2020 Reports and Financial Statements

DEPObank
BANCA DEPOSITARIA ITALIANA

Contents

Boards and officers

At 17/02/2021

BOARD OF DIRECTORS

Chairman	Paolo Mario Tadini
Deputy Chairman	Pier Paolo Cellerino
Chief Executive Officer	Paolo Testi
Directors	Fabio Calì Giovanni Camera Rosa Cipriotti Francesco Colli Umberto Colli Ottavio Rigodanza Ezio Simonelli Paolo Vagnone

BOARD OF STATUTORY AUDITORS

Chairman	Gianluigi Fiorendi
Standing Auditors	Lorenzo Banfi Paolo Francesco Maria Lazzati
Alternate Auditors	Andrea Brambilla Gianluca Pozzi

GENERAL MANAGEMENT

General Manager	Paolo Testi

Convocation of Shareholders’ Meeting

The Shareholders are called to the Ordinary Shareholders' Meeting at the Marchetti notary’s office at Via Agnello 18, Milan, on 4 March 2021 at 3 p.m. in first call and, if necessary, on 5 March 2021, in second call, at the same place and same time, to discuss the following

AGENDA

1. Financial Statements at 31 December 2020; Board of Directors’ Report on Operations; Reports of the Board of Statutory Auditors and Independent Auditors; related resolutions.
2. DEPObank remuneration policies; 2020 final financial statements; related resolutions.

It should be noted that the documentation relating to the item on the agenda is made available to shareholders, in accordance with the law, at the registered office. Shareholders may obtain a copy thereof.

In compliance with the measures introduced by Decree Law no. 18 of 17 March 2020, published in the Official Gazette (ordinary series) no. 70 of 17 March 2020 on measures to enhance the national health service and provide financial support for families, workers and businesses in relation to the COVID-19 crisis (the so-called "Cure Italy" Decree), and by Decree Law no. 183 of 31 December 2020, published in the Official Gazette (ordinary series) no. 323 of 31 December 2020, the Shareholders’ Meeting will be held by means of telecommunications systems capable of ensuring that attendees are identified, can participate and can exercise their voting rights, pursuant to and for the purposes of Articles 2370 (4), 2479-bis (4) and 2538 (6) of the Italian Civil Code.

Sincerely,

DEPObank S.p.A.
The Chairman

DEPObank

BANCA DEPOSITARIA ITALIANA

2020 Reports and Financial Statements

DEPObank

BANCA DEPOSITARIA ITALIANA

BANKING GROUP STRUCTURE

As at 31 December 2020, the composition of the Banking Group that emerged on 20 January 2020 is as follows:

- DEPObank - Banca Depositaria Italiana S.p.A., Parent Company listed in the Register of Banks;
- Cara Services GmbH, a special purpose company under German law that is wholly owned by the Parent Company.

SCOPE OF CONSOLIDATION

The scope of consolidation of the financial statements of the DEPObank Group as at 31 December 2020 includes, in addition to the Banking Group companies, the company Unione Fiduciaria S.p.A., an investee company which the Parent Company has a 24% stake in, corresponding to 24.59% of voting rights given the own shares held by the company.

SCOPE OF PRUDENTIAL CONSOLIDATION

Equinova UK Holdco Ltd. is at the top of the scope of prudential consolidation.

The structure includes the companies in the Banking Group's scope of consolidation.

DEPObank
BANCA DEPOSITARIA ITALIANA

Board of Directors' Report on Operations

Board of Directors' Report on Operations

Shareholders,

2020 saw the adoption and execution of the path that led to the Extraordinary Shareholders' Meeting held on 27 January 2021 resolving on the merger by incorporation of DEPObank S.p.A. into Banca Farmafactoring S.p.A. (BFF), as part of a wider transaction involving the prior (although virtually simultaneous) transfer of control of Your Bank from Equinova UK Holdco Ltd to the acquiring company, a transfer scheduled for 1 March 2021.

The year also saw the creation of the DEPObank Banking Group following the January 2020 acquisition of 100% of the German company Cara Services GmbH, which together with the Parent Company completes the structure of the Banking Group.

The acquisition of Cara Services was part of the execution of DEPObank's "2019-2023 Strategic Plan" ("DEPObank: the Italian FinTech Multispecialist") (the "Strategic Plan"), approved by the Bank's Board of Directors on 21 February 2019.

The company events affecting the Parent Company resulted in:

- the abandonment of the plan to create a new SME Lending Business Unit (the so-called "Vesta Project"), a cornerstone of development and of the new asset-side strategy included in the Strategic Plan (albeit a strategy that should still be achieved in a broadly similar manner through the merger with BFF);
- a review of the strategies and purpose of retaining a stake in Cara Services, the outcome being to initiate a plan to dispose of said stake (to be completed before control of the Bank is transferred to BFF).

In the Parent Company's separate financial statements at 31 December 2020, the stake in Cara Services was therefore classified under "Non-current assets held for sale and disposal groups" pursuant to IFRS 5, the Board having determined the existence of the criteria for such a classification in its meeting held on 17 December 2020. The Banking Group's consolidated financial statements also classified the investee company's assets and liabilities in compliance with the aforementioned IFRS 5.

Even against this background, made all the more complex by the spread of the COVID-19 pandemic, the activities of the Bank's two traditional Business Units (Securities Services and Banking Payments) were managed normally, producing results that, although lower than the annual targets set pre-COVID, are satisfactory and can be summarised as follows:

- Custodian Bank assets under management (AUM) of €75.7 billion at the end of the year, up by 7.3% on the 2019 closing figure (having fallen to €63.9 billion during March due to how the value of financial assets was affected by the pandemic);

- 562 million payment orders during the year, down by 9.2% compared with 2019, with dynamics affected by the different scales of lockdown interventions in the various phases of the pandemic (there was a drop of nearly 30% in April);
- commission revenues broadly in line (-2.6%) with those of 2019.

Nevertheless, the Parent Company's financial statements that we propose for your approval show a loss for the year of €35.8 million, strongly influenced by the economic impacts deriving in particular from the sale/termination of certain assets/contracts, related to the commitments assumed by the controlling shareholder and by the Bank for the implementation of the aforementioned merger with Banca Farmafactoring.

At a consolidated level, the Banking Group saw a loss for the year of €35.9 million due to a €0.2 million decrease in the value of the associate Unione Fiduciaria's shareholders' equity.

THE INTERNATIONAL ECONOMY

In 2020, the global economy faced a sharp contraction triggered by the COVID-19 pandemic. Over 83 million people were infected and 1.8 million died during the year.

The virus, which began in China, gradually spread from one continent to another as early as the first quarter, forcing national governments to intervene with measures restricting social life and economic activity in order to contain losses of life. Despite the extraordinary stimulus measures launched by the main central banks and the aforementioned governments, it was not possible to avoid a global recession, with GDP contracting by 3.5% (from +2.8% in 2019).

Demand from households and businesses has fallen sharply, with the former having been forced to drastically reduce purchases of services and having used the unspent money to considerably increase savings on the one hand and to increase consumption of goods on the other. This explains why the tertiary sector collapsed in all major countries, while the fall in manufacturing production was relatively small and lower than that witnessed during previous recessions.

GDP fell by 3.5% (from +2.2% the previous year) in the United States, by 5.3% (from +0.3%) in Japan and by 7.2% (from +1.3%) in the euro area. The recession has caused a general rise in unemployment rates, particularly in the United States (from 3.7% to 8.1%), where it is easier for companies to lay people off, but also in Japan (from 2.4% to 2.8%) and in the eurozone (from 7.6% to 8.0%), where temporary measures have been introduced to protect jobs.

Global inflation declined from 3.5% to 3.2%, reflecting the slowdown in service prices and the decline in oil prices, with the sharpest declines occurring in the biggest countries. Specifically, the rise in consumer prices fell from 1.8% to 1.2% in the US, from 0.5% to 0.0% in Japan and from 1.2% to 0.3% in the euro area. Excluding the more volatile energy and food prices, it fell from 2.2% to 1.7% in the United States, from 0.4% to -0.1% in Japan and from 1.0% to 0.7% in the eurozone.

THE ITALIAN ECONOMY

The pandemic affected Italy severely in 2020, with 2.1 million people infected and 74,000 dead.

The lockdowns introduced by the Government to limit the spread of the virus resulted in GDP collapsing by 8.9% (from +0.3% in 2019), with both domestic and foreign demand to blame. In fact, consumption fell by 10.1% (from +0.4%), investment by 8.6% (from +1.6%), government spending by 0.5% (from -0.2%) and exports by 15.1% (from +1.0%). The suspension of redundancies resolved by the executive branch of government until March 2021 prevented an increase in the unemployment rate, which actually fell from 9.9% to 9.1%.

The fall in energy prices pushed inflation into negative territory at -0.2% (from +0.7% in 2019), while net of the most volatile components it remained stable for the third consecutive year at 0.5%.

RELEVANT MARKETS

Brief information on the markets in which DEPObank operates is provided below.

Payment systems

Nationally, the use of alternatives to cash is still growing at modest rates compared with other countries, albeit consistently; the aforementioned pandemic has played a big part in growth failing to meet the initial targets and estimates of the market and the authorities. Globally, the spread of the pandemic has stimulated the use of digital payment channels (online banking and mobile payments), especially among younger generations.

Data on payments in the first half of the year provided by the Bank of Italy show primarily that traditional bank payments and payments linked to commercial activities have fallen sharply. In fact, compared with the previous year, the volume of cheques traded by the banking system (bank cheques and bank drafts) decreased by 32% and 28% respectively; SCT (Sepa Credit Transfer) growth was virtually flat; SDD (Core and B2B Sepa Direct Debit) commercial payments rose by 2.8%; non-SEPA commercial payments (RIBA/MAV etc.) dropped by 18%; bills payments fell by about 16%.

Globally, the spread of electronic payments (e-payments and mobile payments) is living up to estimates made by the authorities and industry specialists. Digital payments are expected to grow by a total of 8% in 2021 (slower in Europe at around 4.7%), with forecasts of 11.5% by 2023 (+6.2% in Europe), demonstrating that the upward trend is properly under way and systemic. In the European Union, the increase in digital payments is being driven above all by the adoption of instant payments by several countries and by the considerable enhancement of the sector as a result of Directive (EU) 2015/2366 (so-called PSD 2) being fully implemented.

It should be noted that instant payments are considered by the authorities and the European financial industry to be among the key instruments in the war on cash; the increased cap on SCT Inst payments (from €15,000 to €100,000) will further facilitate the dissemination of this new product and will also snare a portion of the B2B and C2B payments that are currently executed using other payment instruments, thereby optimising companies' financial and supply chain processes and making them more uniform.

During the year, the European Commission and the European Central Bank intervened in a robust manner with measures aimed at encouraging the spread of instant payments: forcing banks with an ECB account to sign up to the ECB's TIPS instant payment system by 2021; upgrading the ECB's settlement system; opening technical accounts on TIPS for ACHs. These represent a fundamental shift in outlook for the acceleration of the spread and rapid expansion of instant payment services throughout the EU.

The pandemic has also pushed completion of the ECB's plan to consolidate the TARGET2 and TARGET2 Securities systems (T2-T2S consolidation) back to the end of 2021.

The European Commission is finally supporting the European Payments Initiative (EPI) set up by 15 large European banks, aimed at establishing a new instant payment circuit that should begin operating by 2022.

In September, the European Commission published its strategy for retail payments based on instant payment-related objectives: developing the best financial products for consumers; supporting strategies for Europe's economic recovery and for a wider economic transformation; using digital finance to improve the integration of financial markets in the banking union and capital markets; strengthening the capacity for autonomy in European financial services.

In October, the European Central Bank published its "Report on a digital euro", an in-depth study on the possible issuance of a digital euro, and subsequently launched a consultation in order to gather the opinions of European citizens and any other interested party.

The strategy of the European Commission on retail payments and the other initiatives of the European Central Bank represent a clear and obvious desire to transform the current pan-European financial and payment system outlook, gradually replacing or supplementing the current structure while offering interesting market expansion possibilities.

It is clear that, in the light of these initiatives, the major break with the past comes from the ECB's intervention as an increasingly active player in the operational and central infrastructure of the financial and payment market.

This means the European regulatory framework is focused on standardising payment processes, mitigating risks and extending competition and innovation, and will therefore influence the business and operating model choices made by payment services providers (PSPs) and by all payment market stakeholders.

The entry into force of PSD2 is therefore gradually opening up the market to new non-banking entities, so-called TPPs (Third Party Providers), with whom the Italian banking industry has already begun to engage. Harmonising the regulation governing supervised and non-supervised (TPPs/FinTechs) PSPs is one of the areas in which the European authorities will measure themselves in the near future, with a view to ensuring that banks and non-bank (payment institutions, EMIs, TPPs) PSPs can integrate and coexist in a competitive payment market.

Asset management

The assets under management (AuM) of the Italian asset management sector exceeded €2,330 billion in September 2020, an increase of 1.3% on the end of 2019. In particular, individual wealth management experienced the greatest growth compared with 2019 in terms of managed assets (+2.2%), to the detriment of collective management such as open and closed funds (+0.3%).

In the third quarter of 2019, net asset management inflows topped €14 billion, a sharp decrease compared with the previous year, which had exceeded €70 billion. Specifically, after registering net outflows of over €12 billion in the first quarter of 2020 due to the COVID emergency, the asset management industry reversed the trend, registering a growth rate of 33% in Q3 compared with the same period of the previous year.

Throughout the year, UCITS funds and reserved alternative open funds were the preferred products for Italians.

The main cause of this drastic reduction in net inflows is the current climate of uncertainty. In particular, the health emergency generated a significant increase in the savings rate of Italian families which, together with a strong risk aversion, led to a rapid increase in the accumulation of liquidity by savers, reaching a record of about €1,700 billion in November 2020 and representing more than a third of the total financial wealth of families.

2020 was also marked by an unprecedented disruption of the global economic cycle and concerted efforts by monetary and fiscal authorities to tackle the economic emergency resulting from the pandemic in Europe.

The latest EFAMA (European Fund and Asset Management Association) update of 2018 shows that the asset management market in Italy is the fifth largest in Europe in terms of AuM, with a weight of 5.7%; however, their AuM/GDP ratio of 75% is still way below the European average of 132%.

2020 has been a year of transition for Individual Savings Plans as the pandemic triggered a systemic crisis that also affected the inflows of these instruments, although during the year the “Relaunch Decree” (Decreto Rilancio) introduced the new Alternative ISPs to go alongside the traditional ISPs. The objective of these new products remains the same, namely to channel investors' money to the real economy and to Italian SMEs at a time when businesses really need liquidity.

The introduction of these products was not enough to offset past outflows, meaning net outflows of €180 million in the first half of 2020. There were estimated to have been around €17 billion of AuM invested in these instruments in mid-2020, but there are high expectations for the short term as these products constitute a possible outlet for liquidity to the real economy.

Finally, the global health emergency has given impetus to many trends and accelerated others that were already in place. After this crisis, the world will be more indebted, more uneven and more localised, but also more digital and more attentive to sustainability issues.

The very short-term challenge is to reconcile technological innovation, such as roboadvisors, with environmental protection by integrating ESG principles into the asset and wealth management industry. This process represents a unique opportunity to guide the strategic choices of companies with a view to increasing attention to human capital, the environment and sustainable business issues, not only for reputational reasons but also and above all to benefit financially.

Indeed, sustainable investments are now considered a consolidated trend on a global scale. Systematic assessment of all ESG factors can help investors overcome uncertainty and position themselves over the long term on more resilient and better-performing sectors and players. Investment strategies based on these investments, which have already outperformed traditional ones in all major asset classes this year, will therefore play an even more important role in the coming years.

ESTABLISHMENT OF THE BANKING GROUP

Between 15 and 20 January 2020, following the authorisation received from the Bank of Italy, and in fulfilment of the contractual commitments entered into at the end of July 2019, the PrestaCap transaction was closed, with the acquisition of 100% of Cara Services GmbH.

The extraordinary meeting of the shareholders of DEPObank was then held on 30 January 2020, approving the amendments to the Articles of Association for the formation of the DEPObank - Banca Depositaria Italiana S.p.A. banking group and the exercise of management and coordination powers over the subsidiary Cara Services GmbH. The aforementioned group was registered in the Register of Banking Groups pursuant to Article 64 of the Consolidated Law on Banking by the Bank of Italy with effect from 20 January 2020.

STRATEGIC DEVELOPMENTS

As anticipated, the corporate events that affected the Bank, resulting from the assessments of the controlling shareholder regarding capitalising on its stake, led to the abandonment of the plan to create a new SME Lending Business Unit (the so-called "Vesta Project"), a cornerstone of development and of the new asset-side strategy included in the Strategic Plan.

The Bank's Board of Directors, to the extent of its remit and for the reasons outlined below, has approved the new plan, deeming it suitable for ensuring an adequate outlook for the Bank's traditional Business Units while achieving the strategic development already identified and necessary to ensure a solid outlook of stability and growth, adequately balancing the needs of the various stakeholders who, together with the controlling shareholder, engage with the Bank.

These developments made it possible to execute of the path that led to the Extraordinary Shareholders' Meeting held on 27 January 2021 resolving on the merger by incorporation of DEPObank S.p.A. into Banca Farmafactoring S.p.A.

MERGER WITH BANCA FARMAFACTORING

The merger by incorporation of DEPObank into Banca Farmafactoring ("BFF") (the "Merger") is part of a structured transaction (of which the Merger is an essential element) that includes: (i) BFF's acquisition of a portion of the DEPObank shares owned by the current controlling shareholder, Equinova, and BFF's acquisition of all the DEPObank shares owned by minority shareholders (where these have not previously been acquired by Equinova) (collectively, the "Acquisition") and (ii) immediately following the Acquisition, the Merger (the "Transaction").

The Transaction simultaneously enables the following:

- to follow up the strategic repositioning process of DEPObank initiated in July 2018 with the reorganisation of the Nexi Banking Group, and – despite interrupting the development of the SME Lending initiative initiated with the approval of the Strategic Plan – to implement a complete asset-side strategy that gets the most out of the excess liquidity generated by the Securities Services and Digital Payments business lines, thus ensuring a more solid growth outlook for the aforementioned business lines; and
- to complete the process of capitalising on the interests held by shareholders in the Bank's capital, initiated in 2015 with the sale (total or partial) of the stakes held by banks that for over 75 years had governed Istituto Centrale delle Banche Popolari Italiane S.p.A. (now DEPObank) to the companies (Mercury Italy s.r.l. and Mercury UK HoldCo Ltd) belonging to the fund consortium managed by Advent International Corporation, Bain Capital Investors LLC and Clessidra SGR S.p.A. ("ABC Funds") and continued with the listing, in April 2019, of Nexi S.p.A. and the group belonging to it on the Mercato Telematico Azionario organised and managed by Borsa Italiana S.p.A.

Furthermore, as a result of the Transaction, DEPObank will have the added benefit of joining a solid, listed group with a long track record of profitability, characterised by a low risk profile (given that its exposure is almost entirely to the European public sector), with high standards of operational efficiency and a leader in niche sectors poorly served by traditional banks (existing customers of DEPObank).

DEPObank acquired its current configuration in 2018, following the reorganisation of its banking group in the wake of the ABC Funds acquiring control of the Bank in 2015. The reorganisation was aimed at the creation of two distinct poles: the first dedicated to the development of activities related to digital payments (Payments Pole) with the objective of listing on regulated stock markets, and the second – consisting of DEPObank – focusing on the development of Securities Services and payment services that require the possession of a banking license (Banking Pole), with the aim of a medium-term strategic repositioning.

Accordingly, in the wake of the reorganisation, DEPObank was a bank characterised by:

- a business model based on two specialised business lines with a consolidated and recognised positioning in niche markets and with a profitability that is adequate given the risks generated;
- one of the most robust capital and liquidity positions in the system, measured on the basis of the relevant regulatory requirements;
- an inefficient use of regulatory capital necessary for it to function, given the size of the assets and the relationships induced by the type of services offered and the concentration of customers served;
- a sub-optimal use of the financial resources generated by commercial relations, due to the absence of a complete asset-side strategy.

The new Board of Directors established following the Reorganisation conducted a review of the strategic positioning of DEPObank, notably beginning to reflect on the potential opportunities for strengthening the Bank's business model, with a focus on the asset-side strategy. As a result of this process, the Bank's new

“2019-2023 Strategic Plan” (“DEPObank: the Italian FinTech Multispecialist”) was approved in February 2019.

The Strategic Plan identified a strategy to strengthen existing businesses (Banking Payments and Securities Services), which was to be accompanied, with a view to defining a complete asset-side strategy, by a new line of business represented by specialised lending to small and medium-sized enterprises, while also transforming the bank into a multispecialist and fintech model.

The process of implementing the new SME Lending Business Unit (the "Vesta Project”), launched following the approval of the Strategic Plan, was less smooth than expected, resulting in:

- the prompt recruitment of managers of high standing and launch of the implementation project;
- the signing, in July 2019, of an agreement for the acquisition of a German company (Cara Services) that owns a next-generation specialised lending platform, identified as enabling the Bank to upgrade its technology; the acquisition was completed in January 2020;
- the interruption, in autumn 2019, of the implementation of the Vesta Project following BFF’s expression of interest (addressed to and positively evaluated by the parent company Equinova) in acquiring the Bank.

The aforementioned expression of interest materialised, on 30 April 2020, by way of BFF's bid for control of the Bank, an offer that was positively evaluated by the Boards of Directors of Equinova on 4 May 2020 and DEPObank on 7 May 2020, and which led to the signing, on 13 May 2020, of a Sale, Purchase and Merger Agreement (hereinafter “SPMA”) between BFF, Equinova and (limited to some contractual provisions) DEPObank, which governs the Transaction, providing for, among other things:

- the abandonment of the Vesta Project and the disposal of all assets/contracts related to it (including the stake in Cara Services);
- as a way of mitigating risk in the portfolio of government bonds held by DEPObank and classified as held to collect, the obligation to sell part of the securities portfolio held by DEPObank to BFF on the SPMA signing date and at market prices;
- as mentioned earlier, the Merger.

The Transaction is suitable for executing the aforementioned strategic repositioning path since it is a viable alternative to the Vesta Project for creating a new asset-side strategy, in way broadly similar to the one described in the Strategic Plan, which may be implemented within the combined entity that will arise from the merger of the Bank into BFF.

Considering the combined entity, the Transaction, which aims to create Italy's premier specialty finance operator, will make more funding and capital available to the BFF Group's traditional clients.

Specifically, the Transaction strengthens BFF's strategic positioning as an independent leader in specialty finance, becoming the largest operator in Italy, expanding both the business segments in niche markets where DEPObank is a leader, and the funding base, thus creating value for all stakeholders. The

Transaction will also increase the ability to serve and support traditional BFF customers, especially at a time of uncertainty such as the one generated by the COVID-19 emergency, when their liquidity needs are greater.

As a result of the Merger, the acquiring company, BFF, will change its corporate name to “BFF Bank S.p.A.” and the related banking group resulting from the Merger will be renamed “BFF Banking Group”.

GOVERNANCE STRUCTURES

On 6 July 2020, the DEPObank Board of Directors acknowledged the resignation of Fabrizio Viola from the position of Chief Executive Officer, with effect from 7 July 2020, in order to facilitate the preparatory phase of the extraordinary merger into BFF and, in particular, the implementation of the new structure in place to manage the newly configured bank.

The previous stand-in Deputy General Manager Paolo Testi assumed the roles of Chief Executive Officer and General Manager on 7 July 2020.

ORGANISATIONAL STRUCTURES

Steps were taken at the same time to simplify the Bank’s organisational structure.

Specifically, the following managerial positions were removed: the Deputy General Manager and those who reported directly thereto, namely the Chief Lending Officer (CLO) and Chief Operating Officer (COO), who were involved in particular as part of the plan to diversify and expand DEPObank’s business by developing SME Lending. The functions reporting directly to these managers have been moved directly to the CEO’s staff.

In addition, some fine-tuning of the second- and third-level organisational structures was carried out with a view to continually improving operational efficiency.

During the challenging COVID-19 environment, the Bank prioritised the health of its employees and support for its customers.

Extensive use of flexible working practices meant that the Bank could operate without interruptions or serious situations. Monitoring has revealed that, excluding senior managers, around 85%-90% of employees have engaged in remote working.

The main technical/organisational measures adopted include:
- activation of an extraordinary crisis procedure, including the establishment of the Crisis Committee;
- monitoring of remote staff and those in the office;
- analysis of processes and procedures for remote operational management that could ensure the continuity of services while minimising the associated risks;
- internal updates on the measures taken and the conduct required.

In the field of cyber security, a series of activities were carried out to mitigate cyber risk and comply with current regulations in the area of:
- SWIFT payment network security certification;
- vulnerability testing of the main IT applications and infrastructures;

- definition and implementation of a security awareness programme;
- review and update of some security processes;
- protection of mobile devices (smartphones and tablets);
- implementation of security controls for cloud providers.

In order to enable implementation of the multiple activities aimed at the merger with BFF, a project structure has been outlined that involves all the main internal functions (e.g. governance and control functions, business functions, IT and operational functions).

The project was divided into two distinct functional components at closing: the first, the Closing Agenda, includes the activities strictly pertaining to the closing and related to the obligations of DEPObank and BFF; the second, the Integration & IT Migration Plan, refers instead to the activities of the merger areas conducted jointly with BFF and related to IT aspects and to the individual functions of the Bank.

The analysis activities and implementations related to the project, which are ongoing at the date of this Report, are managed by 7 separate working groups (Merger and integration; Business and communication; Vesta disposal; Monitoring and information; Clearance; Other obligations; BFF/Sponsor Assistance).

RISK GOVERNANCE

During the period, the Risk Management Service supported management in achieving the objectives, mainly through:

- the preparation of opinions requested from time to time to ensure prudent and effective risk management in business initiatives;
- the specific advice provided;
- the risk assessments relating to the impacts of the COVID-19 pandemic;
- verification of separate and consolidated capital adequacy, necessary to cover the different types of risk;
- effective participation in the working groups created in view of the forthcoming merger with Banca Farmafactoring.

At the same time, the full compatibility of company activities with the risk governance process was verified, through the definition and compliance with the risk tolerance defined in the risk appetite framework (RAF), which was subject to an annual review.

IT SYSTEM

Strategic projects such as Migration of the Core Banking System (CSE), T2/T2 consolidation project

September 2019 saw the launch of the IT migration project aimed at replacing the current core banking IT solution and the related Facility Management environment, moving from the current provider Creval SpA to the new one CSE Consorzio Servizi Bancari Soc. Cons. a r.l.

In 2020, the project underwent an initial analysis phase aimed at correctly defining methods for migrating to the target solution as well as identifying the adjustments necessary to manage the peculiar characteristics of the Bank's business and applications.

In May, following the signing of the SPMA, the project activities were suspended pending the definition of the new project scope and the confirmation of the choice of the target solution for the combined entity.

Subsequently, in July 2020, the project activities were resumed with CSE and a Letter of Intent was signed defining the new project scope and new release timings, which envisage the end of the project in October 2021 as regards the management of the current DEPObank business, and in November 2021 as regards the IT convergence on the CSE solution of all the activities of the combined entity.

In October 2020, the parties finally signed a five-year contract relating to the migration project, which governs both the project activities and related commitments and the subsequent running period, with the relative SLAs and expected service levels.

The project, which is now under way, is in line with the agreed schedule and involves all Bank structures and many suppliers given that the information system is divided into specialised modules, most of which are outsourced to technological outsourcers.

The T2/T2 consolidation project is an integral part of the broader Vision 2020 initiative. This represents the evolving strategy of the Eurosystem to improve the services currently offered by the different platforms it operates (T2, T2S, TIPS, CCBMs) through greater integration, harmonisation and innovation of these platforms.

February 2020 saw the launch of the first project activities designed to ensure the Bank's technical and functional compliance with the new structure of the eurozone payment system, which will be implemented through the initiatives promoted by the European Central Bank under Vision 2020. These adjustment activities are mandatory for all banks participating in the Eurosystem and are of a particularly strategic nature for DEPObank in relation to its role as a transaction bank.

The first of these initiatives concerns the consolidation into a single platform of the current real-time gross cash settlement platform, TARGET 2, and the current simultaneous securities and cash settlement platform, TARGET 2-Securities. For DEPObank, the initiative also represents an opportunity to rethink and streamline its technological architecture.

The internal project, in line with the original Eurosystem masterplan, envisaged going live in November 2021. Following the COVID-19 emergency and the rescheduling by SWIFT of the project to harmonise cross-border payment messages to the ISO20022 standard, the T2-T2S Consolidation initiative was revised with production launch put back to November 2022 and all intermediate milestones recalibrated.

At the date of adoption of this Report, the progress of the internal project was in line with the ECB's new masterplan.

The merger with BFF was one of the main areas on which the CIO focused in 2020.

The Bank's IT team has worked with its counterpart at BFF and with the business teams to define the transitional and target IT solutions necessary for the combined entity to function properly from the first post-merger day.

The project activities concerned, in particular, the Treasury Reports & Procedures and Regulatory Reporting applications, to comply with the Supervisory Bodies' requests for an integrated management of the reports of the two post-merger entities, even in the presence of separate IT systems.

Other areas of integration included personnel administration, accounting and management control.

In addition, in order to comply with the EBA guidelines and the 34th update of Bank of Italy Circular No. 285/2013 on outsourcing to safeguard the Bank's business continuity, the CIO has prepared exit strategy documents for the current critical or important functions (CIFs).

The activity is rounded out by some project initiatives; specifically for the Global Custody area:
- activation of customer information services in accordance with SRD II regulations;
- start-up of SFTR reports in accordance with regulatory provisions;
- updating settlement services to TARGET2-Securities as a direct participant in the settlement system;
- start-up of the Italian Tax Substitute service for managed customers;
- start-up of the Italian Tax Substitute service for foreign customers (Banks of San Marino);
- continuation of the project to join voluntary corporate actions.

For the Custodian Bank:
- completion of the project to automate activities related to the management of lookthrough controls;
- completion of the project to replace the provider used to manage reporting for pension funds;
- regulatory adjustment for the management of the limits of European Venture Capital (EuVECA) funds.

For the Fund Accounting and Transfer Agent area, the Aletti/Anima merger was managed.

Finally, it should be noted that the document management project has been completed, which allows storage in a single company repository for the Securities Services Operations Business Unit and the Depositary Bank & Controls Business Unit.

REGULATORY COMPLIANCE

Following the entry into force of the Implementing Regulation of articles 4-undecies and 6 (1), b) and c-bis) of the Consolidated Law on Finance (TUF), concerning the depositing and subdepositing of customer assets, published by the Bank of Italy on 5 December 2019, a "Customer Cash and Securities Protection Manager" has been appointed and the relevant internal rules and process have been updated where necessary.

INTERNAL CONTROL SYSTEM

Internal Control System development projects continued in 2020 in line with the relevant legislative developments.

In line with the established guidelines and relevant regulations, the Audit Service verified the regularity of operations and risk performance and assessed the functioning of the Group's overall system of internal controls, bringing some areas with room for improvement in the field of risk management to the attention of the corporate bodies. In particular, the department focused its activities on operational content and IT audit initiatives, in line with the planning already approved by the competent corporate bodies and based on priorities deriving from a risk-based approach and specific regulatory obligations.

During the year, the Compliance & AML Service, which continuously oversees the rules with regard to all company activities according to a risk-based approach, updated the rule set applicable to the Group in order to comply with the new regulations, in addition to verifying that the processes, internal procedures, organisational and regulatory system, and IT infrastructure to oversee operations are consistent with the objective of preventing the violation of any rule.

To this end, the Group has finalised the transposition of Regulation (EU) 909/2014 on internalising settlement and of Regulation (EU) 2015/2365 on the transparency of securities financing (the so-called SFTR).

Efforts to reinforce the measures implemented by the Bank also continued through the implementation of corrective and upgrading actions identified by the aforementioned Service.

HUMAN RESOURCES

The composition of the workforce of the DEPObank Banking Group and the companies that belong to it at 31 December 2020 is summarised in this table:

	DEPObank Banking Group		
Employees by professional category and gender (no.)	**MEN**	**WOMEN**	**TOTAL**
Executives	15	2	17
Middle managers	88	63	151
White-collar workers	78	132	210
Total	**181**	**197**	**378**

	of which: DEPObank		
Employees by professional category and gender (no.)	2020		
	MEN	**WOMEN**	**TOTAL**
Executives	15	2	17
Middle managers	82	60	142
White-collar workers	75	131	206
Total	**172**	**193**	**365**

	of which: Cara Services		
Employees by professional category and gender (no.)	**MEN**	**WOMEN**	**TOTAL**
Executives	0	0	0
Middle managers	6	3	9
White-collar workers	3	1	4
Total	**9**	**4**	**13**

CHANGE IN THE WORKFORCE

The changes in the staff of DEPObank during 2020 are summarised in the following table:

Employees by professional category and gender (no.)	2020			2019		
	Men	**Women**	**Total**	**Men**	**Women**	**Total**
Executives	15	2	17	13	2	15
Middle managers	82	60	142	81	60	141
White-collar	75	131	206	75	132	207
Total	**172**	**193**	**365**	**169**	**194**	**363**

The staff of Cara Services, who joined the Group's scope during the year, are included at Group level.

PERSONNEL

Training is a strategic factor for DEPObank, as it supports organisational changes and the dissemination and understanding of business strategies. DEPObank plays an active role in the process of professional growth of its personnel, favouring the improvement of individual performance through initiatives to hone skills, provide new work tools and methods and update knowledge in line with current legislation.

The 2020 training plan focused mainly on the following objectives:

a) updating and consolidating DEPObank's distinctive competences;
b) compliance with the typical laws governing banking and intermediation business and the related actions validated by the Compliance Service;
c) retraining of personnel who have changed their role as a result of organisational changes;
d) consolidation of English language proficiency;
e) spread of specific knowledge to support the correct use of flexible work within the company;
f) providing workers with refresher health and safety training in accordance with Italian Legislative Decree No. 81/2008;
g) mitigating cyber risk and protecting the company's information assets: Security Awareness and Business Continuity programme.

The updating of skills, at the request of various managers (so-called on-demand training) involved both participation in (mainly remote) intercompany courses and the organisation of virtual classes focusing in particular on areas affected by administrative and tax issues, cyber security, and the updating of systems and applications in use.

All the compulsory training actions included in the training plan were completed. Where possible, and in compliance with the law, compulsory courses were delivered in e-learning mode through the DEPObank platform.

The workshops dedicated to flexible working explored the issues related to the proper management of remote working methods, the applicable legislation, the prevention of related health and safety risks and the use of supporting technological equipment.

Particular attention was paid to refresher courses for workers as required by Italian Legislative Decree No. 81/2008.

To make risk mitigation more effective and in order to protect the company's IT assets – especially when work is almost exclusively being done remotely due to the ongoing pandemic – DEPObank has developed specific training activities in the field of Security and Business Continuity, supplementing online courses with the provision of training presentations on specific Cyber Security issues.

THE WORKPLACE

DEPObank attaches particular importance to creating and managing working environments that are suitable, in terms of both safety and health, and which comply with current legislation and national technical standards issued in this area, in all its workplaces.

