 also for hedging, is not valued.

Section 6 - Profit (loss) from disposal/repurchase - Item 100

6.1 Profit (loss) from disposal/repurchase: breakdown

ITEMS/INCOME COMPONENTS	Total 30/06/2021			Total 30/06/2020		
	Profit	Loss	Net result	Profit	Loss	Net result
FINANCIAL ASSETS						
1. Financial assets measured at amortised cost	161	(22)	139	80	(6)	74
1.1 Loans to banks	-	-	-	-	-	-
1.2 Loans to customers	161	(22)	139	80	(6)	74
2. Financial assets measured at fair value through other comprehensive income	22	(1)	21	30	(4)	26
2.1 Debt securities	22	(1)	21	30	(4)	26
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**183**	**(23)**	**160**	**110**	**(10)**	**100**
FINANCIAL LIABILITIES MEASURED AT AMORTISED COST	**-**	**-**	**-**	**-**	**-**	**-**
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Debt securities in issue	-	-	-	-	-	-
Total liabilities (B)	**-**	**-**	**-**	**-**	**-**	**-**

Section 7 - Net result of other financial assets and liabilities measured at fair value through profit or loss - Item 110

7.1 Net change in value of other financial assets and liabilities measured at fair value through profit or loss: breakdown of financial assets and liabilities measured at fair value

The table does not contain information and therefore was not filled in.

7.2 Net change in value of other financial assets and liabilities measured at fair value through profit or loss: breakdown of other financial assets obligatorily measured at fair value

TRANSACTIONS/INCOME COMPONENTS	Capital gains (A)	Profit on sale (B)	Capital losses (C)	Loss on sale (D)	Net result [(A+B) - (C+D)]
1. FINANCIAL ASSETS	**56**	**5**	**(51)**	**-**	**10**
1.1 Debt securities	-	-	-	-	-
1.2 Equities	1	2	-	-	3
1.3 UCITS units	8	3	(2)	-	9
1.4 Loans	47	-	(49)	-	(2)
2. FINANCIAL ASSETS: EXCHANGE RATE DIFFERENCES	**X**	**X**	**X**	**X**	**-**
Total	**56**	**5**	**(51)**	**-**	**10**

Trading profits (losses) and capital gains (losses) from valuations are reported with balances opened by type of financial instrument.

This item includes capital gains and losses that are derived from the fair value measurement of financial assets/liabilities that are classified in the portfolio under item 20.c of Assets.

Section 8 - Net value adjustments/write-backs due to credit risk - Item 130

8.1 Net value adjustments due to credit risk relative to financial assets measured at amortised cost: breakdown

TRANSACTIONS/INCOME COMPONENTS	Value adjustments (1)			Write-backs (2)		Total 30/06/2021	Total 30/06/2020
	First and second stage	Third stage		First and second stage	Third stage		
		Write-offs	Other				
A. LOANS TO BANKS	**(1)**	**-**	**(2)**	**5**	**-**	**2**	**5**
- Loans	-	-	(2)	5	-	3	(1)
- Debt securities	(1)	-	-	-	-	(1)	6
of which: impaired loans acquired or originated	-	-	-	-	-	-	-
B. LOANS TO CUSTOMERS	**(158)**	**(4)**	**(479)**	**221**	**305**	**(115)**	**(171)**
- Loans	(154)	(4)	(479)	219	305	(113)	(160)
- Debt securities	(4)	-	-	2	-	(2)	(11)
of which: impaired loans acquired or originated	-	-	-	-	-	-	-
Total	**(159)**	**(4)**	**(481)**	**226**	**305**	**(113)**	**(166)**

Value adjustments, reported under the column "Third stage - Other", relate to analytical write-downs of loans, while those reported under the column "Third stage - Write-offs" arise from redemption events. In fact, due to the continuation of the economic crisis and as requested by the Bank of Italy, the Group carried out overall value adjustments to financial assets that are consistent with the current and forecast developments of risk in loan portfolios. In addition, the presence of guarantees collected by the Affiliated Banks - as a guarantee of exposure - allows for additional guarantees for the recoverability of receivables. The write-backs, in the column 'First and second stage', correspond to the adjustments to performing positions.

Net value adjustments relating to loans to customers, as at 30 June 2021, amounted to EUR 113 million, recording an improvement compared to EUR 160 million as at 30 June 2020.

Please refer to Part A of these Explanatory Notes, in the paragraph "Classification and measurement of loans to customers based on the IFRS 9 general impairment model" in Section 5 – Other aspects, for further information on the loan valuation model.

For more detailed information pertaining to movements in net adjustments to loans, refer to Part E of these Explanatory Notes.

8.2 Net value adjustments due to credit risk relative to financial assets measured at fair value through other comprehensive income: breakdown

TRANSACTIONS/INCOME COMPONENTS	Value adjustments (1)			Write-backs (2)		Total 30/06/2021	Total 30/06/2020
	First and second stage	Third stage		First and second stage	Third stage		
		Write-offs	Other				
A. DEBT SECURITIES	(1)	-	-	1	-	-	(5)
B. LOANS	-	-	-	-	-	-	-
- To customers	-	-	-	-	-	-	-
- To banks	-	-	-	-	-	-	-
of which: impaired financial assets acquired or originated	-	-	-	-	-	-	-
Total	(1)	-	-	1	-	-	(5)

Section 12 - Administrative expenses - Item 190

12.1 Personnel costs: breakdown

TYPE OF EXPENSES/VALUES	Total 30/06/2021	Total 30/06/2020
1) Employees	**(416)**	**(396)**
a) salaries and wages	(287)	(274)
b) social security charges	(73)	(68)
c) severance indemnity	(12)	(14)
d) social security expenses	(2)	(5)
e) provision for severance indemnity	(3)	(3)
f) allocation to retirement and similar obligations:	-	-
- with defined contribution	-	-
- with defined benefit	-	-
g) payments to external supplementary pension funds:	(14)	(13)
- with defined contribution	(14)	(13)
- with defined benefit	-	-
h) costs deriving from payment agreements based on own equity instruments	-	-
i) other benefits in favour of employees	(25)	(19)
2) Other operating personnel	**(4)**	**(3)**
3) Directors and Auditors	**(15)**	**(14)**
4) Retired personnel	**-**	**-**
Total	**(435)**	**(413)**

12.5 Other administrative expenses: breakdown

ITEMS	Total 30/06/2021	Total 30/06/2020
ICT expenses	**(43)**	**(44)**
Outsourced ICT expenses	(13)	(20)
ICT expenses other than outsourced ICT expenses	(30)	(24)
Taxes and levies (other)	**(73)**	**(70)**
Expenses for professional and consulting services	**(54)**	**(45)**
Advertising and entertainment expenses	**(10)**	**(12)**
Expenses related to debt collection	**(10)**	**(10)**
Litigation expenses not covered by allocations	**-**	**-**
Expenses for real estate	**(19)**	**(19)**
Lease fees	**(1)**	**(1)**
Other administrative expenses - Other	**(120)**	**(93)**
Total administrative expenses	**(330)**	**(294)**

The item Other administrative expenses, as at June 2021, stood at EUR 330 million (EUR +36 million compared to June 2020), showing an increase mainly due to the recognition of higher contributions paid to DGS (Deposit Guarantee Schemes) and SRF (Single Resolution Fund) funds, for a total of around 26 million.

The sub-item "Lease fees" includes short-term rentals (contracts with a residual useful life of less than 12 months) and rentals relating to leases of modest value (less than EUR 5 thousand) for an insignificant amount.

Section 13 - Net allocations to provisions for risks and charges - Item 200

13.1 Net allocations for credit risk relative to commitments to disburse funds and financial guarantees issued: breakdown

ITEMS	Total 30/06/2021			Total 30/06/2020		
	Phase 1	Phase 2	Phase 3	Phase 1	Phase 2	Phase 3
	Allocations			Allocations		
COMMITMENTS TO DISBURSE FUNDS						
Commitments to disburse funds	(6)	(3)	(12)	(9)	(3)	(7)
FINANCIAL GUARANTEES ISSUED						
Financial guarantee contracts	(1)	(1)	(9)	(2)	(1)	(4)
Total allocations (-)	**(7)**	**(4)**	**(21)**	**(11)**	**(4)**	**(11)**
	Reallocations			Reallocations		
COMMITMENTS TO DISBURSE FUNDS						
Commitments to disburse funds	8	2	11	2	1	7
FINANCIAL GUARANTEES ISSUED						
Financial guarantee contracts	2	1	8	1	1	5
Total reallocations (+)	**10**	**3**	**19**	**3**	**2**	**12**
	Net allocation			Net allocation		
Total	**3**	**(1)**	**(2)**	**(8)**	**(2)**	**1**

13.2 Net allocations relative to other commitments and guarantees issued: breakdown

PROVISION FOR OTHER COMMITMENTS AND GUARANTEES ISSUED	Total 30/06/2021	Total 30/06/2020
Allocations for other commitments to disburse funds	-	(1)
Allocations for other financial guarantees issued	-	(1)
TOTAL ALLOCATIONS	**-**	**(2)**
Reallocations for other commitments to disburse funds	-	1
Reallocations for other financial guarantees issued	-	1
TOTAL REALLOCATIONS	**-**	**2**
Net allocation	**-**	**-**

13.3 Net allocations to other provisions for risks and charges: breakdown

ITEMS	Total 30/06/2021			Total 30/06/2020		
	Allocations	Reallocations	Net total	Allocations	Reallocations	Net total
Allocations and reallocations to other provisions for risks and charges						
1. for risks on revocatory actions	-	-	-	-	-	-
2. for charity	-	-	-	-	-	-
3. for personnel risks and charges	-	-	-	(1)	-	(1)
4. for legal and tax disputes	(4)	6	2	(10)	3	(7)
5. for other risks and charges	(11)	4	(7)	(19)	-	(19)
Total	**(15)**	**10**	**(5)**	**(30)**	**3**	**(27)**

The decrease in provisions for other risks and charges is strictly related to the increase in Other administrative expenses, described above. In 2020, the amount of contributions not yet collected by the DGS (Deposit Guarantee Schemes) were prudently allocated to provisions for risks and charges while, in the current year, as mentioned, they were fully accounted for under Other administrative expenses.

Section 14 - Net value adjustments/write-backs to tangible assets - Item 210

At the reporting date, net value adjustments to tangible assets amounted to EUR 52 million, compared to EUR 49 million in the first half of 2020.

Section 15 - Net value adjustments/write-backs to intangible assets - Item 220

At the reporting date, net value adjustments to intangible assets amounted to EUR 8 million, compared to EUR 7 million in the first half of 2020.

Section 16 - Other operating income/charges - Item 230

16.1 Other operating charges: breakdown

ITEMS	Total 30/06/2021	Total 30/06/2020
Amortisation of improvements to non-separable third-party assets	(2)	(2)
Charges for treasury contracts with public bodies	-	-
Charges for transactions and indemnities	-	-
Non-existent items and contingencies not ascribable to own items	(3)	(2)
Bonuses and rounding down	-	-
Other operating charges - other	(5)	(6)
Total other operating charges	**(10)**	**(10)**

16.2 Other operating income: breakdown

ITEMS	Total 30/06/2021	Total 30/06/2020
Recovery of taxes	63	57
Charges to third parties for costs on deposits and current accounts	2	3
Recovery of insurance premiums	1	2
Receivable rents and payments	1	2
Recovery of other expenses	6	8
Non-existent items and contingencies not ascribable to own items	4	3
Badwill from Purchase Price Allocation	-	-
Bonuses and rounding up	-	-
Other operating income - other	44	50
Total other operating income	**121**	**125**

As at the reporting date, the Group does not have significant amounts relating to revenues recognised during the year included in the opening balance of liabilities arising from contracts (IFRS 15 para. 116 b)) and revenues recognised during the year arising from obligations fulfilled in previous years (IFRS 15 para. 116 c)).

It should be noted that the following are not of significance for the Group:

- income from sublease of assets consisting of the right of use (IFRS 16, para. 53, letter f));
- income related to variable finance lease payments not included in the measurement of the net investment in the lease (IFRS 16, para. 90, letter a), iii));
- operating lease income arising from variable payments that are not dependent on an index or rate (IFRS 16, para. 90, letter b)).

Section 17 - Profits (losses) on equity investments - Item 250

17.1 Profits (losses) on equity investments: breakdown

INCOME COMPONENT/SECTORS	Total 30/06/2021	Total 30/06/2020
1) JOINTLY-CONTROLLED COMPANIES		
A. INCOME	**-**	**1**
1. Revaluations	-	1
2. Gains from disposal	-	-
3. Write-backs	-	-
4. Other income	-	-
B. CHARGES	**-**	**-**
1. Write-downs	-	-
2. Value adjustments for impairment	-	-
3. Losses from disposal	-	-
4. Other charges	-	-
Net result	**-**	**1**
2) COMPANIES SUBJECT TO A SIGNIFICANT INFLUENCE		
A. INCOME	**1**	**1**
1. Revaluations	1	1
2. Gains from disposal	-	-
3. Write-backs	-	-
4. Other income	-	-
B. CHARGES	**(2)**	**(1)**
1. Write-downs	(2)	(1)
2. Value adjustments for impairment	-	-
3. Losses from disposal	-	-
4. Other charges	-	-
Net result	**(1)**	**-**
Total	**(1)**	**1**

Section 25 - Earnings per share

25.1 Average number of ordinary shares with diluted capital

The information relating to this section is not reported in view of the particular characteristics of the Cassa Centrale Banca Credito Cooperativo Italiano Cooperative Banking Group.

PART E - Information on risks and related hedging policies

INTRODUCTION

The Group pays particular attention to risk management and governance ensuring the constant evolution of its organisational/procedural controls and methodological solutions used for measurement and monitoring. These activities are carried out with tools aimed at ensuring effective and efficient support for the correct governance of risks, also in response to changes in the reference operational and regulatory environment. As required by the regulations on the reform of cooperative credit, the outsourcing of control functions at the Parent Company by the Affiliated Banks of the Cooperative Banking Group has been made operational. It is therefore the task of the Parent Company to define the guidelines for risk measurement and management.

The risk management strategy is based on a holistic view of corporate risks and considers both the macroeconomic scenario and the individual risk profile; it stimulates the growth of a culture of risk control by strengthening a transparent and accurate representation of risks.

The risk assumption strategies are summarised in the Risk Appetite Framework (hereinafter also referred to as "RAF") adopted by the Board of Directors of the Parent Company, i.e. the reference framework that defines - consistently with the maximum risk that can be assumed, the business model and the strategic plan - the risk appetite, the tolerance thresholds, the risk limits, the risk management policies, the reference processes necessary to define and implement them. The RAF, introduced to ensure that risk-taking activities are in line with shareholders' expectations and comply with the overall regulatory and prudential framework of reference, is defined in light of the company's overall risk position and the economic/financial situation.