The risk assessment carried out, therefore, took into account all the risk classes identified: risks to safety (i.e., accidents), risks to health (i.e., hygiene and the environment), risks to safety and health of a transversal nature and risks arising from external factors.

Particular attention was paid to issues relating not only to the ergonomic and technical compliance of workplaces, but also to the management of interference risks, the assessment of work-related stress risk and the analysis of mental fatigue.

In addition, in view of the COVID-19 pandemic, the Bank has promptly taken steps to establish anti-contagion safety protocols in order to combat the spread of Coronavirus in the workplace and protect workers' health. In particular, the Bank has drawn up all the COVID-19 risk assessment, organisational, logistical, information and technical measures aimed at the protection of workers and third parties, in compliance with applicable Decree-Laws and Prime Ministerial Decrees as well as the Protocol of 24 April 2020 issued jointly by the Government and union bodies.

INDUSTRIAL RELATIONS

Recognising the importance of managing industrial relations in a collaborative climate, in 2020 DEPObank and trade union organisations agreed on a series of initiatives benefiting all staff, first and foremost the experimental adoption of a new working time configuration to ensure optimal monitoring of the technical and operational needs of the company, while promoting a better work/life balance for employees.

In view of the COVID-19 pandemic, ongoing dialogue with workers' representatives was also established, as provided for by the Protocol of 24 April 2020 issued jointly by the Government and union bodies.

Also with the pandemic in mind, the Company has extended the trial of the flexible working agreement, allowing employees to work from their homes.

On 8 January 2021, a trade union consultation procedure was initiated regarding BFF's acquisition of control of DEPObank and the merger of DEPObank into BFF.

OPERATING PERFORMANCE

The results for 2020 benefited from the contribution of the business units and individual services in the terms described below.

SECURITIES SERVICES

During 2020, the services of the Securities Services Business Line (custody, administration and settlement of securities and fund services) delivered to banks, brokerage firms, asset management companies and funds, although provided in a highly volatile economic environment due to the COVID emergency, saw an increase in both assets under management and the number of securities transactions.

During the year, Securities Services activities focused mainly on implementing the target initiatives identified in the Strategic Plan and searching for potential new areas for growth in core businesses:

- strengthening market share in the alternative investment funds (AIF) segment via an integrated range for all the various types of funds (real estate, private equity, credit, etc.) in an environment characterised by high growth rates, even in 2020;
- finding new types of customers (depositary bank services for pension funds, religious bodies and banking foundations, and paying agent, account and custodian bank services for corporate customers), including by way of partnership agreements with other players on the market;
- maintaining pension fund depositary bank market leadership by implementing retention actions for existing customers, including caring initiatives and promotion of new services, and developing a partnership with OneWelf with the aim of also growing in outsourced services;
- expanding and improving the commercial offering through fine tuning and the launch in 2021 of new services (e.g. tax management, securities lending for pension funds, intermediary services pertaining to regulations concerning certificates on the Hi-MTF, etc.);
- studying solutions based on Big Data/Artificial Intelligence from a visual mining perspective to support customers.

Global Custody

In 2020, Global Custody services, which are provided to more than 150 institutional customers, reported a marginal increase in the portfolio of assets under administration and a sharp growth in settlement services.

At year-end, the portfolio of securities in custody and under administration amounted to approximately €144.6 billion, of which 47% were foreign securities, up by 0.8% on 2019. An analysis of the portfolio's performance shows a drop of 4.3% for the domestic component and a rise of 7.3% for the foreign component.

Driven by strong market volatility, settlement activities recorded an increase of 23% on 2019, due both to transactions in Italian securities, up 27.2%, and to transactions recorded on foreign markets (+14.6%). Overall, there were 2.32 million settlement transactions in 2020.

Operations Services and Depositary Bank & Controls
The Depositary Bank & Controls Service recorded a considerable increase in assets under administration in 2020 to approximately €75.7 billion (+7.3% on 2019), with the tough year for the financial markets offset by healthy inflows and the success of commercial activities involving pension funds and alternative investment funds (AIFs).

In 2020, there were 52 client pension funds (an increase of five) with total assets of approximately €33.3 billion (+9.2%), confirming DEPObank's market leadership in this segment.

The assets of open-end mutual funds grew more modestly to approximately €33.8 billion (+1.9%), while the strong expansion of closed-end mutual funds continued, with assets under administration now amounting to approximately €8.5 billion (+24.5%).

The total portfolio of funds under administration now includes 167 mutual funds, 34 private equity funds, 70 real estate funds and 10 credit funds (+20 new AIFs).

The growth of mutual funds and, to a lesser extent, AIFs also benefited Fund Administration activities, with a portfolio of €47.9 billion at year-end (+0.4%).

The Transfer Agent business, now dedicated to the management of mutual funds and closed-end funds, managed more than 2.14 million investors in 2020, with underlying AuM of more than €91.5 billion.

BANKING PAYMENTS

In 2020, the scope of the Payments business was severely affected by the events described earlier, particularly with regard to the slowdown of development initiatives and reduced payment volumes processed, these being the primary revenue generator of the Banking Payments Business Unit.

Other outside factors that affected revenues during the year were: i) the finalisation of the merger of two leading banks, with one of them leaving the Telepass service; ii) retention initiatives for contract renewals with some large client banks; iii) the systemic delay to the start of the Instant Payments business.

However, it should be pointed out that several new clients were obtained during the year, some of whom belong to the new PSD2 categories such as Payment Institutions.

Overall, revenues remained broadly stable compared with the previous year.

Thanks to careful cost management, the harmonisation of flat-rate pricing policies for services and the revision of the prices of traditional payment services such as cheques, the operating margin of the sector increased by approximately 15% compared with the previous year.

The Banking Payments Business Unit provides services in three distinct areas: Processing and Foreign Services, Cheques and Bills, and Client Payments and Collections (corporate and public sector).

Processing and Foreign Services
Approximately 470 million transactions were managed in 2020, an overall drop of approximately 8% compared with 2019.

SEPA transfers grew by more than 6% compared with the previous year, demonstrating that banks and individuals are increasingly likely to use electronic payments. The volumes of SEPA commercial and non-SEPA domestic (RIBA/MAV) payments decreased by around 5% compared with the previous year.

Competitive processing services related to the use of credit/debit cards such as Setif and settlement on international circuits were those that suffered the most from the pandemic, with volumes falling by around 8% and 23% respectively compared with the previous year.

Albeit later than planned, the Instant Payment processing service was made fully operational in 2020, involving several banks and payment institutions certified with the main Service Centres that work with DEPObank.

Despite the extension of the ECB's scheduling, efforts continued to inform customer banks about the Eurosystem’s Vision 2020 project (TIPS, T2-T2S consolidation) and the definition of a structured DEPObank range of services.

Analysis for the new pan-European "Request To Pay” service began this year, and it will become a consolidated service from 2021.

The SME Guarantee Fund service has significantly increased revenues, as a result of the extraordinary support provided by the Fund for one-off measures implemented by the Government in this environment (e.g. guarantees provided by the State for loans to companies up to €30,000).

Client Payments and Collections
Over 56 million transactions were processed in the segment, down by 2.5% compared with 2019. There was a considerable 9.6% growth in INPS pension payments as a result of the acquisition of important customers. It should be noted that for this service DEPObank has offered one-time support to the INPS and the more than 80 client banks, making available tools for the rapid verification of IBAN codes, which is needed for the finalisation of the extraordinary payments of INPS subsidies related to the pandemic.

Corporate customer payments have fallen due to the nature of the customers served, strongly linked to the use of credit/debit cards.

The segment's revenues were down by approximately 3.4% overall.

Cheques and Bills
In 2020, the segment processed around 36 million transactions. The Banker's Drafts and Bank Cheques services saw volumes drop by around 34% and 31% compared with the previous year. As well as the envisaged systemic reduction, the fall was clearly linked to the various temporary closures of customer bank branches, meaning they could not trade, issue or collect drafts and cheques.

The Bills segment saw a reduction of around 20% during the year, but this was better than expected.

The entry into operation in 2018 of the new cheque exchange and settlement procedure based on the exchange of images of the instruments (cheque image truncation – CIT) led to a need to significantly revise the business model and the subsequent invoicing of the services in order to recover margins in the segment.

RECEIVABLES

In 2020, exposure to credit risk, excluding its SME Lending activities, was characterised by DEPObank's peculiar status as a "second tier" bank, i.e. a bank whose core business is offering services to the banking and financial system and major corporate customers, essentially in payment systems and securities custody, administration and settlement services. It follows that lending was strictly ancillary to the provision of this type of services and did not constitute a business goal unto itself.

The credit risk measurement methods adopted and the related disbursement and control process are quick and easy due to the limited number of exposures, with oversight always aimed at mitigating risk.

However, credit management guidelines are based on the general principles of prudence, correct and accurate management and compliance with the laws and regulations in force at the time. Transactions in derivative instruments have not been used to hedge credit risk.

Of all credit line counterparties, 63% are banking supervised intermediaries, 33% are UCITS and brokerage firms and 4% are corporates (almost exclusively ancillary lines of credit related to the execution of payment and collection orders).

No new positions were reclassified as unlikely-to-pay exposures in 2020, while the exposure for one position was completely recovered.

The four positions that were reclassified in 2019 as stage 3 pursuant to IFRS 9, as described in more detail in the Explanatory Notes, are still in place.

TREASURY AND FINANCE SERVICES

In 2020, the primary function of the Treasury Service remained the management of liquidity in euros and foreign currency generated by the operations of the Bank's various core business areas, through the use of financial instruments, in line with the company's business model and risk profiles. The Service also offered financial products (deposits in euros and foreign currencies, fixed income, FX, swaps, repurchase agreements and financing) in response to the needs its customers (qualified counterparties and professional customers only) and contributed to the smooth functioning of the settlement of transactions generated by the business areas.

The year was characterised by what remained a high average level of available liquidity, sustained by the balances held in accounts with the Bank by Depositary Bank service customers. The overall net liquidity balance (available eligible securities and cash) fluctuated between €5.5 billion and €8.5 billion.

The securities portfolio, held according to the held-to-collect (HTC) model, remained the primary form of use of available liquidity in 2020. The first half of the year saw the purchase of Italian government securities with a nominal value of around €800 million, replacing similar matured or sold securities (in line with the limits set out in the business model, to reduce the concentration of risk in a single ISIN) with the aim of restoring the portfolio to the target level identified by the Board of Directors, namely a nominal value of €5 billion.

With the signing of the aforementioned SPMA between the parent company Equinova, BFF and DEPObank, provision was made:

- in implementation of the commitments undertaken, as a risk mitigation mechanism on the portfolio of government bonds held, to sell to BFF, at the signing date of said SPMA and at market prices, "Cct-Eu Tv Eur6M+0.95% Ap25 Eur" securities with a nominal value of €770.5 million;
- in compliance with the limitations on investment activities provided for by the SPMA for the interim period, to stop reconstituting the securities portfolio, furthermore not being able to buy back securities maturing in the second half of the year.

At year-end, the portfolio of government bonds amounted therefore to €3.16 billion nominal, about 57% of which consisted of fixed-rate bonds with an average maturity of 1.62 years and 43% of which consisted of variable-rate bonds with an average maturity of 2.57 years. To these are added corporate bank bonds with a nominal value of €32.5 million, purchased during the previous year and also included in the HTC portfolio.

The additional available liquidity was used in repurchase transactions (mainly carried out on the MMF market – brokered by Cassa di Compensazione e Garanzia) and interbank deposits (mainly carried out over the counter) or, in particular after the signing of the SPMA, and in implementation of the provisions contained therein, by holding it in deposits on the management account with the Bank of Italy, which at the reporting date shows a balance of €4.9 billion.

The desk became fully operational in the Forex segment, including both customer intermediation in the purchase and sale of foreign currencies and investment of liquidity in currencies other than the euro. In order to optimise the use of credit lines, reducing counterparty risk, commitments were mainly made through the use of currency swaps, favouring a more secured approach, and to a lesser extent through the opening of short-term deposits. Operations were not affected by the limitations imposed by the signed agreements.

The Institutional Sales Trading desk also operated regularly, supporting and expanding the activities of Customers (its own and those of the BU) in fixed income (bonds and government financial instruments, listed and unlisted, on both primary and secondary markets), for retention and cross-selling purposes. The desk provides quotes (request for quote - RFQ) and closes securities trading (without the possibility of taking overnight positions) and repurchase agreement (managing interest rate risk in conjunction with the Euro & Currency desk) transactions.

CARA SERVICES

The Company owns a next-generation specialised lending platform developed by a highly competent and motivated team with specialist know-how that can be used for the digitalisation of processes. The Company also uses innovative machine learning and business intelligence solutions.

During 2020, smart lending services and services for the development of other projects were initiated with a leading Italian bank.

In 2020, the subsidiary turned over €1,095,000 from the sale of services. Operating costs relating to personnel amounted to €1,156,000, while other operating expenses and amortisation/depreciation came to €539,000.

The Company capitalised on internal costs related to the development of software based on customer services for €308,000. Net of interest and tax expenses, the year ended with a net loss of €381,000, of which €295,000 related to the period between the company joining the banking group and the end of the year.

Assets totalled €2,295,000, of which €1,215,000 are tangible and intangible assets, mainly represented by software developed by the Company and the remainder by current assets (mostly trade receivables).

With regard to liabilities, in addition to capital and reserves of €422,000 (including the loss for the year), there was the loan guaranteed by the Parent Company in the amount of €1,322,000 at the reporting date.

SUMMARY INDICATORS OF THE PARENT COMPANY

Below is a table representing the Parent Company's main financial statement indicators at 31 December 2020, for which the comparison with financial year 2019 is sometimes influenced by the events referred to in the following section on financial statement results.

Highlights and key indicators

Balance sheet highlights (thousands of euro)	2020	2019	Chg. %
Receivables due from customers	3,482,683	4,740,438	- 26.5%
- *of which: Government debt securities*	*3,251,464*	*4,354,621*	*- 25.3%*
Receivables due from banks	1,717,913	1,539,311	11.6%
Financial assets	38,477	38,467	0.0%
- *of which: FVTPL*	*35,179*	*32,306*	*8.9%*
- *of which: FVOCI*	*3,298*	*6,161*	*- 46.5%*
Total assets	10,654,900	9,143,312	16.5%
Direct deposits from customers	8,983,162	7,493,896	19.9%
Indirect funding from customers (assets under administration)	52,683,932	52,709,254	- 0.0%
Shareholders' equity	437,304	472,588	- 7.5%
Income statement highlights (thousands of euro) (*)			
Net interest income	38,827	45,389	- 14.5%
Net fee and commission income and service revenues	87,807	90,156	- 2.6%
Operating income	128,798	138,864	- 7.2%
Personnel cost	- 31,814	- 30,254	5.2%
Operating expenses	- 96,767	- 95,296	0.1%
EBT (normalised)	27,895	40,750	- 31.5%
Profit (loss) for the period	- 35,784	- 29,166	22.7%
Structural ratios (%)			
Receivables due from customers/Total assets	32.7%	51.8%	
Receivables due from banks/Total assets	16.1%	16.8%	
Financial assets/Total assets	0.4%	0.4%	
Direct deposits from customers/Total assets	84.3%	82.0%	
Indirect funding from customers/Total funding from customers	85.4%	87.6%	
Profitability ratios (%)			
Net profit/(shareholders' equity - net profit) (ROE)	N/A	N/A	
Operating expenses/Operating income (Cost-income ratio)	-75.1%	- 69.6%	
Credit risk ratios (%)			
Net impaired receivables due from customers/Net receivables from customers	0.09%	0.06%	
Write-downs/write-backs of receivables from customers/Gross exposure to impaired customer assets	53.2%	52.5%	
Total net impaired assets/Shareholders' equity	0.71%	0.65%	
Productivity indices (thousands of Euro)			
Average number employees **	344	340	1.1%
Operating income/Average no. of employees	375	408	- 8.2%
Normalised EBT/Average no. of employees	81	120	- 32.3%
Personnel cost/Average no. of employees	93	89	4.1%
Capital ratios (%)			
Common Equity Tier 1	328,041	369,158	- 11.1%
Own funds	328,041	369,158	- 11.1%
Risk-weighted assets	788,995	931,607	- 15.3%
CET 1 / Risk-weighted assets (CET1 capital ratio)	41.58%	39.63%	
Total own funds/Risk-weighted assets (Total capital ratio)	41.58%	39.63%	

(*) The income statement figures may be found in the Income Statement presented in the Report on Operations.

FINANCIAL STATEMENT RESULTS OF THE PARENT COMPANY

In addition to the ordinary evolution of business activities, the DEPObank Statement of Financial Position and Income Statement items shown below reflect some peculiar elements of how the reference environment and corporate events have evolved in 2020, as acknowledged in this Report. This refers in particular to:

- the impact in Italy, starting in February 2020, of the COVID-19 (or Coronavirus) pandemic, which led, amid a climate of general uncertainty, to effects on businesses (correlated in particular to the contraction in the market values of assets in customer fund portfolios and settlement volumes of intermediated payments), which were particularly significant in March and April and then showed (occasionally strong) signs of recovery starting in May;
- the signing, on 13 May 2020, of a Sale, Purchase and Merger Agreement (SPMA) between Banca Farmafactoring S.p.A. (BFF), Equinova and (limited to certain contractual provisions) DEPObank. The SPMA provides for, among other things: (i) as a risk mitigation mechanism on the portfolio of government bonds held by DEPObank, the obligation to sell to BFF, at the signing date of said SPMA and at market prices, "Cct-Eu Tv Eur6M+0.95% Ap25 Eur" securities with a nominal value of €770.5 million; (ii) the abandonment of the SME Specialised Lending project (known as the Vesta Project) and the disposal of all assets/contracts related to it (including the sale of the shareholding in Cara Services and the incentivised exit of some managers); (iii) limitations on the investment of available liquidity.

Balance sheet

Total assets amounted to €10,655 million at 31 December 2020, compared with €9,143 million at 31 December 2019, as summarised in the following tables.

ASSETS (figures in € million)	31/12/2020	31/12/2019	Changes
Cash and cash equivalents	4,921	2,335	2,586
Financial assets measured at fair value through profit or loss	35	32	3
Financial assets measured at fair value through other comprehensive income	3	6	-3
Financial assets at amortised cost	5,201	6,280	-1,079
a) Receivables due from banks	*1,718*	*1,539*	*179*
b) Receivables due from customers	*3,483*	*4,740*	*-1,258*
– of which: Government debt securities	*3,251*	*4,355*	*-1,103*
Equity investments	9	9	0
Tangible assets	22	27	-5
Intangible assets	104	109	-5
Tax assets	76	67	9
Non-current assets and groups of assets in disposal	21	-	21
Other assets	264	278	-14
Total assets	**10,655**	**9,143**	**1,512**

LIABILITIES (figures in € million)	31/12/2020	31/12/2019	Changes
Financial liabilities at amortised cost	9,900	8,296	1,604
a) Payables due to banks	*917*	*802*	*115*
b) Payables due to customers	*8,983*	*7,494*	*1,489*
Financial liabilities held for trading	4	6	-2
Tax liabilities	5	20	-15
Other liabilities	275	322	-47
Post-employment benefit provision	3	3	0
Provisions for risks and charges	31	23	8
Capital and reserves	473	502	-29
Profit (loss) for the year	-36	-29	-7
Total liabilities and shareholders' equity	**10,655**	**9,143**	**1,512**

An examination of the components of assets indicates the following:

- “**Cash and cash equivalents**” amounted to €4,921 million, compared with €2,335 million at the end of the previous year. They are represented by sight deposits with central banks;
- “**Financial assets measured at fair value through profit or loss”** amounted to €35 million against €32 million at 31 December 2019. The item consists of €33 million of financial assets subject to mandatory fair value valuation (UCITS units) and the remaining €2 million of financial assets held for trading (foreign exchange swaps) for the management of treasury assets;
- **“Financial assets measured at fair value through other comprehensive income”** amounted to €3.3 million, compared with €6.2 million at 31 December 2019. The reduction is due to the partial divestment of Class C VISA Inc. shares (for the portion subject to conversion into listed shares of the issuer) and to the partial repayment to shareholders of part of the capital of Ausilia Srl (following the equity disposal programme implemented by the investee);
- **“Financial assets measured at amortised cost”** amounted to €5,201 million, compared with €6,280 million at year-end 2019, and consist of:
  - **“Receivables due from banks”** of €1,718 million, up by €179 million compared with the previous year (€1,539 million at the end of December 2019). The item at December 31, 2020 includes: (i) Mandatory reserve in the amount of €171 million (own and on behalf of processed Banks); (ii) Current accounts and free deposits in the amount of €237 million; (iii) Repurchase agreements in the amount of €1,143 million; (iv) Bank settlements in Nexi Payments servicing in the amount of €113 million; (v) Corporate Portfolio in the amount of €32 million; (vi) Other receivables in the amount of €21 million. The increase is due to higher repo commitments at the time;
  - **“Receivables due from customers”** amounting to €3,483 million, compared with €4,740 at year-end 2019. The item consists of €3,251 million of debt securities issued by the Italian government, down by €1,103 million on the end of 2019, as a result of: (i) sales made in February and May with a nominal value of €1,120 million in order to contain the concentration of risk on a single security and (in the amount of €770 million) to implement the commitments set out in the SPMA; and (ii) purchases made in the first four months of the year with a nominal value of €800 million; and (iii) the

repayment of expired securities, particularly in the second half of the year, in the nominal amount of €755 million. This item also includes (i) repurchase agreements in the amount of €189 million; (ii) Security deposits in the amount of €18 million; (iii) Loans in the amount of €24 million (essentially attributable to the use of Custodian Bank Customer Fund lines);

- "**Equity investments"** amounted to €9 million, represented, as in 2019, by the stake in Unione Fiduciaria;
- "**Tangible assets**" amounted to €22 million, compared with €27 million at 31 December 2019. The item is represented by: (i) Proprietary land and property in Rome in the amount of €8 million; (ii) right of use (RoU) under IFRS16 of the Milan property leased for €13 million (subject to value adjustment in relation to commitments to dispose of part of the spaces assumed by way of the SPMA); (iii) Other tangible assets in the amount of €1 million;
- "**Intangible assets**" amounted to €104 million, compared with €109 million at 31 December 2019, and included: (i) Goodwill of €81 million (Banking Payments CGU); (ii) Custodian Bank customer contracts in the amount of €15 million (assets with an initial useful life of 10 years – 2010-2014 Acquisitions); (iii) other intangible assets in the amount of €7 million (SW licences and capitalised projects). The reduction is attributable to amortisation of Customer Contracts;
- "**Non-current assets and asset groups held for sale**" amounted to €21 million. This item includes the financial assets for which the company has initiated, but not yet completed at the reporting date, the Vesta Project disposal programme in implementation of the commitments undertaken with the SPMA, and in particular: (i) The stake (100%) in Cara Services, acquired at the beginning of the year, and valued at the reporting date, in accordance with the reference principles, at €1.9 million; (ii) the Prelios Loan, previously classified under financial assets at amortised cost, and valued at the reporting date at €18.6 million;
- "**Tax assets**" amounted to €76 million, compared with €67 million at 31 December 2019, and include (i) current tax assets of €41 million and (ii) deferred tax assets of €35 million (of which €13 million relates to the tax loss for 2020);
- "**Other assets**" amount to €264 million, compared with €278 million at the end of 2019, attributable in particular to the amounts to be settled relating to the operations of the business areas.

The liability items are as follows:

- **"Financial liabilities at amortised cost"** amounted to €9,900 million, compared with €8,296 million at 31 December 2019, and consisted of:

  "**Payables to banks**" of €917 million (including: (i) Current accounts and demand deposits of €829 million; (ii) processed mandatory reserve restricted deposits of €87 million), compared with €802 million at 31 December 2019;

  "**Payables to customers**" of €8,983 million (represented by (i) Current accounts of €8,351 million; (ii) Outstanding checks of €596 million; (iii) Other payables of €36 million), compared with €7,494 million in the previous year. The increase relates to the higher balances in the accounts held in the name of the Funds for which the Custodian Bank service is provided;
- other liabilities totalling €287 million, compared with €352 million at the end of 2019, comprise "**Financial liabilities held for trading**" in the amount of €4

million, "**Tax liabilities**" in the amount of €5 million, "**Other liabilities**" in the amount of €275 million and "**Employee severance pay**" in the amount of €3 million. The decrease is attributable to the lower amounts to be settled relating to the operations of the business areas.
- "**Provisions for risks and charges**" amounted to €31 million, compared with €23 million at 31 December 2019. The increase in funds is due in particular to provisions (equal to €7.5 million) for charges to be incurred in relation to commitments made under the SPMA;
- **Equity** items ("Capital and reserves" and "Result for the year") amounted to €437 million, compared with € 473 million at 31 December 2019. The change is attributable to the €35.8 million loss for the year, a breakdown of which appears in the income statement.

The changes in capital resulting from the aforementioned company events had an impact on **regulatory capital requirements**, reducing **own funds** (corresponding to Tier 1 Core Equity) from €369 million at 31 December 2019 to €328 million at 31 December 2020 and **risk-weighted assets** from €932 million at 31 December 2019 to €789 million at year-end 2020. The individual capital ratios of DEPObank, the composition of which is summarised in the table below, show a CET1 ratio and Total Capital ratio up two percentage points compared with the end of 2019 and equal to 41.58%, remaining well above regulatory limits and industry averages.

(€000)	**31/12/2020**	**31/12/2019**	**Change**
Common Equity Tier 1 (CET1)	**328,041**	**369,158**	**- 41,117**
Total own funds	**328,041**	**369,158**	**- 41,117**
Credit and Counterparty Risk	42,621	50,704	- 8,082
Market Risk	1,162	1,876	- 714
Operational Risk	19,336	21,948	- 2,612
Total Prudential Requirements	**63,120**	**74,528**	**- 11,408**
Risk Weighted Assets	788,995	931,607	- 142,612
CET 1 ratio	**41.58%**	**39.63%**	**1.95%**
Total capital ratio	**41.58%**	**39.63%**	**1.95%**

Income Statement

The 2020 income statement below shows an "**EBT (normalised)**" of €27.9 million, down by €12.9 million (-31.5%) on the result for 2019, affected by how the pandemic has impacted the various business areas' operating volumes and by the investment limitations set out in the SPMA.

2020 ended with a "**Loss for the year**" of €35.8 million, made worse by losses and charges related to commitments made under the SPMA as part of the Transaction with BFF.

Item	Year 2020 YTD	Year 2019 YTD	Absolute change	Change %
Net fee and commission income and service revenues	87,807	90,156	- 2,349	- 2.6%
Net interest income	38,827	45,389	-6,561	-14.5%
Profits (losses) on trading and hedge account	2,087	1,388	698	50.3%
Dividends on equity investments and AFS	77	1,931	-1,853	-96.0%
Operating revenue	**128,798**	**138,864**	**-10,066**	**-7.2%**
Adjustments to financial assets	1,566	2,376	-809	-34.1%
Net revenue	**130,364**	**141,239**	**-10,875**	**-7.7%**
Personnel costs	-31,814	-30,254	-1,560	5.2%
Production expenses	-15,000	-18,434	3,434	-18.6%
ICT expenses	-31,658	-30,826	-832	2.7%
Other expenses	-18,295	-15,783	-2,512	15.9%
Operating costs	**-96,767**	**-95,296**	**-1,471**	**1.5%**
Adjustments to tangible and intangible assets	-5,702	-5,193	-509	9.8%
EBT (Normalised)	**27,895**	**40,750**	**-12,855**	**-31.5%**
Amort. Customer Contract	-7,673	-7,673	-	-
Other components	-35,828	-5,262	-30,566	580.9%
Profit (Loss) on equity investments and HTC	-36,382	-45,914	9,532	-20.8%
Income taxes	16,204	-11,067	27,271	-246.4%
Profit (Loss) for the financial year	**-35,784**	**-29,166**	**-6,618**	**22.7%**

Examining the components of the loss for the year in detail, the "**Operating revenues**" amount to €128.8 million, compared with €138.9 million at 31 December 2019. The following should be noted with regard to the components of the item:

- **"Net fee and commission income and service revenues"** totalled €87.8 million (of €42.6 million related to Securities Services and €46.1 million to Banking Payments), versus €90.2 million in 2019. The decline is attributable to the impact of COVID-19 on the business areas and to changes in commercial terms with some major clients;
- "**Net interest income**" totalled €38.8 million, compared with €45.4 million in 2019. The decline is attributable to the reduced value of the financial assets invested in government securities (as a result of the SPMA limitations) and to the reduced rates on some foreign currencies (especially the USD and GBP, adopted by the respective central banks in relation to the pandemic) which reduced the margins on foreign-currency deposits into Custodian Bank accounts;
- "**Net trading income**" and "**Dividends on equity investments and financial assets**" total €2.2 million, down by €1.2 million on the previous year (without the Equens and Unione Fiduciaria dividends of €1.9 million received in 2019).

There were positive "**Adjustments to financial assets**" in the amount of €1.6 million (€1.8 million of securities write-backs, €0.1 million of write-downs of performing loans and €0.1 million of write-downs of impaired loans), compared with positive adjustments of €2.4 million in 2019.

"**Operating expenses**" amounted to €96.8 million, compared with €95.3 million in the previous year. The change in the aggregate figure, and in the individual items that make it up, was influenced by:

- around €1.2 million of higher expenses compared with 2019, pertaining in particular to the item "Personnel expenses", associated with the launch of the Vesta Project (developed mainly in the second half of 2019);
- higher expenses of €3.2 million regarding the contribution to the Single Resolution Fund (included under "Other expenses");
- lower variable costs (included in particular under "Production expenses") related to lower operating volumes as a result of the pandemic and to some contractual renegotiations.

"Depreciation and amortisation" amounted to €13.4 million, of which €5.7 million referred to other "**Adjustments to tangible and intangible assets**" and €7.7 million to Custodian Bank "**Customer Contract Amortisation**" (the latter category being excluded from the "EBT (Normalised)" aggregate).

"Other components", negative to the tune of €35.8 million, take into account: (i) project costs for Nuovo Core banking of €3.3 million, (ii) costs of the Vesta Project and revision of the Business Plan of €0.9 million, (iii) contribution to the National Resolution Fund of €2.2 million, (iv) value adjustments, provisions and expenses related to the signing of the SPMA of €30.9 million (including: (a) €19.8 million relating to value adjustments and selling costs on financial assets (referring to the Vesta Project) classified among asset groups held for sale; (b) €5.7 million in charges for consensual termination of employment agreements with some "Vesta" managers and members of the Board; (c) €2.3 million for value adjustments and charges for termination of "Vesta" commercial contracts; (d) €1.1 million related to commitments made with the signing of the SPMA; (e) €2.0 million in charges for advisory support (pre/post signing related to the signing of the SPMA and its implementation) and (v) other net income of €1.5 million.

"**Losses on equity investments and HTC**", amounting to €36.4 million, refer to sales of government bonds held in the Hold To Collect (HTC) portfolio for a nominal amount of €1,120 million, carried out (in February) in order to restrict the concentration of risk to a single security (with an income of €0.6 million) as well as (in May) implementing the commitments made under the SPMA (with a loss of €37.4 million), and the sale of securities of bank issuers (also held according to the HTC business model) for a nominal value of €/USD 15 million in December (with an income of €0.3 million). The sustainability of these sales within the HTC business model was assessed in relation to the relevant company policies and specifically by the Board of Directors in connection with the signing of the SPMA.

These amounts, net of "**Income taxes**" of €16.2 million, result in the aforementioned "Loss for the year" of €35.8 million.

RESULTS FROM THE BANKING GROUP CONSOLIDATED FINANCIAL STATEMENTS

The size and composition of the Statement of Financial Position and Income Statement items of the Consolidated Financial Statements of the Banking Group (created in 2020) are very similar to those of the Parent Company, with the contribution from the other companies falling within the scope of consolidation being marginal (Cara Services and, consolidated in Shareholders' Equity, Unione Fiduciaria).

Consolidated Statement of Financial Position
Consolidated Group assets totalled €10,657 million at 31 December 2020, as summarised in the tables below.

Asset items (figures as at 31 December 2020 in € million)	**DEPObank**	**Cara services**	**UF**	**Consolid.**	**Group**
Cash and cash equivalents	4,921.0				4,921.0
Financial assets measured at fair value through profit or loss	35.2				35.2
Financial assets measured at fair value through other comprehensive income	3.3				3.3
Financial assets at amortised cost	5,200.6			-1.3	5,199.3
a) Receivables due from banks	*1,717.9*				*1,717.9*
b) Receivables due from customers	*3,482.7*			*-1.3*	*3,481.4*
- of which: Government debt securities	*3,251.5*				*3,251.5*
Equity investments	8.6		1.5		10.1
Tangible assets	22.0				22.0
Intangible assets	103.7			-	103.7
Tax assets	75.7				75.7
Non-current assets and asset groups held for disposal	20.5	2.3		-0.4	22.4
Other assets	264.4				264.4
Total assets	**10,654.9**	**2.3**	**1.5**	**-1.7**	**10,657.0**

Liability items and Shareholders' Equity (figures as at 31 December 2020 in € million)	**DEPObank**	**Cara Services**	**UF**	**Consolid.**	**Group**
Financial liabilities at amortised cost	9,899.7				9,899.7
a) Payables due to banks	*916.5*				*916.5*
b) Payables due to customers	*8,983.2*				*8,983.2*
Financial liabilities held for trading	4.0				4.0
Tax liabilities	5.1				5.1
Liabilities associated with groups of assets held for disposal	-	1.9		-1.3	0.6
Other liabilities	274.9				274.9
Post-employment benefit provision	3.2				3.2
Provisions for risks and charges	30.7				30.7
Capital and reserves	473.1	0.8	1.7	-0.8	474.8
Profit (loss) for the year	-35.8	-0.4	-0.2	0.4	-35.9
Total Liabilities and Shareholders' Equity	**10,654.9**	**2.3**	**1.5**	**-1.7**	**10,657.0**

In addition to the previously shown Parent Company statement of financial position items, there are €2.3 million of assets attributable to Cara Services, separately presented in accordance with IFRS 5, including:

- €1.2 million of intangible assets, consisting mainly of assets related to the technological platform developed and owned by the company and underlying the offer of services;
- the €1.3 million loan received from the Parent Company (subject to elimination in the consolidation process, together with the components related to the equity investment and net equity of the investee).

The valuation at equity of the interest held in the associate Unione Fiduciaria is €1.5 million higher than its book value in the Parent Company's separate financial statements.

Consolidated Income Statement
The 2020 consolidated income statement used by the Parent Company (set out below) shows an "**EBT (normalised)"** of €27.7 million and a "**Loss for the year**" of €35.9 million.