The framework is developed by the Parent Company and is divided into the following main areas:

- organisational, through (i) the definition of the tasks of the corporate bodies and functions involved in the RAF; (ii) the updating of organisational and governance documents with regard to the main risk profiles (credit and counterparty, concentration, interest rate, market, liquidity, operational) and references for the management of the related interrelationships (risk management policies, risk management process, internal processes for determining and assessing capital and liquidity adequacy so-called ICAAP-ILAAP, strategic and operational planning, internal control system, incentive system, major operations, etc.) within a framework of overall consistency; (iii) the definition of the relevant information flows;
- methodological, through (i) the definition of indicators, of operational references for their evaluation and the setting of inherent thresholds; (ii) the declination of the objectives and indicators identified in the system of operational limits;
- application, through the reconnaissance of the areas of intervention on the application supports for risk management and supervisory processes (risk measurement, supervisory reporting, ICAAP-ILAAP, simulation/forecasting, alerting activities, reporting, etc.) and the definition of the functional requirements for the related development.

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

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

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

The RAF represents, therefore, the overall framework within which the overall management of the risks assumed is placed and the general principles of risk propensity are defined and the consequent articulation of the controls against the overall corporate risk and the main specific risks.

The overall risk profile is monitored by a structure of limits based on the need to ensure compliance with the required minimum levels of solvency, liquidity and profitability, even under stressful conditions.

In particular, overall risk management aims to maintain adequate levels of:

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

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

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

The definition of the RAF is based on an articulated and complex process, coordinated by the Parent Company. This process is developed in coherence with the ICAAP-ILAAP process and represents the framework within which the annual budget and the business plan are developed, ensuring coherence between risk taking strategies and policies on the one hand, and planning and budgeting processes on the other.

Specific policies and regulations common to the Group issued by the Parent Company have been adopted to strengthen the overall risk management and governance system.

The risk governance model, i.e. the set of corporate governance and management and control mechanisms aimed at tackling the risks to which the Group is exposed, is part of the broader framework of the company's internal control system, which is addressed by the Parent Company as part of the outsourcing contract, defined in accordance with the prudential supervisory provisions for banks set out in Bank of Italy Circular no. 285/2013 (Part One, Title IV, Chapter 3).

Consistently with these references, all company risks are monitored within the framework of an organisational model based on the full separation of control functions from production functions, which integrates control methodologies and processes at different levels, all of which converge with the objectives of continuously detecting, measuring and verifying the risks typical of company activities, safeguarding the integrity of company assets, protecting against losses, guaranteeing the reliability and integrity of information, and verifying the correct performance of activities in compliance with internal and external regulations.

The internal control system consists of all the rules, functions, structures, resources, processes and procedures that aim to ensure, in compliance with sound and prudent management, the achievement of the following objectives:

- verification of the implementation of company strategies and policies;
- containment of the risk within the limits defined in the adopted RAF;
- safeguarding the value of assets and protection against losses;
- effectiveness and efficiency of operating processes;
- reliability and security of company information and IT procedures;
- prevention of the risk that the Group may be involved, even involuntarily, in illegal activities (with particular reference to those connected with money laundering, usury and terrorist financing);
- compliance of operations with the law and supervisory regulations, as well as with internal policies, regulations and procedures.

The internal control system therefore involves the entire corporate organisation (administrative bodies, structures, hierarchical levels, personnel).

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In line with the provisions issued by the Bank of Italy, the model adopted by the Group outlines the main responsibilities of the governance and control bodies in order to ensure the overall effectiveness and efficiency of the internal control system.

A joint examination of the supervisory regulations and the Articles of Association shows that the strategic supervision function and the management function are founded within the organic and integrated action of the Board of Directors. In the Parent Company there is the figure of the Chief Executive Officer who also incorporates the functions of the General Manager. The Chief Executive Officer is appointed by the Board of Directors by conferring certain powers and responsibilities pursuant to Article 2381, second paragraph of the Italian Civil Code. For the functions assigned to the Chief Executive Officer, reference should be made to Article 34.2 of Cassa Centrale Banca's Articles of Association.

The strategic supervision function is expressed in the guidance of the corporate management through the preparation of the strategic plan, within which the Risk Appetite Framework (RAF) is inserted through the approval of the ICAAP-ILAAP and the budget. This function is carried out by ensuring consistency between the internal control system and the Group's organisation within the cooperative credit "business model". It should be noted that only a consolidated ICAAP-

ILAAP report is formally required by the Supervisory Authority and no longer individual documents; the contributions of the individual Group companies are taken into account in the preparation of the report.

The management function, to be understood as the set of decisions that a corporate body takes for the implementation of the guidelines resolved in the exercise of the strategic supervision function, is the responsibility of the Board of Directors with the technical contribution of the Chief Executive Officer for the Parent Company, who takes part in the meetings of the Board of Directors, or of the General Management within the Cooperative Credit Banks. This function is mainly carried out in the following ways:

- resolutions passed by the Board of Directors, also on the proposal of the Chief Executive Officer/General Management, in compliance with the provisions of the Articles of Association;
- resolutions of the Executive Committee, normally on the proposal of the Chief Executive Officer/General Management, in the delegated areas;
- decisions of the Chief Executive Officer/General Management and the structure in the delegated areas.

In accordance with the Articles of Association, the Chief Executive Officer/General Management is then responsible for implementing the resolutions of the Board of Directors and the Executive Committee and has the task of supervising the organisational functioning, the performance of operations and the functioning of services, ensuring that the Group is managed as a single entity.

The Chief Executive Officer, as head of personnel, ensures constant attention to the training of employees, also acting as a lever to spread the culture and techniques of risk management and control. He/she also involves the governing body for the approval of training plans and supports it in identifying training methods and content from time to time useful for the development of the directors themselves.

The Board of Statutory Auditors represents the body with control functions and, as it is responsible for corporate control, supervises the correct application of the law and the Articles of Association and, specifically, the adequacy of the internal control system and the effectiveness of the work of the corporate control functions, also making use of the information flows that they carry out.

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The provisions in relation to the internal control system, information system and business continuity accentuate the need for a prior definition of the reference framework for carrying out banking activities in terms of risk appetite, setting a frame of reference that banking groups must apply consistently to operational contexts, size and degree of complexity. This reference framework is defined in the RAF, i.e. the system of risk objectives, and it involves the ex ante setting of the risk/return objectives that the Group intends to achieve. The process is directed by the Parent Company, in order to ensure the necessary consistency of application at consolidated level.

The main purpose of the RAF is to ensure that the intermediary's activity develops within the risk appetite limits set by the corporate bodies.

The RAF is an obligatory reference point for the implementation, within the strategic plan, of a reasoning that leads to establishing the Group's propensity to risk and that translates into risk management policies, expressed through the definition of quantitative parameters and qualitative indications consistent with it.

This reference framework is delivered through the development of the strategic plan from an RAF perspective, with which the budget, ICAAP and operational planning are linked.

The Risk Appetite Framework (RAF) and the related risk governance policies, summarised in the strategic plan, are consistently implemented in risk management, which takes the form of an implementation method that integrates approach phases (summarised in the so-called risk management process) and operational phases for the execution of the set objectives.

It involves both the Board of Directors (for resolutions falling within its remit) and Corporate Management, who - also with the support of the heads of the operational functions involved from time to time and the second-level control function contacts for the powers for which they are responsible - prepare the proposals to be submitted to the Board of Directors, draw up their own provisions and organically oversee the operational risk management activities.

Risk management, consequently, is configured as a set of limits, delegations, rules, procedures, resources and controls – at line, second and third level – as well as operational activities through which risk management policies are implemented.

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The supervisory regulations require banking groups to have adequate systems of risk detection, measurement and control, or an adequate internal control system as defined above.

The controls involve the entire structure, starting from the corporate bodies and the Management and are then articulated in:

- line controls, the main objective of which is to verify the correctness of operations with respect to external/self-regulation rules;
- second-level controls (Risk Management, Compliance and Anti-Money Laundering), aimed at implementing controls on risk management, the correct application of legislation and the management of the risk of money laundering and terrorist financing;
- third level controls (Internal Audit), aimed at identifying anomalous trends in procedures and regulations and assessing the functionality of the overall internal control system.

The Internal Audit Department, which oversees the third level of control, checks the other control systems, activating periodic sessions aimed at monitoring risk variables.

Section 1 - Risks of the consolidated accounts

In this section, information is provided with reference to the companies included in the consolidated accounts.

Information of a quantitative nature

A. Credit quality

A.1 Impaired and performing credit exposures: amounts, adjustments, trend and economic distribution

A.1.1 Distribution of financial assets by portfolio and credit quality (carrying amounts)

PORTFOLIOS/QUALITY	Non-performing	Unlikely to pay	Impaired past due exposures	Performing past due exposures	Other performing exposures	Total
1. Financial assets measured at amortised cost	266	739	96	415	75,404	**76,920**
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	9,982	**9,982**
3. Financial assets measured at fair value	-	-	-	-	2	**2**
4. Other financial assets obligatorily measured at fair value	-	-	-	-	298	**298**
5. Financial assets held for disposal	-	-	-	-	-	**-**
Total 30/06/2021	**266**	**739**	**96**	**415**	**85,686**	**87,202**
Total 31/12/2020	**322**	**842**	**37**	**493**	**80,882**	**82,576**

With regard to forborne exposures, reference should be made to Section 2, Table A.1.5.

A.1.2 Distribution of financial assets by portfolio and credit quality (gross and net values)

PORTFOLIOS/QUALITY	Impaired				Performing			Total (net exposure)
	Gross exposure	Total value adjustments	Net exposure	Overall partial write-offs	Gross exposure	Total value adjustments	Net exposure	
1. Financial assets measured at amortised cost	3,283	2,182	1,101	300	76,283	464	75,819	**76,920**
2. Financial assets measured at fair value through other comprehensive income	1	1	-	-	9,984	2	9,982	**9,982**
3. Financial assets measured at fair value	-	-	-	-	X	X	2	**2**
4. Other financial assets obligatorily measured at fair value	1	1	-	-	X	X	298	**298**
5. Financial assets held for disposal	-	-	-	-	-	-	-	**-**
Total 30/06/2021	**3,285**	**2,184**	**1,101**	**300**	**86,267**	**466**	**86,101**	**87,202**
Total 31/12/2020	**3,339**	**2,138**	**1,201**	**302**	**81,567**	**497**	**81,375**	**82,576**

PORTFOLIOS/QUALITY	Assets with manifestly poor credit quality		Other assets
	Cumulated capital losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	5
2. Hedging derivatives	-	-	2
Total 30/06/2021	**-**	**-**	**7**
Total 31/12/2020	**-**	**-**	**9**

SECTION 2 - RISKS OF PRUDENTIAL CONSOLIDATION

In this section, transactions with other companies, which are excluded from the prudential scope but included in the consolidation period, are not eliminated. These figures conventionally include, in proportion to the interest held, the assets and liabilities of the banking, financial and instrumental companies jointly controlled and consolidated proportionally for supervisory purposes.

1.1 CREDIT RISK

Information of a qualitative nature

1. GENERAL ASPECTS

The objectives and strategies of the Group's lending activities are geared towards the pursuit of an efficient relationship between the characteristics of the distribution model typical of cooperative credit, based on mutuality and localism, and effective monitoring of credit risk. The Group's lending activities are also integrated into the organisational model of the Cassa Centrale Group, which aims to ensure the application of uniform rules and criteria in the assumption and management of credit risk through progressive standardisation of instruments. To this end, the Group is subject to the guidance and coordination role of the Parent Company Cassa Centrale Banca, in particular for the specific areas highlighted in this section. In particular, such objectives and strategies are targeted at:

- the achievement of a loan growth target that is sustainable and consistent with the defined risk appetite;
- an efficient selection of individual counterparties, through a complete and accurate analysis of their ability to meet their contractual commitments, aimed at containing credit risk;
- the diversification of credit risk, by identifying loans of limited amounts as the Group's natural operating area, as well as limiting the concentration of exposures to groups of connected customers or individual lines of business;
- the verification of the persistence of the creditworthiness of the financed clients as well as the performance monitoring of the individual reports carried out, with the help of the information system, both on regular positions as well as and especially on positions with anomalies and/or irregularities.

The commercial policy on credit facilities is oriented to the financial support of the local economy and is characterised by a high propensity to entertain trust and personal relationships with families, craft workers and small-medium enterprises in their territory of reference, as well as a particular operational vocation in favour of customer-shareholders. Moreover, no less important is the support function performed by the Group in favour of certain categories of economic and social operators who, due to their legal structure, their purely local scope of action or the reduced profitability they can bring to the Group, tend to be excluded from access to ordinary bank credit.

The significant share of lending represented by residential mortgages, offered according to different types of products, is evidence of the Group's particular focus on the household sector.

The micro and small businesses and the craft segment is another sector of particular importance for the Group. In this context, the Group's strategies are aimed at establishing medium-long term credit and service relationships through the offer of targeted products and services and personal and collaborative relationships with the same customers. The conventions or partnership agreements reached with the provincial councils or with other subjects working in support of the development of the local economic fabric are also included in this perspective.

The granting of credit is mainly directed towards the lines of business most consistent with the Group's credit policies and the positive economic dynamics that historically and currently characterise the territory in which the Group operates.

2. POLICIES FOR MANAGING CREDIT RISK

2.1 Organisational factors

In carrying out its activities, the Group is exposed to the risk that receivables, for whatever reason, are not honoured by third party debtors at maturity and, therefore, losses must be recorded in the financial statements.

This risk is mainly found in the traditional activity of granting secured or unsecured loans recorded in the financial statements, as well as in similar transactions not recorded in the financial statements (mainly available margins on overdrafts, or endorsement credits) and the potential causes of default lie largely in the lack of liquidity of the counterparty and to a lesser extent in reasons independent of the financial condition of the counterparty, such as country risk or operational risks. Activities other than traditional lending also further expose the Group to credit risk (e.g.: subscription of non-speculative OTC derivative contracts).

Counterparties to such transactions may default due to lack of liquidity, operational weakness, economic events or other reasons. The organisational model adopted by the Group, in compliance with the regulatory provisions, defines a precise division of roles and responsibilities between the Credit Department and the Control Functions, including the Risk Management Department, has been defined.

The geographical organisation of the Group, as at 30 June 2021, is characterised by the presence of 10 territorial offices of the Parent Company and 77 Affiliated Banks with approximately 1,484 branches throughout the country.

The Credit Department is the central body delegated to manage the performing credit process with regard to the granting, reviewing and managing credit facilities, as well as coordinating and developing credit transactions and loans in the territory.

The allocation of tasks and responsibilities within this Department aims - to the extent that is feasible - to separate activities that are in conflict of interest, particularly through an opportune ranking of authorisation profiles in the IT field.

The NPL Unit Service is the central body with the following functions:

- management of the Group's non-performing loan portfolio by defining, implementing and monitoring the Group's NPE strategy;
- definition of management processes for individual impaired loans (resolution, granting, definition and implementation of recovery strategies and litigation management);
- governance of the monitoring process of the entire loan portfolio, in order to prevent the deterioration of credit quality and ensure the correct classification of customers between performing and non-performing loans.