Item	IS 2020 Depobank	IS 2020 Cara Services UF	IS 2020 Group
Net fee and commission income and service revenues	87,807	1,095	88,902
Net interest income	38,827	- 27	38,801
Profits (losses) on trading and hedge account	2,087	0	2,087
Dividends on equity investments and AFS	77	-	77
Operating revenue	**128,798**	**1,068**	**129,867**
Adjustments to financial assets	1,566	-	1,566
Net revenue	**130,364**	**1,068**	**131,433**
Personnel costs	- 31,814	- 1,090	- 32,904
Production expenses	- 15,000	- 66	- 15,066
ICT expenses	- 31,658	- 214	- 31,872
Other expenses	- 18,295	135	- 18,160
Operating costs	**- 96,767**	**- 1,235**	**- 98,002**
Adjustments to tangible and intangible assets	- 5,702	- 46	- 5,748
EBT (Normalised)	**27,895**	**- 212**	**27,683**
Amort. Customer Contract	- 7,673	-	- 7,673
Other components	- 35,828	295	- 35,533
Profit (Loss) on equity investments and HTC	- 36,382	- 159	- 36,540
Income taxes	16,204	- 83	16,121
Profit (Loss) for the financial year	**- 35,784**	**- 159**	**- 35,943**

The €0.2 million difference compared with the Parent Company's operating loss is attributable to the result, pro rata, of the associate Unione Fiduciaria.

The loss for the year of the subsidiary Cara Services is already included in the fair value measurement of the equity investment in the Parent Company's individual financial statements and therefore does not entail further changes in the Banking Group's net result.

Reconciliation of the Parent Company's shareholders' equity and net profit and consolidated shareholders' equity and net profit

(Amounts in thousands of euros)	**Shareholders' Equity**	**of which: profit for the year**
Balances as at 31/12/2020 as per the Parent Company's balance sheet	**437,304**	**-35,784**
Valuation differences compared to book values:		
– Companies consolidated using the line-by-line or proportional method	-	-
– Companies consolidated using the equity method	1,543	-159
Dividends collected during the year	-	-
Balances as at 31/12/2020 as per the consolidated balance sheet	438,847	-35,943

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Below is information on the Company's business continuity, financial risks, impairment tests and uncertainties in the use of estimates.

BUSINESS CONTINUITY

Considering the following indicators relating to the Bank:

Financial indicators

- there was no balance sheet deficit or negative net working capital situation;
- there are no fixed-term loans nearing maturity without reasonable prospects of extension or repayment; there is no excessive reliance on short-term loans to finance long-term assets;
- there is no indication of withdrawal of financial support by lenders and other creditors;
- there are no actual or forecast financial statements showing negative cash flows;
- the main financial performance and financial position indicators are not negative;
- there are no significant operating losses arising from cash-flow generating activities;
- the financial projections for various scenarios provide for commercial initiatives to be funded in part through the estimated earnings for the period over the plan horizon;
- the company has ability to settle its debts at maturity;
- the company has the ability to comply with the terms of its loans.

Performance measures

- no directors or key management personnel were lost without being able to replace them;
- no key markets, distribution contracts, concessions or major suppliers were lost;
- no difficulty was encountered in staffing or in maintaining the normal flow of goods and services from key suppliers.

Other indicators

- capital did not fall below the legal limits and there were no cases of non-compliance with other laws;
- there are no legal and tax disputes that, in the event of an unfavourable outcome, could lead to compensation obligations that the bank is unable to discharge;
- there are no legislative changes or government policies from which adverse effects are expected.

Other information

During 2020, the international scenario was affected by the spread of the coronavirus and the consequent restrictive measures to contain it. The Bank has recorded temporary drops in operating volumes and related fee income, attributable to the restrictive measures or the price of financial assets on the benchmark markets. Moreover, there were no impacts recorded on the service commercial relations or competitive market position. Owing to its particular operations, which are very different from those of commercial banks, and to the nature of the assets it holds, the Bank has not registered any notable impairment in asset quality.

The preventive measures enacted from the beginning of the crisis guaranteed operational continuity, mitigated risk and maintained a high level of worker safety.

The losses recorded in the disposal of some assets in the wake of commitments made under the Banca Farmafactoring merger transaction are not expected to cause significant operational uncertainty for the bank in the foreseeable future.

Moreover, taking into account the bank's financial position, results and liquidity indicators and the specific business areas in which it operates, it is not thought possible, even considering the potential impacts of the coronavirus, although they cannot be accurately estimated, that the bank is in a state of significant uncertainty regarding events or conditions that may lead to the emergence of serious doubts as to its ability to continue to operate as a going concern.

In view of the above, the Directors confirm the reasonable expectation that the Bank will continue to operate in the foreseeable future and that, consequently, the 2020 financial statements have been prepared on a going-concern basis.

The financial statements for 2020 have been prepared with a view to business continuity also in relation to the subsidiary Cara Services. Although in the context of a divestment process, DEPObank, in its capacity as shareholder, has worked to ensure that assets and liabilities, cash flows and results are also adequate after the sale. This allowed the Directors to reasonably expect that the company would have adequate resources to continue operating in the foreseeable future and in any case for a minimum period of twelve months from the date of these financial statements.

IMPAIRMENT OF ASSETS

In line with the indications provided in the joint document, the procedure and the assessment parameters for the impairment testing of goodwill were approved, in line with previous years, by the Board of Directors independently and in advance of the approval of the draft 2020 financial statements. The issue has been discussed by the governing body on several occasions since the meeting of the Board of Directors on 17 December 2020.

The impairment test was conducted on the basis of the statement of financial position and income statement projections underlying the "2020–2023 Strategic Plan" approved by the Board of Directors on 21 February 2020, taking into account:

- the exclusion (consistent with the choice adopted in the Financial Statements at 31 December 2019) of the impacts (financial position and results) expected in the Strategic Plan from the asset-side strategy underlying the Vesta Project;
- the "Covid effects" on the aforementioned projections developed, in a stand-alone scenario, starting from the "Base Scenario" on Covid 2020 impacts shared in the Board of Directors meeting held on 28 April 2020;
- the results of the first year of the Plan and the projections underlying the 2021 Budget approved by the Board of Directors on 17 December 2020.

The Notes set out the information required by the joint document regarding the process of assessing the assets tested for impairment in terms of the underlying assumptions, methodologies and parameters used.

In addition, with regard to disclosure, the Notes also contain fundamental information on the following elements:

- Definition of the cash-generating units (CGUs);
- Allocation of goodwill to the individual CGUs;
- Illustration of the criterion for estimating the recoverable amount, when based on value in use;
- Illustration of the criterion for estimating the recoverable amount, when based on fair value;
- Description of the analysis of the sensitivity of the impairment test result to changes in the basic assumptions;
- Considerations regarding the possible presence of external indicators of impairment in the absence of write-downs of assets as a result of the impairment procedure.

NON-CURRENT ASSETS AND ASSET GROUPS HELD FOR SALE

As indicated in this Report on Operations, in May 2020 a "Sale, Purchase and Merger Agreement" (hereinafter "SPMA") was signed between Banca Farmafactoring S.p.A. ("BFF"), the Bank's current controlling shareholder, Equinova UK Holdco Ltd ("Equinova") and (limited to certain contractual provisions) DEPObank.

One of the elements underlying the SPMA clauses is the closure, before the Acquisition, of the business units and investments dedicated to the new SME Specialised Lending division provided for in the 2019-2023 Strategic Plan (so-called Vesta Project) that are not considered strategic for the purposes of the business combination.

Considering the commitments provided for by the SPMA and the state of implementation of the closing conditions provided for in the same agreement, and in particular securing, as completed in December 2020, all authorisations (Antitrust, Golden Power and Regulatory) from the competent Authorities, the Board of Directors, at its meeting on 17 December 2020, resolved to classify the assets attributable to the Vesta Project among "Non-current assets and asset groups held for sale" pursuant to IFRS 5, having determined the existence of the requirements for this classification.

In the Parent Company's separate financial statements, the following financial assets recorded in the statement of financial position at 31 December 2020 have consequently been reclassified to this item:

- equity interest (100%) in Cara Services: acquired at the beginning of the year for €20 million and initially classified as "Equity Interest" (Item 70 on the asset side of the Statement of Financial Position);
- "Prelios Loan": share of €20 million of the pool loan (total €380 million) granted to Prelios S.p.A. in November 2019 and classified in the financial statements at 31 December 2019 under "Financial assets at amortised cost" (Item 40 on the asset side of the Statement of Financial Position) and accounted for according to the Held to Collect (HTC) business model.

Consistent classification, and separate representation, has been adopted with reference to the income components related to the aforementioned financial assets.

Similarly, in the consolidated financial statements of the Banking Group, in compliance with the same accounting principle, the items referring to the "Prelios Loan" and to the assets and liabilities pertaining to the subsidiary Cara Services have been shown separately.

FINANCIAL RISKS

Information on the nature and extent of financial risks to which the Company was exposed in 2020 is provided below.

CREDIT RISK

DEPObank is a "second tier" bank, whose core business is the supply of products and services, mainly in payment systems and administrative custody, administration and settlement of securities. Lending is mostly ancillary and closely related to the provision of products/services and to the specific Treasury activities (managed through the granting of operating credit limits) and Securities Services activities (mostly managed through the granting of current account overdraft facilities).

The credit risk measurement methodologies adopted and the related process of controlling the performances of the various relationships are characterised by criteria of simplicity and simplicity due to the limited number of exposures. Specific organisational rules have been adopted for credit application procedures and periodic reviews involving, in the various phases, the Credit Committee, the Strategic & Financial Committee, the CEO and the Board of Directors.

MARKET RISK

The market risk borne is extremely low as the securities portfolio is almost entirely related to the *banking book* (HTCS and HTC portfolios) and thus does not generate market risk. The portfolio of "Assets measured at fair value through profit or loss " (FVTPL), relating to the *trading book* essentially comprises units of UCITS measured according to the most recent NAV available at the date of preparation of these financial statements. Exposure to exchange rate risk is also very modest, as all foreign exchange transactions that generate a position exposed to exchange rate risk is normally hedged through the execution on the market of a transaction of the opposite sign, and positions exposed to exchange rate risk are allowed only to be maintained within the limits (always amply respected) of maximum overall and single currency exposure and VaR.

LIQUIDITY AND CASH FLOW RISK

The core business of DEPObank normally contributes to the generation of demand deposits. In addition, DEPObank may also meet its needs through liquidity deriving from: highly liquid assets, unsecured over-the-counter (OTC) interbank market funding, repurchase agreements, refinancing operations with the European Central Bank (ECB) and inflows from its maturing assets.

The securities portfolio is characterised by the presence of government bonds and (to a residual extent) bank bonds, mostly used as collateral to operate on settlement systems and to raise repurchase agreement business on the market.

Any excess liquidity is used partly in interbank deposits or repurchase agreements with a maturity not exceeding three months. The remainder is deposited with the European Central Bank. The structure of the flows, in terms of maturities and amounts, makes it possible to limit liquidity risk through the regular closure of outstanding positions.

The regulatory reports of the Basel III liquidity coverage ratio (LCR), produced every month, have shown continual compliance with the regulatory limit (> 100%); the same applies to the quarterly observations of the other Basel III liquidity indicator, the Net Stable Funding Ratio (NSFR).

INTEREST RATE RISK

In 2020, with the exception of the second quarter, exposure to interest rate risk (quantified as the impact of a 200 basis point rate shock on all maturities) fell during the year. This decline was due mainly to the gradual reduction in the duration of the asset-side securities portfolio, in the absence of maturities or renewals, and to the gradual recovery of corporate inflows. It should also be noted that, with effect from the measurements relating to the second quarter, interest rate risk has been monitored using the new methodology envisaged by the 32nd update of Bank of Italy Circular 285, which introduced, with effect from 21 April 2020, significant changes in the calculation of Interest Rate Risk for the purpose of calculating Internal Capital, proving even more prudent than before.

UNCERTAINTY IN THE USE OF ESTIMATES

The notes to the financial statements, "Part A - Accounting policies" set out the decisions taken in the application of accounting principles (e.g. classification of financial instruments to the various portfolios) that have the most significant effects on the amounts recognised in the financial statements.

In the notes to the financial statements, disclosure is provided on the fundamental assumptions regarding the future and the other elements of uncertainty in estimates which could result in a high risk, within the following year, of significant changes to the carrying amounts of assets and liabilities presented in the financial reports.

RATINGS

Following, and as a result of, the signing and communication to the market on 13 May 2020 of the binding agreement for the acquisition of control of DEPObank by Banca Farmafactoring, on 21 May 2020, the rating agency Standard & Poor's (S&P) put DEPObank (Issuer Credit Rating BB-/Stable/B) on CreditWatch, with positive implications (BB-/Watch Pos/B).

S&P believes that as a result of the Transaction, DEPObank's credit profile could benefit from becoming part of a wider and more diversified banking group, with complementary business lines.

OTHER INFORMATION

DEPObank is not subject to management and coordination by any other company or entity, as defined in Articles 2497-*sexties* and 2497-*septies* of the Italian Civil Code.

In 2020 DEPObank did not carry out any research and development.

In the respective sections of its website (www.depobank.it), DEPObank has published, together with the 2019 financial statements, the "State-by-state public disclosure" and "Disclosure pursuant to Regulation (EU) No 575/2013", as required by Circular No. 285, and subsequent updates, published by the Bank of Italy on 17 December 2013.

It should be noted that gender balance within the Board of Directors of DEPObank is ensured in accordance with Article 15 paragraph 1 of the Articles of Association and the applicable supervisory regulations.

Just like the previous year, DEPObank did not prepare a 2019 Non-Financial Declaration, as it no longer falls within the scope of application of Italian Legislative Decree 254/2016.

DEPObank continues to pursue its ambition to manage the social and environmental impacts associated with its operations with increasing awareness and responsibility.

TREASURY SHARES

There are no treasury shares of the Company.

REGISTERED OFFICE

Via Anna Maria Mozzoni, 1.1 — Milan

BRANCH OFFICES

Via Elio Chianesi 110 D - Rome

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

There were no events after the reporting date to warrant changes to the results presented in the Financial Statements at 31 December 2020.

Between 31 December 2020 and the approval date of this Report, the following significant events have taken place, all pertaining to the completion of the Transaction (as described in the section dedicated to the merger with Banca Farmafactoring) and implementing the prior agreements between the controlling shareholder Equinova, Banca Farmafactoring and DEPObank:

- 27 January 2021: the extraordinary shareholders' meeting of DEPObank approved the proposed merger of DEPObank into Banca Farmafactoring.

A similar resolution was adopted on 28 January 2021 by the extraordinary shareholders' meeting of Banca Farmafactoring;

- 1 February 2021: the assignment of the "Prelios Loan" was completed at values in line with those recorded in the financial statements at 31 December 2020;
- 12 February 2021: an agreement was signed for the sale (at values in line with those recorded in the financial statements at 31 December 2020) of the subsidiary Cara Services GmbH to Ptech Holdings GmbH, execution of which was scheduled for 25 February 2021.

The disposal of the assets adjudged to be non-strategic for the Banca Farmafactoring business model (namely, the Prelios Loan and the stake in Cara Services) is one of the crucial elements enabling the scheduling of March 1 as the date of transfer of control of the Bank, which is itself a prerequisite for the completion of the merger of DEPObank into Banca Farmafactoring, expected to take effect on March 5.

BUSINESS OUTLOOK

The international and Italian economic climate is still characterised by the direct and indirect effects on the ongoing COVID-19 pandemic, the outlook for which depends both on how the virus evolves and on the measures adopted to fight it and mitigate its impact on the economy. Thanks in part to the effects of the vaccination campaign, Italian GDP, after the sharp decline recorded in 2020, should gradually return to growth, supporting the Bank's prospects for profitability and enabling it to maintain solid liquidity and capital ratios.

In the first quarter of 2021, the outlook for operations will be influenced by the actions taken in relation to the merger with BFF, including the sale of Cara Services to be completed, on the basis of the binding agreements signed, by 25 February 2021, and the subsequent disappearance of the DEPObank Banking Group, which will mean no direct comparisons with previous periods will be possible in the future.

COVERAGE OF THE LOSS FOR THE FINANCIAL YEAR

Dear Shareholders,

The DEPObank financial statements submitted for your examination, which you are invited to approve, show a loss for the year of €35,784,266, which it is proposed be covered through the use of available reserves.

Equity reserves, as disclosed in the Notes, Part B, Section 12.4, Liabilities, and in particular the criteria for their use, have been taken into account for the purposes of covering the loss for the year.

The portion of these reserves available to cover losses totals €412,547,703 and includes the Share premium reserve of €148,242,172, the Earnings reserves of €253,457,687 and the Italian Law 289/2002 earnings reserve of €10,847,844.

It is proposed that the loss for the year be covered by attributing it, for € 35,784,266, to the Earnings reserves.

Milan, 17 February 2021

THE BOARD OF DIRECTORS

DEPObank
BANCA DEPOSITARIA ITALIANA

Parent Company Financial statement at 31 December 2020

Balance Sheet

(Figures in €)

Assets		31/12/2020		31/12/2019	
10.	**Cash and cash equivalents**		**4,920,953,008**		**2,334,682,951**
20.	**Financial assets measured at fair value through profit or loss**		**35,178,844**		**32,305,980**
	a) financial assets held for trading	*1,773,132*		*877,349*	
	c) other financial assets subject to mandatory fair-value valuation	*33,405,712*		*31,428,631*	
30.	**Financial assets measured at fair value through other comprehensive income**		**3,298,470**		**6,160,805**
40.	**Financial assets measured at amortised cost**		**5,200,596,193**		**6,279,748,597**
	a) Receivables due from banks	*1,717,913,192*		*1,539,310,738*	
	b) Receivables due from customers	*3,482,683,001*		*4,740,437,859*	
70.	**Equity investments**		**8,564,073**		**8,564,073**
80.	**Tangible assets**		**22,020,858**		**27,303,419**
90.	**Intangible assets**		**103,675,423**		**109,102,446**
	of which: goodwill	*81,017,025*		*81,017,025*	
100.	**Tax assets**		**75,695,095**		**67,016,782**
	a) current	*40,468,863*		*47,306,025*	
	b) deferred	*35,226,232*		*19,710,757*	
110.	**Non-current assets and groups of assets held for disposal**		**20,509,970**		**-**
120.	**Other assets**		**264,408,096**		**278,427,299**
	Total assets		**10,654,900,030**		**9,143,312,352**

(Figures in €)

Liabilities and equity		31/12/2020		31/12/2019	
10.	**Financial liabilities measured at amortised cost**		**9,899,700,580**		**8,295,788,414**
	a) Payables due to banks	*916,538,567*		*801,891,933*	
	b) Payables due to customers	*8,983,162,013*		*7,493,896,481*	
20	**Financial liabilities held for trading**		**4,039,234**		**6,247,973**
60.	**Tax liabilities**		**5,127,816**		**20,159,451**
	a) current	*-*		*15,131,430*	
	b) deferred	*5,127,816*		*5,028,021*	
80.	**Other liabilities**		**274,873,588**		**322,026,783**
90.	**Employee severance pay**		**3,166,921**		**3,130,471**
100.	**Provisions for risks and charges**		**30,688,101**		**23,371,660**
	a) commitments and guarantees issued	*831*		*6,433*	
	b) pensions and similar obligations	*296,281*		*329,492*	
	c) other provisions for risks and charges	*30,390,989*		*23,035,735*	
110.	**Valuation reserves**		**-2,017,019**		**-475,693**
140.	**Reserves**		**284,305,533**		**311,429,903**
150.	**Share premium**		**148,242,172**		**148,242,172**
160.	**Share capital**		**42,557,370**		**42,557,370**
180.	**Profit (loss) for financial year (+/-)**		**-35,784,266**		**-29,166,152**
	Total liabilities and shareholders' equity		**10,654,900,030**		**9,143,312,352**

Income Statement

(Figures in €)

	Income Statement items	2020		2019	
10.	Interest income and similar income		51,239,510		70,560,334
	of which: interest income calculated according to the effective interest method	*32,196,966*		*33,611,832*	
20.	Interest expenses and similar charges		-16,227,298		-38,812,448
30.	**Net interest income**		**35,012,212**		**31,747,886**
40.	Fee and commission income		111,608,119		111,452,561
50.	Fee and commission expense		-30,054,831		-29,337,542
60.	**Net fee and commission income**		**81,553,288**		**82,115,019**
70.	Dividends and similar income		374,782		2,366,062
80.	Profits (losses) on trading		5,760,879		15,695,127
100.	Profits (losses) on disposal or repurchase of:		-36,381,847		24,723
	a) Financial assets measured at amortised cost	*-36,381,847*		*24,723*	
110.	Profits (losses) on financial assets and liabilities measured at fair value through profit or loss:		1,141,015		2,930,469
	b) Other financial assets subject to mandatory fair value measurement	*1,141,015*		*2,930,469*	
120.	**Net interest and other banking income**		**87,460,329**		**134,879,286**
130.	Net losses/recoveries for credit risk associated with:		1,827,702		2,375,738
	a) Financial assets measured at amortised cost	*1,827,702*		*2,375,738*	
150.	**Net result from banking activities**		**89,288,031**		**137,255,024**
160.	Administrative expenses:		-109,244,473		-101,588,953
	a) personnel expenses	-33,846,663		-32,423,360	
	b) other administrative expenses	*-75,397,810*		*-69,165,593*	
170.	Net provisions for risks and charges		-8,228,136		-892,968
	a) commitments and guarantees issued	*5,602*		*-6,433*	
	b) other net provisions	*-8,233,738*		*-886,535*	
180.	Net write-downs/write-backs on tangible assets		-2,920,605		-2,043,653
190.	Net write-downs/write-backs on intangible assets		-10,870,719		-10,822,828
200.	Other operating income/expenses		9,322,604		10,490,475
210.	**Operating expenses**		**-121,941,329**		**-104,857,927**
240.	Goodwill impairment		-		-45,913,562
260.	**Profit (Loss) from continuing operations before taxes**		**-32,653,298**		**-13,516,465**
270.	Income taxes		10,886,859		-15,649,687
280.	**Profit (Loss) from continuing operations after taxes**		**-21,766,439**		**-29,166,152**
290.	Profit (Loss) from discontinued operations after taxes		-14,017,827		-
300.	**Profit (Loss) for the financial year**		**-35,784,266**		**-29,166,152**

Statement of Comprehensive Income

(Figures in €)

	Items	2020	2019
10.	**Profit (Loss) for the financial year**	**-35,784,266**	**-29,166,152**
	Other comprehensive income, net of taxes, without reclassification to the income statement		
20.	Equity instruments measured at fair value through other comprehensive income	381,759	677,658
70.	Defined-benefit plans	-23,104	-29,572
	Other comprehensive income, net of taxes, with reclassification to the income statement		
140.	Financial assets (other than equity instruments) at fair value through other comprehensive income	-	-
170.	**Total other comprehensive income, net of taxes**	**358,655**	**648,086**
180.	**Comprehensive income (Item 10 + 170)**	**-35,425,611**	**-28,518,066**

Statement of changes in Shareholders' Equity 31/12/2019

(Figures in €)

				Allocation of profit/loss for the previous year		Changes in the year								
							Shareholders' equity transactions							
	Balances as at 31.12.2018	Change in opening balances	Balances as at 01.01.2019	Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Comprehensive income 2019	Net equity at 31/12/2019
Share capital:														
a) ordinary shares	42,557,370		42,557,370											42,557,370
b) other shares														-
Share premium	148,242,172		148,242,172											148,242,172
Reserves:														
a) retained earnings	229,044,618		229,044,618	5,164,942		66,372,499								300,582,058
b) others	10,847,844		10,847,844											10,847,844
Valuation reserves	9,805,714		9,805,714			-10,929,493							648,086	-475,693
Equity instruments														-
Treasury shares														-
Profit (Loss) for the year	5,164,942		5,164,942	-5,164,942									-29,166,152	-29,166,152
Shareholders' equity	**445,662,660**		**445,662,660**	**-**	**-**	**55,443,006**	**-**	**-**	**-**	**-**	**-**	**-**	**-28,518,066**	**472,587,600**

Statement of changes in Shareholders' Equity 31/12/2020

(Figures in €)

				Allocation of profit/loss for the previous year		Changes in the year								
							Shareholders' equity transactions							
	Balances as at 31.12.2019	Change in opening balances	Balances as at 01/01/2020	Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Comprehensive income 2020	Net equity at 31/12/2020
Share capital:														
a) ordinary shares	42,557,370		42,557,370											42,557,370
b) other shares	-													-
Share premium	148,242,172		148,242,172											148,242,172
Reserves:														
a) retained earnings	300,582,058		300,582,058	-29,166,152		2,041,782								273,457,687
b) others	10,847,844		10,847,844											10,847,844
Valuation reserves	-475,693		-475,693			-1,899,980							358,655	-2,017,017
Equity instruments	-													-
Treasury shares	-		-											-
Profit (Loss) for the year	-29,166,152		-29,166,152	29,166,152									-35,784,266	-35,784,266
Shareholders' equity	**472,587,600**	**-**	**472,587,600**	**-**	**-**	**141,801**							**-35,425,611**	**437,303,790**

Statement of Cash Flows (indirect method)

(Figures in €)

A. OPERATING ACTIVITY	2020	2019
1. Cash flow from operations	**-8,285,168**	**34,942,001**
- profit/loss for the year (+/-)	-35,784,266	-29,166,152
- gains/losses on financial assets held for trading and other financial assets measured at fair value through profit or loss (+/-)	280	429
- gains/losses on hedging operations (+/-)	-	-
- net adjustments/recoveries for credit risk (+/-)	-1,827,702	-2,375,738
- net adjustments/recoveries on tangible and intangible assets (+/-)	13,791,324	58,780,043
- net allocations to provisions for risks and charges and other costs/income (+/-)	8,228,136	892,968
- taxes, duties and tax credits, unpaid (+/-)	-10,886,859	15,649,687
- net adjustments/recoveries on discontinued operations, net of the tax effect (+/-)	19,334,934	-
- other adjustments (+/-)	-1,141,015	-8,839,237
2. Cash flow generated/absorbed by financial assets	**1,067,265,378**	**1,220,871,802**
- financial assets held for trading	-896,063	1,787,995
- financial assets at fair value	-	-
- other financial assets subject to mandatory fair value measurement	-836,066	-1,177,936
- financial assets measured at fair value through other comprehensive income	2,449,043	170,214,119
- financial assets measured at amortised cost	1,061,207,574	985,642,036
- other assets	5,340,890	64,405,589
3. Cash flow generated/absorbed by financial liabilities	**1,553,175,480**	**-3,255,240,808**
- financial liabilities measured at amortised cost	1,603,912,166	-3,092,235,369
- financial liabilities held for trading	-2,208,739	1,322,197
- financial liabilities carried at fair value	-	-
- other liabilities	-48,527,947	-164,327,636
Net cash generated/absorbed by operating activity A (+/-)	**2,612,155,690**	**-1,999,427,006**
B. INVESTING ACTIVITIES		
1. Cash flows generated by	**-**	**-**
- sales of equity investments	-	-
- dividends collected on equity investments	-	-
- sales of tangible assets	-	-1,353,774
- sales of intangible assets	-	-
- disposals of business units	-	-
2. Cash flows absorbed by	**-**	**-**
- purchases of equity investments	-20,072,372	-
- purchases of tangible assets	-369,565	-
- purchases of intangible assets	-5,443,696	-2,461,159
- purchases of business units	-	-
Net cash generated/absorbed by investing activity B (+/-)	**-25,885,633**	**-3,814,933**
C. FUNDING ACTIVITIES		
- issue/purchase of treasury shares	-	-
- issue/purchase of equity instruments	-	-
- distribution of dividends and other purposes	-	-
Net cash generated/absorbed by funding activities C (+/-)	**-**	**-**
NET CASH GENERATED/ABSORBED DURING THE FINANCIAL YEAR D=A+/-B+/-C	**2,586,270,057**	**-2,003,241,939**

Reconciliation

(Figures in €)

Financial statement items	2020	2019
Cash and cash equivalents at start of financial year	2,334,682,951	4,337,924,890
Total net cash generated/absorbed during the financial year	2,586,270,057	-2,003,241,939
Cash and cash equivalents: effect of changes in exchange rates		
Cash and cash equivalents at end of financial year G=E+/-D+/-F	**4,920,953,008**	**2,334,682,951**

Key:
(+) generated
(-) absorbed

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Notes to the Parent Company Financial statement

PART A - ACCOUNTING POLICIES

A.1 - GENERAL CRITERIA

SECTION 1 – DECLARATION OF COMPLIANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

DEPOBank S.p.A. (hereinafter also the “Bank”), in accordance with the provisions of Regulation (EC) No 1606 of 19 July 2002, has prepared these financial statements in compliance with the International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), as endorsed by the European Commission and transposed by the Italian Legislator with Legislative Decree 38/2005.

In preparing these financial statements, the IASs/IFRSs in force as at 31 December 2020 have been applied.

In order to better guide the application of the accounting standards, reference has been made to the interpretations provided by the International Financial Reporting Interpretations Committee (IFRIC), as well as to the documents on the application of IASs/IFRSs in Italy prepared by the Italian Accounting Organisation (OIC) and to the interpretative documents prepared by the Italian Banking Association (ABI). There were no derogations from the IASs/IFRSs.

These financial statements have been prepared on the basis of Bank of Italy Circular No. 262 of 22 December 2005 and the following updates and interpretative clarifications provided by the Bank of Italy. Specifically, the sixth update of 30 November 2018 and the Communication of the Bank of Italy of 15 December 2020, concerning the additions to the provisions of Circular no. 262 have been taken into account to represent specific information on the impacts of COVID-19 and the measures to support the economy and amendments to IAS/IFRSs.

SECTION 2 – GENERAL BASIS OF PREPARATION

The Financial Statements comprise the mandatory statements set out in IAS 1 (i.e. the Balance Sheet, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity and Cash Flows) and the Notes. They are also accompanied by the Directors' Report on operations, on the economic results achieved and on the financial position and cash flows. In particular, the information required for the Report on Operations in the Bank of Italy Circular No. 262/2005, as updated, is contained in the Report on Operations.

All information required by law and the supplementary disclosures deemed necessary to give a true and fair view of the bank's situation are provided in the Notes. These financial statements are prepared assuming that the company is a going concern, there being no uncertainty about the Bank's ability to continue to operate. Moreover, as underscored in the Report on Operations, it should be noted that the Extraordinary Shareholders' Meeting held on 27 January 2021 resolved on the merger by incorporation of the Bank into Banca Farmafactoring S.p.A. The mandatory tables and the details required by the Bank of Italy are separately identified according to the numbering established by the supervisory authority. The financial statements as at 31 December 2020 have been prepared using the euro as the functional currency; the amounts in the financial statements are expressed in euro, while the figures in the Notes are expressed in thousands of euro, unless otherwise specified.

The financial statements as at 31 December 2020 are based on the requirements of the international accounting standards endorsed by the European Commission. They also reflect the general assumptions of the IASB Systematic Framework for the preparation and presentation of financial statements.

Measurement criteria have been adopted according to the going concern assumption and comply with the principles of accrual basis accounting, relevance and materiality of accounting information and the precedence of economic substance over legal form.

The Financial Statements and the Notes also present, in addition to the amounts relating to the reporting period, the corresponding comparative data referring to 31 December 2019.

CONTENT OF THE FINANCIAL STATEMENTS

Statement of financial position, income statement and statement of comprehensive income

The consolidated statement of financial position, income statement and statement of comprehensive income consist of items, sub-items and additional details. In the income statement, revenues have been presented without sign, whereas costs are preceded by a minus sign.

Statement of changes in equity

The statement of changes in equity, which presents movements in equity during the reporting period, is broken down into share capital, capital reserves, earnings and valuation reserves and profit or loss. No equity instruments other than ordinary shares have been issued.

Statement of cash flows

The statement of cash flows during the reporting year and previous year was prepared on the basis of the indirect method, according to which the cash flows from operations are represented by the results for the period, adjusted by the effects of non-monetary operations.

The cash flows are divided between those generated by operations, those generated by investment activities and those generated by funding activities.

Given that cash and cash equivalents include cash and cash equivalents at central banks, the movements for the year are represented exclusively by financial movements.

In the statement, the cash flows generated during the year are indicated without sign, while cash absorbed is preceded by a minus sign.

CONTENT OF THE NOTES

The Notes contain the information deemed necessary to give a true and fair view of financial performance and financial position.

The measurement criteria described below have been adopted in determining all information contained in these financial statements.

SECTION 3 – EVENTS AFTER THE REPORTING DATE

On 17 February 2021, the Board of Directors of DEPObank S.p.A. examined these draft financial statements and authorised their publication. In referring to the paragraph of the Report on Operations entitled "Significant events after the reporting period" for a general discussion on developments after the reporting period, it is reported that after 31 December 2020 and until the date of approval of this report no circumstances or events occurred that would require any adjustments to the financial statements as at 31 December 2020 (“adjusting events”).

SECTION 4 – OTHER ASPECTS

IFRS ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLIED WITH EFFECT FROM 1 JANUARY 2020

The following IFRS accounting standards, amendments and interpretations were applied for the first time by the Bank as of 1 January 2020:

- On 31 October 2018 the IASB published the document "Definition of Material” (amendments to IAS 1 and IAS 8). That document introduced changes to the definition of "material” contained in IAS 1 - Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors. Its aim was to make the definition of "material” more specific, and to introduce the concept of "obscured information” alongside the concept of omissions or misstatements, which were already present in the two amended standards. The amendment clarifies that information is "obscured” if it has been described in such a way that produces, for the primary readers of financial statements, an effect similar to that which would have occurred if that information had been omitted or misstated. The adoption of this amendment had no effect on the financial statements.
- On 29 March 2018, the IASB published an amendment to the “References to the Conceptual Framework in IFRS Standards”. The amendment is effective for years starting on or after 1 January 2020, but early adoption is permitted. The Conceptual Framework defines the basic concepts of financial reporting and guides the Board in elaborating the IFRS standards. The document helps to ensure that the standards are conceptually coherent and that similar transactions are dealt with in the same way, in order to provide useful information to investors, lenders and other creditors. The Conceptual Framework supports businesses in elaborating accounting standards when no IFRS applies to a specific transaction. In general it also helps the parties to understand and interpret the standards. The adoption of this amendment had no effect on the financial statements.
- On 26 September 2019, the IASB published “Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform”. It amended IFRS 9 Financial Instruments and IFRS 39 – Financial Instruments: Recognition and Measurement as well as IFRS 7 - Financial Instruments: Disclosures. The

amendment changed some of the requirements for the application of hedge accounting, by introducing temporary derogations to mitigate the impact of the uncertainty of the IBOR reform (which is still in progress) on future cash flows in the period preceding its completion. The amendment also requires companies to report additional information about their hedging relations that are directly affected by the uncertainties of the reform, to which these derogations apply. The adoption of this amendment had no effect on the financial statements.
- On 22 October 2018 the IASB published “Definition of a Business” (amendments to IFRS 3). The document provides clarification regarding the definition of business for the correct application of IFRS 3. In particular, the amendment clarifies that while a business usually produces an output, the presence of an output is not strictly necessary to identify a business in the presence of an integrated set of activities/processes and assets. However, to satisfy the definition of a business, an integrated set of activities/processes and assets must include, at a minimum, a substantial input and process that together contribute significantly to the ability to create output. To this end, the IASB has replaced the term "ability to create output” with “ability to contribute to the creation of output” to clarify that a business can exist even without the presence of all the inputs and processes necessary to create an output. The amendment also introduced an optional concentration test that rules out the presence of a business if the price paid refers substantially to a single asset or group of assets. The amendments apply to all business combinations and acquisitions of assets after 1 January 2020, but early application is allowed. The adoption of this amendment had no effect on the financial statements.
- On 28 May 2020 the IASB published an amendment entitled "COVID-19 Related Rent Concessions" (Amendment to IFRS 16). The document allows lessees to account for the reductions in rents related to COVID-19 without having to assess whether the definition of lease modification in IFRS 16 is respected through an analysis of the contracts. Therefore, lessees who apply this option will be able to account for the effects of the rent reductions directly to the income statement on the effective date of the reduction. This amendment applies to financial statements starting on 1 June 2020, but [the Group/Company has availed itself of the possibility of applying this amendment early on 1 January 2020. The adoption of this amendment had no effect on the financial statements.

IFRS AND IFRIC ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPROVED BY THE EUROPEAN UNION, NOT YET APPLICABLE AND NOT ADOPTED IN ADVANCE BY THE BANK AS OF 31 DECEMBER 2020

At the date of this document, the competent bodies of the European Union have not yet concluded the certification process required for the adoption of the amendments and standards described hereunder.
- On 18 May 2017 the IASB published IFRS 17 - Insurance Contracts, which is intended to replace IFRS 4 - Insurance Contracts. The objective of the new standard is to ensure that an entity provides relevant information that faithfully represents the rights and obligations deriving from the insurance contracts issued. The IASB has developed the standard to eliminate inconsistencies and weaknesses in existing accounting policies, providing a single principle-based

framework to take into account all types of insurance contracts, including reinsurance contracts that an insurer holds. The new standard also provides for presentation and disclosure requirements to improve comparability between entities in this sector. The new principle measures an insurance contract based on a General Model or a simplified version of it, called a Premium Allocation Approach ("PAA"). The standard applies from 1 January 2023 but early application is permitted only for entities that apply IFRS 9 - Financial Instruments and IFRS 15 - Revenue from contracts with customers. The directors do not expect effects in the balance sheet from the adoption of this principle.

- On 23 January 2020 the IASB published "Amendments to IAS 1 - Presentation of Financial Statements: Classification of Liabilities as Current or Non-current". The document aims to clarify how to classify payables and other liabilities as short or long term. The amendments will come into force on 1 January 2023, but early adoption is permitted. The directors do not expect a significant effect in the balance sheet from the adoption of this amendment.
- On 14 May 2020 the IASB published the following amendments:
  - Amendments to IFRS 3 Business Combinations: the amendments are intended to update the reference in IFRS 3 to the Conceptual Framework in the revised version, without entailing changes to the provisions of IFRS 3.
  - Amendments to IAS 16 - Property, Plant and Equipment: the amendments are intended to prevent the deduction from the cost of tangible assets of the amount received from the sale of goods produced during the testing phase of the activity. These sales revenues and related costs will therefore be recognised in the income statement.
  - Amendments to IAS 37 - Provisions, Contingent Liabilities and Contingent Assets: this amendment clarifies that all costs directly attributable to the contract must be taken into account in the estimate of the possible cost of a contract. Consequently, the assessment of the possible cost of a contract includes not only the incremental costs (e.g., the cost of direct material used in processing), but also all the costs that the company cannot avoid since it has entered into the contract (e.g. the share of the personnel cost and depreciation of the machinery used for the fulfilment of the contract).
  - 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.

  All amendments will come into force on 1 January 2022. The directors do not expect a significant effect in the financial statements from the adoption of these amendments.
- On 30 January 2014 the IASB published IFRS 14 - Regulatory Deferral Accounts, which allows only entities that adopt IFRS for the first time to continue to recognise rate regulation activities in accordance with the previous accounting standards adopted. As the Bank is not a first-time adopter, this standard is not applicable.

Risks, uncertainties and impacts of the COVID-19 epidemic

With a Communication of 15 December 2020, the Bank of Italy published the "Supplements to the provisions of Circular no. 262 'Banks' financial statements:

layout and preparation' concerning the impacts of COVID-19 and the measures to support the economy and amendments to IAS/IFRSs". In applying it, the documents issued by the European regulatory and supervisory bodies and the standard setters have been taken into account.

Given the specific operations of the Bank, there were no significant impacts in the preparation of the financial statements; in particular, the Bank:

- Did not detect any significant impacts of COVID-19 on its ability to continue to operate as a going concern. The Bank has recorded temporary drops in operating volumes and related fee income, attributable to the restrictive measures or the price of financial assets on the benchmark markets. Moreover, there were no impacts recorded on the service commercial relations or competitive market position. Owing to its particular operations, which are very different from those of commercial banks, and to the nature of the assets it holds, the Bank has not registered any notable impairment in asset quality.
- Also taking into account the above, there have been no changes in accounting estimates related to COVID-19 that have had a significant impact or that are expected to have an effect in future years. The main areas subject to estimation by the Directors are as follows:
  - Impairment testing of goodwill and intangible assets with finite useful lives (in particular, customer contracts).
  - Value adjustments of financial assets at amortised cost.
  - Valuation of financial assets measured at fair value (level 3).
  - Recoverability of prepaid taxes.
  - Allocations for provisions for risks and charges.
  - Actuarial gains/losses related to the severance indemnity fund.

Moreover, the following is noted regarding contractual amendments due to COVID-19:

- Contractual amendments and derecognition (IFRS 9): during the year there were no contractual amendments related to the measures implemented by the Italian government, trade associations or the Bank due to the COVID-19 pandemic. Therefore, there were no impacts on derecognition issues of financial assets or liabilities in the financial statements.
- Amendment to IFRS 16: there was no need to consider the possible application of the practical expedient provided for in Regulation (EU) no. 1434/2020 as a result of modifications to the terms of loans.

Parts B and C of the Statement of Financial Position and Income Statement of these Notes provide, where applicable, the supplementary information required by Circular 262.

Part E of these Notes includes, with reference to risks and related hedging policies, specific information on the impacts deriving from the COVID-19 pandemic.

There were no other aspects worthy of note to be reported, including with reference to the Bank of Italy/Consob/IVASS Document No. 6 of 8 March 2013.

A.2- SECTION ON THE MAIN FINANCIAL STATEMENT ITEMS

The accounting standards adopted in preparing the Bank's financial statements as at 31 December 2020 are presented below.

STATEMENT OF FINANCIAL POSITION

1 - Financial assets at fair value through profit or loss

Classification criteria

This category includes financial assets other than those classified as financial assets measured at fair value through other comprehensive income or as financial assets measured at amortised cost. In particular this item includes:

- financial assets held for trading;
- financial assets with a mandatory fair value valuation that do not meet the requirements for valuation at amortised cost or at fair value with an impact on comprehensive income. These are financial assets the contractual terms of which do not provide solely for payments of principal and interest or that are not held within a business model the aim of which is to hold assets to collect the contractual cash flows (a "held-to-collect" business model) or the aim of which is to collect the contractual cash flows and sell the financial assets (a "held-to collect-and-sell" business model);
- financial assets measured at fair value, namely financial assets which are thus designated upon initial recognition, where the requirements are met. In such cases, an entity can irrevocably designate, upon recognition, a financial asset as measured at fair value through profit and loss if and only if by so doing it would eliminate or significantly reduce an inconsistency in measurement.

This item therefore includes:

- debt instruments and loans that are included in an other/trading model (therefore not related to the "held-to-collect" or "held-to-collect-and-sell" business models) or that fail the contractual characteristics test (SPPI test);
- equity instruments - which cannot be qualified as controlling or connected - for which the designation at fair value through comprehensive income has not been made upon initial recognition;
- units of UCIs.

The item also includes derivatives, recognised among financial assets held for trading, which are represented as assets if the fair value is positive.

In general, IFRS 9 does not allow reclassifications to other categories of financial assets except where the entity changes its business model with regard to the management of financial assets (the exception being equity securities, for which no reclassifications are permitted). In such cases, which are expected to be extremely infrequent, the financial assets may be reclassified from the category measured at fair value through profit or loss to one of the other two IFRS 9 categories (Financial assets measured at amortised cost or Financial assets measured at fair value through other comprehensive income). The transfer value is represented by the fair value at the time of reclassification and the effects of reclassification operate on a forward-looking basis, from the date of reclassification. In this case, the effective interest rate of the reclassified asset is determined on the basis of its fair value on the reclassification date. That date is taken to be the date of first recognition, for stage assignment for impairment purposes.

Recognition criteria

The initial recognition of financial assets takes place on the date of settlement for debt instruments and equity instruments, on the date of disbursement for loans, and on the date of subscription, for derivatives.

Financial assets at fair value through profit or loss are initially recognised at fair value, normally represented by the price of the transaction, without considering transaction costs or income directly attributable to the instrument itself.

Measurement criteria

After first recognition, financial assets valued at fair value affecting profit and loss are valued at fair value. The effects of applying this valuation principle are charged to the income statement. Market prices are used to determine the fair value of financial instruments quoted on an active market. In the absence of an active market, commonly adopted estimation and valuation models are used. These take into account all the risk factors related to the instruments and are based on observable market data such as: the valuation of listed instruments with similar characteristics, discounted cash flow calculations, option pricing models, the recorded values of recent comparable transactions, etc. For equity instruments and derivatives not quoted on an active market, the cost criterion is used to estimate the fair value only on a residual basis and in limited number of circumstances, namely if none of the above valuation methods can be applied or if there is a wide range of possible fair value valuations, within which the cost is the most significant estimate. For more information on the criteria for determining fair value see Section “A.4 Information on fair value”.

Derecognition criteria

Financial assets or parts of financial assets are derecognised if and only if disposal entails the substantial transfer of all the related risks and benefits.

In particular, financial assets sold are derecognised when the entity retains the contractual rights to receive the cash flows of the asset but enters into a simultaneous obligation to pay those cash flows and only those cash flows to third parties, without significant delays.

2 – Financial assets at fair value through other comprehensive income

Classification criteria

This category includes financial assets that meet both the following conditions:
- the asset is held within a "held-to-collect-and-sell" business model; and
- the contractual conditions of the financial asset provide for cash flows on certain dates which consist only of payments of capital and interest on the amount of the principal to be repaid.

This category also includes equity instruments not held for trading for which, at the time of first recognition, the option for designation at fair value through other comprehensive income has been exercised.

In particular this item includes:
- debt instruments that are attributable to a held-to-collect-and-sell model which have passed the contractual characteristics test (SPPI test);
- equity interests that cannot be qualified as subsidiaries, associates or joint arrangements, which are not held for trading purposes, and for which an option for designation at fair value through comprehensive income has been exercised.

Reclassifications to other categories of financial assets are only permitted if the entity changes its business model with regard to the management of financial assets. In such cases, which are expected to be very infrequent, the financial assets may be reclassified from the category of assets valued at fair value through comprehensive income to one of the other two categories permitted by IFRS 9 (Financial assets measured at amortised cost or Financial assets measured at fair value through profit or loss). The transfer value is represented by the fair value at the time of reclassification and the effects apply on a prospective basis from that date, with the following impacts:
- in the case of reclassification from this category to the amortised cost category, the cumulative profit or loss recognised in the revaluation reserve is carried as an adjustment to the fair value of the financial asset on the date of reclassification;
- in the case of reclassification into the category of fair value through profit or loss, the profit or loss that was previously recognised in the revaluation reserve is reclassified from equity to the profit or loss for the year.

Recognition criteria

The initial recognition of financial assets takes place on the settlement date for debt and equity instruments.

Assets are initially recognised at fair value inclusive of the transaction costs or income directly attributable to the instrument.

Measurement criteria

After initial recognition, assets classified at fair value through other comprehensive income other than equity instruments are measured at fair value and the impacts of application of amortised cost are taken to the income statement together with the effects of impairment and any foreign exchange effect, while the other gains or losses due to changes in fair value are taken to a specific equity reserve until the financial asset is derecognised.

Upon total or partial disposal, the gain or loss in the revaluation reserve is recycled, in full or in part, to on the income statement.

Equity instruments that have been classified in this category by election are measured at fair value and amounts taken to equity must not then be recycled to the income statement, even in the case of disposal.

The only component relating to the equity instruments in question that is recorded on the income statement is dividends.

Financial assets measured at fair value through other comprehensive income are subject to testing for a significant increase in credit risk (impairment) under IFRS 9 and the resulting impairment for expected losses is taken to the income statement. More specifically, on instruments classified to stage 1 (i.e. on financial assets at origination and on instruments for which there has been no significant increase in credit risk compared to the date of initial recognition), an expected loss of one year is recorded on the date of initial recognition and on each subsequent reporting date.

For instruments classified in stage 2 (performing exposures for which there has been a significant increase in credit risk compared to the initial recognition date) and stage 3 (non-performing exposures), an expected loss is recognised over the remaining life of the financial instrument.

Conversely, equity instruments are not subjected to the impairment process. Financial assets are derecognised if and only if the disposal has resulted in the substantial transfer of all the risks and benefits connected to the assets.

The fair value is determined on the basis of the principles already illustrated, for the Financial assets designated at fair value through profit or loss.

Derecognition criteria

Financial assets or parts of financial assets are derecognised if and only if disposal entails the substantial transfer of all the related risks and benefits.

In particular, financial assets sold are derecognised when the entity retains the contractual rights to receive the cash flows of the asset but enters into a simultaneous obligation to pay those cash flows and only those cash flows to third parties, without significant delays.

3 – Financial assets at amortised cost

Classification criteria

This category includes financial assets (in particular, loans and debt instruments) that meet both the following conditions:

- the asset is held within a “held-to-collect” business model; and
- the contractual conditions of the financial asset provide for cash flows on certain dates which consist only of payments of capital and interest on the amount of the principal to be repaid.

In particular this item includes:

- loans to banks in the different technical forms that meet the requirements of the preceding paragraph;
- loans to customers in the different technical forms that meet the requirements referred to in the previous paragraph;
- debt instruments that meet the requirements set out in the preceding paragraph.

Reclassifications to other categories of financial assets are only permitted if the entity changes its business model with regard to the management of financial assets. In such cases, which are expected to be very infrequent, the financial assets may be reclassified from the category of assets valued at fair value through comprehensive income to one of the other two categories permitted by IFRS 9 (Financial assets valued at amortised cost or Financial assets valued at fair value affecting profit or loss). The transfer value is represented by the fair value at the time of reclassification and the effects of reclassification operate on a forward-looking basis, from the date of reclassification. The profits or losses resulting from the difference between the amortised cost of the financial asset and its relative fair value are recognised on the income statement in the case of reclassification among Financial assets designated at fair value through profit or loss and Shareholders' equity, in the relevant revaluation reserve, in the case of reclassification among Financial assets designated at fair value through other comprehensive income.

Recognition criteria

The initial recognition of the financial assets takes place on the date of settlement for debt instruments and on the date of disbursement for loans. At the time of first recognition, the assets are recognised at fair value inclusive of the transaction costs or income directly attributable to the instrument.

With reference to loans in particular, the date of disbursement is usually the date on which the contract is signed. If this is not the case, when the contract is signed a commitment will be included to disburse funds, and this commitment ends on the date the loan is drawn down.

The loan is recognised on the basis of its fair value, equal to the amount lent including the costs or income directly linked to the individual loan.

Measurement criteria

After initial recognition these financial assets are measured at amortised cost according to the effective interest rate method. This method is not used for assets measured at historical cost whose short duration makes the effect of discounting negligible, for those without a defined maturity or for revocable credit lines.

The measurement criteria are closely connected to the inclusion of these instruments in one of the three stages of credit risk provided for in IFRS9, the last of which (stage 3) includes impaired assets, whereas the others (stages 1 and 2) include performing assets.

With reference to the presentation of these measurement effects, the value adjustments referring to this type of asset are recorded on the income statement:

- at the time of first recognition, for an amount equal to the loss expected at 12 months;
- at the time of subsequent valuation, if the credit risk has not increased significantly compared to the initial recognition, based on the changes in the value adjustments due to expected losses over the next twelve months;
- at the time of subsequent valuation, if the credit risk has significantly increased compared to initial recognition, based on the recognition of value adjustments for expected losses over the entire residual contractual life of the asset;
- upon subsequent measurement, if – after there has been a significant increase in the credit risk compared to initial recognition – the materiality of that increase no longer exists in relation to the change in cumulative value adjustments to take into account the transition from a loss over the asset's lifetime, to one over twelve months.

If the financial assets in question are performing, they are subjected to a valuation intended to define the value adjustments to be taken from the financial statements for each loan account (or "tranche" of the security), based on the risk parameters: probability of default (PD), loss given default (LGD) and exposure at default (EAD). If, together with a significant increase in the credit risk there is also objective evidence of a loss in value, the amount of the loss is measured as the difference between the book value of the asset – classified as impaired, in the same way as all the other relations with the same counterparty – and the current value of the estimated future cash flows, discounted at the original effective interest rate.

The amount of the loss recorded on the income statement is defined according to a detailed valuation process, or is determined for identical categories and therefore, is attributed in detail to each position. Impaired assets include financial instruments that have been given non-performing status, unlikely to pay or overrun/past-due for more than 90 days according to the Bank of Italy regulations, in line with the IAS/IFRS and supervisory regulations. The expected cash flows take into account the expected recovery times and the presumed realisation value of any guarantees.

The effective original rate of each asset remains unchanged over time, even if there has been a restructuring of the account that led to the change in the contractual rate, and even if the account is not, in practice bearing contractual interest. If the reasons for the impairment cease to apply as a result of a subsequent event occurring after the recognition of the change in value, write-backs are made and allocated to the income statement.

The write-back may not exceed the amortised cost that the financial instrument would have had without such adjustments having been made. Write-backs connected to the passage of time are posted in the interest margin. In some cases, during the life of the financial assets in question and of the loans in particular, the original contractual conditions are then modified by the parties to the contract.

If the contractual terms are modified during the life of an instrument, there is a need to check whether the original asset is still to be recognised or needs to be de-recognised, and a new financial instrument recognised in its place. In general, changes to a financial asset lead to its de-recognition and the entry of a new asset, if the changes are substantial.

Considerations about whether the changes substantial are based on qualitative and quantitative factors.

The analyses intended to define the substance of the contractual changes made to a financial asset must therefore consider:

- the reasons why the changes were made: for example, renegotiations for commercial reasons and concessions due to financial difficulties of the counterparty;
  - commercial reasons, designed to “retain” the customer, involve a debtor that is not in a situation of financial difficulty. This type of case includes any renegotiation designed to adapt the burden of the debt to the market conditions. These operations involve a change to the original contractual conditions, usually requested by the debtor, and relate to the onerousness off the debt resulting in an economic benefit to the debtor.

    In general it is considered that whenever the Bank renegotiates to avoid losing the customer, the renegotiations must be considered as substantial because if they did not take place, the customer could obtain finance from another bank, and the Bank would see a decline in its expected future revenue;
  - the second type of renegotiation, which is done for credit risk reasons (forbearance measures), relates to the Bank’s attempt to maximise the recovery of cash flows from the original loan. The underlying risks and benefits after the changes are not usually substantially transferred, and therefore the accounting presentation that gives the most relevant information to the reader of the financial statements is “modification accounting” – which implies the recognition on the income statement of the difference between the book value and the discounted value of the modified cash flows, discounted at the original interest rate – and not through derecognition;
- the presence of objective elements or triggers that affect the characteristics and/or contractual flows of the financial instrument (including change of currency, or changes to the type of risk the Bank is exposed to) which the derecognition is expected to involve considering their significant impact on the original contractual flows.

Derecognition criteria

Financial assets or parts of financial assets are derecognised if and only if disposal entails the substantial transfer of all the related risks and benefits.

In particular, financial assets sold are derecognised when the entity retains the contractual rights to receive the cash flows of the asset but enters into a simultaneous obligation to pay those cash flows and only those cash flows to third parties, without significant delays.

4 – Equity investments

Classification criteria

Companies in which the Bank holds the power to determine administrative, financial and management choices and in which it normally holds more than half of the voting rights are considered subsidiaries. Companies in which the Bank holds 20% or more of the voting rights and companies for which the administrative, financial and management choices are considered to be subject to significant influence are considered to be associates, due to the legal and factual links.

In establishing the existence of control over subsidiaries and significant influence over associates, there are no situations to report in which it was necessary to carry out particular assessments or make significant assumptions.

Recognition criteria

Investments in subsidiaries and associates are recorded in the financial statements at cost, equal to the fair value of the consideration paid, adjusted for impairment.

Measurement criteria

At each balance sheet date for the investments in subsidiaries and associates, the existence of objective evidence that the carrying amount of the assets may not be fully recoverable is verified. The impairment testing process requires checking for impairment indicators and determining the impairment loss, where applicable.

Impairment indicators may essentially be divided into two categories:

- qualitative indicators such as losses or a significant deviation from the budget targets or the targets in long-term plans announced to the market, the announcement/start of insolvency proceedings or restructuring plans, or the a rating downgrade by a specialised company of more than two notches;
- quantitative indicators, represented by a reduction in fair value below book value, by a book value of the equity investment in the separate financial statements that exceeds the book value in the consolidated financial statements of the net assets and goodwill of the subsidiary or by the distribution by a subsidiary of a dividend in excess of its total income.

The presence of impairment indicators implies the recognition of a write-down to the extent that the recoverable value is less than the carrying amount. The recoverable value is the greater of the fair value net of costs to sell and value in use. The value in use is the present value of the expected cash flows from the asset; it reflects the estimate of the expected cash flows from the asset, the estimate of possible changes in the amount and/or timing of the cash flows, the time value of money, the price to remunerate the risk of the asset and other factors that may influence the appreciation by market participants of the expected cash flows from the asset.

5 – Tangible assets

Classification criteria

Tangible assets include land, non-investment property, technical installations, furniture, fittings and equipment of all kinds.

With effect from 1 January 2019, the item also includes rights of use of a tangible asset acquired on lease (for lessees), assets granted on operating leases (for lessors) and improvements and incremental expenses incurred on owned assets and rights of use of property and equipment lease contracts.

Improvements and incremental expenses incurred on third-party assets deriving from leasing contracts pursuant to IFRS16 from which future benefits are expected to flow are recorded:

- if they may be separately and distinctly identified, under item "80. Tangible assets", in the most suitable category;
- if they may not be separately and distinctly identified, under item "80. Tangible assets", as an increase in the right of use, recognised under IFRS16, to which they refer.

Improvements and incremental expenses incurred on leased assets, other than those referred to in the previous paragraph, are recorded:

- if they may be separately and distinctly identified, under item "80. Tangible assets", in the most suitable category;
- if they may not be separately and distinctly identified, under item "120. Other assets".

Non-investment property is considered to include properties that are owned (or leased under a finance leasing contract) and are used in the production and provision of services or for administrative purposes, with a useful life exceeding one year.

Recognition criteria

Tangible assets purchased on the market are recognised when the main risks and rewards related to the asset are transferred. Initial recognition takes place at cost, meaning both the purchase price and any ancillary charges directly attributable to the purchase and commissioning of the asset.

Land is also recognised separately when purchased together with the building using a component approach. The value of the land and the building are determined on the basis of external appraisals.

Extraordinary maintenance costs that lead to an increase in future economic benefits are accounted for as an increase in the value of the assets, whereas other ordinary maintenance costs are expensed to the income statement.

Measurement criteria

Tangible assets (including both investment and non-investment properties) with finite useful lives are subsequently measured at cost adjusted for accumulated depreciation and any impairment losses and recoveries.

The depreciable value of property, plant and equipment, equal to the cost of assets since the residual value at the end of the depreciation process is considered insignificant, is systematically divided into constant portions over the estimated useful life according to a distribution criterion that reflects the technical and economic duration and the residual possibility of use of the individual elements.

The useful lives of the main categories of fixed assets are as follows:
- furniture and furnishings: 8 years;
- non-investment properties: 33 years;
- investment properties: 33 years.

Land is not depreciated, as it has an indefinite useful life, nor are works of art, as their useful lives cannot be estimated and their value will normally increase over time.

At each reporting date, the Bank assesses whether there is any indication that tangible assets may have become impaired. Where there is evidence of impairment, the carrying amount of the asset is compared to its recoverable amount, defined as the greater of fair value and value in use.

Tangible assets represented by the right of use of assets under lease contracts

Under IFRS 16, a lease is a contract, or part of a contract, that, in exchange for consideration, transfers the right to use an asset (the underlying asset) for a period of time. A financial lease essentially transfers to the lessee (user) all the risks and rewards arising from ownership of the asset. Otherwise, the contract is classified as an operating lease. The inception of a lease is the date from which the lessee is authorised to exercise his right to use the leased asset; it coincides with the date of initial recognition of the lease and also includes rent-free periods, i.e. contractual periods in which the lessee uses the asset free of charge. At the inception of a contract, the lessee recognises:
- an asset consisting of the right of use of the asset underlying the lease contract. The asset is recognised at cost, calculated as the sum of:
  - the lease liability;

  - lease payments made on or before the effective date of inception of the lease (net of lease incentives already received);
  - initial direct costs, and
  - any (estimated) costs to dispose of or restore the asset underlying the lease;
- a financial liability arising from the leasing contract (lease liability) corresponding to the current value of payments due for the leasing. The discount rate used is the implicit interest rate, if determinable; otherwise, the marginal financing interest rate of the lessee is used.

Where a lease contract contains “non-leasing components” (for example, the provision of services, such as routine maintenance, to be accounted for in accordance with IFRS 15), the lessee must separately account for "leasing components” and “non-leasing components” and distribute the contract price between the various components on the basis of the respective prices.

The lessee may choose to recognise lease payments:
- directly by expensing them to the income statement, on a straight-line basis throughout the term of the lease contract;
- according to another systematic method representative of the way in which the economic benefits are received, in the case of short-term leases (equal to or less than 12 months) that do not include an option for the lessee to purchase the leased asset and of leases in which the underlying asset is of low value.

The lease term is determined taking into account:
- periods covered by an extension option, where the exercise of the extension option is reasonably certain;
- periods covered by an option to terminate the lease, if the exercise of the termination option is reasonably certain.

During the term of the lease contract, the lessee must:
- measure the right of use at cost, net of accumulated depreciation and accumulated value adjustments determined and accounted for in accordance with the provisions of IAS 36 – *Impairment of Assets*, adjusted to take account of any restatement of lease liabilities;
- increase the liability arising from the lease transaction following the accrual of interest expense calculated at the implicit interest rate of the lease, or alternatively, at the marginal financing rate and reduce it for payments of principal and interest.

In the event of changes in lease payments, the liability must be restated; the impact of the restatement of the liability is accounted for with a contra-entry to the right of use asset.

Derecognition criteria

Tangible assets are derecognised when they are disposed of or when no future economic benefits are expected to flow from use or disposal.

The right of use deriving from lease contracts is derecognised at the end of the lease term.

6 – Intangible assets

Classification criteria

Intangible assets are identifiable non-physical non-monetary assets that can generate future economic benefits that can be controlled by the company.

Recognition criteria

Intangible assets are recognised at the acquisition cost, adjusted for any ancillary costs, when the main risks and benefits related to the asset are transferred, if and only if the related future economic benefits are likely to be realised and the cost can be reliably measured. Otherwise, the cost of an intangible asset is expensed to the income statement in the year in which it is incurred.

Measurement criteria

All intangible assets recognised other than goodwill are considered to have a finite useful life and are therefore amortised considering the costs and useful lives of the individual assets.

In particular:

- Intangible assets based on technology, such as application software acquired under an indefinite user license and software development costs, are amortised according to their expected technological obsolescence and in any case over no more than five years. In particular, costs incurred for the development of software projects are recognised as intangible assets if and only if all of the following conditions are met:
  - i. the cost attributable to the development activity is reliably determinable;
  - ii. the entity has the intention, the financial resources and the technical capacity to make the asset available for use or sale;
  - iii. it can be demonstrated that the asset is capable of generating future economic benefits. Capitalised software development costs include only the costs incurred that can be directly attributed to the development process.
- Intangible assets relating to depositary bank contracts, recognised following the acquisition of contracts or business units, have an estimated useful life of ten years, taking into account the contractual parameters.

The residual value of the various assets is assumed to be zero.

The Bank assesses, on an annual basis, whether there is any indication that intangible assets may have become impaired. Where there is evidence of impairment, the carrying amount of the asset is compared to its recoverable amount, defined as the greater of fair value and value in use.

Derecognition criteria

An intangible asset is derecognised when it is disposed of or when no future economic benefit is expected to flow from its use or disposal.

Goodwill

Goodwill arising from business combination transactions is represented by the difference between the purchase cost, inclusive of ancillary charges, and the acquisition date fair value of the acquiree's assets and liabilities. If positive, it is recognised as an asset at cost (goodwill), since it represents a payment made by the acquirer in view of future economic benefits deriving from assets that cannot be identified individually and recognised separately. If negative, it is expensed directly to the income statement (badwill).

Goodwill is recognised in the financial statements at cost, net of any accumulated impairment, and is not subject to amortisation.

Even if there are no impairment indicators, goodwill is tested for impairment annually.

Goodwill arising from a business combination is allocated to cash generating units ("CGUs") or groups of CGUs that are expected to benefit from the synergies of the combination. The recoverable value of an asset or CGU is the greater between its value in use ("VIU") and its fair value less costs of disposal ("FVLCD"). Impairment is recognised if the carrying amount of the CGU exceeds its recoverable value. Impairment of goodwill is taken to the income statement and is not recovered in subsequent years.

Adjustments in value of goodwill are recorded in the income statement under item 240. "Goodwill impairment" and are not reversed in subsequent periods even in the event of a recovery.

7 – Current and deferred taxes

Income taxes, calculated in accordance with national tax laws, are accounted for as a cost according to the accruals principle, in line with the method of recognition of the costs and revenues that generated them. They therefore represent the balance of current and deferred taxation relating to income for the year.

Current tax assets and liabilities include the net balance of the Bank's tax positions in respect of the tax authorities. In particular, these items include the net balance of current tax liabilities for the year, calculated on the basis of a prudent forecast of the tax burden due for the year, according to current tax laws, and current tax assets (prepayments, other tax credits for taxes withheld and other tax credits from previous years that the Bank has applied to set off against taxes from subsequent years).

Current taxes not yet paid at the reporting date, in full or in part, are included among the tax liabilities in the statement of financial position. If the current tax payment for the current or previous years exceeds the related tax liability, the excess must accounted for as an asset on the statement of financial position.

Current tax assets also include tax credits for which the Bank has requested a refund from the competent tax authorities.

Current and deferred taxes are taken to the income statement under item 270 “Income taxes for the financial year on continuing operations”, with the exception of those relating to transactions taken directly to equity without affecting the income statement (such as the measurements of financial instruments through other comprehensive income and actuarial gains and losses), changes in the value of which are taken directly to valuation reserves.

Deferred tax assets and liabilities are recognised in open balances without set-offs, the former being included in item 100 “Tax assets” and the latter in item 60 “Tax liabilities”.

Deferred tax assets and liabilities are calculated on the basis of the temporary differences between the values attributed to an asset or liability for financial reporting and tax purposes. The bank recognises a deferred tax asset (item 110.b) for the deductible temporary differences and past tax losses that will be reversed in the coming years, as it considers it likely that it will realise taxable income over this period, on the basis of the strategic plans, against which this asset can be used.

Deferred tax liabilities are calculated on all temporary taxable differences, with the sole exception of reserves subject to tax suspension, as, considering the amount of available reserves already subject to taxation, it is considered that there will be no transactions that will result in their being taxed.

Deferred tax assets and liabilities are determined according to the tax rates that are expected to be applicable in the year in which the tax asset will be realised or the tax liability will be settled, based on current tax legislation.

Deferred tax assets and liabilities are systematically assessed to take into account any changes in the rules or rates, as well as any different subjective situations of the bank.

8 – Provisions for risks and charges

Provisions for risks and charges relating to commitments and guarantees issued

This item includes the provisions for credit risk recognised in respect of commitments to disburse funds and guarantees issued that fall within the scope of the impairment rules in accordance with IFRS 9. In such cases, the same allocation methods between credit risk stages are adopted, along with the same calculation of the expected losses as presented with reference to financial assets measured at amortised cost or at fair value through other comprehensive income.

Provisions for post-employment benefits and similar obligations

Provisions for post-employment benefits are set up to reflect company agreements and are classified as defined-benefit plans. The liabilities relating to these plans and the pension cost associated with current workers are determined according to actuarial assumptions, applying the actuarial method known as the "Projected Unit Credit Method", which projects the future expenditure based on historical statistical analysis, the demographic curve, and the financial discounting of these cash flows based on the market interest rate. The contributions paid in each year are considered as separate units and are identified and valued individually for the purposes of determining the final obligation. The discount rate used is determined according to the market returns recognised on the valuation date, for the obligations of leading companies taking into account the liability's average residual life. The current value of the obligation on the reporting date is also adjusted by the fair value of any assets servicing the plan.

Actuarial gains and losses (i.e., the changes in the present value of the obligation deriving from changes in the actuarial assumptions and adjustments based on past experience) are presented in the statement of comprehensive income.

Other provisions

Provisions for risks and charges are liabilities the amounts or dates of which are uncertain but which are recognised because:

- the Bank has a present obligation (legal or constructive) as a result of a past event;
- the outlay of financial resources is probable, to fulfil the obligation;
- the probable future expenditure can be reliably estimated.

Such provisions include accruals for presumed losses in litigation brought against the Bank.

If the time factor is significant, the provisions are discounted at current market rates. The accrual and increases due to the time factor are taken to the income statement. In particular, in cases where the present value of the provision has been recognised, the increase in the value of the provision recorded in the financial statements in each year to reflect the passage of time is accounted for among interest expense.

The provisions recognised, as well as the potential liabilities, are reviewed on each reporting date and are adjusted to reflect the best current estimate. If it is no longer probable that resources will need to be expended to discharge the obligation, the provision is released to the income statement.

9 - Non-current assets held for sale and discontinued operations

Classification criteria

This category includes individual non-current assets (tangible, intangible and financial) or groups of assets held for sale, with associated liabilities, as governed by IFRS 5.

Individual assets and liabilities (or groups of assets held for disposal) are classified under asset item "110. Non-current assets and groups of assets held for disposal" and liability item "70. Liabilities linked to assets held for sale".

Measurement criteria

The aforementioned assets and liabilities (or groups of assets held for sale) are measured at the lesser of their book value less costs to sell, except for some types of assets (e.g. financial assets falling under the scope of IFRS 9) for which IFRS 5 specifically provides that the measurement criteria for the relevant accounting standard must be applied.

Income and expense (net of the tax effect) relating to discontinued operations recorded after their classification are shown under "290. Profit (loss) from discontinued operations after taxes".

10 - Financial liabilities at amortised cost

Classification criteria

A financial instrument issued is classified as a liability when, on the basis of the substance of the contractual agreement, there is a contractual obligation to deliver money or another financial asset to another entity.

Amounts due to banks and customers refer to the funding raised on the interbank market and from customers, including through repurchase agreements and the placement of bonds and certificates of deposit.