In light of the provisions on the internal control system (contained in Circular no. 285/2013, Part One, Title IV, Chapter 3), the Group has adopted an organisational structure that is functional to achieving an efficient and effective credit risk management and control process consistent with the framework addressed by the Parent Company.

In addition to line controls, as first level activities, the functions outsourced to the Parent Company in charge of second-level and third-level controls with the collaboration of their respective contact persons are responsible for measuring and monitoring risk trends and for the correctness/adequacy of management and operational processes.

Control activity over credit risk management (as well as financial and operational risks) is carried out by the risk control function (Risk Management Department)

- outsourced to the Parent Company, which makes operational use of its internal contacts at Group banks.

Specifically, the function provides a preventive contribution in the definition of the RAF and related risk management policies, in setting operational limits to the assumption of the various types of risk.

Specifically, the function:

- ensures systematic monitoring of the degree of exposure to risks, the adequacy of the RAF and the consistency between operations and the actual risks assumed by the Group with respect to the risk/return objectives and the related pre-established limits or thresholds;
- contributes to the preparation of the ICAAP report, in particular by verifying the appropriateness of the variables used and consistency with the risk objectives approved under the RAF;
- monitors compliance with regulatory requirements and prudential supervisory ratios, analysing and commenting on their characterisations and dynamics;
- formalises prior opinions on the consistency with the RAF of the most significant transactions, possibly acquiring the opinion of other functions involved;
- contributes to the organisational set up/maintenance and regulates the operational processes (credit, funding, finance, collection/payments, ICT) adopted for the management of the various types of risk, verifying the adequacy and effectiveness of the measures taken to remedy the deficiencies found;
- contributes to the definition/revision of quantitative risk measurement methodologies and, by interacting with the accounting function and referring to the system contributions for the preparation of the financial statements, contributes to a correct classification and evaluation of the company's activities.

2.2 Management, measurement and control systems

With regard to lending activities, the Credit Department and the NPL Service ensure the supervision and coordination of the operational phases of the lending process, make decisions within the scope of their powers and carry out the controls for which they are responsible.

The entire credit management, control and classification process is governed by the Group Credit Regulations and the Group Policy for the classification and valuation of loans, which define criteria and methods for:

- assessment of creditworthiness;
- review of credit lines;
- classification of loans;
- management and recovery of loans classified as non-performing;
- determination of provisions on exposures classified as non-performing.

With reference to transactions with associated parties, the Group has adopted specific deliberative procedures aimed at controlling the risk that the proximity of certain parties to the decision-making centres of the same may compromise the impartiality and objectivity of decisions relating to the granting of loans. From this perspective, the Group is also equipped with recognition tools and an IT procedure aimed at supporting the correct and complete registration of associated parties. These references have been supplemented by updating, where deemed necessary, the resolutions, regulations and proxies already in use. The Group Regulation for the management of transactions with associated parties was also adopted.

In compliance with the provisions of the Group credit regulation and the Group's policy for the classification and assessment of credits, specific procedures have been put in place for the investigation/deliberation, credit line revision and credit risk monitoring phases. Qualitative-quantitative methodologies for assessing the creditworthiness of the counterparty are used in all the above mentioned phases, based or supported by IT procedures that are periodically checked and maintained.

The investigation/deliberation and revision of the credit lines are regulated by a deliberative process in which the various competent bodies, belonging to both the central structures and the network, intervene, in accordance with the levels of delegation provided for. These phases are supported by IT procedures that allow, at any time, the verification (by all credit management functions) of the status of each position already assigned or being assigned, as well as to reconstruct the process that led to the definition of the creditworthiness of the borrower (through the recording and archiving of the decision-making process and the types of analysis carried out).

During the investigation, for requests for significant amounts of credit facilities, the evaluation, including prospective, is structured on several levels and is based mainly on technical data, as well as - as is usually the case - on personal knowledge and in-depth analysis of the specific economic and financial situation of the counterparty and its guarantors. Different types of investigation/revision have been provided for; some, simplified with formalities reduced to the essential, reserved for the investigation/revision of exposures of limited amount referring to parties who have a regular performance, others, of ordinary type, for the remaining type of practices.

The IT monitoring procedure adopted by the Group, using internal management information and data acquired from external providers, makes it possible to periodically extrapolate all reports that may show symptoms of performance anomalies. The constant monitoring of the reports provided by the procedure therefore allows timely intervention in the event of anomalies and to take the appropriate measures to resolve them and/or correctly classify the individual position.

All fiduciary positions are also subject to periodic review, carried out for each individual counterparty/economic group to which they belong by the relevant structures per credit limit.

Control of the activities carried out by the Credit Department and the NPL Service is ensured by the Risk Management Department, which is established at the Parent Company.

In recent years, the revision of international prudential regulations as well as the evolution in the banking world have further pushed cooperative credit to develop methods and systems to control credit risk. With this in mind, a strong commitment has been maintained in the progressive development of IT tools for monitoring credit risk, which has led to the creation of an advanced system for assessing the creditworthiness of companies and the risk/return profile.

Consistently with the operational and governance specificities of the credit process, the system has been designed with a view to achieving an adequate integration between quantitative information (Financial Statements; Central Credit Register; Relationship Performance; Socio-Demographic Profile) and qualitative information accumulated by virtue of the peculiar customer relationship and its roots in the territory. Therefore, this system responds to the need to give greater effectiveness and efficiency to the credit management process, especially through a more objective selection of customers and a more structured position monitoring process.

The use of the advanced system for assessing the creditworthiness and control of clients entrusted and to be entrusted has significant organisational implications that must be carefully examined and addressed as part of an overall review of the internal control system and the related organisational and regulatory structures.

For the purposes of determining the minimum capital requirement for credit risk, the Group adopts the standardised methodology and, in this context, has decided to:

- make use of rating models, developed on a statistical basis and using credit scoring methodology, for the measurement and evaluation of creditworthiness and related provisions for ordinary and interbank customers;[16]
- adopt the standardised methodology for the calculation of the capital requirement for credit risk (Pillar I).

Moreover, with reference to the internal capital adequacy assessment process (ICAAP) provided for in Pillar II of the new prudential regulations and in order to determine internal capital, the Group has opted for the adoption of simplified methodologies.

In addition, stress tests were carried out in accordance with the management methods established by the Parent Company.

With reference to credit risk, stress tests are carried out as follows: in particular, the stress exercise is intended to measure the change in the exposures of the Regulatory portfolios due to the application of an adverse scenario compared to a baseline scenario.

The aggregates subjected to stress analysis are:

- gross volumes of performing loans to customers;
- rate of deterioration of performing loans to customers and related write-offs;
- coverage ratio of performing and impaired loans to customers;
- fair value of the HTCS securities portfolio.

For the identification of the two market scenarios, reference is made to the information provided by an external provider also based on the main assumptions established by the European Banking Authority for the purpose of the 2018 Stress Test.

With reference to operations on the securities markets, the Finance Departments of the Group's banks carry out valuation and control activities both during the purchase of financial instruments and at subsequent times when the composition of the segment by asset class or IAS/IFRS portfolio is periodically analysed, the level of specific risk or counterparty risk is determined and compliance with the limits and powers assigned is verified.

[16] The rating models developed are subject to annual review by the Parent Company. During the period, under the supervision of the Risk Management Department of the Parent Company, credit risk models were refined and updated. For more details see paragraph 2.3.

2.3 Methods of measuring expected losses

IFRS 9 introduced, for instruments measured at amortised cost and fair value through other comprehensive income (other than equity instruments), a model based on the expected loss concept, replacing the incurred loss approach provided by IAS 39.

The changes introduced by IFRS 9 are characterised by a prospective view which, in given circumstances, may require the immediate recognition of all expected losses over the life of a loan. In particular, unlike IAS 39, it is necessary to recognise, immediately and regardless of the presence or not of a so-called trigger event, the initial amounts of expected future losses on own financial assets, and this estimate should be continuously adjusted also in consideration of the counterparty credit risk. In order to prepare this estimate, the impairment model should not only consider past and present data, but also information relating to future events.

This forward looking approach makes it possible to reduce the impact of the losses and enable loan adjustments to be posted in proportion to the increase in risks, allowing entities to avoid overloading the income statement on the occurrence of loss events and reducing the pro-cyclical effect.

The scope of application of the new model for measuring expected losses on loans and securities subject to impairment adopted refers to financial assets (loans and debt securities), commitments to disburse funds, guarantees and financial assets not subject to measurement through FVTPL. For credit exposures falling within the scope of application[17] of the new model, the accounting standard provides for the allocation of individual relationships to one of three stages based on changes in credit quality, defined on an expected credit loss model at 12 months or full life if a significant increase in risk (lifetime) has occurred. In particular, there are three different categories reflecting the credit quality deterioration model from initial recognition, which make up the stage allocation:

- in stage 1, positions that do not present, at the valuation date, a significant increase in credit risk (SICR) or which can be identified as 'low credit risk';
- in stage 2, positions that, at the reference date, present a significant increase or that do not present the characteristics to be identified as 'low credit risk';
- in stage 3, non-performing positions.[18]

The estimate of expected loss using the Expected Credit Loss (ECL) criteria, for the classifications defined above, takes place on the basis of the allocation of each position into the three reference stages, as detailed below:

- stage 1, expected loss must be calculated on a time horizon of 12 months mesi[19];
- stage 2, expected loss must be calculated by considering all the losses that are expected to be incurred over the entire life of the financial asset (lifetime expected loss): therefore, with respect to the calculation performed in accordance with IAS 39, there is a shift from the estimate of incurred loss over a time horizon of 12 months to an estimate that takes into consideration the entire residual life of the loan; in addition, given that IFRS 9 requires entities to also adopt forward-looking estimates for the calculation of the lifetime expected loss, it is necessary to consider the scenarios connected with macro-economic variables (e.g. GDP, unemployment rate, inflation, etc.) which, through a macro-economic statistical model, are able to estimate the forecasts over the residual duration of the loan;

[17] The rating models developed are subject to annual review by the Parent Company. During the period, under the supervision of the Risk Management Department of the Parent Company, credit risk models were refined and updated. For more details see paragraph 2.3.

[18] The application segments are ordinary customers, interbank segment and securities portfolio.

[19] Non-performing loans relate to: impaired past due and/or overrun, 'unlikely to pay' and non-performing exposures.

- stage 3, the expected loss must be calculated with a lifetime perspective, but unlike stage 2 positions, the calculation of the expected lifetime loss is carried out using an analytical valuation methodology; for certain exposures classified as non-performing or unlikely to pay of less than EUR 200,000, for impaired past due and/or overrun exposures and for off-balance sheet exposures, the calculation of the expected lifetime loss is normally carried out using a flat-rate collective methodology.

With particular reference to positions classified as non-performing, specific analytical valuations reflect, where appropriate, a probable scenario of realisation of these receivables through the sale of the related exposures, consistent with the Group's strategy for the management of impaired receivables.

Specific risk parameters (PD, LGD and EAD) were defined from an IFRS 9 perspective to be used for impairment calculations (stage allocation and ECL); to improve the coverage of the ratios not originally rated after 2006, the default rates made available by the Bank of Italy were used[20]. It should be underlined that the Group calculates the ECL based on the allocation stage, per individual position, with reference to cash and off-balance sheet credit exposures.

It should be noted that for the purposes of calculating the expected loss on loans to customers, as was done in the previous year, the Cassa Centrale Group incorporated in its IFRS 9 impairment model the macroeconomic scenarios integrating the effects of the Covid-19 health emergency, as indicated by the European Central Bank in the letter of 1 April 2020 and subsequent letter dated 4 December 2020. For further details, please refer to these Explanatory Notes, Part A "Accounting policies" section 5 "Other aspects" - d) Methods of application of the international accounting standards in the context of the Covid-19 pandemic.

Ordinary customer segment

The steps common to all the approaches identified for the construction of the PD to be used, concern:

- 12-month PD estimate developed on a statistical basis through the construction of a Group model, appropriately segmented according to the type of counterparty and the creditworthiness (in terms of the customer's rating);
- the inclusion of forward-looking scenarios occurs through the application of outputs defined by appropriate "Satellite Models" to the PD Point in Time (so-called PiT) and definition of a set of possible scenarios incorporating current and future macroeconomic conditions;
- the transformation of 12-month PD into lifetime PD, in order to estimate a PD term structure along the entire residual life class of loans.

The steps common to all the approaches identified for the construction of the LGD to be used, concern:

- a Group model, appropriately segmented according to the type of counterparty, the geographical area in which the Group operates, and the type of guarantee, which consists of two parameters: the Danger Rate (DR) and the non-performing LGD (LGS);
- the IFRS 9 Danger Rate parameter (an expression of the probability of "curing" a position to default as well as possible increases in exposure in the migration to worse credit states) is estimated from a set of administrative state transition matrices with an annual observation horizon. These matrices were calculated in relation to a set of counterparties with a segmentation in line with that used for the development of PD models. The DR parameter, like PD, is conditioned to the economic cycle, based on possible future scenarios, so as to incorporate assumptions about future macroeconomic conditions;

[20] During 2018, the Bank of Italy made available a historical series of default rates starting in 2006, broken down by a number of drivers (region, amount range, economic sector, etc.) and built on a broader definition of non-performing positions only.

- the nominal LGS parameter (complement to one of the recoveries obtained in respect of the exposure of a position classified as non-performing) is calculated as the arithmetic mean of the nominal LGS, segmented by type of guarantee, and then discounted based on the average recovery time observed for clusters of ratios consistent with the nominal non-performing LGD.

The EAD IFRS 9 model adopted differs according to the type of technical macro-form and the type of counterparty. For the estimation of the EAD parameter over the lifetime period of the instalment positions, it is necessary to consider the contractual repayment flows, for each year of the remaining life of the position. A further element that influences the future values of the EAD, i.e. the progressive repayment of the instalment loans on the basis of the contractual amortisation plan, is the prepayment rate (a parameter that collects the events of early and partial termination with respect to the contractual maturity date).

With reference to stage allocation, the Group made provision for the allocation of the individual cash and off-balance sheet positions, in one of the 3 stages listed below, based on the following criteria:

- in stage 1, positions with generation date of less than three months from the measurement date or that do not present any of the characteristics described in the following point;
- in stage 2, positions which, at the reference date, present at least one of the characteristics described below:
  - positions that at the valuation date show an increase in lifetime PD, compared to that at origination, greater than a certain threshold differentiated according to specific drivers such as risk segment, ageing and residual maturity of the position and geographic area;
  - positions relating to counterparties that at the valuation date are classified to 'watch list', i.e. 'performing under observation';
  - presence of a 'forborne performing' attribute;
  - presence of past due amounts and/or overrun by more than 30 days;
  - positions (without lifetime PD at the origination date) that do not have the characteristics to be identified as low credit risk at the valuation date (i.e. that have the following characteristics at the valuation date: rating class as at the reporting date less than or equal to 4 for the Company and Small Business segments, 3 for the Small Economic Operators segment and 5 for the Private segment).[21]
- in stage 3, non-performing loans. These concern individual positions relating to counterparties classified in one of the impaired loan categories set forth by Bank of Italy Circular no. 272/2008 and subsequent updates. Falling into this category are impaired past due and/or overrun, 'unlikely to pay' and non-performing exposures.