Amounts payable recognised as lessee under finance lease transactions are also included.

Recognition criteria

Transactions with banks are accounted for on the date the contract is signed, which normally coincides with the receipt of the sums collected or the issue of the debt instruments.

Financial liabilities are initially measured at fair value, which normally coincides with the amount received or the issue price, adjusted for any directly attributable costs/income. Internal administration costs are excluded.

Measurement criteria

Except for sight and short-term items, after initial recognition financial liabilities are measured at amortised cost according to the effective interest rate method.

Interest is taken to item 20 “Interest expenses and similar charges” of the income statement.

Derecognition criteria

Financial liabilities, or parts of financial liabilities, are derecognised when they are settled, or when the obligation is discharged, cancelled or expires.

11 – Financial liabilities held for trading

Financial liabilities held for trading include derivative contracts held for trading with negative values and liabilities related to technical overdrafts on securities.

All trading liabilities are measured at fair value through profit or loss.

The measurement and recognition criteria are similar to those described with reference to "Financial assets classified as held for trading".

12 – Foreign currency transactions

Initial recognition

Transactions in foreign currency are converted, upon initial recognition, into the functional currency by applying the exchange rate in force on the date of the transaction to the amount in foreign currency.

Subsequent measurement

At each statement of financial position date, items in foreign currency are measured as follows: monetary items are converted at the current exchange rate at the statement of financial position date;

- non-monetary items measured at historical cost are converted at the exchange rate on the transaction date;
- non-monetary items measured at fair value are converted using the exchange in effect on the date fair value was determined.

Exchange rate differences deriving from the settlement of monetary elements or from the conversion of monetary elements at rates other than those of initial conversion, or of conversion of previous financial statements, are taken to the income statement for the period in which they arise, whereas those relating to non-monetary elements are taken to equity or to the income statement depending on the approach to recognising the gains or losses that include such a component.

Costs and revenues in foreign currencies are recognised at the exchange rate when they are accounted for or, where in the process of accruing, at the exchange rate in effect at the reporting date.

13 – Other information

Allowances for employee severance pay

A severance indemnity is a form of remuneration for personnel deferred beyond the end of the contract. It accrues in proportion to the duration of the relationship, constituting an additional element of personnel cost.

After the supplementary pension reform, pursuant to Italian Legislative Decree no. no. 252 of 5 December 2005, employee severance pay accruing from 1 January 2007 is determined without applying any actuarial methodology, since the burden borne by companies is limited to the contribution payable by them per the Italian Civil Code (defined-contribution plan according to IAS 19).

The severance pay accruing with effect from 31 December 2006 continues to be accounted for as a defined-benefit plan in accordance with IAS 19. Accordingly, the related liability is determined according to actuarial assumptions, applying the actuarial method known as the "Projected Unit Credit Method", which projects the future expenditure based on historical statistical analysis, the demographic curve, and the financial discounting of these cash flows based on the market interest rate.

The rate used to discount post-employment benefit obligations (whether funded or unfunded) varies according to the country of allocation of the liability and is determined according to the market yields on the reporting date of the bonds of leading companies with average durations in line with that of the liability concerned.

More precisely, the amount recognised as a liability under item 90 is equal to the net total amount of the present value of the obligation on the reporting date, the sum of any actuarial gains or losses, less any pension costs relating to past work not yet recognised and the present value on the reporting date of assets servicing the programme, if any, which will serve to directly settle the obligations.

With effect from the 2013 financial statements, in application of the amendments to IAS 19, actuarial gains and losses are accounted for in statement of comprehensive income.

Treasury shares

The Bank does not hold any treasury shares.

Determining the fair value of financial instruments

The fair value of financial instruments has been determined by using the market prices, in the case of instruments quoted in active markets, or by using internal assessment models for the other financial instruments.

For further details, refer to section A.4. Information on fair value.

For receivables and payables recognised at cost or amortised cost, the fair value shown in the Notes is determined according to the following methodology:

- for medium-to-long term fixed-rate assets and liabilities: discounting of future cash flows at a market rate adjusted to include credit risk;
- for floating-rate, sight or short-term assets, the carrying amount net of the individual and collective impairment is considered a good approximation of fair value as it incorporates the change in rates and the measurement of the counterparty's credit risk;

- for floating-rate and short-term fixed-rate liabilities, the carrying amount is considered a good approximation of fair value for the reasons indicated above;
- for medium-to-long term fixed-rate liabilities: discounting of future cash flows at a market rate. The change in credit spread is not taken into account, given its limited relevance.

Impairment testing of goodwill

Goodwill is generally tested for impairment according to the discounted cash flow method, and in particular the excess capital variant of the dividend discount model.

INCOME STATEMENT

Revenues

Revenues are the gross flows of economic benefits deriving from the company's ordinary business, when these flows result in increases in equity other than increases deriving from the contribution of shareholders.

Revenue deriving from contractual obligations with customers is recognised if and only if all of the following criteria are met:

a. the parties to the contract have approved the contract and committed to fulfilling their respective obligations;
b. the entity may identify the rights of either party with respect to the goods or services to be transferred;
c. the entity may identify the terms of payment for the goods or services to be transferred;
d. the contract has a commercial substance (i.e. the risk, timing or amount of the entity's future cash flows are destined to change as a result of the contract); and
e. it is likely that the entity will receive the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In assessing the likelihood of receiving the amount of the consideration, an entity shall only consider the customer's ability and intention to pay the amount of the consideration when it is due.

Interest income and expense

Interest income and expenses and similar income and expenses relate to cash and cash equivalents, non-derivative financial assets and liabilities held for trading, measured at fair value through profit or loss and measured at amortised cost.

Interest income and expenses are taken to the income statement for all instruments measured at amortised cost according to the effective interest method.

Fees and commissions

Fees and commissions are recognised on an accruals basis.

In particular, trading commissions on transactions in securities are recognised when the service is provided.

Commissions included in amortised cost when calculating the effective interest rate, which are recognised under interest, are excluded.

Dividends

Dividends are taken to the income statement when distribution is approved.

Other income and charges

Other income and charges are recognised on an accruals basis.

Costs

Costs are recognised when they are incurred in compliance with the criterion of the correlation between costs and revenues that derive directly and jointly from the same transactions or events. Costs that cannot be associated with revenues are taken immediately to the income statement.

Costs directly attributable to financial instruments measured at amortised cost and determinable from the outset, regardless of when they are settled, flow to the income statement in application of the effective interest rate.

Losses are taken to the income statement in the year in which they are recognised.

Use of estimates and assumptions in preparing the financial statements

Line items are measured according to the principles set out above.

The application of these principles sometimes entails the use of estimates and assumptions capable of having a significant impact on the values recognised in the statement of financial position and income statement and on the disclosures regarding contingent assets and liabilities in the financial statements.

It bears reiterating that the use of reasonable estimates is an essential part of preparing the financial statements, without affecting their reliability; the main cases requiring the use of subjective assessments by management are reported below:
- the quantification of losses due to impairment in the value of receivables and of other financial assets;
- measurement of financial assets not quoted in active markets;
- measurement of intangible assets – including goodwill and other intangible assets with finite useful lives – and equity investments;
- the quantification of provisions for risks and charges;
- estimates and assumptions on the recoverability of deferred tax assets.

It should also be noted that an estimate may be adjusted due to changes in the circumstances on which it was based, new information or greater experience.

Any changes in the estimates are applied prospectively and therefore result in an impact on the income statement in the year which the change occurs as well as that for future years.

The main factors of uncertainty that could affect the bank's future operating scenarios include the possible direct and indirect consequences for the global and Italian economy of the coronavirus (COVID-19) epidemic, the impacts of which currently cannot be estimated. The information and sensitivity analyses provided with reference to the main financial statement items subject to estimation (in particular goodwill) are believed to be capable of reflecting the impacts related to the elements of uncertainty that may be assumed at the reporting date.

The reporting year is not characterised by significant changes in the estimation criteria previously applied for the preparation of the financial statements at 31 December 2019 except as required by IFRS 9 with reference to the determination of the expected loss on receivables, securities, guarantees given and commitments. It is based on forward-looking information including, in particular, the evolution of the macroeconomic scenarios used in calculating value adjustments. The evolution and weighting of these scenarios are subject to periodic evaluation with last update as at 31 December 2020.

Accounting effects deriving from the signing of the "Sale and Purchase and Merger Agreement" with Banca Farmafactoring S.p.A. and Equinova UK HoldCo Ltd on 13 May 2020

As indicated in the Report on Operations, to which reference is made for further details, on 13 May 2020 a "Sale and Purchase and Merger Agreement" (hereinafter "SPMA") was stipulated by Banca Farmafactoring S.p.A. ("BFF"), the Bank's current controlling shareholder, Equinova UK Holding Ltd ("Equinova") and (limited to certain contractual provisions) DEPObank S.p.A. which, in very simple terms, provides for and governs, subject to the fulfilment of certain closing conditions, (i) BFF's acquisition of control of DEPObank (the "Acquisition") and (ii) immediately following the Acquisition, the merger by incorporation of DEPObank into Banca Farmafactoring. The transaction is expected to be closed by the end of Q1 2021.

Among other things the SPMA provides for certain conditions, including:

- as a risk mitigation mechanism on the portfolio of government bonds held by DEPObank, the obligation to sell to BFF, at the signing date of said SPMA and at market prices, "Cct-Eu Tv Eur6M+0.95% Ap25 Eur" securities with a nominal value of €770.5 million. As a result of the sale, in the income statement the Bank recorded item "100. Gains (losses) on disposal or repurchase of financial assets measured at amortised cost" the realised loss of approximately €37.4 million, before taxes;
- the abandonment of the SME Specialised Lending project (so-called Vesta Project) and the disposal of all assets/contracts related to it, including, as conditions for the closing of the Acquisition:
  - the sale of the entire equity investment in Cara Services GmbH. This investment, in line with the resolutions of the Board of Directors of the Bank on 17 December 2020, was classified under the asset balance sheet item "110. Non-current assets and asset groups held for sale" and valued at the lower of the book value and its fair value, identified as the expected price of the sale to

third parties, quantified on the basis of the offers received by the Bank for the related sale. The resulting loss of €18.2 million was recorded net of tax effects under item "290. Profit (loss) from discontinued operations after taxes";

- the sale of the share of the loan disbursed in the pool to Prelios S.p.A. This loan, in line with the resolutions of the Board of Directors of the Bank on 17 December 2020, was classified under asset balance sheet item "110. Non-current assets and groups of assets held for disposal" and valued at the presumed sale price. The resulting loss of €1.2 million was recorded net of tax effects under item "290. Profit (loss) from discontinued operations after taxes";
- Clean Early Termination of certain employees. The costs of the agreements reached with the employees covered by this accord, amounting to approximately €3.6 million, have been set aside in the provisions for risks and charges on the basis of the conditions envisaged in the agreements stipulated or in the stipulation phase;
- the sending of a notice of termination – at the earliest date available under the relevant agreements – of all relevant commercial agreements, including the lease of a portion of the Milan office. This termination was formalised with the lessor in February 2021. In the financial statements at 31 December 2020, on the basis of the conditions assumed for early termination, the relative right of use recorded among tangible assets was impaired, the balance of payables related to the fees to be paid was adjusted, and the penalty envisaged for the early termination of the lease and the charges related to the release of the property were allocated to the provision for risks and charges. These items were recorded in the income statement for a gross total amount of €2.2 million.

A.3 – TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

A.3.1 Reclassified financial assets: change in business model, book value and interest income

Type of financial instrument (1)	Portfolio of origin (2)	Target portfolio (3)	Reclassification date (4)	Book value reclassified (5)	Interest income recorded during the year (before taxes) (6)
Debt securities	Financial assets measured at fair value through other comprehensive income	Financial assets measured at amortised cost	31/12/2018	1,400,000	16,599

(Figures in thousands of euros)

It should be noted that in the table above the financial assets subject to reclassification were still included in the Bank's portfolio at the reporting date.

A.3.2 Reclassified financial assets: change of business model, fair value and effects on comprehensive income

The table below shows the information required by IFRS 7.12, and in particular the impact that reclassified assets would have had on the financial statements in the absence of reclassification.

Type of financial instrument (1)	Portfolio of origin (2)	Target portfolio (3)	Fair value on 31.12.2020 (4)	Gains/losses in the absence of transfer to the income statement (before taxes)		Gains/losses in the absence of transfer to equity (before taxes)	
				31/12/2020	31/12/2019	31/12/2020	31/12/2019
Debt securities	Financial assets measured at fair value through other comprehensive income	Financial assets measured at amortised cost	1,422,733			22,733	5,614

(Figures in thousands of euros)

It should be noted that in the table above the financial assets subject to reclassification were still included in the Bank's portfolio at the reporting date.

A.3.3 Reclassified financial assets: change in business model, and effective interest rate

The effective interest rate for 2020 is 0.64% compared to 0.58% in 2019.

Other information

There were no business model changes in 2020.

The meeting of the Board of Directors of 28 June 2018 had resolved to reclassify the Long Term Debt Securities Portfolio from the HTCS business model to HTC.

The resolution was adopted as a result of the reorganisation of the Nexi Group, which meant that the Bank no longer needed to finance the activities of the Group's Monetica Business and with it the need for flexible management of investments in government bonds that had led to their classification as part of the "Held to collect and sale" business model.

A.4 – INFORMATION ON FAIR VALUE

IASs/IFRSs require that financial instruments classified as "Financial assets at fair value through profit or loss", "Financial assets at fair value through comprehensive income" and "Financial liabilities held for trading" be measured at fair value.

The fair value is the price that would be received for a sale of an asset or which would be paid for the transfer of a liability in a normal operation between market operators (in other words, not a forced liquidation or sale below cost) on the valuation date. The fair value is a market valuation criterion, not specific to the entity. An entity needs to assess the fair value of an asset or liability by adopting the assumptions that the market operators would use when determining the price of the asset or liability, assuming that the market operators act to satisfy their own economic interests in the best possible way.

In determining the fair value of a financial instrument, IFRS 13 establishes a hierarchy of criteria in terms of the reliability of the fair value according to the degree of discretion applied by entities, giving priority to the use of observable market parameters that reflect the assumptions that market participants would use in valuing (pricing) an asset/liability.

Three different input levels are identified:

- Level 1: inputs represented by (unmodified) quoted prices on active markets for identical assets or liabilities, which can be accessed on the measurement date.
- Level 2: inputs other than quoted prices included in Level 1 that are observable, directly (as in the case of prices) or indirectly (i.e. as derived from prices), for the assets or liabilities to be measured.
- Level 3: unobservable inputs for the asset or liability.

The choice between the aforementioned methodologies is not optional, since they must be applied in hierarchical order: absolute priority is given to the official prices available on active markets for the assets and liabilities to be measured (level 1) or for assets and liabilities measured using valuation techniques based on observable market parameters other than the prices of the financial instrument (level 2), and lower priority is given to assets and liabilities whose fair value is calculated using valuation techniques based on parameters that are not observable on the market and are therefore more discretionary (level 3).

In compliance with the rules described above, the market price recorded at the end of the reporting period is used for instruments quoted in active markets (Level 1).

The fair value of financial instruments not listed on active markets has been determined by using valuation techniques based mainly on the discounting of cash flows. The valuation techniques used incorporate all the factors considered by the market when setting the price and are based mainly on observable market inputs (Level 2). In particular:

- bonds are measured by discounting the future cash flows provided for in the contractual plan of the security, using the market rates adjusted for the counterparty risk for this purpose;

- derivative contracts, consisting of overnight interest rate swaps (OISs), are measured on the basis of market valuation models using market rates as the prevailing parameters, adjusted for counterparty risk. This risk includes, where relevant, both changes in the counterparty's creditworthiness and changes in the issuer's creditworthiness (own credit risk);
- for equities, there is a hierarchy and an order of application of valuation methods that considers, first of all, any transactions in the security recorded over a sufficiently short period of time compared to the valuation period, comparable transactions of companies operating in the same sector and the application of analytical financial, income-based and equity-based valuation methods.

The measurement method for a financial instrument is adopted on a continuing basis, and is only changed if there are significant variations in the market or subjective conditions of the issuer of the financial instrument.

The Bank does not hold Level 3 financial instruments, except for an immaterial amount (equal to €0.1 million).

QUALITATIVE INFORMATION

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

With reference to Level 2 financial instruments, mainly represented by swaps and loans to customers and to banks measured at amortised cost, the valuations as at 31 December 2020 have been based on interest rates and volatility factors derived from the market.

In the case of swaps, the valuations as at 31 December 2020 have been based on interest rates and volatility factors derived from the market. In view of the Bank's limited dealings in the over-the-counter derivatives segment and its dealings mainly with the most relevant counterparties based on risk-mitigating collateralisation agreements, the adjustments made to the measurement of Level 2 instruments to incorporate counterparty risk were not significant.

With reference to units of UCIs, classified in level 2 of the hierarchy, it is determined using the official NAV.

The only instrument classified in level 3 is the amount due from the Interbank Deposit Protection Fund's voluntary scheme.

A.4.2 Processes and sensitivity of valuations

As highlighted above, the only instrument classified to level 3 is the amount due from the Interbank Deposit Protection Fund's voluntary scheme.

A.4.3 Fair value hierarchy

Transfers between fair value levels are based on empirical observation of the intrinsic phenomena of the instrument considered or of the markets in which it is traded.

The transfer from Level 1 to Level 2 is a consequence of the loss of an adequate number of contributors, i.e. the limited number of investors holding the outstanding free floating shares.

Conversely, securities with limited liquidity when issued and a large number of trades – classified as Level 2 – are transferred to Level 1 when there is found to be an active market.

A.4.4 Other information

The Bank has not exercised the option under IFRS 13.48 to measure net positions for groups of assets and liabilities managed on a net basis.

The Bank also does not hold assets the current use of which differs from their maximum and best use.

QUANTITATIVE INFORMATION

A.4.5 Fair value hierarchy

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

Financial assets/liabilities measured at fair value	**31/12/2020**			**31/12/2019**		
	L1	**L2**	**L3**	**L1**	**L2**	**L3**
1. Financial assets measured at fair value through profit or loss			-			-
a) financial assets held for trading	8	1,764	-	8	869	-
b) financial assets designated at fair value				-	-	-
c) other financial assets mandatorily measured at fair value	-	33,299	107	-	31,322	107
2. Financial assets measured at fair value through other comprehensive income	143	3,155	-	156	6,005	-
3. Hedging derivatives						
4. Tangible assets						
5. Intangible assets						
Total	**152**	**38,218**	**107**	**164**	**38,196**	**107**
1. Financial liabilities held for trading	-	4,039	-	-	6,248	-
2. Financial liabilities designated at fair value						
3. Hedging derivatives						
Total	**-**	**4,039**	**-**	**-**	**6,248**	**-**

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

There were no transfers of assets or liabilities between Level 1 and Level 2 during the year.

Taking into account the limited dealings of DEPObank in the OTC derivatives segment, in any case essentially consisting of dealings with Italian institutional counterparties, the fair value indicated above is not significantly influenced by correction factors for counterparty risk (credit value adjustment and/or debit value adjustment). It should also be noted that the counterparty risk for the above transactions is mitigated by the presence of collateral.

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

	Financial assets measured at fair value through profit or loss				Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Tangible assets	Intangible assets
	Total	of which: a) Financial assets held for trading	of which: b) Financial assets designated at fair value	of which: c) Other financial assets subject to mandatory fair-value measurement				
1. Opening balances	**107**	**-**	**-**	**107**	**-**	**-**	**-**	**-**
2. Increases								
2.1. Purchases								
2.2. Earnings charged to:								
2.2.1. Income statement								
– of which capital gains								
2.2.2 Shareholders' equity		X	X	X				
2.3. Transfers from other levels								
2.4. other increases								
3. Decreases								
3.1. Sales								
3.2. Redemptions								
3.3. Losses attributed to:								
3.3.1. Income statement								
– of which capital losses								
3.3.2. Shareholders' equity		X	X	X				
3.4. Transfers from other levels								
3.5. Other decreases								
D. Closing balances	**107**	**-**	**-**	**107**	**-**	**-**	**-**	**-**

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

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	31/12/2020				31/12/2019			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets measured at amortised cost	5,200,596	3,334,672	2,158,091		6,279,749	4,406,061	2,287,048	
2. Tangible assets held for investment	-				-			
3. Non-current assets and groups of assets held for disposal	-				-			
Total	**5,200,596**	**3,334,672**	**2,158,091**	**-**	**6,279,749**	**4,406,061**	**2,287,048**	**-**
1. Financial liabilities measured at amortised cost	9,899,701		9,899,701		8,295,787		8,295,787	
2. Liabilities linked to assets held for sale	-				-			
Total	**9,899,701**	**-**	**9,899,701**	**-**	**8,295,787**	**-**	**8,295,787**	**-**

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

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

With reference to paragraph 28 of IFRS7, in some cases, an entity does not recognise gain or loss upon the initial recognition of a financial asset or financial liability because fair value is not based on a price quoted in an active market for an identical asset or liability (i.e. a Level 1 input) nor on a valuation technique that uses only observable market data (see paragraph B5.1.2 A of IFRS 9). In such cases, for each class of financial asset or liability, an entity must disclose:

a. the accounting principles it uses when recognising in profit or loss the difference between the fair value at initial recognition and the transaction price to reflect a change in the factors (including time) that market participants would take into account when determining the price of the asset or liability (see paragraph B5.1.2 A (b) of IFRS 9);
b. the total difference still to be recognised in profit or loss at the beginning and end of the year and the reconciliation of changes in the balance of that difference;
c. the reason why the entity concluded that the transaction price was not the best evidence of fair value, including a description of the evidence supporting fair value.

There are no transactions attributable to this case.

PART B - INFORMATION ON THE BALANCE SHEET

Assets

SECTION 1 - CASH AND CASH EQUIVALENTS – ITEM 10

1.1 Cash and cash equivalents: breakdown

	31/12/2020	31/12/2019
a) Cash	186	216
b) Demand deposits with central banks	4,920,767	2,334,467
Total	**4,920,953**	**2,334,683**

SECTION 2 - FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS - ITEM 20

2.1 Financial assets held for trading: breakdown

Items/values	31/12/2020			31/12/2019		
	L1	L2	L3	L1	L2	L3
A. On-balance-sheet assets						
1. Debt securities	8	-	-	7	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	8	-	-	7	-	-
2. Equity securities	-	-	-	-	-	-
3. Units of UCIs	1	-	-	1	-	-
4. Loans	-	1	-	-	1	-
4.1 Repurchase agreements	-	1	-	-	1	-
4.2 Others	-	-	-	-	-	-
Total A	**9**	**1**	**-**	**8**	**1**	**-**
B. Derivatives						
1. Financial derivatives:	-	1,763	-	-	868	-
1.1 for trading	-	1,763	-	-	868	-
1.2 connected to the fair value option	-	-	-	-	-	-
1.3 others	-		-	-		-
2. Credit derivatives:						
2.1 for trading	-	-	-	-	-	-
2.2 connected to the fair value option	-	-	-	-	-	-
2.3 others	-	-	-	-	-	-
Total B	**-**	**1,763**	**-**	**-**	**868**	**-**
Total (A+B)	**9**	**1,764**	**-**	**8**	**869**	**-**

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

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

Items/values	31/12/2020	31/12/2019
A. On-balance-sheet assets		
1. Debt securities		
a) Central banks	-	-
b) Public administrations	4	4
c) Banks	4	3
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
2. Equity securities		
a) Banks	-	-
b) Other financial companies:	-	-
of which: insurance companies	-	-
c) Non-financial companies	1	1
d) Other issuers	-	-
3. Units of UCIs	**1**	**1**
4. Loans		
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total A	**10**	**9**
B. Derivatives		
a) Central counterparties	-	-
b) Others	1,763	868
Total B	**1,763**	**868**
Total (A+B)	**1,773**	**877**

2.5 Other financial assets subject to mandatory fair value measurement: breakdown

Items/values	31/12/2020			31/12/2019		
	L1	L2	L3	L1	L2	L3
1. Debt securities						
1.1 Structured securities						
1.2 Other debt securities						
2. Equity securities						
3. Units of UCIs		**33,299**			**31,322**	
4. Loans						
4.1 Repurchase agreements						
4.2 Others			107			107
Total	**-**	**33,299**	**107**	**-**	**31,322**	**107**

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

"Units of UCIs" are mainly represented by assets managed by Fondo Italiano di Investimento SGR and to a lesser extent (€ 1 million) by the interests held by the Bank in the Atlante Fund, Fondo di Investimento Alternativo (FIA).

The item "Loans - Others" is represented by receivables due from the Interbank Deposit Protection Fund Voluntary Scheme.

2.6 Other financial assets subject to mandatory fair value measurement: compositor by debtor/issuer

	31/12/2020	31/12/2019
1. Equity securities	**-**	**-**
of which: banks	-	-
of which: other financial companies		
of which: other non-financial companies	-	-
2. Debt securities		
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
3. Units of UCIs	**33,299**	**31,322**
4. Loans		
a) Central banks		
b) Public administrations		
c) Banks		
d) Other financial companies		
of which: insurance companies		
e) Non-financial companies	107	107
f) Households		
Total	**33,406**	**31,429**

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

Items/values	31/12/2020			31/12/2019		
	L1	L2	L3	L1	L2	L3
1. Debt securities						
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	-	-	-	-	-
2. Equity securities	**143**	**3,155**	**-**	**156**	**6,005**	**-**
3. Loans			**-**			**-**
Total	**143**	**3,155**	**-**	**156**	**6,005**	**-**

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

The decrease is the result of:

- the partial conversion of Visa Class C shares into Visa Series A listed shares (according to the conversion plan defined in 2016 on the occasion of the integration with Visa Europe), and their subsequent sale on the market;
- a first distribution to shareholders of equity reserves by the company Ausilia S.r.l., as a result of the implementation of the programme to dispose of its equity investments.

3.2 Financial assets measured at fair value through other comprehensive income: breakdown by debtor/issuer

Items/values	31/12/2020	31/12/2019
1. Debt securities		
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
2. Equity securities	**-**	**-**
a) Banks	350	308
b) Other issuers:		
– other financial companies	2,682	5,586
of which: insurance companies		
– non-financial companies	266	266
– others		
3. Loans		
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**3,298**	**6,161**

SECTION 4 – FINANCIAL ASSETS AT AMORTISED COST – ITEM 40

4.1 Financial assets measured at amortised cost: breakdown of receivables due from banks

Type of operations/ Values	31/12/2020						31/12/2019					
	Book value			Fair value			Book value			Fair value		
	Stage one and Stage two	Stage three	of which: purchased or originated impaired	L1	L2	L3	Stage one and Stage two	Stage three	of which: purchased or originated impaired	L1	L2	L3
A. Due from central banks												
1. Time deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Reserve requirements	171,255	-	-	X	X	X	173,273	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Others	-	-	-	X	X	X	-	-	-	X	X	X
B. Receivables due from banks		**-**	**-**				**-**	**-**	**-**			
1. Loans							-	-	-			
1.1 Current accounts and on demand deposits	224,586	-	-	X	X	X	337,059	-	-	X	X	X
1.2 Time deposits	12,424	-	-	X	X	X	12,284	-	-	X	X	X
1.3. Other loans:	-	-	-				-	-	-			
- Reverse repurchase agreements	1,143,253	-	-				801,172	-	-			
- Finance leases	-	-	-				-	-	-			
- Others	133,796	-	-				161,895	-	-			
2. Debt securities	-	-	-				-	-	-			
2.1 Structured securities	14,976	-	-	14,989	-	-	14,892	-	-	14,900	-	-
2.2 Other debt securities	17,623	-	-	12,853	4,788	-	38,734	-	-	34,290	4,788	-
Total	**1,717,913**	**-**	**-**	**27,843**	**4,788**		**1,539,311**	**-**	**-**	**49,190**	**4,788**	

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

The item "Due from central banks - Minimum reserves" also includes the amounts deposited to meet the reserve requirement on behalf of client banks, to which DEPObank provides the service of indirect compliance with reserve requirements.

The item "Receivables due from banks - Repurchase agreements" refers to contracts governed by global master repurchase agreements (GMRAs).

“Receivables due from banks - Other” consist mainly of operating receivables, i.e. receivables for transactions connected to the provision of services, and in particular (€113 million) of daily positions connected to the provision of payment cards settlement services.

The reduction in the item "Other debt securities” relates both to the repayment of maturing securities and to the sale of securities in the portfolio. The sustainability of these sales within the Hold To Collect business model has been assessed in relation to the relevant company policies.

The Bank had no subordinated securities as at 31 December 2020.

4.2 Financial assets measured at amortised cost: breakdown of receivables due from customers

Type of operations/ Values	31/12/2020						31/12/2019					
	Book value			Fair value			Book value			Fair value		
	Stage one and Stage two	Stage three	of which: purchased or originated impaired	L1	L2	L3	Stage one and Stage two	Stage three	of which: purchased or originated impaired	L1	L2	L3
1. Loans												
1.1 Current accounts	19,502	3,104	-	X	X	X	20,446	3,073	-	X	X	X
1.2 Reverse repurchase agreements	188,900	-	-	X	X	X	232,615	-	-	X	X	X
1.3 Mortgages	-	-	-	X	X	X	-	-	-	X	X	X
1.4 Credit cards and personal loans, including salary assignment loans	862	-	-	X	X	X	1,220	-	-	X	X	X
1.5 Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
1.6 Factoring	-	-	-	X	X	X	-	-	-	X	X	X
1.7 Other loans	18,851	-	-	X	X	X	128,463	-	-	X	X	X
2. Debt securities	**-**	**-**	**-**				**-**	**-**	**-**			
2.1 Structured securities	-	-	-	-			-	-	-	-		
2.2 Other debt securities	3,251,464	-	-	3,319,682	-	-	4,354,621	-	-	4,391,161	-	-
Total	**3,479,579**	**3,104**	**-**	**3,319,682**	**-**	**-**	**4,737,365**	**3,073**	**-**	**4,391,161**	**-**	**-**

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

Current account credit facilities are represented by the use of lines of credit, functional to service needs, granted to funds and asset management companies to which depositary bank services are rendered (as part of the services offered by the Securities Services business unit) or by corporate customers to whom collection and payment services are provided (as part of the services provided by the Banking Payments Department).

The item "Loans - Repurchase agreements" is represented by exposures arising in relation to contracts with customers regulated by the global master repurchase agreements (GMRAs).

The item "Other loans" consists mainly of security deposits functional to settlement activities related to the typical operations of the Securities Services and Banking Payments business areas.

"Debt securities" are entirely represented by Italian government securities. The decrease in the item relates to the actions carried out (sale of certain securities in the portfolio and suspension of new investments) following the agreements formalised in the "Sale and Purchase and Merger Agreement" stipulated by the parent company Equinova UK Holding Ltd, Banca Farmafactoring S.p.A. and, limited to certain contractual clauses, DEPObank, (SPMA) on 13 May 2020, referred to in the Report on Operations and to which reference is made for further details. The sustainability of these sales within the HTC business model was assessed in relation to the relevant company policies and specifically by the Board of Directors in connection with the signing of the SPMA.

4.3 Financial assets measured at amortised cost: breakdown by debtor/ issuer of loans to customers

	31/12/2020			31/12/2019		
	Stage one and Stage two	**Stage three**	**of which: purchased or originated impaired assets**	**Stage one and Stage two**	**Stage three**	**of which: purchased or originated impaired assets**
1. Debt securities						
a) Public administrations	3,251,464	-	-	4,354,621	-	-
b) Other financial companies	-	-	-	-	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	-	-	-	-	-	-
2. Loans to:						
a) Public administrations	-	-	-	1	-	-
b) Other financial companies	110,351	3,104	-	188,231	3,073	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	116,887	-	-	193,201	-	-
d) Households	876	-	-	1,311	-	-
Total	**3,479,579**	**3,104**	**-**	**4,737,365**	**3,073**	**-**

4.4 Financial assets measured at amortised cost: gross amount and total adjustments

	Gross value				Total value adjustments			Total partial write-offs (*)
	Stage one		Stage two	Stage three	Stage one	Stage two	Stage three	
		of which: Instruments with low credit risk						
Debt securities	3,284,752	3,284,752	-	-	689	-	-	-
Loans	1,914,017	1,332,206	6	6,635	593	-	3,532	-
Total 31/12/2020	**5,198,769**	**4,616,958**	**6**	**6,635**	**1,282**	**-**	**3,532**	**-**
Total 31/12/2019	**6,277,680**	**5,444,500**	**2,239**	**6,470**	**3,228**	**16**	**3,398**	**-**
of which: purchased or originated impaired financial assets	X	X	-	-	X	-	-	-
Total	**5,198,769**	**4,616,958**	**6**	**6,635**	**1,282**	**-**	**3,532**	**-**

(*) Value presented for informative purposes

There are no loans measured at amortised cost subject to COVID-19 support measures.

The methods for calculating adjustments to loans are described in Section E of these Notes.

SECTION 7 – EQUITY INVESTMENTS – ITEM 70

7.1 Equity investments: information on shareholding relationships

Name	Head office	Operational headquarters	Shareholding %	Votes held %
C. Companies subject to significant influence				
1. Unione Fiduciaria	Milan	Milan	24.59	24.59

The stakes displayed in the table take into account treasury shares held by the company (and purchased during 2020). The interest as a portion of the number of shares issued is 24%.

7.5 Equity investments: annual changes

	31/12/2020	31/12/2019
A. Opening balances	**8,564**	**8,564**
B. Increases	–	–
B.1 Purchases	–	–
B.2 Write-backs	–	–
B.3 Revaluations	–	–
B.4 Other changes	–	–
C. Decreases	–	–
C.1 Sales	–	–
C.2 Write-downs	–	–
C.3 Other changes	–	–
D. Closing balances	**8,564**	**8,564**
E. Total revaluations	–	–
F. Total write-downs	–	–

SECTION 8 - TANGIBLE ASSETS - ITEM 80

8.1 Non-investment tangible assets: breakdown of assets measured at cost

Assets/Values	31/12/2020	31/12/2019
1. Owned assets		
a) land	2,640	2,640
b) buildings	4,905	5,075
c) furniture and fittings	246	273
d) electronic systems	-	-
e) others	625	639
2. Lease rights of use		
a) land	-	-
b) buildings	13,397	18,418
c) furniture and fittings	-	-
d) electronic systems	-	-
e) others	208	258
Total	**22,021**	**27,303**
of which: obtained by enforcement of guarantees received		

Owned buildings and land refer to the property in Rome - Via Elio Chianesi 110/d, home to the Bank's Rome headquarters.

The leased buildings refer to the property in Milan - Via Anna Maria Mozzoni 1.1, home to the Bank's registered office and to its Milan management and operational headquarters.