With reference to the new definition of default, i.e. implementation of article 178 of Regulation (EU) no. 575/2013 which specifies the criteria according to which a debtor may be considered in default, as well as to the provisions for its subsequent declination (e.g. EBA/GL/2016/07 guidelines, Delegated Regulation (EU) no. 171/2018 and other provisions of the Bank of Italy); from 1 January 2021, these rules are mandatorily applied by the entire banking system. In this context, the Group has adjusted its internal models for credit risk in the context of the IFRS 9 accounting application, in order to ensure the computation of collective impairment provisions, in compliance with the new definition of default; these adjustments have been factored in from the first quarter of 2021 by calibrating the above models.

[21] The rating model envisages 13 classes and is differentiated on the basis of the counterparty segment.

Interbank segment

For transactions in the interbank segment, the PD parameter is provided by an external provider that is differentiated on the basis of a rating that defines the creditworthiness of the counterparty; these default probabilities are extrapolated from listed credit spreads or listed bonds. For institutions without quoted credit spreads, the PD parameter is always provided by an external provider, but calculated on the basis of comparable logics based on external information (financial statements, external ratings, economic sector).

The LGD parameter is set prudentially by basing the regulatory level for IRB at 45%.

For EAD, similar logic is applied as for the ordinary customer model.

The Group has provided for the allocation of individual positions to the 3 stages, in the same way as to that provided for loans to customers. The application of the concept of low credit risk is defined on performing positions which at the valuation date have the following characteristics: no lifetime PD at the origination date and PD Point in Time less than 0.3%. Stage 2 is defined on the basis of changes in PD between origination and reporting equal to 200% (as a back-stop identified on the basis of the AQR-stress test manuals in the presence of a low default portfolio).

Securities portfolio

The PD parameter is provided by an external provider based on two approaches:

- timeliness: the default probability term structure for each issuer is obtained from quoted credit spreads or quoted bonds;
- comparable: where market data does not allow for the use of specific credit spreads, because they are absent, illiquid or insignificant, the default probability term structure associated with the issuer is obtained using proxy methodology. This methodology provides for the reclassification of the rated issuer to a comparable issuer for which specific credit spreads are available or to a reference cluster for which a representative credit spread can be estimated.

The LGD parameter is assumed to be constant over the entire time period of the financial activity under analysis and is obtained on the basis of four factors: issuer and instrument type, instrument ranking, instrument rating and country of origin of the issuing entity. The minimum level starts from a value of 45%, with subsequent increases to take into account the different degrees of seniority of the securities.

The Group has allocated the individual tranches for the purchase of securities in 3 stages.

In the first creditworthiness stage the following are placed: tranches that can be classified as low credit risk (i.e. that have PD as at the reporting date below 0.26%) and those that at the valuation date have not experienced a significant increase in credit risk with respect to the time of purchase.

In the second stage, tranches are placed, which on the valuation date present an increase in credit risk compared to the date of purchase.

In the third and final stage, tranches are placed, for which the ECL is calculated following the application of a 100% probability (i.e. in default).

Transitory regime

With regard to the economic and equity impacts of IFRS 9, it should be noted that, on first-time adoption of the same, the main impacts arose from the application of the new accounting model of impairment based, as mentioned above, unlike the loss approach of IAS 39, on the concept of expected loss, and from the application of the rules for the transfer of exposures to the various stages of classification.

It should be noted that Cassa Centrale Banca has adhered to the option introduced by Regulation (EU) no. 2395/2017 and partially supplemented by Regulation (EU) no. 873/2020, by which amendments were made to Regulation (EU) no. 575/2013 on prudential requirements for credit institutions and investment firms (so-called CRR), relating to the introduction of a specific transitional framework, from 2018 to 2024, aimed at mitigating the impact on own funds resulting from the application of the new impairment model based on the measurement of expected credit losses (ECL) introduced by IFRS 9.

The provisions in question have made it possible to reintroduce in the CET1 the impact recorded following the application of the new valuation model introduced by IFRS 9 for financial assets measured at amortised cost or at fair value through other comprehensive income.

This standard allows for dilution until the end of 2024:

- the incremental impact of the write-down on performing and impaired exposures recognised at the date of transition to IFRS 9 following the application of the new impairment model (static A2, SA filter component);
- any further increase in total write-downs relating only to performing exposures, recorded as at 31 December 2019 with respect to the impact measured at the date of transition to the new standard ("dynamic old" A4, SA old filter component);
- any further increase in total write-downs relating only to performing exposures, recorded at each reference date with respect to the amount measured as at 31 December 2019 ("dynamic new" A4, SA filter component).

The adjustment to CET1 related to the "static" and "old dynamic" components may be made in the period between 2018 and 2022, re-including in the CET1 the impact as determined above, to the extent indicated hereunder for each of the 5 years of the transitory period:

- 2018 – 95%
- 2019 – 85%
- 2020 – 70%
- 2021 – 50%
- 2022 – 25%.

The adjustment to CET1 related to the "dynamic" component can be made in the period between 2020 and 2024, re-including in the CET1 the impact as determined above, to the extent indicated hereunder for each of the 5 years of the transitory period:

- 2020 – 100%
- 2021 – 100%
- 2022 – 75%
- 2023 – 50%
- 2024 – 25%

The latter component in particular was introduced by the regulator as part of a package of regulatory provisions to facilitate the provision of bank credit to households and businesses in response to the Covid-19 pandemic, which began in early 2020.

The application of the transitional provisions to CET1 obviously requires, in order to avoid double counting of the prudential benefit, to make a symmetric adjustment in the determination of capital requirements for credit risk by adjusting the exposure values determined in accordance with Article 111(1) of the CRR. Starting from June 2020, this adjustment is reflected in the risk-weighted assets through the application of a risk weighting factor of 100% applied to the amount of the sum of the components calculated on the incidence of the adjustment made to the CET1. This approach replaced the application of the original graduation factor, which was determined on the basis of the 1-complement of the impact of the adjustment made to CET1. Finally, where recognised, a symmetrical adjustment must be made against DTAs linked to the higher value adjustments, deducted or weighted at 250%.

Organisational and process impacts

In terms of organisational and process impacts, the approach to impairment introduced by IFRS 9 required a major effort to collect and analyse data; this in particular, in order to identify the exposures that have suffered a significant increase in credit risk with respect to the date of their assumption and, consequently, must be traced back to a measurement of the expected lifetime loss, as well as the support of significant investments for the evolution of the valuation models in use and related operating processes for the incorporation of the risk parameters produced in credit operations.

The introduction of forward-looking logic in accounting valuations also determines the need to revise credit policies, for example, with reference to customer selection parameters (in light of the different sectorial or geographical risk profiles) and collateral (orienting the preference of types exposed to lower volatility and sensitivity to the economic cycle). Similarly, it appeared necessary to adjust the company's rules on the granting of credit (and related delegated powers) taking into account, among other things, the different costs of medium/long-term technical forms in a scenario in which, as mentioned above, any migration to stage 2 entails the transition to an expected lifetime loss.

With regard to credit monitoring processes and controls, some consolidation interventions are also planned, based, inter alia, on the implementation of automated and proactive processes as well as the refinement of early warning and trigger tools that have been introduced by the Group in order to identify the early symptoms of a potential step-up and to activate the resulting initiatives in good time.

Finally, significant interventions concern second-level controls by the Risk Management Department, which is responsible, among other things, under current regulations, for the validation of internal risk measurement systems not used for regulatory purposes and for monitoring the substantial correctness of the indications deriving from the use of these models.

With reference to the main management control processes, in the knowledge that the cost of risk is one of the most important variables in determining current and prospective economic results, particular attention is paid to the necessary consistency of the assumptions underlying the estimates of the multi-annual plan and the annual budget (developed on the basis of expected scenarios relating to macroeconomic and market factors), the ICAAP and RAF and those taken as reference for the determination of accounting provisions.

The project activities coordinated by the relevant technical structures of Cassa Centrale Banca have allowed the improvement of the declination of the methodological solutions for the correct estimation of the risk parameters for the calculation of the ECL and the management of the staging process according to IFRS 9 standards, as well as the development of the underlying technical/instrumental support by the relevant structures. It should be noted that, in relation to the introduction of the new definition of default as well as to some primary contextual elements (i.e. the growing sophistication of the Banking Group, elements deriving from the Covid-19 health emergency, etc.), the Group has launched a project to estimate again all the credit models of the accounting framework (i.e. IFRS 9 and macro-economic models) as well as management such as monitoring and acceptance (i.e. rating systems) with expected release by the end of 2022.

The Group has defined the guidelines relating to the adoption of organisational and process solutions aimed at enabling the correct and integrated gradual use of the rating system in the main business processes (during investigation, pricing, monitoring and evaluation), as well as for the implementation of the related monitoring and control system.

With regard to the impacts of Covid-19 on the assessment of the significant increase in credit risk (SICR) and on the measurement of expected losses, please refer to what has already been explained in Part A.

2.4 Techniques for mitigating credit risk

Risk mitigation techniques include those instruments that contribute to reducing the loss that the Group would incur in the event of counterparty insolvency. They include, in particular, guarantees and certain contracts that lead to a reduction in credit risk.

In accordance with the credit objectives and policies defined by the Board of Directors, the credit risk mitigation technique most commonly used by the Group is the acquisition of different types of collateral, personal and financial guarantees.

These forms of guarantee are required depending on the results of the assessment of the creditworthiness of customers and the type of loan requested by the same. As part of the credit granting and management process, the presence of mitigating factors is encouraged against counterparties with a less favourable credit rating or certain types of medium/long-term operations.

In order to limit the risks of non-existence or termination of protection, specific safeguards are provided, such as: the reinstatement of the pledge in the presence of a decrease in the initial value of the property or, for mortgage guarantees, the obligation of insurance coverage against fire damage, as well as the presence of adequate monitoring of the value of the property.

With reference to activities within securities markets, given that the composition of the portfolio is oriented towards primary issuers with high creditworthiness, no particular forms of credit risk mitigation are currently required.

The main concentration of collateral (mainly mortgages) is related to loans to retail customers (medium and long term).

In recent years, a decisive impetus has been given to the implementation of structural and process configurations suitable to ensure full compliance with the organisational, economic, legal and information requirements of prudential regulations on credit risk mitigation (hereinafter also “CRM”) techniques.

The Group has decided to use the following CRM tools:

- financial collateral involving cash and financial instruments, provided through agreements for the pledging and transfer of ownership and repurchase agreements;
- residential and non-residential real estate mortgages;
- other forms of real protection such as deposits in cash with third parties;
- personal guarantees represented by sureties, warranty bonds, guarantees – within the realm of authorised guarantors – from monitored intermediaries or other subjects.

Collateral

With reference to the acquisition, evaluation and management of the main forms of collateral, the company’s policies and procedures ensure that such collateral is always acquired and managed in such a way as to ensure that it is enforceable in all relevant jurisdictions and can be enforced within a reasonable time.

In this context, the Group complies with the following inherent regulatory principles:

- the non-dependence of the value of the property to a significant extent on the creditworthiness of the debtor;
- the independence of the entity appointed to estimate the property at a value not exceeding its market value;
- the presence of an insurance against the risk of damage to the property covered by the guarantee;
- the implementation of adequate monitoring of the value of the property, in order to verify the existence over time of the requirements that allow for less capital absorption on the guaranteed exposures;
- compliance with the maximum ratio between the required loan and the value of the property pledged as collateral (loan to value): 80% for residential properties and 50% for non-residential properties;
- the use of the property and the debtor's ability to repay.

The process of monitoring the value of the property under warranty is carried out using statistical methods. Performing or impaired credit exposures are subject to statistical revaluation every six months.

For significant performing exposures (i.e. amounts in excess of EUR 3 million or 5% of the Group bank's own funds) the valuation is in any case reviewed by an independent expert at least every 3 years.

For impaired exposures, the Policy adopted by the Group provides for a new appraisal for both residential and non-residential properties at the time of transition to impaired loans and an annual update for positions exceeding specific exposure thresholds.

With regard to financial collateral, the Group, based on the policies and processes for the management of credit risk and operational limits and proxies defined, directs the acquisition of the same exclusively to those financial assets for which the company is able to calculate the fair value on a periodic basis (i.e. whenever there is evidence that there has been a significant decrease in fair value).

The Group has also put in place specific safeguards and procedures to ensure the following aspects relevant to the prudential eligibility of the guarantees in question:

- absence of a material positive correlation between the value of the financial collateral and the creditworthiness of the debtor;
- specific safeguards to guarantee the external separation (between the depositary's assets and the asset under guarantee) and the internal separation (between assets belonging to different parties and deposited with third parties) if the asset under guarantee is held with third parties;
- residual duration of the guarantee not less than that of the exposure.

The monitoring of financial collateral, in the case of pledging of securities, takes place through periodic monitoring of the issuer/issue rating and the fair value assessment of the financial instrument as collateral. The adjustment of guarantees for which the market value is lower than the resolution value net of discount is required.

Personal guarantees

With reference to personal guarantees, the main types of guarantors are represented by entrepreneurs and corporate partners related to the debtor as well as, in the case of loans granted in favour of sole proprietorships and/or natural persons (consumers or not), also by relatives of the debtor. Less frequently the risk of insolvency is covered by personal guarantees provided by other companies (generally companies belonging to the same economic group as the debtor), or provided by financial institutions and insurance companies.

In the case of loans to parties belonging to certain economic categories (craft workers, traders, etc.) the Group acquires specific guarantees (on first demand or subsidiary) provided by the credit consortia to which it belongs.

An exception is made for personal guarantees which meet all the requirements, provided by credit consortia registered on the special list pursuant to Article 106 of the TUB.

Where a financing proposal provides for personal guarantees from third parties, the investigation shall also extend to the latter. In particular, in relation to the type of loan guaranteed and the amount, the following is subject to verification and analysis:

- the guarantor's balance sheet and income statement, including by consulting the appropriate databases;
- exposure to the banking system;
- the information present in the Group's information system;
- potential membership of a group and the related overall exposure.

If necessary, at the discretion of the instructor in relation to the amount of the guarantee, the investigation will be extended to the Central Credit Register.

If the guarantor is represented by a company, and in any case when deemed necessary in view of the risk and the amount of the loan, in addition to the information produced by the network in the form reserved for the guarantor, the creditworthiness of the guarantor shall be developed in the same way as for the applicant.