8.6 Tangible assets with functional use: yearly changes

	Land	Buildings	Furnishings	Electronic systems	Others	Total
A. Gross opening balances	**3,136**	**33,501**	**4,295**	**-**	**33,289**	**74,221**
A.1 Total net write-downs	496	10,008	4,022	-	32,392	46,918
A.2 Net opening balances	2,640	23,493	273	-	897	27,303
B. Increases						
B.1 Purchases	-	100	2	-	267	369
B.2 Capitalised expenditure on improvements	-	-	-	-	-	-
B.3 Write-backs						
B.4 Increases in fair value through:						
a) shareholders' equity						
b) the income statement						
B.5 Positive exchange differences						
B.6 Transfers from properties held for investment purposes						
B.7 Other changes	-	336	-	-	59	395
C. Decreases						
C.1 Sales	-	-	-	-	-	-
C.2 Depreciation	-	2,172	30	-	303	2,505
C.3 Impairment losses charged to:						
a) shareholders' equity						
b) the income statement						
C.4 Negative changes in fair value charged to:						
a) shareholders' equity						
b) the income statement						-
C.5 Negative exchange differences						
C.6 Transfers to:						
a) tangible assets held for investment						
b) non-current assets and groups of assets held for disposal						
C.7 Other changes	-	3,455	-	-	87	3,127
D. Closing net balances	**2,640**	**18,302**	**246**	**-**	**833**	**22,021**
D.1 Total net write-downs	496	12,180	4,051	-	32,695	49,422
D.2 Gross closing balances	3,136	30,481	4,297	-	33,528	71,859
E. Valuation at cost						

The “Other changes” in decline refer to the impairment on the Right of Use of a portion of the property in Milan - Via Anna Maria Mozzoni 1.1, subject to a separate independent lease, resulting from the commitment to terminate the relevant contract entered into with the signing of the SPMA.

SECTION 9 - INTANGIBLE ASSETS - ITEM 90

9.1 Intangible assets: breakdown by type of asset

Assets/Values	31/12/2020		31/12/2019	
	Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life
A.1 Goodwill	**x**	**81,017**	**x**	**81,017**
A.2 Other intangible assets	**22,658**	**-**	**28,085**	**-**
A.2.1 Assets measured at cost:	-	-	-	-
a) Intangible assets created internally	-	-	-	-
b) Other assets	22,658	-	28,085	-
A.2.2 Assets measured at fair value:	-	-	-	-
a) Intangible assets created internally	-	-	-	-
b) Other assets	-	-	-	-
Total	**22,658**	**81,017**	**28,085**	**81,017**

The goodwill recorded as at 31 December 2020 refers to the Banking Payments cash-generating unit (CGU).

Other assets are represented for €15 million by "Customer contracts” (intangible assets with a finite useful life, arising from the acquisitions, between 2011 and 2014, of business units relating to depository bank and ancillary activities, originally recognised at the price paid less the unit's net assets and amortised over a period of ten years) and for €7 million at multi-year costs incurred in particular for the purchase of software and/or the development of the company's information system.

9.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: internally generated		Other intangible assets: others		Total
		FIN	INDEF	FIN	INDEF	
A. Opening balances	**126,931**			**147,808**		**274,739**
A.1 Total net write-downs	45,914			119,723		165,636
A.2 Net opening balances	81,017			28,085		109,103
B. Increases						
B.1 Purchases	-			5,444		5,444
B.2 Increases in internal intangible assets	x			-		-
B.3 Write-backs	x			-		-
B.4 Increases in fair value	-			-		-
- Shareholders' equity	x			-		-
- income statement	x			-		-
B.5 Positive foreign exchange differences	-			-		-
B.6 Other changes	-			-		-
C. Decreases						
C.1 Sales	-	-	-	-	-	-
C.2 Write-downs	-	-	-	-	-	-
- Amortisation	x	-	-	10,871	-	10,871
- Write-downs	-	-	-	-	-	-
+ shareholders' equity	x	-	-	-	-	-
+ income statement	-	-	-	-	-	-
C.3 Decreases in fair value	-	-	-	-	-	-
- Shareholders' equity	x	-	-	-	-	-
- income statement	x	-	-	-	-	-
C.4 Transfer to non-current assets held for sale	-	-	-	-	-	-
C.5 Negative foreign exchange differences	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
D. Closing net balances	**81,017**	**-**	**-**	**22,658**	**-**	**103,675**
D.1 Total net write-downs	45,914	-	-	130,594	-	176,507
E. Closing gross balances	**126,931**	**-**	**-**	**153,252**	**-**	**280,183**
F. Valuation at cost						**-**

Key:
FIN = finite useful life
INDEF = indefinite useful life

9.3 Intangible assets: other information

Impairment testing

In accordance with IAS 36 – *Impairment of Assets*, DEPObank carried out the annual impairment test on intangible assets with an indefinite useful life (goodwill) at the reporting date by determining each asset's recoverable value and comparing it with the asset's book value.

Scope of analysis and book value of the CGUs

The company’s accounts at 31 December 2020 recognise a single intangible asset with an indefinite useful life (Goodwill) pertaining to the Banking Payments cash generating unit (CGU).

The Banking Payments CGU is the same Business Unit identified by the Strategic Plan, as identifiable in the company organisation and represented in the Bank's management reports; the Business Unit is responsible, in an integrated form, for payment services of a banking nature and for related back-office services in favour of banks, companies and institutions.

The CGU’s book value is the same as its goodwill value that appears in the company’s accounting records (and separate financial statements), i.e. €81.0 million.

Since the capital underlying the book value of the CGU is assumed to be zero, an initial capital deficit (equal to the regulatory minimum capital initially required for the CGU's operations) is taken into account in determining the recoverable value.

Determination of recoverable value of the CGUs

Below is an illustration of the underlying assumptions and methodologies used for the impairment test conducted according to the applicable international accounting standard, IAS 36.

In line with the indications provided in the joint Bank of Italy/Consob/ISVAP document no. 4 of 3 March 2010, the procedure and the assessment parameters for the impairment testing of goodwill were approved, in line with previous years, by the Board of Directors independently and in advance of the approval of the draft 2020 financial statements.

In accordance with international accounting standards, the amount of any impairment loss is determined by the difference between the carrying amount of the CGU and its recoverable amount, where lower. The recoverable value is defined as the greater of:
- value in use, i.e. the present value of future cash flows that are expected to be generated by the continuous use of a specific asset or by a CGU;
- fair value, less costs to sell, i.e. the amount obtainable from the sale of an asset or CGU, in a free transaction between informed, independent parties.

The impairment test was conducted after the drawing-up of statement of the financial position and income statement projections underlying the "2020–2023 Strategic Plan" approved by the Board of Directors on 21 February 2020, taking into account:

- the exclusion (consistent with the choice adopted in the Financial Statements at 31 December 2019) of the impacts (financial position and results) expected in the Strategic Plan from the asset-side strategy underlying the Vesta Project (the so-called As-is Plan);
- the "COVID effects" on the aforementioned projections developed starting from the "Base Scenario" on COVID 2020 impacts shared in the Board of Directors meeting held on 28 April 2020;
- evidence from the first year of the Plan, with particular reference to the impacts of the COVID-19 pandemic and the signing in May 2020 of the Sale, Purchase and Merger Agreement between Banca Farmafactoring, Equinova and, limited to some articles, DEPObank;
- the projections underlying the 2021 Budget approved by the Board of Directors on 17 December 2020 and the related medium-term statement of financial position and income statement projections (hereinafter the "Updated Plan").

To determine the recoverable value of the CGU, both the value in use and fair value have been determined.

The value in use of the CGU has been determined by applying the Dividend Discount Model (DDM) methodology in the Excess Capital version, developed from the aforementioned projections for the 2021-2023 period. This method establishes that the economic value of a company (W), or of a branch thereof, subject to capital constraints of a binding nature is given by the discounting of a flow of dividends determined on the basis of income capacity and compliance with the minimum capital constraints imposed by the relevant supervisory authority. This method is based on the following evaluation formula:

$$W = {}_{DIV\ a} + TV_a$$

where:

DIV_a = the present value of the maximum theoretical distributable dividends (or capital deficits) (DIV) in the explicit forecast period, based on the following formula:

$$\sum_{t=0}^{n} \frac{DIV t}{Ke}$$

TV_a = the present value of the terminal value (TV), calculated as a perpetual income of the long-term distributable dividend, based on the following formula:

$$TV = \frac{DIV\ t+1}{(Ke-g)}$$

where:

DIV_{t+1} = normalised dividend (sustainable average at the end of the explicit forecast horizon), calculated on the basis of supervisory requirements:

K_e = Cost of equity

g = long-term growth rate

The cost of equity (K_e) was estimated according to the Capital Asset Pricing Model ("CAPM"), according to which the return on a risky activity is equal to the sum of a risk-free rate (R_f) and an equity risk premium (ERP), determined taking into account the specific risk of the activity (β), according to the following formula

$$K_e = R_f + \beta \times ERP$$

The formula parameters were determined as follows:

- Risk-free rate: 12-month average of the gross yield of Italian 10-year BTPs observed at 31 December 2020 (incorporating "country risk");
- Beta: average value of monthly observations for a sample of comparable companies over an observation period of 5 years from 31 December 2020;
- Equity Risk Premium: in line with international best assessment practices (Source: A. Damodaran) – 12-month average given a floor of 5.5%.

The following was considered with reference to the estimation of the terminal value:

- a prudential increase (add-on) of 1.00% of the cost of equity (Ke), in continuity with the previous year;
- a long-term growth rate (g) of 1.35%, in line with long-term inflation expectations for Italy (Source: International Monetary Fund, 2020). With this in mind, since the ECB has not provided updates on the eurozone long-term growth rate adopted last year (2%), it was deemed appropriate to use the recent estimates from the International Monetary Fund as an alternative and equally authoritative source.

The following table summarises the formation and measurement of the cost of equity used in the impairment test for the year 2020.

	Banking Payments CGU
Risk-free rate (Rf)	1.12%
Beta (β)	1.06
Equity Risk Premium (ERP)	5.50%
Cost of equity (K_e) Explicit period	**6.96%**
Cost of equity (K_e) Terminal Value	**7.96%**

The potentially distributable dividends during the explicit forecast period and for the terminal value were determined considering:

- the income flows pertaining to the CGU based on projections from the Updated Plan;
- a minimum capital requirement determined on the basis of the Leverage parameter, more stringent at the company level, equal to the minimum prospective regulatory requirement (CRR2) of 3.0%, plus a buffer of 0.5%, to

take into account the possible volatility of total assets (induced in particular by funding in the form the accounts held by depository bank customers).

Calculating the minimum capital requirement based on the Leverage parameter is a requirement adopted in the previous year and determined in particular by excluding the growth outlook of the SME Specialised Lending business line for impairment purposes.

In fact, the Bank, in its current configuration, presents an atypical (compared to ordinary banks) “sensitivity” to the aforementioned regulatory requirements, due to a low *RWA density* (calculated as the ratio of Risk Weighted Assets to Total Exposure), equal to about 10%, which makes the CET 1 ratio unrepresentative of the company's minimum regulatory capital requirements, with Leverage being much more stringent than that proportionate to RWAs.

In continuity with the impairment test of the previous year, fair value was determined by applying the market multiples method, based on the analysis of the stock prices of a selected sample of (comparable) companies operating in the reference sector of the Banking Payments CGU and on the subsequent application of multiples resulting from this analysis to the corresponding amounts of the CGU being valued.

The multiple selected is price/earnings (P/E), calculated as the ratio of the market capitalisation of the comparable companies selected for the Banking Payments CGU to their respective projected net profits.

This multiple is a commonly accepted and used indicator both nationally and internationally and is in line with professional practice when assessing institutions or branches thereof subject to capital requirements.

The market multiple is particularly high - on average above 30x in the 2020-2022 period and 20x in 2023 - since it is the mathematical effect of stock market capitalisations connected to current 2020 and expected profits that are low because of the negative impacts of the current health emergency. For this reason, from a prudential perspective and with the aim of mitigating the effects of significant short-term fluctuations in market multiples associated with extraordinary or speculative events, and as recommended by best measurement practice, it was deemed appropriate to refer to the adjusted P/E multiple.

The average value and median value of the market multiple in question obtained from the analysis of the comparison sample, considering the 12-month average stock market capitalisation, were applied to the expected net profits of the CGU in the corresponding year. Although estimates are available on the future income prospects of the sample of comparable companies up to 2023, it was decided to take the 2022 financial year (second year of the Plan) as a reference, in continuity with the approach used for the impairment test carried out last year. It should also be noted that no years before or after 2022 show any signs of impairment of the goodwill allocated to the CGU.

The values of the multiples used are presented in the table below.

	Banking Payments CGU
Average	17.3x
Median	17.1x

The fair value of the CGU was then determined as the average of the fair values identified by applying the average market multiple and the median market multiple – considering different stock market capitalisation horizons as described above – taking into account the initial capital requirement (deficit) calculated on the basis of the same assumptions and parameters illustrated when determining value in use.

However, it should be noted that, given the significant fluctuations that the health emergency has produced on the formation of stock market prices in recent months, which in turn can cause a significant volatility of the Fair Value even in the short term, it was considered appropriate to identify the recoverable value of the CGU taking only the Value in Use as reference.

Summary of results

Based on the underlying assumptions and methodologies illustrated, the impairment test at 31 December 2020 did not determine the need to recognise any write-down of goodwill allocated to the Banking Payments CGU, as the recoverable value of the CGU was higher than its carrying amount;

Sensitivity analysis

In accordance with IAS 36, a sensitivity analysis of the recoverable amount was carried out in order to assess the variability of the recoverable amount due to reasonable changes in the underlying assumptions. In particular, the data shown in the tables below represent:

- (on the left) the difference (in absolute value and percentage) between the recoverable value and the book value, assuming a decrease in the growth rate (g) while keeping the cost of equity constant (Ke);
- (on the right) the level that the “Ke” rate would have to take to eliminate the positive difference between the recoverable value and the book value, in various “g” growth rate scenarios.

Banking Payments CGU Terminal value grow rates “g”/ Cost of equity "Ke" (difference between recoverable amount and reference value in millions of euros) (as a percentage of value in use)				
	Ke (TV Ke)			
	6.96% (7.96%)			Ke (TV Ke)
g	1.00%	+ 26.8	+ 33.0%	8.25% (9.25%)
	1.35%	+ 32.2	+ 39.8%	8.43% (9.43%)
	1.70%	+ 38.3	+ 47.2%	8.62% (9.62%)

SECTION 10 – TAX ASSETS AND TAX LIABILITIES – ITEM 100 OF ASSETS AND ITEM 60 OF LIABILITIES

10.1 Advance tax assets: breakdown

	31/12/2020	31/12/2019
IRAP		
Goodwill alignment	758	817
Amortisation	1,498	1,399
Others	248	237
IRES		
Goodwill alignment	3,740	4,034
Provisions	5,430	3,373
Amortisation	8,301	7,772
Tax loss	13,110	
Others	2,142	2,079
Total	**35,226**	**19,711**

10.2 Deferred tax liabilities: breakdown

	31/12/2020	31/12/2019
IRAP		
Valuation reserves	99	178
Goodwill	657	623
Others		
IRES		
Valuation reserves	24	44
Goodwill	3,243	3,078
Others	1,104	1,104
Total	**5,128**	**5,028**

10.3 Changes in deferred tax assets (through profit or loss)

	31/12/2020	31/12/2019
1. Initial amount	**19,073**	**22,460**
2. Increases		
2.1 Deferred tax assets recognised during the year		
a) related to previous years		
b) due to changes in accounting criteria		
c) write-backs		
d) others	17,804	1,114
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases		
3.1 Deferred tax assets derecognised during the year		
a) reversals	2,309	4,501
b) write-downs of non-recoverable items		
c) changes in accounting criteria		
d) others		
3.2 Reductions in tax rates		
3.3 Other decreases		
a) conversion into tax credits, Italian Law 214/2011		
b) others		
4. Final amount	**34,569**	**19,073**

10.3-bis Changes in deferred tax assets pursuant to Italian Law no. 214/2011

	31/12/2020	31/12/2019
1. Initial amount	**13,915**	**14,800**
2. Increases	**2,278**	**1,012**
3. Decreases		
3.1 Reversals	1,982	702
3.2 Conversion into tax credits		
a) deriving from loss for the year		
b) deriving from tax losses		
3.3 Other decreases		1,196
4. Final amount	**14,211**	**13,915**

10.4 Changes in deferred tax liabilities (through profit or loss)

	31/12/2020	31/12/2019
1. Initial amount	**4,806**	**5,101**
2. Increases		
2.1 Deferred taxes recognised during the year		
a) related to previous years		
b) due to changes in accounting criteria		
c) others	199	263
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases		
3.1 Deferred taxes derecognised during the year		
a) reversals	-	558
b) due to changes in accounting criteria		
c) others		
3.2 Reductions in tax rates		
3.3 Other decreases		
4. Final amount	**5,005**	**4,806**

10.5 Changes in deferred tax assets (recorded in equity)

	31/12/2020	31/12/2019
1. Initial amount	**637**	**476**
2. Increases		
2.1 Deferred tax assets recognised during the year		
a) related to previous years		
b) due to changes in accounting criteria		
c) others	117	161
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases		
3.1 Deferred tax assets derecognised during the year		
a) reversals	97	
b) write-downs of non-recoverable items		
c) due to changes in accounting criteria		
3.2 Reductions in tax rates		
3.3 Other decreases		
4. Final amount	**658**	**637**

10.6 Changes in deferred tax liabilities (recorded in equity)

	31/12/2020	31/12/2019
1. Initial amount	**222**	**1,392**
2. Increases		
2.1 Deferred taxes recognised during the year		
a) related to previous years		
b) due to changes in accounting criteria		
c) others	4	4,216
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases		
3.1 Deferred taxes derecognised during the year		
a) reversals	103	5,386
b) due to changes in accounting criteria		
c) others		
3.2 Reductions in tax rates		
3.3 Other decreases		
4. Final amount	**123**	**222**

SECTION 11 – NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS AND ASSOCIATED LIABILITIES - ITEM 110 OF ASSETS AND ITEM 70 OF LIABILITIES

11.1 Non-current assets held for sale and discontinued operations: breakdown by type

	31/12/2020	31/12/2019
A. Assets held for sale		
A.1 Financial assets	18,617	
A.2 Equity investments	1,893	
A.3 Tangible assets		
of which: obtained by enforcement of guarantees received		
A.4 Intangible assets		
A.5 Other non-current assets		
Total (A)	**20,510**	
of which measured at cost		
of which measured at fair value level 1		
of which measured at fair value level 2		
of which measured at fair value level 3	20,510	
B. Discontinued operations		
B.1 Financial assets measured at fair value with impact on income statement		
- financial assets held for trading		
- financial assets at fair value		
- other financial assets subject to mandatory fair value measurement		
B.2 Financial assets measured at fair value through other comprehensive income		
B.3 Financial assets measured at amortised cost		
B.4 Equity investments		
B.5 Tangible assets		
of which: arising from the recovery of impaired loans		
B.6 Intangible assets		
B.7 Other assets		
Total (B)	-	
of which measured at cost		
of which measured at fair value level 1		
of which measured at fair value level 2		
of which measured at fair value level 3		
C. Liabilities associated with assets held for sale		
C.1 Payables		
C.2 Securities		
C.3 Other liabilities		
Total C	-	
of which measured at cost		
of which measured at fair value level 1		
of which measured at fair value level 2		
of which measured at fair value level 3		
D. Liabilities associated with discontinued operations		
D.1 Financial liabilities measured at amortised cost		
D.2 Financial liabilities held for trading		
D.3 Financial liabilities designated at fair value		
D.4 Provisions		
D.5 Other liabilities		
Total (D)	-	
of which measured at cost		
of which measured at fair value level 1		
of which measured at fair value level 2		
of which measured at fair value level 3		

11.2 Other information

The assets classified under this item include:
- equity interest (100%) in Cara Services: acquired at the beginning of the year for €20 million and initially classified as “Equity Interest” (Item 70 on the asset side of the Statement of Financial Position); the asset is recognised at the balance sheet date for €1.9 million;
- “Prelios Loan”: share of €20 million of the pool loan (total €380 million) granted to Prelios S.p.A. in November 2019 and classified in the financial statements at 31 December 2019 under “Financial assets at amortised cost” (Item 40 on the asset side of the Statement of Financial Position) and accounted for according to the Held to Collect (HTC) business model; the asset is recognised at the balance sheet date for €18.6 million.

As indicated in the Report on Operations, the aforementioned classification was approved by the Board of Directors at its meeting on 17 December 2020, considering the commitments made with the signing of the aforementioned “Sale, Purchase and Merger Agreement” for the disposal of assets referring to the so-called “Vesta Project”, together with the state of implementation of the conditions at the closing of the Acquisition underlying the aforementioned agreement.

SECTION 12 - OTHER ASSETS - ITEM 120

12.1 Other assets: breakdown

Assets/Values	31/12/2020	31/12/2019
Receivables from the Tax Authorities for withholdings related to interest to customers and other receivables from the Tax Authorities	21,058	34,440
Negotiated cheques to be settled	8,346	229
Correspondents for past-due securities and coupons to be collected	532	7,107
Commissions and other income to be charged	39,774	48,945
BI-REL, credit transfers, Setif flows, messages received, e-money	155,654	156,858
Sundry and residual items	39,044	30,848
Total	**264,408**	**278,427**

In bank payment processing, the suspense accounts relating to the item "BI-REL, credit transfers, Setif flows, messages received”, include settlement that was suspended and then completed in the first business days after the reporting date of these financial statements.

Liabilities

SECTION 1 - FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST - ITEM 10

1.1 Financial liabilities measured at amortised cost: breakdown of payables due to banks

Type of operations/Values	31/12/2020				31/12/2019			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Due to central banks	**3,537**	**x**	**x**	**x**	**3,448**	**x**	**x**	**x**
2. Payables due to banks		**x**	**x**	**x**		**x**	**x**	**x**
2.1 Current accounts and on demand deposits	675,994	x	x	x	586,092	x	x	x
2.2 Time deposits	236,991	x	x	x	205,355	x	x	x
2.3 Loans								
2.3.1 Repurchase agreements	-	x	x	x	5,113	x	x	x
2.3.2 Others	-	x	x	x	-	x	x	x
2.4 Liabilities in respect of commitments to repurchase own equity instruments	-	x	x	x	-	x	x	x
2.5 Lease liabilities	-	x	x	x	-	x	x	x
2.6 Other payables	17				1,883			
Total	**916,539**		**916,539**		**801,891**		**801,891**	

Time deposits are mainly related to the deposits required for the services rendered to client banks, such as indirect compliance with compulsory reserve requirements.

1.2 Financial liabilities measured at amortised cost: breakdown of payables due to customers

Type of operations/Values	31/12/2020				31/12/2019			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Current accounts and on-demand deposits	**8,351,133**	**x**	**x**	**x**	**6,844,825**	**x**	**x**	**x**
2. Time deposits	**24**	**x**	**x**	**x**	**99**	**x**	**x**	**x**
3. Loans	**-**				**-**			
3.1 Repurchase agreements	-	x	x	x	92,852	x	x	x
3.2 Others	-	x	x	x	-	x	x	x
4. Liabilities in respect of commitments to repurchase own equity instruments	**-**	**x**	**x**	**x**	**-**	**x**	**x**	**x**
5. Payables for leases	**11,248**				**13,566**			
6. Other payables	**620,758**	**x**	**x**	**x**	**542,555**	**x**	**x**	**x**
Total	**8,983,162**		**8,983,162**		**7,493,896**		**7,493,896**	

Current account balances mainly refer to operating accounts, i.e. accounts opened in favour of customers (funds, asset management companies, corporate customers and institutions) in connection with the core service range (depositary bank and collection and payment services).

Other payables are mainly represented (€596 million) by outstanding cashier's cheques, issued as part of the service that allows affiliated banks to provide their customers with a credit instrument issued by DEPObank under a mandate agreement.

1.6 Payables for leases

Type of operations/Values	31/12/2020 Book value	31/12/2019 Book value
Payables for leases	11,248	13,566

SECTION 2 – FINANCIAL LIABILITIES HELD FOR TRADING – ITEM 20

Section 2.1 Financial liabilities held for trading: breakdown

Operations/values	31/12/2020					31/12/2019				
	NV	Fair value			FV (*)	NV	Fair value			FV (*)
		L1	L2	L3			L1	L2	L3	
A. On-balance sheet liabilities										
1. Payables due to banks	-	-	-	-	-	-	-	-	-	
2. Payables due to customers	-	-	-	-	-	-	-	-	-	
3. Debt securities	-	-	-	-	-	-	-	-	-	
3.1. Bonds	-	-	-	-	-	-	-	-	-	
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	X	-	-	-	-	
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Others	-	-	-	-	X	-	-	-	-	X
Total (A)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Derivatives										
1. Financial derivatives										
1.1 For trading	X	-	4,039	-	X	X	-	6,248	-	X
1.2 Connected to the fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Others		-	-	-			-	-	-	
2. Credit derivatives		-	-	-			-	-	-	
2.1 For trading	X	-	-	-	X	X	-	-	-	X
2.2 Connected to the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Others	X	-	-	-	X	X	-	-	-	X
Total (B)	**X**	**-**	**4,039**	**-**	**X**	**X**	**-**	**6,248**	**-**	**X**
Total (A + B)	**X**	**-**	**4,039**	**-**	**X**	**X**	**-**	**6,248**	**-**	**X**

Key:
NV = nominal or notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3
Fair value (*) = Fair value calculated excluding changes in value due to the change in the issuer's creditworthiness compared to the date of issue
.

SECTION 6 - TAX LIABILITIES - ITEM 60

Refer to Section 10 of Assets.

SECTION 8 - OTHER LIABILITIES - ITEM 80

8.1 Other liabilities: breakdown

	31/12/2020	31/12/2019
Tax payables, withholding taxes payable and other payables	2,287	2,144
Cheques, cheques truncation flows to be credited	15,316	9,688
Securities transactions, foreign exchange and premiums paid for options, to be credited	1,835	63
Payables to employees	25,225	33,270
Other payables for expenses and interest commissions payable	32,613	48,192
Currency haircuts on portfolio transactions	-	21,173
BI-REL, credit transfers, payment flows to be credited and e-money	194,846	189,464
Sundry and residual items	2,750	18,032
Total	**274,874**	**322,027**

SECTION 9 – EMPLOYEE SEVERANCE PAY – ITEM 90

9.1 Employee severance indemnity: annual changes

	31/12/2020	31/12/2019
A. Opening balances	**3,131**	**3,451**
B. Increases		
B.1 Provision for the year	45	64
B.2 Other changes	385	501
C. Decreases		
C.1 Payments made	36	361
C.2 Other changes	358	524
D. Closing balances	**3,167**	**3,131**
Total	**3,167**	**3,131**

9.2 Other information

Main demographic and actuarial assumptions for the assessment of the post-employment benefit provision as at 31 December 2020

Probability of death of pensioners due to retirement or old age	Probabilities relative to the Italian population by age and gender, as determined by ISTAT in 2000
Probability of death of pensioners due to total, permanent disability	Probabilities based on the disability tables currently used in reinsurance practice by age and gender
annual frequency of advances	1.76%
annual frequency of turnover	1.86%
Probability of retirement	Upon reaching the first retirement requirement valid for Mandatory General Insurance
Inflation rate	0.80%
Annual discount rate	0.34%, based, in accordance with para. 83 of IAS 19, on the Iboxx Corporate AA index with a duration of 10+ as recorded on the assessment date

Sensitivity analysis

As required by IAS 19, a sensitivity analysis of the post-employment benefit obligation has been carried out in relation to the actuarial assumptions considered most significant, aimed at showing how the statement of financial position liability would vary in relation to the reasonably possible fluctuations in each of these actuarial assumptions. In particular, the following table provides evidence of the change in the post-employment benefit provision, assuming an increase or decrease in the main parameters used.

Sensitivity test for the main assessment criteria

Turnover rate	+0.50%	3,154,726
Turnover rate	-0.50%	3,179,655
Discount rate	+0.50%	3,022,179
Discount rate	-0.50%	3,321,550
Mortality rate	+0.25%	3,167,643
Mortality rate	-0.25%	3,170,504

SECTION 10 – PROVISIONS FOR RISKS AND CHARGES – ITEM 100

10.1 Provisions for risks and charges: breakdown

Items/Components	31/12/2020	31/12/2019
1. Provisions for credit risk relating to commitments and financial guarantees given	1	6
2. Provisions for other commitments and guarantees issued		
3. Post-employment benefits and similar commitments	296	330
4. Other Provisions for risks and charges	30,391	23,036
Total	**30,688**	**23,372**

10.2 Provisions for risks and charges: annual changes

Items/Components	Provisions for other commitments and guarantees issued	Pension/ retirement funds	Other Provisions for risks and charges	Total
A. Opening balances	**6**	**330**	**23,036**	**23,372**
B. Increases				
B.1 Provision for the year			8,808	8,808
B.2 Changes due to the passage of time				-
B.3 Changes due to variations in the discount rate				-
B.4 Other changes			-	-
C. Decreases				
C.1 Utilisations for the year		31	882	913
C.2 Changes due to variations in the discount rate				-
C.3 Other changes	5	3	571	579
D. Closing balances	**1**	**296**	**30,391**	**30,688**

Of the accruals during the year, €7,425,000 referred to charges that are likely to be incurred in the first half of 2021 in implementation of the commitments made under the SPMA.

10.3 Allowances for credit risk relating to commitments and financial guarantees given

	Provisions for credit risk relating to commitments and financial guarantees given			
	Stage one	Stage two	Stage three	Total
Commitments to disburse funds				
Financial guarantees given	1			1
Total	**1**			**1**

10.5 Defined-benefit pension funds

1. Illustration of the characteristics of the provisions and the related risks
The defined-benefit company pension fund consists of the provisions made in respect of the post-employment benefit obligations assumed by DEPObank. The estimated liability at 31 December 2020 is €296,000.

2. Changes in net defined-benefit liabilities (assets) and redemption rights during the year
The present value of the defined-benefit obligation amounted to €330,000 at 31 December 2019. During the year, benefits totalling €31,000 were disbursed.

10.6 Provisions for risks and charges - Other provisions

Other provisions mainly refer to claims/lawsuits for which payment is considered likely. The item also includes provisions for charitable expenses.

At 31 December 2020, there was also an amount not exceeding €5 million as a provision, in accordance with IAS 37, for a pending legal dispute pertaining to alleged risks not transferred when a business unit was sold.

SECTION 12 - BANK'S SHAREHOLDERS' EQUITY - ITEMS 110, 130, 140, 150, 160, 170 AND 180

12.1 Capital and treasury shares: breakdown

Items/values	31/12/2020	31/12/2019
1. Share capital	42,557	42,557
2. Share premium	148,242	148,242
3. Reserves	284,306	311,430
4. Treasury shares (-)	-	-
5. Valuation reserves	-2,017	-476
6. Equity instruments	-	-
7. Profit (loss) for the financial year	-35,784	-29,166
Total	**437,304**	**472,588**

12.2 Capital - Number of shares: annual changes

Items/Type	**Ordinary**	**Others**
A. Shares as of the beginning of the year		
- fully paid-in	14,110,599	
- not fully paid-in		
A.1 Treasury shares (-)		
A.2 Shares outstanding: initial balance	**14,110,599**	
B. Increases		
B.1 New issues		
- for cash:		
- business combinations		
- bonds converted		
- warrants exercised		
- others		
- free:		
- for employees		
- for directors		
- others		
B.2 Sales of treasury shares		
B.3 Other changes		
C. Decreases		
C.1 Cancellation		
C.2 Purchase of treasury shares		
C.3 Disposal of companies		
C.4 Other changes		
D. Shares outstanding: closing balance	**14,110,599**	
D.1 Treasury shares (+)		
D.2 Shares existing at the end of the year	14,110,599	
- fully paid-in	14,110,599	
- not fully paid-in		

(balances in units)

12.4 Earnings reserve: Other information

Details of usability of equity reserves

Description	31/12/2020	31/12/2019	Usability
Share premium reserve	**148,242**	**148,242**	**a,b,c**
Earnings reserves:	**273,458**	**300,582**	
- of which legal	20,000	20,000	a
- of which other earnings reserves	253,458	280,582	a.b.c
Earnings reserves pursuant to Italian Law 289/2002	**10,848**	**10,848**	**a,b,c**
Valuation reserve	**-2,017**	**-476**	
- of which valuation reserve (no IAS 19)	-748	770	d
- of which IAS 19 valuation reserve	-1,269	-1,246	
Total reserves	**430,531**	**459,196**	

a = coverage of losses
b = distribution to shareholders
c = share capital increase
d = not distributable until realised

The reduction in the item “Earnings reserves” is essentially attributable to the coverage of the loss for the year 2019 by attributing it to the aforementioned reserves.

12.6 Other information

	Balances	
	31/12/2020	**31/12/2019**
Legal reserve	20,000	20,000
Reserves provided for by the Articles of Association		
Other reserves	264,306	291,431
Total	**284,306**	**311,431**

Other information

1. Commitments and financial guarantees given (other than those designated at fair value)

	Notional value of commitments and financial guarantees given				
	Stage one	Stage two	Stage three	31/12/2020	31/12/2019
Commitments to disburse funds					
a) Central banks	-	-	-	-	-
b) Public administrations	-	-	-	-	-
c) Banks	308,855	-	-	308,855	289,363
d) Other financial companies	1,229,763	-	-	1,229,763	1,074,050
e) Non-financial companies	21,505	-	-	21,505	21,200
f) Households	1	-	-	1	115
Financial guarantees given					
a) Central banks	-	-	-	-	-
b) Public administrations	263	-	-	263	263
c) Banks	-	-	-	-	-
d) Other financial companies	49	-	-	49	120
e) Non-financial companies	-	-	-	-	714
f) Households	-	-	-	-	-

3. Assets given as collateral for own liabilities and commitments

Portfolios	31/12/2020	31/12/2019
1. Financial assets measured at fair value through profit or loss	-	-
2. Financial assets measured at fair value through other comprehensive income	-	-
3. Financial assets measured at amortised cost	1,229,328	1,311,563
4. Tangible assets		
of which: tangible assets held as inventories		

The assets pledged as collateral consist mainly of government bonds securing the Bank's dealings for the settlement of transactions in its core businesses.