Offsetting agreements

The Group adopts bilateral offsetting agreements for contracts relating to OTC derivatives and long-term settlement transactions concluded with primary counterparties through the Parent Company which, while not giving rise to any novation, provide for the formation of a single obligation, corresponding to the net balance of all the transactions included in the agreement itself, so that, in the event of default by the counterparty due to insolvency, bankruptcy, liquidation or any other circumstance, the Group has the right to receive or the obligation to pay only the net amount of the positive and negative values at current market prices of the individual transactions offset. Regulation (EU) no. 575/2013, with reference to OTC derivatives and long-term settlement transactions, places such agreements within the framework of other bilateral offsetting agreements between an institution and its counterparty, i.e. written agreements between a bank and a counterparty under which the reciprocal credit and debit positions generated by such contracts are automatically offset so as to establish a single net balance, without any novative effects.

The effect of reducing counterparty risk (and, therefore, lower capital absorption) is recognised provided that the agreement has been communicated to the supervisory authority and the Group complies with the specific requirements set out in the regulations.

In this respect, the Group adopts a net-based counterparty risk management system in accordance with the bilateral offset provision, with no novation effect, present in contracts for OTC derivatives and long-term settlement transactions. It is planned to adopt these instruments also when absorbing capital, bearing in mind that the new contracts all pass through the Parent Company.

The legal right to offset is not legally enforceable at any time but only in the event of insolvency or bankruptcy of the counterparties. As a result, the conditions in paragraph 42 of IAS 32 for offsetting positions in the financial statements are not met as further detailed in IAS 32 in paragraph AG38.

The Group has entered into margining agreements that provide for the daily exchange of margins (guarantees) between the counterparties to the contract on the basis of the valuation of outstanding positions according to market values observed on the reference day (i.e. the working day immediately prior to the valuation day). The value of the collateral transferred from one party to the other takes into account the net value of the outstanding positions, the value of any collateral previously lodged by either party and the security value (minimum transfer level). The system is managed by the Parent Company for exposures to affiliates, while for exposures to institutional market counterparties it is the latter that performs the role of guarantee calculation agent.

3. IMPAIRED CREDIT EXPOSURES

3.1 Management strategies and policies

The Group is organised with regulatory/IT structures and procedures for the management, classification and control of loans. Consistent with IAS/IFRS regulations, at each reporting date the presence of objective elements of impairment on each instrument or group of financial instruments is verified.

Impaired financial assets include loans which, following the occurrence of events happening after their disbursement, show objective evidence of possible impairment.

On the basis of the current regulatory framework, supplemented by internal implementing provisions, impaired financial assets are classified according to their critical status into three main categories:

- non-performing loans: credit exposures to counterparties in a state of insolvency (even if not judicially established), or in substantially comparable situations, regardless of the existence of any guarantees given to protect the exposures and the loss forecasts made;
- unlikely to pay: credit exposures, other than non-performing loans, for which it is considered unlikely that, without recourse to protective actions, such as enforcement of guarantees, the debtor will fully meet its credit obligations in principal and/or interest, regardless of the presence of any overdue and unpaid amounts/rates;
- impaired past due and/or overrun: credit exposures, other than those classified as non-performing or unlikely to pay, which are past due and/or overrun. The overall exposure to a debtor shall be recognised as impaired past due and/or overrun, in accordance with Delegated Regulation (EU) no. 171/2018 of the European Commission of 19 October 2017, if the amount of principal, interest or fees unpaid at the date it was due exceeds both of the following thresholds: a) absolute limit of EUR 100 for retail exposures and of EUR 500 for non-retail exposures; b) relative limit of 1% given by the ratio of the total amount past due and/or overrun at group level to the total amount of all credit exposures to the same debtor.

The classification of positions among impaired assets is carried out by means of classification workflows automatically triggered by the Early Warning System procedure, on the occurrence of certain early warnings and/or triggers defined in the Group Policy for the classification and valuation of loans or on the proposal of the structures owning the commercial relationship, of the central specialist functions responsible for the control and management of loans.

The return to performing status of exposures classified as impaired takes place through classification workflows, activated automatically or manually by the structures responsible for the management of impaired loans, in compliance with the deadlines set by the reference regulations in terms of “monitoring period” and “cure period”.

The Parent Company plays a guiding and coordinating role in the definition and updating of regulations and processes relating to the management and recovery of impaired loans, in the preparation and implementation of the Group’s NPE strategy and the related operating plan. Each Affiliated Bank is responsible for managing its impaired loans through the relevant structures that:

- define the most appropriate credit management and/or recovery strategies for the individual position;
- take steps to restore the regularity of performance in order to include exposures among performing loans;
- propose to the competent decision-making bodies the granting of tolerance measures to make the reimbursement of the exposure sustainable;
- monitor the aforementioned positions;
- propose to the competent decision-making bodies the transfer to non-performing of insolvent counterparties;
- carry out judicial and extra-judicial activities aimed at recovering receivables classified as non-performing;
- determine the expected loss on positions and propose them to the decision-making body in charge.

The model used to determine provisions for impaired loans provides, depending on their characteristics, for the use of a specific analytical valuation or a flat-rate analytical valuation.

The amount of the adjustment to the value of each loan is determined as the difference between its carrying amount at the time of measurement (amortised cost) and the present value of expected future cash flows, calculated by applying the effective interest rate to the ratio at the time immediately prior to classification in one of the risk categories of impaired loans.

The specific analytical valuation is carried out at the time of classification among impaired credit exposures and is reviewed quarterly in accordance with the criteria and methods identified in the Group policy for the classification and valuation of loans.

The flat-rate analytical valuation is carried out and updated quarterly on the basis of the estimate of the expected loss calculated by the impairment model introduced by IFRS9.

3.2 Write-offs

The write-off is an event that results in an accounting derecognition and may occur before the legal action for recovery of the impaired debt is completed and does not necessarily imply a waiver of the legal right to recover the debt. The write-off may cover the entire amount of an impaired exposure or a portion of it and corresponds to:

- the reversal, in full or in part, of the total value adjustments, as a contra-entry to the gross value of the impaired exposure;
- for any portion exceeding the amount of the total value adjustments, to the impairment loss of the impaired exposure recognised directly in the income statement.

Any recoveries from collections in excess of the gross value of the impaired exposure following the write-off are recognised in the income statement under contingent assets.

In general, the write-off applies to impaired exposures for which:

- the occurrence of events has been found to lead to the irretrievability of all or part of the impaired exposure;
- all or part of the impaired exposure was deemed reasonably unrecoverable;
- it was considered appropriate, in the context of settlement agreements with the debtor, to waive all or part of the impaired debt.

The specific processes and criteria for the application of write-offs are governed at group level in accordance with specific internal regulation.

3.3 Impaired financial assets acquired or originated

In accordance with IFRS 9, loans considered impaired from the time of initial recognition are referred to as Purchased or Originated Credit Impaired Assets (POCI). These loans, if they fall within the scope of application of impairment pursuant to IFRS 9, are measured by setting aside - from the date of initial recognition - provisions to cover losses covering the entire residual life of the loan (ECL lifetime). Since these are impaired loans, they will be initially booked as part of stage 3.

In this regard, it should be noted that the acquisition or origination of impaired financial assets is not part of the Group's typical business model, so the above mentioned cases are to be considered residual.

4. FINANCIAL ASSETS SUBJECT TO COMMERCIAL RENEGOTIATIONS AND FORBORNE EXPOSURES

The category of 'forborne non-performing exposures' does not constitute a separate and additional category of impaired exposures to those previously mentioned (non-performing, unlikely to pay and impaired past due and/or overrun exposures), but only a sub-set of each of them, which includes cash exposures and commitments to disburse funds that are forborne ('forborne exposures'), if both of the following conditions are met:

- the debtor is in a situation of economic-financial hardship that does not allow him/her to fully comply with the contractual commitments in his/her debt agreement and that puts him/her in a state of "credit deterioration" (classification in one of the categories of impaired exposures: non-performing, unlikely to pay, impaired past due and/or overrun);
- the Group agrees to amend the terms and conditions of that agreement, or to refinance it in full or in part, to enable the debtor to comply with it (there would have been no such forbearance if the debtor had not been in a state of hardship).

Forborne exposures to debtors in a condition of economic-financial hardship that has not reached a state of "credit impairment" are instead classified in the category of "Other forborne performing exposures" and are included among the "Other performing exposures", or among the "Performing past due exposures" if they meet the requirements for this classification.

As provided for in the Group Regulations, once it has been ascertained that a concession measure meets the requirements of forbearance, the forborne exposure attribute involves:

- *forborne performing if both of the following conditions occur:*
  - the debtor was classified as ordinary performing or under observation before the forbearance was granted;
  - the debtor was not reclassified as an impaired counterparty as a result of the forbearance granted;
- *forborne non-performing if at least one of the following conditions occurs:*
  - the debtor was classified as impaired prior to the granting of the forbearance;
  - the debtor has been reclassified among impaired exposures, due to the forbearance granted, including the assumption that (in addition to other regulatory cases), as a result of the valuation made, significant impairment losses will emerge.

In order for a credit exposure classified as forborne non-performing to change to forborne performing, the following conditions must be met simultaneously:

- at least 12 months have passed since the last of the following events (so-called cure period): ;
  - granting of the forbearance measure on impaired credit exposures;
  - classification as impaired of the counterparty;
  - end of the grace period set forth by the forbearance measure on impaired credit exposures;
- absence of the conditions to classify the debtor as impaired;
- absence of overdue payments on all the debtor's existing relationships with the Group;
- the debtor's presumed ability, on the basis of documentary evidence, to fully meet its contractual obligations under the repayment terms determined by the forbearance; this prospective ability to repay is deemed to have occurred when both of the following conditions are met:
  - the debtor has reimbursed, through the regular payments made on the renegotiated terms, an amount equal to the amount that had expired (or was subject to derecognition) at the time of granting the forbearance;
  - the debtor has complied with the post-forbearance payment terms over the last 12 months.

A credit exposure classified as forborne performing becomes forborne non-performing when even one of the following conditions occurs:

- the conditions for the classification of the counterparty as impaired loans are met;
- occurrence of conditions of reduced financial obligation as defined by Article 178 of EU Regulation no. 575/2013 (DO> 1%);
- the credit exposure was previously classified as impaired with a forborne non-performing attribute and subsequently, if the conditions were met, the funded counterparty has been upgraded to performing status under observation (with the simultaneous transfer of the line in question to forborne performing), but: i) one of the credit lines of the financed counterparty has matured, during its stay in forborne performing, more than 30 days past due; or ii) the counterparty holding the line in question, during its stay in forborne performing, is subject to further forbearance measures.

For a credit exposure classified as forborne performing to lose this attribute, resulting in a return to only an ordinary performing or performing under observation status, the following conditions must be met simultaneously:

- at least 24 months have passed since the assignment of the forborne performing attribute (so-called probation period);
- the debtor has made, after the application of the forbearance, regular payments of principal or interest on the credit line subject to the forbearance for a total amount equal to at least 5% of the residual principal debt recorded at the time of application of the forbearance; these payments must have been made at such times and in such a way as to ensure full compliance with the contractual obligations for a period, even if not continuous, equal to at least half of the probation period;
- the debtor does not have any past due loan exceeding 30 days in relation to any of the relationships existing with the respective Group bank at the end of the probation period.

Information of a quantitative nature

A. CREDIT QUALITY

A.1.4 Prudential consolidation - Cash and off-balance-sheet credit exposures to banks: gross and net values

TYPES OF EXPOSURES/VALUES	Gross exposure		Total value adjustments and total allocations	Net exposure	Overall partial write-offs*
	Impaired	Performing			
A. CASH CREDIT EXPOSURES					
a) Non-performing	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
b) Unlikely to pay	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
c) Impaired past due exposures	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
d) Performing past due exposures	X	-	-	-	-
- of which: forborne exposures	X	-	-	-	-
e) Other performing exposures	X	6,800	12	6,788	-
- of which: forborne exposures	X	-	-	-	-
Total (A)	**-**	**6,800**	**12**	**6,788**	**-**
B. OFF-BALANCE-SHEET CREDIT EXPOSURES					
a) Impaired	-	X	-	-	-
b) Performing	X	1,143	1	1,142	-
Total (B)	**-**	**1,143**	**1**	**1,142**	**-**
Total (A+B)	**-**	**7,943**	**13**	**7,930**	**-**

*Value to be displayed for information purposes

A.1.5 Prudential consolidation - Cash and off-balance-sheet credit exposures to customers: gross and net values

TYPES OF EXPOSURES/VALUES	Gross exposure		Total value adjustments and total allocations	Net exposure	Overall partial write-offs*
	Impaired	Performing			
A. CASH CREDIT EXPOSURES					
a) Non-performing	1,319	X	1,053	266	300
- of which: forborne exposures	336	X	257	79	49
b) Unlikely to pay	1,842	X	1,103	739	-
- of which: forborne exposures	1,152	X	679	473	-
c) Impaired past due exposures	124	X	28	96	-
- of which: forborne exposures	7	X	2	5	-
d) Performing past due exposures	X	435	20	415	-
- of which: forborne exposures	X	46	5	41	-
e) Other performing exposures	X	79,323	434	78,889	-
- of which: forborne exposures	X	1,050	71	979	-
Total (A)	**3,285**	**79,758**	**2,638**	**80,405**	**300**
B. OFF-BALANCE-SHEET CREDIT EXPOSURES					
a) Impaired	164	X	48	116	-
b) Performing	X	13,104	72	13,032	-
Total (B)	**164**	**13,104**	**120**	**13,148**	**-**
Total (A+B)	**3,449**	**92,862**	**2,758**	**93,553**	**300**

*Value to be displayed for information purposes

A.1.5a Loans subject to Covid-19 support measures: gross and net values

TYPES OF LOANS/VALUES	Gross exposure	Total value adjustments and total allocations	Net exposure
A. NON-PERFORMING LOANS	**-**	**-**	**-**
a) Subject to concession compliant with GL	-	-	-
b) Subject to other forbearance measures	-	-	-
c) New loans	-	-	-
B. UNLIKELY TO PAY	**122**	**53**	**69**
a) Subject to concession compliant with GL	35	12	23
b) Subject to other forbearance measures	61	33	28
c) New loans	26	8	18
C. NON-PERFORMING PAST DUE LOANS	**10**	**3**	**7**
a) Subject to concession compliant with GL	4	2	2
b) Subject to other forbearance measures	-	-	-
c) New loans	6	1	5
D. OTHER NON-PERFORMING PAST DUE LOANS	**194**	**5**	**189**
a) Subject to concession compliant with GL	57	3	54
b) Subject to other forbearance measures	6	1	5
c) New loans	131	1	130
E. OTHER PERFORMING LOANS	**6,482**	**54**	**6,428**
a) Subject to concession compliant with GL	1,920	31	1,889
b) Subject to other forbearance measures	52	5	47
c) New loans	4,510	18	4,492
TOTAL (A+B+C+D+E)	**6,808**	**115**	**6,693**

1.2 MARKET RISKS

1.2.1 Interest rate risk and price risk - regulatory trading book

Information of a qualitative nature

A. General aspects

The Finance and Treasury Committee of the Parent Company defines the investment choices relating to the trading book within the periodic strategy documents for the management of the proprietary portfolio approved by the Board of Directors of the Parent Company.

During the half year, the proprietary portfolio management strategy established that the trading book activity was limited to financial instruments held for intermediation with banking and non-banking customers and to derivatives entered into for hedging risks (such as, for example, forward foreign exchange transactions for intermediation with customers or derivatives linked to the fair value option; therefore, these transactions do not give rise to significant risks as they are balanced).

B. Management processes and measurement methods relative to interest rate and price risk

Interest rate risk - Regulatory trading book

The measurement of interest rate risk on the regulatory trading book, related to the securities component, is supported by the daily reports provided by the Risk Management Department of the Parent Company, which highlights the value at risk of the investment (VaR, Value at Risk). This is calculated with the applications and with the historical method via Riskmetrics, over a ten-day period and with a 99% confidence interval, taking into account the volatilities and correlations between the various risk factors that determine the market risk exposure of the invested portfolio (including interest rate risk, equity risk, foreign exchange risk and inflation risk). The calculation of volatilities and correlations is made by assuming a future distribution of risk factor returns equal to the historical distribution over a given time horizon.

To support the definition of the structure of its internal limits, important strategic choices, or specific analyses, simulations of purchases and sales of financial instruments within its asset allocation are available, obtaining an updated calculation of the new risk exposure in terms of both VaR and effective duration.

The monitoring of market risk exposure is also carried out using the Montecarlo fat-tailed method, which uses a procedure to simulate the returns of risk factors on the basis of past volatility and correlation data, generating 10,000 random scenarios consistent with the market situation. An additional measure introduced to assess market risk is the expected shortfall, calculated with both the historical method and the Montecarlo method.

Additional risk statistics derived from VaR (such as marginal VaR, incremental VaR and conditional VaR), measures of sensitivity of income instruments (effective duration) and analyses linked to the evolution of correlations between the various risk factors present are monitored through reporting.

The analyses are available at different levels of detail: on the entire trading book and within the latter on groupings by type of instrument (Equities, Funds, Fixed Rate and Government, Supranational and Corporate variable rate), up to the individual securities present.

Of particular importance is also the backtesting of the VaR model used daily, carried out on the entire portfolio of securities owned by comparing the VaR - calculated at 99% and over the daily time period - with the actual changes in the theoretical market value of the portfolio.

Daily stress tests are available on the theoretical market value of the own securities portfolio through which changes in the theoretical countervalue of the trading book and the various groupings of instruments (Equities, Funds, Fixed Rate and Government, Supranational and Corporate variable rate) present in it are studied with respect to certain market scenarios. As part of risk management strategies, various scenarios on the bond and equity front are monitored for a complete and improved analysis of the portfolio.

The reports described are monitored by the Risk Management and Finance Departments and periodically submitted to the Boards of Directors.

In addition, an automatic email alert is active if the attention thresholds and/or limits in the internal regulations are exceeded.

The risk measurement model described is not utilised to determine capital requirements but represents a tool to support management and internal control of the risk.

Price risk - Regulatory trading book

In line with the section on interest rate risk - regulatory trading book, the measurement of price risk on the regulatory trading book is supported by the reports provided by the Management Department of the Parent Company, which highlights the value at risk of the investment (VaR). This is calculated with the applications and with the historical method via Riskmetrics, over a ten-day period, and with a 99% confidence interval, taking into account the volatilities and correlations between the various risk factors that determine the market risk exposure of the invested portfolio (interest rate risk, equity risk, foreign exchange risk and inflation risk).

The risk measurement model described is not utilised to determine capital requirements but represents a tool to support management and internal control of the risk.

Information about the VaR calculations for the securities component of the regulatory trading book during the first half of 2021 is reported below:

(Amounts in Euro units)

Value at Risk 30/06/2021	Value at Risk average	Value at Risk minimum	Value at Risk maximum
0	0	0	0

As at 30 June 2021 there were no securities in the trading book, according to the strategic guidelines established by the Parent Company.

Information of a quantitative nature

3. Regulatory trading book: internal models and other methodologies for sensitivity analysis

The measurement of price risk on the banking book is supported by reports provided by the Risk Management Department of the Parent Company, which highlights the value at risk of the investment (VaR). This is calculated using RiskMetrics applications and parametric methodology, over a 10-day period and with a 99% confidence interval, taking into account the volatilities and correlations between the various risk factors that determine the market risk exposure of the invested portfolio (including interest rate risk, equity risk, foreign exchange risk and inflation risk).

The VaR measurement is available daily for monitoring and operational evaluations carried out by the Risk Management and Finance Departments and is calculated on various levels of detail which, in addition to the Total portfolio, consider the Banking portfolio, the business models, the various groupings by type of instrument (Equities, Funds, Fixed Rate and Government, Supranational and Corporate variable rate), up to the individual securities present.

The risk measurement model described is not utilised to determine capital requirements but represents a tool to support management and internal control of the risk.

1.2.2 INTEREST RATE RISK AND PRICE RISK - BANKING BOOK

Information of a qualitative nature

A. General aspects, management processes and measurement methods for interest rate and price risk

Interest rate risk - Banking book

Primary sources of interest rate risk

The sources of the interest rate risk to which the Group is exposed can be identified mainly in the lending, funding and finance processes, since the banking book consists mainly of loans, securities portfolio and the various forms of funding from customers.

In particular, "fair value" interest rate risk (understood as impact on Economic Value) is derived from fixed-rate items while interest rate risk from "cash flows" (understood as impact on marginality) is derived from variable-rate items.

However, items on demand generally include asymmetrical behaviours, depending on whether one considers liability or asset items; the former - being characterised by greater stability - primarily refer to fair value risk while the second are more sensitive to market changes and therefore ascribable to cash flow risk.

Internal management processes and measurement methods for interest rate risk

The Group has put in place appropriate mitigation and control measures aimed at avoiding the possibility of positions exceeding a certain level of objective risk.

These mitigation and control measures are applied within the framework of corporate regulations aimed at setting up monitoring processes based on position limits and systems of attention thresholds in terms of internal capital, beyond which appropriate corrective actions are triggered.

With regard to this point, the following are defined:

- policies and procedures for managing interest rate risk that are consistent with the nature and complexity of the activity carried out;

- measurement metrics consistent with the risk measurement methodology adopted by the Group, on the basis of which an early warning system has been defined that allows for the timely identification and activation of appropriate corrective measures;
- operational limits and internal procedural provisions which aim to maintain exposure within limits that are consistent with the managerial policy and with the alert thresholds pursuant to prudential regulations.

From an organisational point of view, the Group has identified the Finance Department as the structure responsible for overseeing this process of managing interest rate risk on the banking book.

The monitoring of interest rate risk exposure on the banking book is carried out on a monthly basis.

With regard to the risk measurement methodology in terms of change in economic value and change in interest margin, the Group has decided to use the calculation framework provided by the EBA guidelines (GL-2018-02) which is based on the following elements:

- sensitivity analysis to economic value: the calculation engine allows the quantification of the difference in fair value of financial statement items calculated according to the Discounted Cash Flow method using first a base curve (without shock) and then a shocked curve. The reports can be prepared individually or aggregated on the basis of their specific financial characteristics;
- margin sensitivity analysis: the calculation engine allows the quantification of the difference in the interest margin against a specific rate shock scenario, assuming the reinvestment of maturing or rate-revising flows (indexed ratios) at forward rates over a predefined time period (e.g. twelve months);
- treatment of behavioural models: the calculation engine allows behavioural models to be taken into account in the analyses (both value and margin); normally the one for "items on demand" is used.

The Group determines the internal capital for interest rate risk according to the model of the change in economic value shown above, applying an instantaneous and parallel rate shock of +/- 200 basis points.

Additional stress scenarios, as indicated in the relevant legislation, are determined to assess the impacts of non-parallel curve shifts (steepening, flattening, short rates up and down).

The risk indicator is represented in the RAS (Risk Appetite Framework) by the ratio between the internal capital thus calculated and the value of CET1. At consolidated level, the Parent Company monitors the positioning of the Group compared with the threshold of 15% set by the EBA guidelines. If the risk indicator exceeds the thresholds set out in the RAS, the appropriate recovery initiatives are activated.

Price risk - Banking book

In line with the section on interest rate risk - regulatory trading book, the measurement of price risk on the banking book is supported by the reports provided by the Risk Management Department of the Parent Company, which highlights the value at risk of the investment (VaR). This is calculated using RiskMetrics applications and parametric methodology, over a 10-day period and with a 99% confidence interval, taking into account the volatilities and correlations between the various risk factors that determine the market risk exposure of the invested portfolio (including interest rate risk, equity risk, foreign exchange risk and inflation risk).

The VaR measurement is available daily for monitoring and operational evaluations carried out by the Risk Management and Finance Departments and is calculated on various levels of detail which, in addition to the Total portfolio, consider the Banking portfolio, the business models, the various groupings by type of instrument (Equities, Funds, Fixed Rate and Government, Supranational and Corporate variable rate), up to the individual securities present.

The risk measurement model described is not utilised to determine capital requirements but represents a tool to support management and internal control of the risk.

Information about the VaR calculations for the securities component of the banking book during the first half of 2021 is reported below:

(Amounts in Euro units)

Value at Risk 30/06/2021	Value at Risk average	Value at Risk minimum	Value at Risk maximum
318,760,366	369,436,400	316,914,502	471,824,153

Control over the reliability of the model is implemented through theoretical backtesting activities which verify daily changes in the market value of the banking book, as calculated by the model with an estimate of the expected loss for the day. The use of the historical method was introduced in the first half of 2021, starting in April;[22] as of that date, at consolidated portfolio level, the new model did not show any overruns.

The year 2021 saw a continuation, with respect to VaR, of the quantification of issuer risk for government securities and therefore country risk, understood as VaR relating only to the risk factor "Credit Spread", expressed as the spread between the Italian government bond curve and the risk-free curve, understood as the reference monetary curve for each currency in which the bond is denominated. VaR and Expected Shortfall metrics were also introduced, calculated only on the Italian Government bonds segment.

With regard to stress tests, the outcomes of simulations of the impact of different shock scenarios on the theoretical value of the portfolio on 30 June 2021 is reported below. The shocks replicate parallel movements of +/-25 and +/-50 basis points for the primary rate curves that were used in the valuation of securities within the owned portfolio.

[22] The use of the historical method was introduced in the first half of the year, starting from April. The average, minimum and maximum VaR data refer to the period 01/04/2021 - 30/06/2021.

(Amounts in Euro units)

Theoretical value at 30/06/21	Shock value changes -25 bps	Shock value changes +25 bps	Shock value changes -50 bps	Shock value changes +50 bps
36,677,718,806	352,770,125	(337,198,000)	737,322,129	(666,168,169)

Information of a quantitative nature

2. Banking book: internal models and other methodologies for sensitivity analysis

For management purposes, the Group quantifies on a monthly basis the impacts deriving from parallel and non-parallel curve shocks, both for the change in economic value and for the change in the interest margin.

On the basis of the analyses as at 30 June 2021, assuming an change in interest rates of +/-200 basis points, the effects relating to the change in the economic value and in the interest margin are shown, then compared to the value of Own Funds at the end of the year and to the value of the prospective interest margin (the latter calculated over a time period of 12 months and with the assumption of reinvestment of maturing items at the market conditions defined in the forecast scenario). The impacts relating to a scenario of +/- 100 basis points can be reasonably estimated by taking as reference the values shown in the table divided by 2.

(Amounts in Euro units)

CHANGE IN ECONOMIC VALUE	Scenario +200 basis points	Scenario -200 basis points
Banking book: loans	(2,741,087,345)	870,988,430
Banking book: securities	(2,697,891,567)	752,896,549
Other assets	(45,401,056)	9,229,877
Liabilities	4,868,589,855	(1,577,760,455)
Total	(615,790,113)	55,354,402
Own Funds	6,742,027,540	6,742,027,540
% Impact on own funds	-9.13%	0.82%

(Amounts in Euro units)

CHANGE IN INTEREST MARGIN	Scenario +200 basis points	Scenario -200 basis points
Banking book: loans	443,700,425	(64,435,709)
Banking book: securities	180,167,658	(27,723,371)
Other assets	157,403,651	(36,887,566)
Liabilities	(596,745,276)	146,160,189
Total	184,526,458	17,113,543
Prospective interest margin	1,501,776,047	1,501,776,047
Impact % on prospective interest margin	12.29%	1.14%

1.2.3 EXCHANGE RATE RISK

Information of a qualitative nature

A. General aspects, management processes and measurement methods for exchange rate risk

In line with the section on interest rate risk - regulatory trading book, the measurement of exchange rate risk relating to foreign currency income instruments held is supported by the reports provided by the Risk Management Department of the Parent Company, which highlights the value at risk of the investment (VaR). This is calculated using RiskMetrics' applications and parametric methodology, over a ten-day period and with a 99% confidence interval, taking into account the volatilities and correlations between the various risk factors that determine the market risk exposure of the invested portfolio (including interest rate risk, equity risk, foreign exchange risk and inflation risk).

The risk measurement model described is not utilised to determine capital requirements but represents a tool to support management and internal control of the risk.

B. Exchange rate risk hedging activities

Exchange rate risk hedging activities are implemented through a careful policy of essentially balancing booked foreign currency positions. To this end, in the first half of 2021 the Group carried out transactions to hedge the exchange rate risk using outright derivatives.

1.4 LIQUIDITY RISK

Information of a qualitative nature

A. General aspects, management processes and measurement methods for liquidity risk

Liquidity risk is defined as the possibility that the Group may not be able to meet its payment commitments due to the inability to raise new funds and/or sell its assets on the market (Funding Liquidity Risk), or that it may be forced to incur very high costs to meet these commitments (Market Liquidity Risk). Funding Liquidity Risk, in turn, can be distinguished between: (i) Mismatching Liquidity Risk, consisting of the risk associated with the different time profile of cash inflows and outflows determined by the misalignment of the maturities of financial assets and liabilities on (and off) the balance sheet; (ii) Contingency Liquidity Risk, i.e. the risk that unexpected events may require a higher amount of cash and cash equivalents than estimated as necessary; and (iii) Margin Calls Liquidity Risk, i.e. the risk that the Group, in the event of adverse changes in the fair value of financial instruments, is contractually required to restore the reference margins by means of collateral/cash margins.

In this regard, it should be noted that the Delegated Regulation of the European Commission (EU) no. 61/2015 introduced the Liquidity Coverage Requirement (LCR) for credit institutions (hereinafter "DR-LCR"). The LCR is a short-term rule aimed at ensuring the availability of liquid assets by individual banks that allow them to survive in the short to very short term in the event of acute stress, without recourse to the market. The indicator compares the liquid assets available to the Group with net cash outflows (difference between gross outflows and inflows) expected over a 30-day time period, the latter developed taking into account a predefined stress scenario. The DR-LCR entered into force on 1 October 2015 and, after a phasing-in from 1 January 2018, a 100% requirement must be met. The DR-LCR integrates and, in part, amends the provisions of Regulation no. 575/2013 (CRR) which provides only for obligations of a reporting nature.