4. Administration and brokerage for third parties

Type of service	31/12/2020	31/12/2019
1. Execution of orders for customers		
a) Purchases		
1. settled	-	-
2. not settled	-	
b) Sales		
1. settled	-	-
2. not settled	-	
2. Individual portfolio management	**-**	
3. Custody and administration of securities		
a) third-party securities held in deposit: relating to depositary bank activities (excluding portfolio management)	48,569,221	49,062,507
1. Instruments issued by reporting bank	-	-
2. Other securities	48,569,221	49,062,507
b) Third party securities deposited (excluding portfolio management): others	82,965,057	83,672,176
1. Instruments issued by reporting bank	39,907	39,694
2. Other securities	82,925,150	83,632,482
c) Third party securities deposited with third parties	117,368,348	117,681,252
d) Proprietary securities deposited with third parties	3,197,748	4,218,619
4. Other transactions	**-**	**-**

PART C – INFORMATION ON THE INCOME STATEMENT

SECTION 1 - INTEREST - ITEMS 10 AND 20

1.1 Interest income and similar income: breakdown

Items/Technical forms	Debt securities	Loans	Other transactions	Total 31/12/2020	Total 31/12/2019
1. Financial assets measured at fair value through profit or loss:					
1.1 Financial assets held for trading	-	-	-	-	1
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets subject to mandatory fair value measurement	-	-	-	-	-
2. Financial assets measured at fair value through other comprehensive income:	**-**	**-**	**X**	**-**	**-**
3. Financial assets measured at amortised cost					
3.1 Receivables due from banks	1,150	5,900	X	7,050	9,149
3.2 Receivables due from customers	30,257	2,006	X	32,263	34,294
4. Hedging derivatives	**X**	**X**	**-**	**-**	**-**
5. Other assets	**X**	**X**	**480**	**480**	**1,125**
6. Financial liabilities	**X**	**X**	**X**	**11,447**	**25,992**
Total	**31,407**	**7,906**	**480**	**51,240**	**70,560**
of which: interest income on impaired assets					-
of which: interest income on finance leasing					

1.3 Interest expense and similar expenses: breakdown

Items/Technical forms	Debt	Securities	Other transactions	31/12/2020	31/12/2019
1. Financial liabilities measured at amortised cost					
1.1 Amounts due to central banks	-	X	-	-	-
1.2. Payables due to banks	943	X	-	943	1,827
1.3. Payables due to customers	1,990	X	-	1,990	12,021
1.4. Securities issued	X	-	-	-	-
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
3. Financial liabilities designated at fair value	**-**	**-**	**-**	**-**	**-**
4. Other liabilities and provisions	**X**	**X**	**506**	**506**	**374**
5. Hedging derivatives	**X**	**X**	**-**	**-**	**-**
6. Financial assets	**X**	**X**	**X**	**12,787**	**24,590**
Total	**2,933**	**-**	**506**	**16,227**	**38,812**
of which: interest expense relative to leasing liabilities				388	347

SECTION 2 - COMMISSION - ITEMS 40 AND 50

2.1 Fee and commission income: breakdown

Type of service/amounts	31/12/2020	31/12/2019
a) guarantees given	5	7
b) credit derivatives	-	-
c) management, brokerage and advisory services:	-	-
1. securities trading	1,625	1,485
2. currency trading	-	-
3 asset management	-	-
3.1 individual	-	-
3.2 collective	-	-
4. custody and administration of securities	5,824	5,597
5. custodian bank	40,446	42,530
6. placement of securities	-	-
7. reception and transmission of orders	-	-
8. advisory services	189	189
8.1. related to investments		-
8.2. related to financial structure	189	189
9. distribution of third party services	-	-
9.1. portfolio management	-	-
9.1.1. individual	-	-
9.1.2. collective	-	-
9.2. insurance products	-	-
9.3. other products	-	-
d) collection and payment services	58,162	57,564
e) servicing of securitisation transactions	-	-
f) factoring services	-	-
g) tax collection services	-	-
h) management of multilateral trading facilities	-	-
i) current account keeping and management	-	-
j) other services	5,358	4,080
Total	**111,608**	**111,453**

2.3 Fee and commission expense: breakdown

Services/Sectors	31/12/2020	31/12/2019
a) guarantees received	46	45
b) credit derivatives	-	-
c) management and brokerage services:		
1. securities trading	-	-
2. currency trading	14	17
3. portfolio management:	-	-
3.1. proprietary	-	-
3.2. delegated to third parties	-	-
4. custody and administration of securities	4,393	4,691
5. placement of financial instruments	-	-
6. off-site distribution of financial instruments, products and services	-	-
d) collection and payment services	21,840	19,659
e) other services	3,762	4,926
Total	**30,055**	**29,338**

SECTION 3 - DIVIDENDS AND SIMILAR INCOME - ITEM 70

3.1 Dividends and similar income: breakdown

Items/income	31/12/2020		31/12/2019	
	Dividends	Similar revenue	Dividends	Similar revenue
A. Financial assets held for trading			6	
B. Other financial assets subject to mandatory fair value measurement	9		55	
C. Financial assets measured at fair value through other comprehensive income	366		1,942	
D. Equity investments	-		363	
Total	**375**	**-**	**2,366**	**-**

SECTION 4 - NET TRADING RESULT - ITEM 80

4.1 Profits (losses) on trading: breakdown

Transaction/Income items	Capital gains (A)	Profits from trading (B)	Capital losses (C)	Losses from trading (D)	Net profit/ loss [(A+B) - (C+D)]
1. Financial assets held for trading					
1.1 Debt securities	-	1,663	-	-	1,663
1.2 Equity instruments	-	-	-	-	-
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 Others	-	-	-	-	-
3. Other financial assets and liabilities: exchange differences					**4,098**
4. Derivatives					
4.1 Financial derivatives:					
- On debt securities and interest rates					-
- On equity securities and share indices	-	-	-	-	-
- On currency and gold	X	X	X	X	-
– Others	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedging related to the fair value option	X	X	X	X	
Total	**-**	**1,663**	**-**	**-**	**5,761**

The item "Other financial assets and liabilities: exchange differences" includes the margin relating to currency swaps used for treasury management, in particular funding from banks and customers in foreign currency.

SECTION 6 - PROFITS (LOSSES) ON DISPOSALS/REPURCHASES - ITEM 100

6.1 Profits (Losses) on disposals/repurchases: breakdown

Items/Income items	31/12/2020			31/12/2019		
	Profit	Loss	Net profit/ loss	Profit	Loss	Net profit/ loss
Financial assets						
1. Financial assets measured at amortised cost						
1.1 Receivables due from banks						
1.2 Receivables due from customers	979	37,361	-36,382	25		25
2. Financial assets measured at fair value through other comprehensive income						
2.1 Debt securities						
2.2 Loans						
Total assets (A)	**979**	**37,361**	**-36,382**	**25**	**-**	**25**
Financial liabilities measured at amortised cost						**-**
1. Payables due to banks						
2. Payables due to customers						
3. Securities issued						
Total liabilities (B)	**-**	**-**	**-**	**-**	**-**	**-**

The loss on “Receivables from customers” refers entirely to the sale to Banca Farmafactoring S.p.A., at market prices, of the security “Cct-Eu Tv Eur6M+0,95% Ap25 Eur” securities in the DEPObank portfolio with a nominal value of €770.5 million, which took place on 13 May 2020 upon the signing of the SPMA and pursuant to the commitments made therein.

SECTION 7 - PROFIT (LOSS) ON OTHER FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS - ITEM 110

7.2 Net change in the value of other financial assets and liabilities measured at fair value through profit or loss: breakdown of other financial assets subject to mandatory fair-value measurement

Transaction/Income items	Capital gains (A)	Realised gains (B)	Capital losses (C)	Losses on disposal (D)	Net profit/ loss [(A+B)-(C+D)]
1. Financial assets					
1.1 Debt securities					
1.2 Equity instruments					-
1.3 UCITS units	1,271	3	132		1,141
1.4 Loans			-		-
2. Financial assets in currency: exchange differences	**X**	**X**	**X**	**X**	
Total	**1,271**	**3**	**132**	**-**	**1,141**

SECTION 8 - NET WRITE-DOWNS/WRITE-BACKS FOR CREDIT RISK - ITEM 130

8.1 Net write-downs for credit risk relating to financial assets measured at amortised cost: breakdown

Transaction/Income items	Write-downs (1)			Write-backs (2)		31/12/2020	31/12/2019
	Stage one and Stage two	Stage three		Stage one and Stage two	Stage three		
		Write-offs	Others				
A. Receivables due from banks							
– Loans	38			-		-38	-372
– Debt securities				41		41	-44
of which: impaired receivables purchased or originated							
B. Receivables due from customers							
– Loans	-		134	248	-	114	-2,131
– Debt securities				1,710		1,710	4,923
of which: impaired receivables purchased or originated							
C. Total	**38**	**-**	**134**	**2,000**	**-**	**1,828**	**2,376**

Note that DEPObank does not hold loans subject to moratoria or other concession measures in place as at the reporting date.

SECTION 10 - ADMINISTRATIVE EXPENSES- ITEM 160

10.1 Personnel costs: breakdown

Type of expense/Amounts	31/12/2020	31/12/2019
1) Employees	31,031	31,251
a) wages and salaries	22,193	22,632
b) social security contributions	5,899	5,768
c) provision for employee severance pay	159	152
d) pension costs	57	50
e) provision for post-employment benefits	45	47
f) provision for pensions and similar obligations:	-	-
- defined contribution	-	-
- with defined benefits	-	-
g) payments to external pension funds:		
- defined contribution	1,614	1,509
- with defined benefits	-	-
h) costs related to share-based payments	-	-
i) other employee benefits	1,063	1,093
2) Other personnel in service	5	17
3) Directors and statutory auditors	2,811	1,754
4) Early retirement costs	-	-
5) Recoveries of costs of employees seconded to other companies	-	-779
6) Reimbursement of costs of third-party employees seconded to the company	-	180
Total	**33,847**	**32,423**

10.2 Average no. of employees per category

Employees	31/12/2020	31/12/2019
a) managers	16	13
b) middle managers	140	134
c) other employees	188	193
Total	**344**	**340**

10.3 Defined-benefit pension funds: costs and revenues

The defined-benefit company fund is currently active only with reference to departed employees because the company pension fund for all existing employees is defined-contribution.

The costs of the defined-benefit fund recognised in the income statement refer to financial income of €3,000.

There are no plan assets.

10.5 Other administrative expenses: breakdown

Type of expenditure	31/12/2020	31/12/2019
- data processing	18,171	15,263
- postal, transport of securities and couriers	293	294
- external services	13,716	17,248
- interbank network traffic	1,527	1,512
- telematic connections and costs for automation	2,872	2,854
- market access	49	91
- expenses for professional services	17,218	14,462
- agent commissions	-	-
- blank cashier's cheque forms	77	128
- maintenance and lease costs	4,276	3,978
- common area, rent, heating and lighting costs	1,485	1,316
- stationery and printing	99	78
- insurance companies	511	543
- telegraph, telephone and telex	116	107
- card processing	-	-
- outsourced back office	-	-
- membership fees	1,484	1,209
- security and office cleaning	166	182
- other expenses	10,275	7,252
- taxes and duties	3,062	2,649
Total	**75,398**	**69,166**

The following table shows the details of the fees invoiced in 2020 by the auditing firm entrusted with the audit assignment pursuant to Italian Legislative Decree no. 39 of 27 January 2010:

Type of service	Service provided by	Euro/000
Accounting audit	DELOITTE & TOUCHE S.P.A.	125
Certification services	DELOITTE & TOUCHE S.P.A.	94
Total		**219**

SECTION 11 - NET ALLOCATIONS TO PROVISIONS FOR RISKS AND CHARGES - ITEM 170

11.1 Net provisions for credit risk relating to commitments to disburse funds and financial guarantees given: breakdown

Type of expenditure	31/12/2020	31/12/2019
Provisions for other risks and charges	6	-6
Other provisions	-	-
Total	**6**	**- 6**

11.3 Other net provisions for risks and charges: breakdown

Type of expenditure	31/12/2020	31/12/2019
Provisions for other risks and charges	- 8,234	-887
Other provisions	-	-
Total	**- 8,234**	**- 887**

Of the accruals, €7,425,000 referred to charges that are likely to be incurred in the first half of 2021 in implementation of the commitments made under the SPMA.

SECTION 12 - IMPAIRMENTS/RECOVERIES ON TANGIBLE ASSETS - ITEM 180

12.1 Net write-downs/write-backs on tangible assets: breakdown

Asset/Income items	Amortisation (a)	Value adjustments for impairment (b)	Value write-backs (c)	Net profit/ loss (a + b - c)
A. Tangible assets				
1. Non-investment				
– Owned	485			485
- Lease rights of use	2,020	416		2,435
2. Held for investment				
– Owned				-
- Lease rights of use				-
3. Inventories	X			
Total	**2,505**	**416**	**-**	**2,921**

The "Value adjustments for impairment" refer to the impairment on the Right of Use of the portion of the property in Milan – Via Anna Maria Mozzoni 1.1, subject to a separate independent lease, resulting from the commitment to terminate the relevant contract entered into with the signing of the SPMA.

SECTION 13 - IMPAIRMENTS/RECOVERIES ON INTANGIBLE ASSETS – ITEM 190

13.1 Net write-downs/write-backs on intangible assets: breakdown

Asset/Income items	Amortisation (a)	Value adjustments for impairment (b)	Value write-backs (c)	Net profit/ loss (a + b - c)
A. Intangible assets				
A.1 Owned				
- Generated internally by the company				
– Other	10,871			10,871
A.2 Finance leases rights of use				
Total	**10,871**			**10,871**

The write-downs contain €7,673,000 for the amortisation of customer contracts, classed as intangible assets with useful lives.

SECTION 14 - OTHER NET OPERATING INCOME - ITEM 200

14.1 Other operating expenses: breakdown

	31/12/2020	31/12/2019
Other charges	720	295
Fee expenses	-	-
Services revenue rebates	-	-
Total	**720**	**295**

14.2 Other operating income: breakdown

	31/12/2020	31/12/2019
Rental income	991	1,056
Service revenues	4,685	5,572
Recovery of duty stamps from customers and postal charges	135	140
Other income	4,232	4,018
Total	**10,043**	**10,786**

The item "Service revenues " refers mainly to fixed processing fees, income related to the connection of the “ACH” network and recoveries of ABE Clearing processing costs.

SECTION 17 - IMPAIRMENT OF GOODWILL - ITEM 240

17.1 Goodwill impairment: breakdown

Income items/Amounts	31/12/2020	31/12/2019
Securities Services		45,914
Total		**45,914**

SECTION 19 – INCOME TAXES ON CURRENT OPERATIONS - ITEM 270

19.1 Income taxes for the year on continuing operations: breakdown

Income items/Amounts	31/12/2020	31/12/2019
1. Current taxes (-)	907	-15,131
2. Adjustment to current tax of prior years (+/-)		-3,423
3. Reduction of current tax for the year (+)		
3. bis Reduction in current tax for the year due to tax credits (Italian Law n.214/2011) (+)		
4. Change in prepaid taxes (+/-)	10,178	3,183
5. Change in deferred taxes (+/-)	-199	-278
6. Income taxes accrued during the financial year (-)	10,887	-15,650

19.2 Reconciliation of theoretical tax charge and actual tax charge

IRES	31/12/2020	31/12/2019
Reconciliation between theoretical and effective rates:		
- theoretical rate	27.50%	27.50%
- exempt revenues and other decreases	-75.93%	19.52%
- non-deductible costs	15.10%	-147.22%
- effective rate	-33.32%	-100.20%

The difference between the effective rate and the theoretical rate is mainly due to the loss for the year (effect included in the item "exempt revenues and other decreases" of the table above).

19.3 Reconciliation of theoretical tax charge and effective tax charge - IRAP (Regional Business Tax)

IRAP	31/12/2020	31/12/2019
Reconciliation between theoretical and effective rates:		
- theoretical rate	5.57%	5.57%
- exempt revenues and other decreases	-8.01%	-10.25%
- non-deductible costs	2.40%	8.03%
- effective rate	-0.04%	3.35%

The difference between the effective rate and the theoretical rate is mainly due to the loss for the year (effect included in the item "exempt revenues and other decreases" of the table above).

SECTION 20 - PROFIT (LOSS) FROM DISPOSED OPERATIONS NET OF TAXES - ITEM 290

20.1 Profit (loss) from disposed operations after taxes

Income items/Amounts	31/12/2020	31/12/2019
1. Income		
2. Costs		
3. Result of valuations of the group of assets and associated liabilities	-19,335	
4. Gains (losses) on disposals		
5. Taxes and duties	5,317	
Profit (loss)	**-14,018**	

The balance shown under item "3. Result of valuations of the group of assets and associated liabilities" in the table above refers to €18,179,000 as the valuation at the reporting date in accordance with the principles of reference of the 100% stake in the subsidiary Cara Service and €1,156,000 as the valuation of the "Prelios Loan".

20.2 Breakdown of income taxes relating to disposed operations

Income items/Amounts	31/12/2020	31/12/2019
1. Current taxes (-)	-5,317	
2. Change in prepaid taxes (+/-)		
3. Change in deferred taxes (+/-)		
4. Income tax for the year (+/-)	5,317	

PART D - COMPREHENSIVE INCOME

STATEMENT OF COMPREHENSIVE INCOME

	Items	2020	2019
10.	**Profit (loss) for the financial year**	**-35,784**	**-29,166**
	Other income components not transferred to the income statement		
20.	Equity instruments measured at fair value through other comprehensive income		
	a) Fair value changes	413	54,870
	b) Transfers to other equity items		-55,443
70.	Defined-benefit plans	-32	-126
80.	Non-current assets held for sale and disposal groups		
90.	Share of valuation reserves for equity investments measured at equity		
100.	Income taxes on other comprehensive income without reclassification to the income statement	-23	1,347
	Other income components with reclassification to the income statement		
150.	Financial assets (other than equity instruments) at fair value through other comprehensive income		
	a) fair value changes	-	-
	b) reclassification to the income statement		
	– adjustments for credit risk		
	- profits/losses on disposals		
	c) other changes		
180.	Income taxes on other comprehensive income without reclassification to the income statement	-	-
190.	**Total other income components**	**359**	**648**
200.	**Comprehensive income (Item 10 + 190)**	**-35,426**	**-28,518**

Part E – Information on risks and related hedging policies

Strategy and governance

DEPObank attaches great importance to risk management and control, as conditions for ensuring reliable, sustainable creation of value in an environment of a controlled risk.

The risk management strategy aims at a complete, coherent view of risks, considering both the macroeconomic scenario and the Bank's risk profile, stimulating the growth of a risk culture and strengthening a transparent, accurate representation of the risk of the Bank's portfolios.

The Internal Control System is a process aimed at providing reasonable assurance on the achievement of the company's objectives of effectiveness and efficiency of business processes, safeguarding the value of assets and protection against losses, reliability and integrity of accounting and management information and compliance with the laws and regulations in force.

The Internal Control System is structured into different levels of control, such as:

- line controls, aimed at ensuring the correct conduct of operations; these are therefore hierarchical controls carried out by the production units themselves, generally incorporated in the procedures themselves or carried out in back office activities;
- risk management controls – aimed at defining the risk measurement methodologies, verifying compliance with the limits assigned to the various operational functions (level II controls) and checking the consistency of the operations of the individual production areas with the risk/return objectives;
- compliance control activities – aimed at controlling risks related to non-compliance with external and internal regulations;
- internal audit activities – aimed at identifying anomalous trends, breaches of procedures, internal and external regulations and assessing the overall functioning of the Internal Control System.

Risk management, compliance and internal audit are carried out by independent non-operating functions.

The Board of Directors is responsible for the internal control system, which is responsible for clearly identifying the degree of risk appetite chosen and, in this framework, for defining and approving the strategic guidelines and risk management policies; it is also responsible for the coherence of the Internal Control System with the risk management policy adopted and verifies that senior management defines the internal control structure in line with the risk appetite chosen.

The governance model established to oversee the risk management and control process is based, on the one hand, on the separation between risk management processes and control processes and, on the other hand, on the development of these processes in keeping with the hierarchical structure of DEPObank, as well as through a process of delegation of authority.

At DEPObank the supervision and control of risks are the responsibility of the Risk Management Service, which performs its role of direction, control and coordination in close contact with the Board of Statutory Auditors and management, and which reports on its work to the Board of Statutory Auditors, the Risk Committee and the Chief Executive Officer.

The Risk Management Service focuses on measuring, monitoring and reporting the risks associated with DEPObank's business and verifying that there are enough Own Funds to hedge the various types of risk.

The Service also provides specialist support in the regulatory areas and the manner defined in the "Non-Compliance Risk Management Policy" approved by the Board of Directors.

The Internal Control System includes the Risk Policy, which aims to identify the principles, purposes and methods of managing (methodology and tools) the main risks to which DEPObank is exposed in its business, as well as the Risk Appetite Framework, which in line with the maximum acceptable risk defines the business model and the strategic plan - risk appetite, tolerance thresholds, risk limits, risk governance policies and the processes of reference for designing and implementing them.

The Risk Appetite Framework (RAF) is therefore the general structure within which the risks assumed by DEPObank are to be managed, laying down the general risk appetite principles and designing the management system accordingly:

- the overall risk profile; and
- the main specific risks.

For each metric, the Risk Appetite Framework defines the parameters that represent the optimal level of risk to which the Bank wishes to expose itself in order to achieve its objectives and define the business strategy (risk target), an early warning level (risk trigger), which represents a threshold beyond which mitigation actions must be implemented in order to avoid a further deterioration of the value assumed by the metric, and a maximum level of risk (risk limit) that the Bank is willing to bear, considering, among others, the market context and existing regulatory constraints.

In view of the centrality of risk management in strategic planning processes, in a specific Operating Procedure DEPObank has also defined the operating procedures, roles and responsibilities of the Organisational Units involved in the process of identifying, assessing and monitoring Major Transactions. The risk resulting from a Major Transaction is assessed by assessing the consistency of the risk profile of the Major Transaction with the risk appetite defined in the RAF. The risk profile of these transactions and initiatives also takes into account the risk-taking policies approved by the Board of Directors (Risk Policy) and the rules and regulations issued by the supervisory authorities for supervised intermediaries.

The aforementioned Risk Policy and a specific Operating Procedure also govern the ICAAP/ILAAP Process, which is carried out taking into account the requirements of Bank of Italy Circular no. 285 of 17 December 2013 "Regulatory provisions for banks" and subsequent updates, as well as EBA and ECB instructions.

The Board of Directors' assessment of capital adequacy is based on the identification the risk appetite level, from which the strategic guidelines and risk management policies derive.

Basel 3 regulation

The reforms to the Basel Committee Accords ("Basel 3") aimed at strengthening banks' capacity to absorb shocks from financial and economic tensions regardless of their origin, improving risk management and governance, and strengthening banks' transparency and reporting were transposed into European Union law with effect from 1 January 2014. In doing so, the Committee maintained the three-pillar approach underpinning the previous Basel 2 capital accord, expanding and strengthening it to increase the quantity and quality of intermediaries' capital, as well as introducing counter-cyclical supervisory tools, liquidity risk management rules and leverage limits.

At Community level, the contents of "Basel 3" were transposed into two pieces of legislation on 26 June 2013:

- Directive 2013/36/EU (Capital Requirements Directive - CRD IV), which concerns, inter alia, conditions for access to banking, freedom of establishment and freedom to provide services, the prudential supervision process and additional capital reserves;
- Regulation (EU) No 575/2013 (Capital Requirements Regulation - CRR), which governs Pillar One prudential supervision mechanisms and public disclosure rules (Pillar Three).

In this regard, on 20 May 2019 the European Parliament approved Directive 2019/878 (CRD V), amending Directive 2013/36/EU, and Regulation 2019/876 (CRR II), amending Regulation 575/2013, with gradual application starting from 28 June 2021.

In addition to European Union legislation, the Bank of Italy issued provisions referring to Circular 285 of 17 December 2013, which contains the prudential supervisory provisions applicable to Italian banks and banking groups, revised and updated to adapt domestic legislation to new developments in the international regulatory framework, with particular regard to the new regulatory and institutional framework of European Union banking supervision, as well as to take account of the needs arising in the exercise of supervision over banks and other intermediaries.

The adequacy of the risk control system is also represented in the annual report of the prudential control process for capital and liquidity adequacy purposes (ICAAP/ILAAP Report), which was approved and sent to the Bank of Italy in June 2020.

As part of the adoption of "Basel 3", DEPObank publishes information on capital adequacy, risk exposure and the general characteristics of the systems it uses to identify, measure and manage risks in the document entitled "INSTITUTIONAL PUBLIC DISCLOSURE PURSUANT TO REGULATION (EU) No 575/2013", published on its website (www.depobank.it) on an annual basis.

Impacts of the COVID-19 pandemic

The COVID-19 pandemic triggered a global health crisis, with an unprecedented impact on the global economy due to massive blockade measures and travel/ trade restrictions.

In terms of macroeconomic and (geo) political risks, the COVID-19 pandemic has shifted attention around the world to global and national efforts and measures to address this crisis, including an acceleration of the process of digitising financial institutions and a shift towards a new operating model.

DEPObank, which because its particular way of working is completely different from that of commercial banks and consists of providing products and services mainly in the payment systems and administrative custody, administration and settlement of securities segment has not been significantly affected by the COVID-19 pandemic, has nevertheless implemented, since the beginning of the emergency, preventive measures, including the strengthening of risk monitoring, in order to ensure the continuity of business operations and, at the same time, preserve the highest level of worker safety, and continues to proactively manage the evolving situation in all dimensions of its risk profile.

With particular regard to prudential and accounting rules on credit risk, it should be noted that various authorities and standard setters - European Commission, Ecofin, ECB, EBA, ESMA, IASB, BCBS - have expressed their views, recommending to make full use of the flexibility of the accounting and prudential standards issued during the year in order to support families and businesses affected by the pandemic. Considering, however, that the operation of DEPObank does not provide for the provision of credit unless closely related to the provision of products/services, it follows that DEPObank's exposure to credit risk did not suffer significant impacts as a result of the COVID-19 pandemic.

With regard to market risk, the abrupt market movements and the increase in relative volatility following the COVID-19 epidemic, which resulted in a general increase in the risk measurement metrics of the trading book, did not have significant impacts for DEPObank, as the securities portfolio, albeit of considerable overall size (approximately €3.2 billion at the end of 2020) is entirely related to the banking book (HTC portfolio).

With regard to operational risk, given the operational specificity of DEPObank, which is completely different from that of commercial banks, there are no significant increases in exposure to this risk; it is believed, in fact, that the impact on the operational risks of the COVID-19 pandemic concerns, first, the risks of external fraud (Type 2 event), in light of the rapid evolution of cyber threats, which seek to exploit for fraudulent purposes the fears and sense of urgency of people and the opportunities offered by the remote banking solutions activated by financial institutions, and events relating to employment and workplace safety (Type 3 event). In particular, further actions were immediately defined to effectively address the wide spread of the pandemic (e.g. extension of smart working, enhancement of the IT infrastructure for remote connectivity), security infrastructures for access to the corporate network and data and information protection measures were progressively strengthened with the aim of increasing the ability to cope with the sharp increase in threats and cyber attacks (e.g. Distributed Denial of Service, malware) and training initiatives and communication campaigns aimed at raising employee awareness of the growing social engineering/phishing campaigns were activated. With regard to measures to protect the health of workers, all useful initiatives have been taken to ensure the protection of their health and safety, as required by the relevant legislation and by instructions from the trade association: personal protective equipment has been purchased and distributed, sanitising gel has been provided and company premises have been regularly sanitised. The actions implemented to protect health, together with the business continuity initiatives, have been reflected in operating costs, mainly in relation to the lines of intervention represented by:

- prevention of risks in the workplace, with the adoption of the individual and collective protection measures required in order to respond adequately to the constant evolution of health requirements at national, local and sectoral level in relation to the development of the pandemic situation;
- large-scale application of flexible working, with related investments in IT equipment, evolution of operational processes and enhancement of cybersecurity to reduce the risk of attempted fraud.

DEPObank has thus recorded in LDC (Loss Data Collection) the highest costs incurred due to the pandemic in relation to smart working, sanitisation of environments and protective devices (masks, thermoscanners, etc.). For these registrations, the EBA guidelines (*EBA provides clarity on the implementation of the prudential framework in the context of COVID-19* - 7 July 2020) and the clarifications of the ABI working group were followed. These amounts were insignificant compared with those incurred by commercial banks, as DEPObank has only two branches (Rome and Milan) and does not have branches open to the public.

With regard to liquidity risk, since the beginning of the emergency DEPObank has proactively adopted all the necessary management and control measures aimed at mitigating the potential worsening of systemic liquidity conditions. DEPObank's liquidity position, which is healthy constantly monitored, has always remained solid thanks to the wide availability of liquid reserves and the high stability of funding, so that there are no significant impacts on this kind of risk either, as shown by the “Basel 3” liquidity indicators (Liquidity Coverage Ratio, LCR, and Net Stable Funding Ratio, NSFR) being well above the regulatory limits.

Finally, it should be noted that on 11 November 2020, the Bank of Italy, following a similar ECB communication of 16 September of the same year with regard to the banks it supervises directly, published the Communication of 10 November 2020, in which it established and publicly declared the existence of exceptional circumstances that justify excluding, until 27 June 2021, the central bank exposures referred to in letters a) and b) of Article 500-ter, paragraph 1 of the CRR from the measure of the total exposure for the calculation of the leverage indicator. The exemptible amount for DEPObank is equal to the lower of the daily stock on the ECB managed account (so-called “PM account”) and the average of the total balance c/o Bankit of the last full maintenance period of the Mandatory Reserve. Other exposures that DEPObank has to the central bank, such as the current account surpluses used for operations on the Instant Payments service, are not included in the calculation of the aforementioned exemptible amount.

The magnitude of the impacts for DEPObank as well as any improvements or deteriorations in the coming months will be closely related to how the macroeconomic environment develops and, in particular, to the evolution of the COVID-19 scenario and any new tensions that may occur.

DEPObank is carefully monitoring how the situation is evolving, including by way of specific scenario and stress analyses to assess the impacts in terms of profitability and capital adequacy: for example, in relation to operational risk, an analysis model was created that considers loss scenarios greater than those used in the Stress Test model, as indicated in the letter "ICAAP/ILAAP Compliance and Recovery Plans" sent by the Bank of Italy on 21 April 2020 to "Less Significant" Italian banks. From these analyses it emerged that DEPObank will still be able to ensure compliance with the regulatory constraints and with the more stringent limits set internally.

SECTION 1 - CREDIT RISK

QUALITATIVE INFORMATION

1. General aspects

Credit risk is the risk that an unexpected change in the creditworthiness of a debtor may result in the default of the debtor, giving rise to unexpected losses on cash or commitment exposures (Insolvency Risk), or may in any case may generate a corresponding unexpected change in the value of the credit position (Migration Risk). Therefore, not only the possibility of the insolvency of a counterparty, but also the mere deterioration of the creditworthiness, should be considered a manifestation of credit risk.

DEPObank is a "second-tier" bank, whose core business, as described earlier, is the supply of products and services, mainly in payment systems and the administrative custody, administration and settlement of securities. Lending is mostly ancillary and closely related to the provision of products/services and to the specific Treasury activities (managed through the granting of operating credit limits) and Securities Services activities (mostly managed through the granting of current account overdraft facilities).

In a communication of 30 June 2020, the Bank of Italy implemented the European Banking Authority's (EBA) "Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis" (EBA/GL/2020/07). The Guidelines require disclosure on:

1) exposures subject to "moratoria" falling within the scope of application of the EBA Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis (EBA/GL/2020/02);
2) exposures subject to COVID-19-related forbearance measures;
3) newly originated exposures that are subject to public guarantee schemes.

In this regard, it should be noted that in the aforementioned "Public disclosure by institutions pursuant to Regulation (EU) No 575/2013" document, prepared with reference to DEPObank and its scope of prudential consolidation and published on its website www.depobank.it, all the required information is reported annually.

2. Credit risk management policies

2.1 Organisational aspects

The activities that generate Credit Risk are the responsibility of the Chief Financial Officer (CFO) Area – particularly the Treasury Service and the Credit & Branches Service – and the units that deal with Securities Services activities.

With regard to first-level controls, the Operating Units supervise and verify that financial activities are carried out by their Service within the Operational Credit Limits and/or caps approved; as part of second-level controls, the Risk Management Service verifies compliance with the Operational Credit Limits and Risk Concentration limits (so-called "Large Risks") and calculates daily exposures to Related Parties.

In addition, the Risk Management Service monitors the performance of credit exposures, in the absence of a significant number of non-performing loans, on the basis of the persistence and amount (at the reference date at the end of the month) of negative balances of corporate accounts and bank accounts (beyond any credit line granted).

Due in part to the limited number of exposures normally assumed, the credit risk measurement methodologies adopted and the related performance control process of the various relationships are inspired by criteria of leanness and simplicity; accordingly, systems based on scoring and external and/or internal ratings are not used. Finally, it should be noted that, in accordance with the provisions of the Prudential Regulations (Bank of Italy Circular 285), the assessment/measurement carried out for credit risk includes counterparty risk, that is the risk that the counterparty in a transaction may default before the final settlement of the cash flows of a transaction, since the incidence of Counterparty Risk is extremely low compared to the total weighted assets.

DEPObank's organisational structure ensures an adequate risk monitoring and management process, particularly with regard to credit risk:

- the Board of Directors performs a strategic direction and supervision function, approving strategic guidelines and continuously verifying their implementation, grants delegated powers and decides, on proposal from the Credit Committee, on the applications within its purview, as defined in the delegation of authority scheme;
- the CEO is responsible, inter alia, for contributing to the definition of credit strategies and credit policies consistent with credit strategies and in compliance with the decision-making authority limits approved by the Board of Directors.

The main credit governance structures are represented by the Strategic & Financial Committee and the Credit Committee; while the former is responsible for providing non-binding opinions on matters within its purview, the latter is organised in two separate sessions in terms of the composition and role of the participants, by virtue of the specific responsibilities of competence: the performing section, with decision-making power on credit granting, and the NPE section, with decision-making power in matters of impaired exposures.

The Board of Directors approves the strategic guidelines and risk management policies, as well as the Bank's organisational structure, in the area of internal controls.

2.2 Management, measurement and control systems

The entire credit-granting, management and monitoring process is governed by a specific "Credit Regulation” and is divided into:
- credit-granting;
- management, monitoring and control of performing credit;
- management of impaired exposures.

The creditworthiness assessment process begins after the customer contact phase. This step is aimed at assessing the creditworthiness of the counterparty on the basis of the information acquired and a quantitative and qualitative analysis aimed at ascertaining financial soundness, as well as prospective earning capacity, in addition to all other elements useful to determine the customer's debt-servicing capacity. The creditworthiness assessment phase also includes the acquisition of adequate guarantees and/or, in relation to the type of customer/economic entity of reference and credit instrument, the drafting of specific contractual clauses (known as “covenants”).

At the end of the creditworthiness assessment phase, if the draft resolution submitted to the decision-making body is approved, the lines of credit are made operational in accordance with the provisions of the contract.

Credit management is mainly carried out through the following activities:
- periodic review;
- on-going monitoring at the counterparty and portfolio level and examination of the performance trend with the aim of detecting symptoms / signs of anomalies (e.g. late payments) and/or additional business opportunities;
- analysis of the findings reported by the functions that carry out credit checks.

The management of doubtful and impaired credit includes processes differentiated according to the risk status, the type of counterparty and the size of the exposure.

The management of impaired exposures includes the following main activities:
- classification of credit exposures;
- formulation, implementation and monitoring of the recovery strategy.

By contrast, in the process of setting operating credit limits and/or “intermediation” caps, there is no specific request from customers and the assessment is initiated at the initiative of the Treasury Service or the relevant organisational units.

As part of the management of counterparties providing retail processing services, specific operating credit limits have been established, aimed at monitoring and controlling the operations of these entities. In some cases, guarantees have been requested to mitigate the risk assumed for these activities.