Liquidity risk can be generated by various factors both internal and external to the Group. The sources of liquidity risk can therefore be distinguished in the following macro-categories:

- endogenous: represented by negative events specific to the Group (e.g. deterioration of the Group's creditworthiness and loss of confidence on the part of creditors);
- exogenous: when the origin of the risk can be traced back to negative events not directly controllable by the Group (political crises, financial crises, catastrophic events, etc.) that cause situations of liquidity tension in the markets;
- combinations of the above.

The identification of the factors from which liquidity risk is generated is carried out by means of the following:

- the analysis of the time distribution of cash flows of financial assets and liabilities and off-balance sheet transactions;
- the identification of:
    - items that do not have a defined due date (on demand and revocation items);
    - financial instruments that incorporate optional components (explicit or implicit) that may change the entity and/or the time distribution of cash flows (e.g. early redemption options);
    - financial instruments that by their nature determine variable cash flows depending on the performance of specific underlying assets (e.g. derivatives);
- the analysis of the level of seniority of financial instruments.

The processes in which the Group's liquidity risk arises are mainly represented by the Finance/Treasury, Funding and Credit processes.

The internal regulation of liquidity risk management meets the requirements set out in the supervisory provisions and guarantees consistency between the management measurements and the regulatory ones.

The Group adopts a liquidity risk management and governance system which, in accordance with the provisions of the Supervisory Authorities and on the basis of the guidelines defined by the Parent Company, pursues the objectives of:

- being liquid at all times and, therefore, to remain in a position to meet its payment obligations in situations of both normal business and stress;
- financing its activities at the best current and prospective market conditions.

To this end, in its function as a strategic supervisory body, the Board of Directors of the Parent Company and of each Affiliated Bank defines the strategies, policies, responsibilities, processes, risk objectives, tolerance thresholds and limits to exposure to liquidity risk (operating and structural), as well as instruments for liquidity risk management - related to membership of the Cooperative Banking Group - by formalising its internal regulations on liquidity risk management and governance.

The Group's liquidity is managed by the Finance Department of the Parent Company and the Affiliated Banks in accordance with the aforementioned strategic guidelines. To this end, it makes use of the commitment forecasts made through internal procedures where information on forecast cash requirements and availability can be found. The organisational controls of liquidity risk are defined in terms of line controls and activities of the control functions at level II and III. Liquidity risk is controlled by the Risk Management Department of the Parent Company, which makes use of its representative at the Affiliated Banks to check the availability of sufficient liquidity reserves to ensure solvency in the short term and diversification of sources of funding and, at the same time, to maintain a substantial balance between average maturities of lending and funding in the medium/long term.

The Group intends to pursue a dual objective:

- the management of operating liquidity aimed at verifying the Group's ability to meet expected and unforeseen short-term (up to 12 months) cash payment commitments;
- structural liquidity management aimed at maintaining an adequate ratio between total liabilities and medium/long-term assets (over 12 months).

The Group has structured its control of short-term operating liquidity on two levels:

- the first level provides for daily supervision of the treasury position;
- the second level provides for monthly monitoring of the overall operating liquidity position.

With reference to the monthly monitoring of the overall operating liquidity position, the Group uses the analysis reports available monthly prepared by the Parent Company.

Monthly measurement and monitoring of the operating liquidity position is carried out by means of the following methods:

- the LCR indicator, for the 30-day liquidity position, as determined on the basis of the DR-LCR and transmitted (according to the template developed by the EBA) on a monthly basis to the Supervisory Authority;
- its liquidity position by means of the time to survival indicator, designed to measure the ability to cover the liquidity imbalance generated by inertial operations of balance sheet items;
- a set of summary indicators aimed at highlighting vulnerabilities in the Group's liquidity position in reference to the degree of concentration of loans and deposits with the main counterparties;
- analysis of the level of asset encumbrance and quantification of readily monetised assets.

In particular, as regards the concentration of funding sources at the reporting date, the incidence of funding from the top 10 counterparties (private and non-financial companies) on the Group's total funding from customers is 0.7%.

The Group's exposure to unexpected cash outflows mainly relates to:

- items that do not have a defined maturity (primarily current account liabilities and unrestricted deposits);
- liabilities at maturity (certificates of deposit, term deposits) which, at the request of the depositor, can be repaid early;
- its own bonds, for which the Group operates in order to guarantee liquidity on the secondary market;
- commitments to exchange collateral arising from margining agreements relating to OTC derivative transactions;
- the margins available on the credit lines granted.

With reference to the management of structural liquidity, the Group uses the analysis reports available monthly prepared by the Parent Company.

The Net Stable Funding Ratio, consisting of the ratio between stable sources of funding and medium/long-term assets, is measured monthly from reporting and management sources by means of the percentages set out in the EU Regulation 2019/876 (CRR2) as of 30 June 2021.

In order to assess its vulnerability to exceptional but plausible liquidity stress situations, the Group calculates and monitors the LCR indicator as determined on the basis of the DR-LCR and transmitted (according to the template developed by the EBA) on a monthly basis to the Supervisory Authority. Periodic scenario stress tests are also conducted. The latter, conducted according to a qualitative approach based on the company's experience and the indications provided by the regulations and supervisory guidelines, cover two scenarios of liquidity, market/systemic and Group-specific crises. In particular, the Group performs the stress analysis by extending the scenario covered by the LCR regulation, with the aim of assessing the impact of additional load tests.

During 2020, an additional scenario linked to the pandemic crisis was also introduced, which envisages the reduction of the inflow components compared to the standard ones to take into account the effect of the moratoria. The Group has also proved resilient in the face of this new scenario.

The results of the analyses carried out are periodically documented to the Board of Directors.

On the basis of the guidelines defined by the Parent Company, crisis, system/market early warning indicators have been identified, i.e. a set of qualitative and quantitative measurements useful for identifying signs of a potential increase in exposure to liquidity risk. These indicators represent, together with the results of liquidity risk measurement, an important information element for the activation of liquidity risk mitigation measures.

With regard to the Contingency Funding Plan (CFP), i.e. the organisational and operational procedures to be implemented to deal with situations of alert or liquidity crisis, it should be noted that management is centralised at the Parent Company; it follows that in the event of any critical issues regarding the liquidity profile encountered at the level of individual banks belonging to the Group, it is the Parent Company that intervenes using the resources available to the entire Group. The CFP is therefore only activated if there is a problem with the consolidated values of the Cassa Centrale Group. The Group's CFP defines the statuses of non-ordinary operations and the processes and tools for their activation/management (roles and responsibilities of the corporate bodies and organisational units involved, systemic and specific crisis early warning indicators, procedures for monitoring and activating non-ordinary operations, crisis management strategies and tools).

Traditionally, the Group has had a significant amount of liquid resources due to both the composition of its liquidity buffer, consisting mainly of high-quality financial instruments eligible for refinancing operations with the Eurosystem, and the adoption of funding policies aimed at favouring direct retail funding.

At the reporting date of the 2021 half-yearly financial statements, the total amount of free cash reserves, understood as high-quality liquid assets calculated for the purposes of determining the Liquidity Coverage Ratio (LCR), stood at EUR 23.7 billion.

1.5 OPERATIONAL RISKS

Information of a qualitative nature

A. General aspects, management processes and measurement methods for operational risk

Operational risk, as defined by prudential regulations, is the "risk of sustaining losses deriving from the inadequacy or dysfunction of procedures, human resources and internal systems or those caused by exogenous events".

This definition includes legal risk (i.e. the risk of suffering losses resulting from violations of laws or regulations, contractual or non-contractual liability or other disputes), but does not consider reputational and strategic risk.

Operational risk therefore refers to different types of events that are not individually relevant and are quantified jointly for the entire risk category.

Operational risk - which is inherent in the performance of banking activities - is generated across all company processes. In general, the primary sources of operational risk are internal fraud, external fraud, employment relationships and workplace safety, professional obligations with respect to clients or the nature and characteristics of products as well as damages from external events and the failure of IT systems.

The following subcategories of risk are significant in terms of operational risks, as set out in the same supervisory instructions:

- IT risk, i.e. the risk of incurring economic losses, reputation and market share losses in relation to the use of Information and Communication Technology (ICT);
- outsourcing risk, i.e. the risk associated with the choice to outsource the performance of one or more business activities to third-party suppliers.

Given that it is a transversal risk across processes, operational risk can be controlled and mitigated through currently effective regulations (regulations, executive provisions, proxies) which operate primarily for the purposes of prevention. Specific line controls are then set up on the basis of these regulations as a verification and additional system for monitoring this type of risk.

Currently effective regulations are also applied to IT procedures with the aim of constantly monitoring the correct assignment of authorisation as well as compliance with functional subdivisions on the basis of company roles.

Regulations and line controls are governed by the Board of Directors, implemented by the Management and updated, as a rule, by specialist managers.

With reference to organisational controls, the establishment of the Compliance function is important, outsourced to the Parent Company, which is responsible for monitoring and controlling compliance with regulations and which provides support to the process of preventing and managing the risk of being subject to judicial or administrative sanctions as well as the risk of reporting significant losses following the violation of external regulations (laws or regulations) or internal ones (Articles of Association, codes of conduct, corporate governance codes). The Compliance Department also operates through its own representatives identified within the individual Group banks.

In addition, second-level controls are envisaged regarding the checks on the risks associated with the management of the IT system and the operations of employees.

The operational risk management process consists of the following steps:

- **identification and assessment**, which includes the detection, collection and classification of quantitative and qualitative information relating to operational risk; these risks are constantly and clearly identified, reported and relayed to top management;

- **measurement**, which includes the activity of determining operational risk exposure based on information collected at the identification stage;
- **monitoring and control**, which includes activities concerning the regular monitoring of the operational risk profile and exposure to significant losses, through the provision of a regular information flow that promotes active risk management;
- **risk management**, which includes activities aimed at containing operational risk consistently with the established risk appetite, implemented by intervening on significant risk factors or through their transfer, through the use of insurance coverage or other instruments;
- **reporting**, activities aimed at preparing information to be transmitted to corporate bodies (including control bodies) and to all corporate structures involved, regarding the risks assumed or assumable.

During the period, the Group, under the coordination of the Parent Company, has implemented a procedure for the recognition of operational loss events and the related economic effects.

Finally, there are the third level controls carried out by the Internal Audit Department of the Parent Company, which periodically reviews the functionality of the control system as part of the various corporate processes.

As part of the overall assessment, with specific reference to the risk component linked to the outsourcing of business processes/activities, it should be noted that the Group mainly uses the services offered by the Parent Company and its instrumental companies. These circumstances constitute a mitigation of the risks assumed by the Group in outsourcing important control or operational functions.

With regard to all the existing outsourcing profiles, the procedures have been activated to ascertain the correct performance of the supplier's activities by preparing, according to the different types, different levels of contractual protection and control with regard to the list of outsourcing of important operational functions and corporate control functions.

The Group internally maintains the expertise required to effectively control the outsourced important operational functions (hereinafter also "IOF") and to manage the risks associated with outsourcing, including those arising from potential conflicts of interest of the service provider. In this context, an internal contact representative has been identified within the organisation for each of the outsourced activities, with adequate professional requirements, responsible for monitoring the level of services provided by the outsourcer and set out in the respective outsourcing contracts and for reporting to corporate bodies on the status and performance of the outsourced functions.

With reference to the regulatory measurement of the prudential requirement for operational risks, the Group, in view of its organisational, operational and dimensional profiles, has approved the application of the Basic Indicator Approach (BIA).

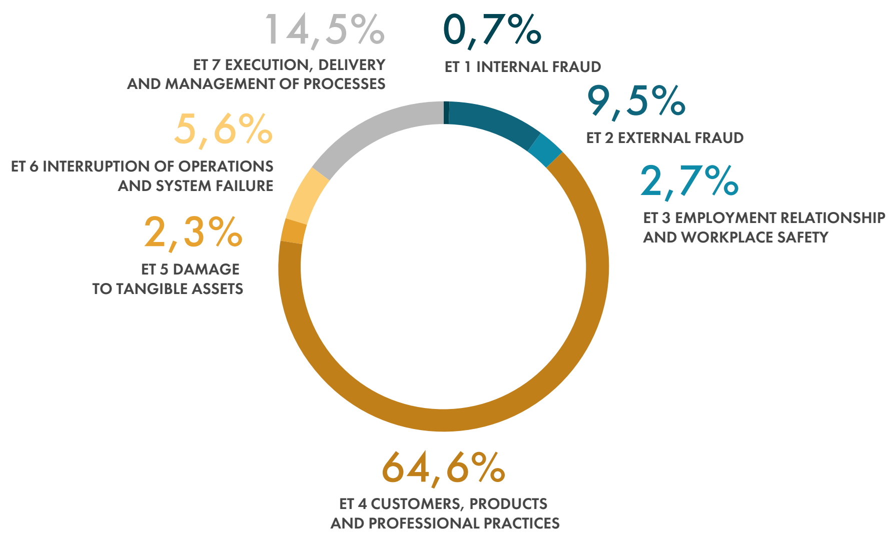
On the basis of this methodology, the capital requirement for operational risks is measured by applying the regulatory coefficient of 15% to the average of the last three data recordings - on an annual basis - of an indicator of the volume of corporate operations (so-called relevant indicator, referring to the end of the period).

If one of the observations shows that the relevant indicator is negative or zero, this figure shall not be taken into account in the calculation of the three-year average.

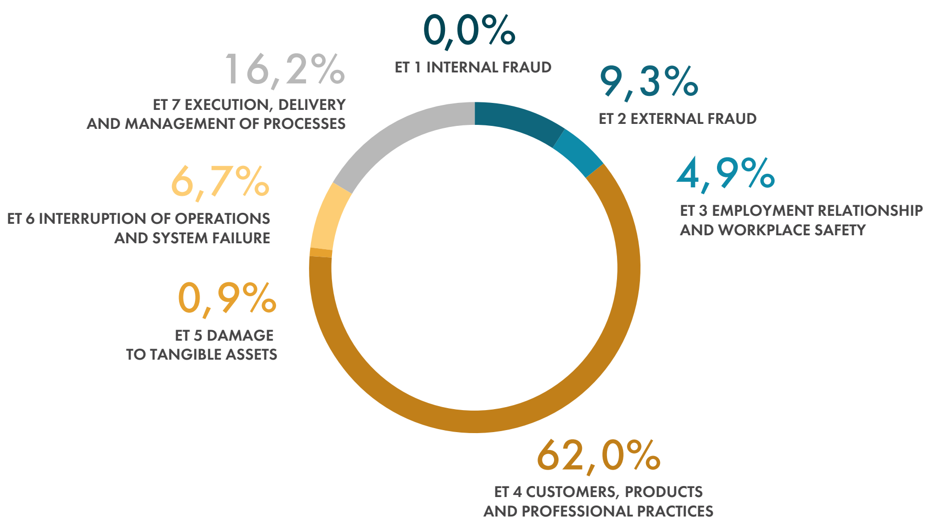
Information of a quantitative nature

With reference to the quantitative information, in continuation of the activity already started last year, in relation to the structured process of Loss Data Collection at the Group[23], the distribution by Event Type is reported.

Number of operational loss events with effects recognised in the first half of 2021



et operational losses recognised in the first half of 2021



[23] As at 30 June 2021, the process of recording Operational Risk events in the Loss Data Collection company tool was active for the Affiliated Banks, Allitude (limited to the Covid-19 event) and Claris Leasing.

Operational losses were mainly concentrated in the event type "ET 4 Customers, products and professional practices" (64.6% of frequencies and 62% of total impacts detected), followed by "7 Execution, delivery and management of processes" (14.5% of frequencies and 16.2% of total impacts detected) and "ET 2 External fraud" (9.5% of frequencies and 9.3% of total impacts detected).

The Covid-19 pandemic event had an impact of 6% on total operational losses. The losses concerned primarily the purchase of masks, gloves, protection and sanitation devices, sanitation and extraordinary cleaning of the work areas. Among the effects generated by the Covid-19 pandemic, we note:

- paid leave (non-contractual): recognition of paid leave, in addition to that envisaged by the CCNL;
- other costs, included in the 2021 budget, not considered operational losses but expenses necessary to allow business continuity.

Legal risk

In carrying out their activities, the Group companies may be involved in legal disputes and proceedings. For these disputes and proceedings, adequate provisions have been made in the financial statements based on the reconstruction of the amounts potentially at risk, the assessment of the risk carried out according to the degree of "probability" and/or "possibility" as defined by IAS 37 and taking into account the most consolidated case law on the subject. Therefore, although it is not possible to predict with certainty the final outcome, it is believed that any unfavourable result of these proceedings would not have, either individually or as a whole, a significant negative effect on the financial and economic situation of the Group. For more detailed information, please refer to Part B, Section 10 – Provisions for risks and charges.

PART F - Information on consolidated equity

Section 1 – Consolidated equity

Information of a qualitative nature

Equity is the main safeguard against corporate risks associated with the Group's activities. It represents a fundamental reference parameter for solvency assessments, conducted by the Supervisory Authorities and by the market, and is the best element for effective management, both from a strategic point of view and in terms of current operations, as it is a financial element capable of absorbing possible losses produced by the Group's exposure to all the risks assumed. In addition, it also plays an important role in terms of guaranteeing depositors and creditors in general.

To this end, the international and local supervisory bodies have established strict requirements for determining the regulatory capital and the minimum capital requirements that credit institutions must comply with.

The capital to which the Group refers is that defined by EU Regulation no. 575/2013 (CRR) in the notion of Own Funds and is divided into the following components:

- Tier 1 capital, consisting of Common Equity Tier 1 capital (CET 1) and Additional Tier 1 capital (AT1);
- Tier 2 capital – (T2).

In this, particular importance is represented by:

- a careful profit distribution policy, which in compliance with the provisions of the sector, entails a significant allocation to the profit reserves by the Affiliated Banks;
- prudent management of investments, which takes into account the risk of counterparties;
- the capital strengthening plans promoted by the Parent Company through the issue of equity instruments and subordinated securities.

All this is pursued within the scope of compliance with capital adequacy by determining the level of internal capital necessary to face the risks assumed, from a current and future perspective, as well as in stressful situations, and taking into account the company objectives and strategies in the contexts in which the Group operates. These assessments are carried out annually in conjunction with the definition of the budget objectives and, if necessary, in view of extraordinary transactions involving the Group companies.

Moreover, at least every quarter, compliance with the minimum capital requirements, envisaged by the provisions in force, as per Art. 92 of the CRR shall be verified, based on which:

- the value of Common Equity Tier 1 capital in relation to total risk-weighted assets must be at least 4.5% (CET1 capital ratio);

- the value of Tier 1 capital in relation to total risk-weighted assets must be at least 6.0% (T1 capital ratio);
- the value of own funds in relation to total risk-weighted assets must be at least 8.0% (Total capital ratio).

The Capital Conservation Buffer of 2.5% was added to these minimum regulatory requirements.

Any failure by the Supervised Entity to comply with all these requirements (the Combined Requirement) will result in limitations on dividend distributions, variable remuneration and other elements of regulatory capital beyond pre-established limits, and as a result, Supervised Entities will be required to take appropriate action to restore the required level of capital.

Moreover, as of 1 January 2016, the Banks are required to hold a Coutercyclical Capital Buffer. Starting from 1 January 2019, this reserve, consisting of Common Equity Tier 1, may not exceed 2.5% of the total amount of risk-weighted exposures.

Considering that, as per Bank of Italy notice of 26 March 2021, for the second quarter of 2021, the countercyclical buffer ratio for exposures to counterparties resident in Italy has been set at 0%, that countercyclical capital ratios have generally been set at 0%, and that the Group has mainly exposures to domestic entities, the Group-specific countercyclical ratio is close to zero.

Lastly, the Group must comply with the provisions deriving from the Supervisory Review and Evaluation Process (SREP) pursuant to Art. 97 et seq. of EU Directive no. 36/2013 (CRD IV). Through this process, the Competent Authority reviews and evaluates the process of determining capital adequacy conducted internally by the Group, analyses its risk profiles both individually and in the aggregate — including under stress conditions – assesses its contribution to systemic risk, the corporate governance system, and verifies compliance with the set of prudential rules.

The European Central Bank, in line with the EBA statement of 22 April 2020 and as communicated on 12 May 2020, adopted a pragmatic approach with regard to the SREP process, which in particular concerns the ability of banks to cope with the difficulties generated by the pandemic environment and its impact on current and future risk profile. For this reason, the ECB, in line with what it did for 2020, did not intend to adopt a new SREP decision for the 2021 cycle, applying the same requirements set out in the 2019 SREP decision, which was communicated to the Group in a letter dated 25 November 2019.

Furthermore, in relation to this aspect, it should be noted that as part of the support measures issued by the authorities in response to the health emergency resulting from the Covid-19 pandemic, the ECB, with the press release of 12 March 2020 “ECB Banking Supervision provides temporary capital and operational relief in reaction to Coronavirus” allowed banks to operate temporarily below the capital levels defined by the Pillar 2 Guidance, the Capital Conservation Buffer (CCB) and the Liquidity Coverage Ratio (LCR).

At the reporting date of these condensed consolidated half-yearly financial statements, the Group shows:

- a ratio of Common Equity Tier 1 capital - CET1 - to risk-weighted assets (CET 1 ratio) of 20.90%;
- a ratio of Tier 1 capital to risk-weighted assets (Tier 1 capital ratio - Tier 1 ratio) of 20.92%;
- a ratio of own funds to risk-weighted assets (total capital ratio) of 20.94%.

The amount of own funds is not only fully sufficient on all three binding capital levels, but also adequate to cover the Capital Conservation Buffer.

Information of a quantitative nature

B.1 Consolidated accounting capital: breakdown by type of company

ITEMS OF EQUITY	Prudential consolidation	Insurance companies	Other companies	Eliminations and consolidation adjustments	Total
1. Capital	1,279				1,279
2. Share premium	72				72
3. Reserves	6,128		87	(87)	6,128
4. Equity instruments	6				6
5. (Own shares)	(866)				(866)
6. Valuation reserves:	33	-	1	(1)	33
- Equities measured at fair value through other comprehensive income	(59)				(59)
- Hedging of equities measured at fair value through other comprehensive income					-
- Financial assets (other than equities) measured at fair value through other comprehensive income	71		1	(1)	71
- Tangible assets	4				4
- Intangible assets					-
- Hedging of foreign investments					-
- Cash flow hedging					-
- Hedging instruments [non designated elements]					-
- Exchange rate differences					-
- Non-current assets and groups of assets held for disposal					-
- Financial liabilities measured at fair value through profit or loss (changes in credit rating)					-
- Actuarial gains (losses) from defined benefit plans	(19)				(19)
- Quotas of valuation reserves relative to shareholdings measured with the equity method	2				2
- Special revaluation laws	34				34
7. Profit (Loss) for the year (+/-) of the group and pertaining to minority interests	307		2	(2)	307
Total	**6,959**	**-**	**90**	**(90)**	**6,959**

Section 2 - Own funds and adequacy ratios

With regard to the contents of this section, reference should be made to the information on own funds and capital adequacy contained in the disclosure to the public (so-called Third Pillar), prepared in accordance with Regulation (EU) no. 575/2013 of 26 June 2013 (CRR).

PART H - Transactions with related parties

The Cassa Centrale Group, in compliance with the procedures provided for by sector regulations, has adopted the Group Regulation for the management of transactions with associated parties.

The aforementioned Regulation, which takes into account the provisions of Bank of Italy Circular no. 285 of 17 December 2013 and subsequent updates, is intended to govern the identification, approval and execution of Transactions with Associated Parties carried out by the Group, as well as the organisational structure and internal control system that the Group uses in order to preserve the integrity of decision-making processes in Transactions with Associated Parties, ensuring constant compliance with the prudential limits and decision-making procedures established by the aforementioned Bank of Italy Circular.

For more strictly accounting purposes, the provisions of IAS 24 - Related party disclosures also apply; under the Cassa Centrale Group's internal regulations, the following are identified as related parties:

Natural persons:

- executives with strategic responsibilities (including Directors) of the entity preparing the financial statements:
    - executives with strategic responsibilities are those who retain powers and responsibilities, directly or indirectly, pertaining to the planning, management and control of the Company's activities;
- the immediate family members of "executives with strategic responsibilities":
    - close family members of a person are those family members who are expected to influence, or be influenced by, that person in their dealings with the entity, including:
        - the children and the spouse (even if legally separated) or cohabitant of that person;
        - the children of that person's spouse or cohabitant;
        - the dependants of that person or of that person's spouse or cohabitant;
        - the brothers, sisters, parents, grandparents and grandchildren – even if not living together – of that person;
- person who has significant influence over the entity preparing the financial statements.

Legal persons:

- entity who has significant influence over the entity preparing the financial statements;
- entity over which a person identified in the previous paragraph (natural persons) has significant influence or is one of the executives with strategic responsibilities of the same (or one of its parent companies);
- entity that has control or joint control over the entity which drafts the financial statements;
- entity controlled or jointly controlled by one of the entities referred to in the previous point (natural persons);
- the companies/BCC belonging to the Cassa Centrale Group (controlled and directly and/or indirectly jointly controlled);
- associates and joint ventures and their subsidiaries;
- entity that is part of a joint venture of another entity and the entity that prepares the financial statements is an associate of the other entity;
- post-employment benefit plans for employees of the Group or a related entity.

1. Information on compensation of executives with strategic responsibilities

Executives with strategic responsibilities are those which retain powers and responsibilities, directly or indirectly, pertaining to the planning, management and control of the Company's activities.

The table below shows, in compliance with the requirements of IAS 24, paragraph 17, the amount of compensation paid during the year to the members of the Management and Control Bodies as well as the compensation relating to other Executives with strategic responsibilities that fall within the notion of related party.

	MANAGEMENT BODIES		CONTROL BODIES		OTHER MANAGERS		TOTAL 30/06/2021	
	Amount pertinent	Amount paid	Amount pertinent	Amount paid	Amount pertinent	Amount paid	Amount pertinent	Amount paid
Salaries and other short-term benefits	10	6	4	2	19	17	33	25
Benefits relative to the post-employment period (social security, insurance, etc.)	1	1	-	-	3	3	4	4
Other long-term benefits	-	-	-	-	-	-	-	-
Compensation for termination of employment	-	-	-	-	-	-	-	-
Payments in shares	-	-	-	-	-	-	-	-
Total	**11**	**7**	**4**	**2**	**22**	**20**	**37**	**29**

2. Information on transactions with related parties

The table below provides information on the balance sheet and income statement transactions with related parties during the period. It should be noted that transactions with related parties consolidated on a line-by-line basis are not included in this disclosure, as they are eliminated at consolidated level.

	Assets	Liabilities	Guarantees issued	Guarantees received	Revenues	Costs
Associates	99	14	5	24	7	9
Directors and Executives	30	78	10	111	1	5
Other related parties	252	362	34	650	4	1
Total	**381**	**454**	**49**	**785**	**12**	**15**

It should be noted that "Other related parties" include the close relatives of Directors, Statutory Auditors and other Executives with strategic responsibilities, as well as subsidiaries, jointly-controlled companies and associates of the same parties or their close relatives.

Relations and transactions with related parties are attributable to ordinary credit and service activities and have normally developed during the year according to contingent needs or benefits, in the common interest of the parties. The conditions applied to individual relationships and transactions with such counterparties do not differ from current market conditions, or are aligned, if the conditions are met, with the conditions applied to employees.

Transactions with related parties do not have a significant incidence on the financial situation, economic result and cash flows of the Group.

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

Deloitte.

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REPORT ON REVIEW OF THE CONDENSED CONSOLIDATED HALF-YEARLY FINANCIAL STATEMENTS

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

Introduction

We have reviewed the accompanying condensed consolidated half-yearly financial statements of Cassa Centrale Banca – Credito Cooperativo Italiano S.p.A. and subsidiaries (the "Cassa Centrale Banca Credito Cooperativo Italiano Cooperative Banking Group"), which comprise the consolidated balance sheet as of June 30, 2021 and the consolidated income statement, statement of consolidated comprehensive income, statement of changes in consolidated equity and consolidated cash flow statement for the six-month period then ended, and the related explanatory notes. The Directors are responsible for the preparation of the condensed consolidated half-yearly financial statements in accordance with the International Accounting Standard applicable to the interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on the condensed consolidated half-yearly financial statements based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated half-yearly financial statements of the Cassa Centrale Banca Credito Cooperativo Italiano Cooperative Banking Group as at June 30, 2021 are not prepared, in all material respects, in accordance with the International Accounting Standard applicable to the interim financial reporting (IAS 34) as adopted by the European Union.

Deloitte.

Other Matters

The consolidated financial statements of the Cassa Centrale Banca Credito Cooperativo Italiano Cooperative Banking Group for the period ended as of December 31, 2020 and the condensed consolidated half-yearly financial statements as of June 30, 2020 have been respectively audited and reviewed by other auditors that on April 15, 2021 and on December 2, 2020 expressed an unmodified opinion and an unmodified conclusion on those consolidated financial statements.

DELOITTE & TOUCHE S.p.A.

Signed by
Enrico Gazzaniga
Partner

Milan, Italy
October 15, 2021

This report has been translated into the English language solely for the convenience of international readers.

Cassa Centrale Banca - Credito Cooperativo Italiano S.p.A.

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