OVERRUN MANAGEMENT

The Credit Office verifies and analyses all positions in excess on a daily basis, reporting all overruns found on the Customer Accounts (euro and foreign currency, with or without credit facilities) to the Organisational Units concerned, which, in the first instance, verify the consistency of the accounting movements and, if necessary, make the appropriate adjustments. The relevant Organisational Units analyse the causes of the overrun, invite customers to remedy it immediately, where appropriate, and report the actions taken to the Credit Office and the Risk Management Service.

Positions with particular problems are subject to the activation of the credit reclassification procedure, through an appropriate review process for the resolution by duly authorised bodies with the consequent reports in the Central Credit Register according to Bank of Italy regulations. In addition, following the introduction of Circular 285/2013, a structured process of continuous monitoring of non-performing exposures has been formulated and the scope of the activities of the Risk Management Service has been revised, to include, among other things, monitoring credit performance, the results of which are included, together with those of monitoring credit risk, in a special section of the Dashboard.

OPERATING CREDIT LIMITS

The Head of the Treasury Service supervises and verifies that the financial activities carried out by his Service are conducted within the Operating Credit Limits and/or caps approved. Monitoring of compliance with the Operating Credit Limits, based on conventional coefficients, which vary according to the nature of the instrument and the implicit volatility, as well as the duration or residual life of the transaction, is carried out daily as a second-level control by the Risk Management Service.

An application is used for central management and daily verification of the Operating Credit Limits in place and alert generation if the limit is exceeded.

RISK CONCENTRATION LIMITS

The Risk Management Service, in support of the relevant controls already carried out at Level I by the competent departments, performs daily monitoring on compliance with the Risk Concentration limits (so-called “Large Exposures” regulated by the Bank of Italy in Part Two, Chapter 10 of Circular 285 of 17 December 2013 and subsequent updates).

LIMITS ON EXPOSURES TO RISK ASSETS AND CONFLICTS OF INTEREST WITH ASSOCIATED PARTIES

The legislation on limits to Risky Assets in respect of Related Parties and parties connected to them introduces limits (in relation to Own Capital) on exposures to “Corporate officers”, “Controlling shareholders or shareholders with significant influence”, “Other shareholders” and “Entities subject to control or significant influence”.

In addition to the exposure to the individual Related Party, the total exposure to all Related Parties and their Connected Parties is also calculated daily.

CREDIT QUALITY MONITORING

Credit performance monitoring, included in the Dashboard for the first time in the first quarter of 2015, is performed, in the absence of a significant number of non-performing loans, on the basis of the persistence and amount (at the reference date at the end of the month) of negative balances of corporate accounts and bank accounts (beyond any credit line granted).

In particular, the monitoring detects:
- counterparties for which the total sum of negative balances exceeds € 1 million for at least 30/60/90 consecutive calendar days;
- counterparties for which the total sum of negative balances exceeds € 5 million for at least 10 consecutive working days;
- counterparties for which the total sum of negative balances exceeds € 10 million for at least 5 consecutive working days.

Since the survey of the first quarter of 2018, exposures exceeding the credit limit (if any) for more than 30 days of less than €1 million (but more than €100) have also been identified; in compliance with the accounting standard IFRS 9 in force from 1 January 2018, they are classified into specific "buckets".

Moreover, starting from the July 2019 measurement, the €100 threshold has been replaced with the materiality threshold set out in the June 2019 update of the Bank of Italy Circular 285 (entered into force on 31/12/20 but prudentially already applied in operational monitoring) in execution of the so-called "national discretions", i.e. an "absolute" component equal to €100 for retail exposures and €500 for other exposures, and a "relative" component equal to 1%, calculated on the total amount of all exposures to the same debtor, where applicable.

2.3 Methods of measuring expected losses

Amendments due to COVID-19

As already specified in the paragraph "Impacts of the COVID-19 pandemic", due to its particular type of operation DEPObank has not suffered any significant impacts. Consequently, DEPObank's method for assessing the significant increase in credit risk (SICR) is not applied in DEPObank, and, as regards the measurement of expected losses, DEPObank's IFRS 9 model has proved adequate even during the pandemic. Indeed, the securities model, taking the PD from Credit Default Swaps (CDS), already incorporates the forward-looking component built into CDS prices. As regards the lending model, the satellite model incorporates pandemic-driven estimates of macroeconomic variables (e.g. GDP, unemployment, inflation) for 2020 and 2021 in order to determine the point-in-time curve.

Measuring expected losses

IFRS9 establishes that Banks should make provisions not only for impaired loans but also for loans that may become impaired in future, thereby achieving the aim of registering the deterioration in credit quality as quickly as possible; with this in mind, the calculation of the value adjustments of loans and debt securities, in accordance with “expected loss” logic, is based on these two main aspects:

- the stage allocation of the credit exposures;
- the relative expected loss calculation.

For exposures to financial assets classified in Stage 1, impairment is equal to the expected loss calculated over a period of up to one year (see IFRS9 B5.5 - B5.5.43).

For exposures to financial assets classified in Stages 2 and 3, impairment is equal to the expected loss calculated over a time horizon equal to the residual duration of the related exposure *(so-called Lifetime PD - see IFRS9 B5.5.3 and B5.5.43).*

Financial assets measured at amortised cost: Proprietary securities portfolio

Stage allocation

The stage allocation classifies securities to the various stages according to their absolute or relative credit quality compared to the initial disbursement. In particular:

- Stage 1: includes newly acquired credit exposures as well as exposures that have not undergone a significant deterioration of credit risk compared to the initial recognition date and exposures with low credit risk at the reporting date;
- Stage 2: includes credit exposures that, although performing, have suffered a significant deterioration in credit risk compared to the date of initial recognition (see IFRS9 B5.5.9);
- Stage 3: includes non-performing credit exposures.

The stage allocation assessment model was based on a combination of relative and absolute elements:

- rating assessment, applying the low credit risk exemption to investment grade securities (at least 2 out of 3 rating agencies or, where unrated, a safe level PD >= 1 %);
- a transaction-level comparison between the PD at origination and at the reporting date; in line with the EBA stress tests, an increase of more than 300% is applied compared to that detected at the origination date.

It should also be noted that this is a numerically symmetrical model, i.e. the thresholds for the transition from Stage 1 to Stage 2 and vice versa are the same. An additional time control was added in order to limit a continuous change of status for securities with PD delta close to the 300% threshold, i.e. the transition from Stage 2 to Stage 1 takes place only if the position remains in this state for a reasonable period (from 3 to 6 months).

The PD delta is calculated on the one-year PD. This approach is consistent with CDS performance: when an issuer is in difficulty, the short-term CDS spread values exceed the long-term values. Accordingly, the calculation of the one-year PD incorporates the worst case.

Impairment

Impairment is calculated according to a "sophisticated approach”. In particular:

- PD (Probability of Default) expresses the probability of the occurrence of an event of default of the credit position, over a given period of time;
- LGD (Loss Given Default) expresses the estimated loss percentage, and therefore the expected recovery rate on the occurrence of an event of default of the credit position;
- EAD (Exposure at Default) expresses the extent of exposure at the time of the default event of the credit position. This corresponds to the amortised cost of the instrument as at the reporting date.

EAD*PD*LGD= Expected credit loss (ECL)

The model used provides for the calculation of the PD in two distinct steps:

1. calculation of the Risk Neutral PD, derived from observable market data and referring to the individual issuer;
2. calculation of the Real Word PD for which the risk premium component of the Probability of Default implicit in market spreads is eliminated.

The Risk Neutral PD is estimated on the basis of the information and credit spreads quoted daily on the financial markets (CDS spreads). Credit spreads for each single issuer are preferably used. In the event that for a given issuer equally significant specific credit spreads are available on several markets, use of the CDS market is preferred. Where market data do not allow the use of specific credit spreads, because they are absent, illiquid or insignificant, *the default probability term structure* associated with the issuer is obtained through a proxy methodology. This methodology involves identifying an issuer comparable to the issuer to be assessed for which specific credit spreads are available or a reference cluster for which it is possible to estimate a significant credit spread. The mapping of the individual issuer to the comparable issuer or to the reference cluster is based on the following analysis axes:

- industrial sector;
- geographical area of interest;
- rating (ECAI);
- analysis of key financial data.

The estimate of the Real World PD is based on the Risk Neutral PD and therefore remains strongly anchored to the market data and the forward-looking approach that distinguishes it. It is calculated using structural models based on the methodological system of the Merton model, in order to identify the PD implicit in the market spreads without the risk premium component.

The forward-looking approach is therefore included in the calculation of the PD as it is precisely calculated on the values of Credit derivatives which already incorporate future expectations into the price.

For the purposes of estimating the PD, the model involves the use of historical average data from the three months prior to the assessment date, this to ensure minimum stability to the input data used in the model.

Based on the above, the Bank applied an average PD of the proprietary securities portfolio of approximately 0.12% at 31 December 2020. It should be noted that the portfolio classified as financial assets measured at amortised cost consists almost entirely of Italian government bonds (approximately 99%).

The calculation of the LGD is assumed to be constant for the entire time horizon of the financial asset under analysis and is a function of:

- the type of issuer (government or corporate securities);
- the ranking of the instrument (covered, senior, subordinated);
- the rating of the instrument;
- the classification of the issuing institution's country.

These data represent market standards used for the pricing of CDSs.

In particular, for government bonds, the historically calculated LGD value indicated by the annual document "Moody's Sovereign Default Rates" was used. This value has been set at 0.45 and will be kept constant unless substantial differences are found in subsequent publications of the aforementioned document (generally published annually).

Financial assets measured at amortised cost: Loan portfolio

Stage allocation

The calculation of *the stage allocation* must be carried out on exposures for which the "*Solely Payment of Principal and Interest*" (SSPI Test) test is passed. On the reporting date, all the Bank's loans pass the SPPI test.

The Standard requires that all impaired financial instruments be classified into three distinct stages according to the level of impairment of the exposure observed at the date of analysis compared to an initial recognition date; in particular, the following cases are distinguished:

- Stage 1 positions. receivables which have:
  - just been recognised;
  - not undergone, at the date of analysis, a significant increase in the credit risk compared to initial recognition;
  - low credit risk at the reporting date.
- Stage 2 positions: these are receivables that, while performing, have undergone, at the date of analysis, a significant increase in the credit risk compared to initial recognition;
- Stage 3 positions: these are defaulted positions.

The main change relates to the need to calculate, for instruments classified to Stage 2, the expected loss over the remaining life of a financial instrument on the basis of the increased risk of default compared to "*initial recognition*[1]".

The accounting standard also specifies that the default risk expected in the 12 months following the reporting date can be considered a good approximation of the default risk expected over the residual life of the financial instrument[2]; it therefore permits, except in cases where assessment over the entire residual life is necessary, use of the probability of default at 12 months as a benchmark to determine whether there has been a significant increase in credit risk.

On the initial recognition date, an entity classifies an asset to Stage 1 unless it is already *a credit-impaired position.*

At each *reporting date*, the entity assesses whether there has been a significant change in the credit risk compared to initial recognition. In this case there will be a transfer between stages. Loans can migrate between Stages 1 and 2 according to a symmetrical model.

The following components are considered in the stage allocation process:
- relative criteria for classification in Stage 2 (the performance of a parameter relating to the counterparty's creditworthiness, i.e. its rating, which is observed over the period from origination to the assessment date);
- absolute criteria for classification in Stage 2 (past-due by 30 days and forborne exposures);
- use of the Low Credit Risk Exemption (for repurchase agreements within 3 months and reciprocal accounts);
- definition of default for classification in Stage 3.

Impairment

For the calculation of the ECL at the relationship level and in correspondence with a given macro-economic scenario, considering the risk parameters of the customer, the expected multi-year loss at the portfolio level is given by the present value of the expected losses of each period t (t=0,..., T) as follows[3]:

$$ECL_{pluriennale}(t_0) = \sum_{i=1}^{N}\sum_{t=1}^{T} DF(t_0,t) \times \left(EAD_{i,t} \times LGD_{i,t} \times \left(cPD_{i,t} - cPD_{i,t-1}\right)\right)$$

- *i* identifies the generic relationship;
- $[t_1 \dots t_T]$ identifies the range of maturities at which cash flows are expected at the level of the individual position; in particular, t_T it represents the last time point to be considered in the analysis depending on the *stage* to which the position has been classified;
- $DF(t_0, t)$ represents the discount factor relative to tt the maturity $t_0 t_0$ estimated at the point in time;

1 IFRS 9 Financial Instruments - 5.5.9, B5.5.1 and B5.5.7.
2 IFRS 9 Financial Instruments - B.5.5.13 and B5.5.14.
3 It should be noted that the formula below does not explicitly consider the presence of the scenario-dependency component. This aspect is dealt with and discussed in section 7 of this document.

- $cPD_{c,t_k} - cPD_{c,t_{k-1}}$ represents *the probability of default*, estimated at the counterparty level, over the time interval $[t_{k-1}; t_k]$ calculated as the difference between the values of the relevant cumulative PD curves at the extremes of the interval obtained by appropriate interpolation.
- $LGD_{i,t}$ represents *the loss given default* estimated at the level of each individual relationship at the point in timet_k.
- $EAD_{i,t}$ represents the exposure (*Exposure At Default*) expected in the case of default *of position i* at time.t_k

The PD estimation methodology and its forward-looking and scenario-dependent component that achieves the greatest possible adherence to the new accounting standard and its indications is divided into the following steps:

1) Recovery of input data: this phase consists of the recovery of the set of information that is required for the estimation process, structured into the development of a lifetime TTC (through-the-cycle) curve and its calibration according to a PIT (point-in-time) logic through the inclusion of forward-looking and scenario-dependent information.
2) Construction of the TTC PD curve: this step consists of the development of the TTC (through-the-cycle) curve in a lifetime perspective with appropriate granularity.
3) Application of satellite models: this phase consists of estimating future default rates based on forecasts of the macro-economic scenario by applying satellite models capable of managing a defined granularity of detail.
4) Construction of PIT PD curve: this phase consists in the inclusion in the TTC curve of the estimates of the default rates previously obtained in order to render the curve PIT (point-in-time) and forward-looking.

The Bank has various approaches to developing PD curves, depending on the type of counterparty considered. In particular, the elements used to formulate the probabilities of default are acquired from two data sources:

- Transition matrices from *Standard&Poor's*.
- Bank of Italy statistical database.

The following table provides an overview of the information set deriving from the methodological choices adopted by the Bank, required for the estimation of the IFRS 9-compliant PD component.

This information is broken down by the geographical area and sector of the counterparty.

Geographical area	Cluster	Ratings	Transition matrix	Satellite Model variable target
Italy	Financial companies	Present	Transition matrix from Standard&Poor's	Impairment rates published by the Bank of Italy for the sector of Financial Companies
		Not present	Impairment rates published by the Bank of Italy for the sector of Financial Companies	
	Non-financial companies	Present	Transition matrix from Standard&Poor's	Impairment rates published by the Bank of Italy for the sector of Non-Financial Companies
		Not present	Impairment rates published by the Bank of Italy for the sector of Non-Financial Companies	
	Public administrations	Present	Transition matrix from Standard&Poor's	Impairment rates published by the Bank of Italy for the sector of Public Administrations
		Not present	Impairment rates published by the Bank of Italy for the sector of Public Administrations	
	Consumer households	Not present	Impairment rates published by the Bank of Italy for the sector of consumer families	Impairment rates published by the Bank of Italy for the sector of Consumer Households
Europe	Financial and non-financial companies	Present	Transition matrix from Standard&Poor's	Global default rates published by Standard&Poor's for the Corporate sector
		Not present - rating defined starting from the rating of the sovereign state, with downgrade of: 1 notch for banks, 2 notches for financial and non-financial companies.		
Rest of the World	Financial and non-financial companies	Present	Transition matrix from Standard&Poor's	Global default rates published by Standard&Poor's for the Corporate sector
		Not present - rating defined starting from the rating of the sovereign state, with downgrade of: 1 notch for banks, 2 notches for financial and non-financial companies.		
	PCT		PD curve derived from government security risk	

Table – Overview of the information set required to estimate the IFRS 9-compliant PD component.

The choices made reflect the need to find a fair trade-off between the availability of the data to calibrate the models and adherence to the riskiness linked to the sector and geographical area.

For the estimation of the LGD, the Bank has adopted a prudential approach in line with current legislation (Article 161 CRR), placing it at 45% since the Bank's credit portfolio consists entirely of unsecured exposures.

2.4 Credit risk mitigation techniques

As mentioned above, in order to mitigate credit risk, the decision-making bodies, based on the results of the relevant assessment, may decide to render the granting of the credit line subject to the acquisition of suitable guarantees.

The adequacy of the guarantees offered by the applicant with respect to the credit application is assessed according to various criteria depending on the type of guarantee:

- mortgage guarantee: the value of the asset is estimated by means of a special appraisal carried out by an appraiser/appraisal firm that complies with the requirements of independence and professionalism provided for by current legislation;

- personal guarantee: the value of the surety is determined on the basis of an estimate of the assets of the guarantor (set of pursuable assets) highlighting any encumbrances/adverse entries in place on the same assets;
- financial collateral: the value of the asset/financial instrument serving as collateral is estimated on the basis of the value expressed by the relevant market in which the asset or instrument is traded.

In addition, DEPObank has signed netting (ISDA) and collateral management (CSA) agreements consistent with EMIR regulations for credit risk mitigation purposes.

At 31 December 2020, DEPObank did not avail itself of any guarantees granted by counterparties in order to mitigate the impact of credit risk on internal capital (so-called "Credit Risk Mitigation"). For repurchase agreements for which the Bank has signed specific GMRA contracts, DEPObank avails itself of the transfer of credit risk from the counterparty to the underlying of the repurchase agreement.

3. Impaired credit exposures

3.1 Management strategies and policies

The Credit & Financial Committee periodically reviews all potentially anomalous positions, approving the recovery actions to be taken and, on the basis of appropriate parameters, any changes in the status of the positions; these resolutions are then submitted to the Board of Directors for review.

The classification of assets by quality of debtors, according to the categories provided for by current legislation, is as follows:

1) impaired exposures: on-balance sheet (loans) and "off-balance sheet" assets (guarantees given and commitments to provide funds) falling into one of the following categories, as defined by the Bank of Italy:
   - bad loans: exposures to borrowers in a state of insolvency, even if not yet recognised in a court of law or in an essentially similar situation, regardless of any loss forecasts made by the Bank. Exposures for which the situation of irregularity relates to country risk profiles are excluded.
   - unlikely to pay: credit exposures other than non-performing loans for which the Bank considers it unlikely that the debtor will discharge their obligations in full (principal and interest) without the recourse to actions such as enforcement of guarantees;
   - non-performing exposures: exposures other than the above that, at the reporting date, were past due by more than 90 days and exceeded a predetermined materiality threshold, defined in the legislation in force in a differentiated manner depending on whether you a debtor or transaction approach is adopted.
2) performing past due exposures: these include both exposures that have been past due for more than 90 days and are not considered impaired (for example because they do not exceed the materiality threshold established by current legislation – a fixed materiality threshold), as well as exposures that have been past due for less than 90 days.

3) forborne exposures: credit exposures are considered forborne where changes in contractual conditions or a total or partial refinancing have been granted due to the financial difficulties of the borrower, which could result in a loss for the lender. It is not necessary that the debtor has actually proved to be in default. The forbearance category is transversal to existing risk classes and may include both performing and non-performing loans. For a position to be presumed "forborne", it is sufficient for it to have been past due for more than 30 days at least once in the three months preceding the contractual change, lowering the alarm threshold from the 90 days provided for in the definitions of non-performing exposures. The following are created as a result:
   - non-performing forborne exposures: i.e. total and/or partial forbearance/ contractual changes relating to exposures classified as non-performing;
   - performing forborne exposures: total and/or partial forbearance/contractual changes relating to exposures classified as performing when the forbearance presumption applies (see above).

Forborne positions must be constantly monitored and may be reclassified and thus cease to be considered forborne after an observation period with a positive trend of 24 months if the loan was classified as performing and of 36 months if it was classified as non-performing. The definition of “forborne” does not replace the existing categories of non-performing assets; rather, it is an additional information and monitoring tool.

Write-downs based on separate assessment of individual positions have been applied to non-performing positions.

3.2 Write-offs

For all bad loan positions, the Bank assesses whether it is appropriate to continue to classify the loan as non-performing inasmuch as the out-of-court or judicial actions in progress allow an expectation of recovery, partial or complete, to be considered reasonable, or whether it is appropriate to proceed with a total or partial write-off, due to the conclusion of the recovery process or the circumstance that there is no reasonable prospect of recovery.

In accordance with IFRS 9, a write-off is a reduction in the gross book value of a loan due to an acknowledgement that there is no reasonable expectation of recovery of the position in amounts beyond those considered collectable or already collected.

It does not imply a waiver by the bank of the legal right to recover the claim and must be made if all the information available indicates that the debtor is unable to repay all or part of the amount of the debt. The criteria that the Bank has identified to determine whether a position falls within the category to be evaluated for the purpose of a possible write-off depend on the possible presence of bankruptcy proceedings, the coverage levels and the seniority of the position in bad loan status.

As of 31 December 2020 the Group has not resorted to any write-offs.

3.3 Purchased or originated impaired financial assets

The Bank does not have any purchased or originated impaired financial assets at 31 December 2020.

4. Financial assets subject to commercial negotiations and forborne exposures

The process of deciding and granting renegotiations is part of the broader process of granting and disbursing loans at the Bank.

Credit exposures at 31 December 2020 are instrumentally and closely related to the provision of products and services to support and complete depositary banking activities; consequently, since it is an ancillary rather than a primary activity, lending has not been affected by the economic support measures implemented by the government and by industry associations. Lending activity is therefore to be seen, in 2020 as well, as part of "second tier" banking activity, in which the core business is the supply of products and services in payment systems and administrative custody, administration and settlement of securities. From this perspective, the analysis and granting of credit lines originates from a pre-existing business. The identification and granting of renegotiations of credit agreements is normally carried out during the review and verification of outstanding exposures, an activity that therefore requires a preliminary investigation and consequently an analysis of specialist bodies and of resolution of collegial bodies. Therefore, the granting and possible renegotiation of certain variables are decided following an adequate credit assessment carried out by the various corporate functions involved, in compliance with the principles of separation and independence.

In 2020, there were five exposures totalling €4.5 million relating to receivables due from customers, which the Bank designated forborne. The same exposures are linked to the real estate fund segment for which the Bank acts as depositary bank. These are, therefore, revocable credit lines which were already renegotiated upon renewal last year. They are classified as non-performing and therefore Stage 3. There are no further forborne positions dating back to previous years.

In the context of the renegotiation, no additional guarantees were acquired, also due to the fact that the role of depositary allows constant monitoring of the cash flows of credit exposures. Since these are revocable credit lines (not subject to repayment in instalments) with a maximum term of 12 months, there is no direct impact on the net present value of the contractual cash flows of the forbearance measures granted.

QUANTITATIVE INFORMATION

A. CREDIT QUALITY

A.1 Non-performing and performing credit exposures: amounts, write-downs, changes, and economic distribution

A.1.1 Distribution of financial assets by portfolio and credit quality (book value)

Portfolio/quality	Non-performing loans	Unlikely-to-pay positions	Past-due impaired exposures	Performing past due exposures	Other performing exposures	Total
1. Financial assets measured at amortised cost	391	-	2,713	3	5,197,490	5,200,596
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	3,298
3. Financial assets designated at fair value	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	-	33,406
5. Financial assets held for sale	-	-	-	-	18,617	18,617
Total 31/12/2020	**391**	**-**	**2,713**	**3**	**5,216,107**	**5,255,917**
Total 31/12/2019	**391**	**2,660**	**22**	**1,641**	**6,275,035**	**6,317,338**

A.1.2 Breakdown of financial assets by portfolio and credit quality (gross and net amounts)

Portfolio/quality	Impaired				Performing			
	Gross exposure	Total value adjustments	Net exposure	Total partial write-offs	Gross exposure	Total value adjustments	Net exposure	Total (net exposure)
1. Financial assets measured at amortised cost	6,636	3,532	3,104	-	5,198,775	1,282	5,197,493	5,200,596
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	3,298	3,298
3. Financial assets designated at fair value	-	-	-	-	X	X		
4. Other financial assets mandatorily measured at fair value	-	-	-	-	X	X	33,406	33,406
5. Financial assets held for sale	-	-	-	-	18,617	-	18,617	18,617
Total 31/12/2020	**6,636**	**3,532**	**3,104**	**-**	**5,217,391**	**1,282**	**5,252,814**	**5,255,917**
Total 31/12/2019	**6,470**	**3,397**	**3,073**	**-**	**6,279,920**	**3,244**	**6,314,266**	**6,317,338**

Portfolio/quality	Assets of evident poor credit quality		Other assets
	Cumulative capital losses	Net exposure	Net exposure
1. Financial assets held for trading			1,773
2. Hedging derivatives			-
Total 31/12/2020	**-**	**-**	**1,773**
Total 31/12/2019	**-**	**-**	**877**

A.1.3 Distribution of financial assets by past-due brackets (book value)

Portfolio/quality	Stage one			Stage two			Stage three		
	Between 1 and 30 days	Between 30 and 90 days	More than 90 days	Between 1 and 30 days	Between 30 and 90 days	More than 90 days	Between 1 and 30 days	Between 30 and 90 days	More than 90 days
1. Financial assets measured at amortised cost	-	-	3	-	-	-	-	-	3,104
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-	-	-	-
Total 31/12/2020	**-**	**-**	**3**	**-**	**-**	**-**	**-**	**-**	**3,104**
Total 31/12/2019	**2,324**	**-**	**-**	**-**	**28**	**21**	**-**	**-**	**3,073**

A.1.4 Financial assets, commitments to disburse funds and financial guarantees given: total value adjustments and total provisions

Description/risk stages	Total value adjustments													Total provisions on commitments to disburse funds and financial guarantees given			
	Assets in stage one				Assets in stage two				Assets in stage three								
	financial assets measured at amortised cost	financial assets measured at fair value through other comprehensive income	of which individual write-downs	of which collective write-downs	financial assets measured at amortised cost	financial assets measured at fair value through other comprehensive income	of which individual write-downs	of which collective write-downs	financial assets measured at amortised cost	financial assets measured at fair value through other comprehensive income	of which individual write-downs	of which collective write-downs	of which: purchased or originated impaired financial assets	Stage one	Stage two	Stage three	Total
Opening balances	**-3,227**	**-**	**-**	**-3,227**	**-16**	**-**		**-16**	**-3,397**	**-**	**-3,397**		**-**	**-6**	**-**	**-**	**-6,646**
Increases in purchased or originated financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Derecognitions other than write-offs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net value adjustments/ write-backs for credit risk (+/-)	1,967	-	-	1,967	-5	-	-	-5	-134	-	-134	-	-	5	-	-	1,833
Contractual amendments without derecognitions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in estimate methodology	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Closing balances	**-1,260**	**-**	**-**	**-1,260**	**-22**	**-**	**-**	**-22**	**-3,531**	**-**	**-3,531**	**-**	**-**	**-1**	**-**	**-**	**-4,814**
Recoveries from receipts on written-off financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs recognised directly on the income statement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.1.5 Financial assets, commitments to disburse funds and financial guarantees given: transfers between the various credit risk stages (gross and nominal amounts)

Portfolios/risk stages	Gross values / nominal value					
	Transfer between Stage 1 and Stage 2		Transfer between Stage 2 and Stage 3		Transfer between Stage 1 and Stage 3	
	From Stage 1 to Stage 2	From Stage 2 to Stage 1	From Stage 2 to Stage 3	From Stage 3 to Stage 2	From Stage 1 to Stage 3	From Stage 3 to Stage 1
1. Financial assets measured at amortised cost	-	-	-	-	-	-
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
3. Commitments to disburse funds and financial guarantees given	-	-	-	-	-	-
Total 31/12/2020	**-**	**-**	**-**	**-**	**-**	**-**
Total 31/12/2019	**2,239**	**-**	**4,382**	**-**	**-**	**-**

A.1.6 On and off-balance-sheet credit exposures to banks: gross and net values

Type of exposures/values	Gross exposure		Total value adjustments total provisions for credit risk	Net exposure	Total partial write-offs (*)
	Impaired	Performing assets			
A. ON-BALANCE-SHEET EXPOSURES					
a) Non-performing loans	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
b) Unlikely-to-pay positions	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
c) Past-due impaired loans	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
d) Performing past-due exposures	X	-	-	-	-
- of which: forborne exposures	X	-	-	-	-
e) Other performing exposures	X	1,718,358	445	1,717,913	-
- of which: forborne exposures	X	-	-	-	-
TOTAL (A)	**-**	**1,718,358**	**445**	**1,717,913**	**-**
B. OFF-BALANCE-SHEET CREDIT EXPOSURES					
a) Impaired	-	X	-	-	-
b) Performing	X	310,619	-	310,619	-
TOTAL (B)	**-**	**310,619**	**-**	**310,619**	**-**
TOTAL (A+B)	**-**	**2,028,977**	**445**	**2,028,532**	**-**

(*) Value presented for informative purposes.

A.1.7 On and off-balance-sheet credit exposures to customers: gross and net values

Type of exposures/values	Gross exposure		Total adjustments and total provisions	Net exposure	Total partial write-offs (*)
	Impaired	Performing			
A. On-balance sheet credit exposures					
a) Non-performing loans	2,088	X	1,697	391	-
- of which: forborne exposures	-	X	-	-	-
b) Unlikely-to-pay positions	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
c) Past-due impaired loans	4,547	X	1,834	2,713	-
- of which: forborne exposures	-	X	-	-	-
d) Performing past-due exposures	X				-
- of which: forborne exposures	X	-	-	-	-
e) Other performing exposures	X	3,480,862	1,282	3,479,580	-
- of which: forborne exposures	X	-	-	-	-
TOTAL A	**6,635**	**3,480,862**	**4,814**	**3,482,683**	**-**
B. Off-Balance Sheet credit exposures					
a) Impaired	-	X	-	-	-
b) Performing	X	1,251,579	1	1,251,578	-
TOTAL B	**-**	**1,251,579**	**1**	**1,251,578**	**-**
TOTAL A+B	**6,635**	**4,732,441**	**4,814**	**4,734,261**	**-**

(*) Value presented for informative purposes.

A.1.9 On-balance sheet credit exposure to customers: gross impaired exposures

Descriptions/Categories	Non-performing loans	Unlikely-to-pay positions	Past-due impaired exposures
A. Opening balance - gross exposure	**2,088**	**4,353**	**29**
– of which: exposures transferred but not derecognised	-	-	-
B. Increases	**-**	**194**	**-29**
B.1 transfers from performing exposures	-	194	-29
B.2 transfers from purchased or originated impaired financial assets	-	-	-
B.3 transfers from other impaired exposures	-	-	-
B.4 Contractual amendments without derecognition	-	-	-
B.5 other increases	-	-	-
C. Decreases	**-**	**-**	**-**
C.1 transfers to performing exposures	-	-	-
C.2 write-offs	-	-	-
C.3 collections	-	-	-
C.4 proceeds from disposals	-	-	-
C.5 losses on disposal	-	-	-
C.6 transfers to other impaired exposures	-	-	-
C.7 Contractual amendments without derecognition	-	-	-
C.8 other decreases	-	-	-
D. Gross exposure closing balance	**2,088**	**4,547**	**-**
– of which: exposures transferred but not derecognised	-	-	-

A.1.9-bis On-balance sheet credit exposures to customers: gross forborne exposures by credit quality

Descriptions/Categories	Forborne exposures: impaired	Forborne exposures: performing
A. Opening balance - gross exposure	**4,382**	**-**
– of which: exposures transferred but not derecognised	-	-
B. Increases	**165**	**-**
B.1 transfers from performing exposures not subject to forbearance measures	165	
B.2 transfers from performing forborne exposures	-	X
B.3 transfers from impaired forborne exposures	X	-
B.4 transfers from impaired exposures not subject to forbearance measures	-	-
B.5 other increases	-	-
C. Decreases	**-**	**-**
C.1 transfers to performing exposures not subject to forbearance measures	X	-
C.2 transfers to performing forborne exposures	-	X
C.3 transfers to impaired forborne exposures	X	-
C.4 write-offs	-	-
C.5 collections	-	-
C.6 proceeds from disposals	-	-
C.7 losses on disposal	-	-
C.8 other decreases	-	-
D. Gross exposure closing balance	**4,547**	**-**
– of which: exposures transferred but not derecognised	-	-

A.1.11 On-balance sheet impaired credit exposures to customers: total value adjustments

Descriptions/Categories	Non-performing loans		Unlikely-to-pay positions		Past-due impaired exposures	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Total opening adjustments	**1,697**	**-**	**-**	**-**	**7**	**7**
– of which: exposures transferred but not derecognised	-	-	-	-	-	-
B. Increases	**-**	**-**	**-**	**-**	**-**	**-**
B.1 value adjustments to purchased or originated credit-impaired financial assets	-	X	-	X	-	X
B.2 other value adjustments	-	-	-	-	1,827	1,827
B.3 losses on disposal	-	-	-	-	-	-
B.4 transfers from other categories of impaired exposures	-	-	-	-	-	-
B.5 contractual amendments without derecognition	-	X	-	X	-	X
B.6 other increases	-	-	-	-	-	-
C. Decreases	**-**	**-**	**-**	**-**	**-**	**-**
C.1 write-backs from valuation	-	-	-	-	-	-
C.2 write-backs from recoveries	-	-	-	-	-	-
C.3 gains on disposal	-	-	-	-	-	-
C.4 write-offs	-	-	-	-	-	-
C.5 transfers to other categories of impaired exposures	-	-	-	-	-	-
C.6 contractual amendments without derecognition	-	X	-	X	-	X
C.7 other decreases	-	-	-	-	-	-
D. Total final adjustments	**1,697**	**-**	**-**	**-**	**1,834**	**1,834**
– of which: exposures transferred but not derecognised	-	-	-	-	-	-

A.2 Classification of financial assets, of commitments to disburse funds and financial guarantees given on the basis of external and internal ratings

A.2.1 Distribution of financial assets, commitments to disburse funds and financial guarantees given: by classes of external ratings (gross values)

Exposures	External rating classes						No rating	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Financial assets measured at amortised cost	**1,784**	**75,121**	**3,321,425**	**246,093**	**48,567**	**876**	**1,511,544**	**5,205,410**
- Stage one	1,784	75,121	3,321,425	246,093	48,567	876	1,504,903	5,198,769
- Stage two	-	-	-	-	-	-	6	6
- Stage three	-	-	-	-	-	-	6,635	6,635
B. Financial assets measured at fair value through other comprehensive income								
- Stage one	-	-	-	-	-	-	-	-
- Stage two	-	-	-	-	-	-	-	-
- Stage three	-	-	-	-	-	-	-	-
C. Financial assets held for sale					**18,617**			**18,617**
- Stage one	-	-	-	-	18,617	-		18,617
- Stage two	-	-	-	-	-	-	-	-
- Stage three	-	-	-	-	-	-	-	-
Total (A+B+C)	**1,784**	**75,121**	**3,321,425**	**246,093**	**67,184**	**876**	**1,511,544**	**5,224,027**
of which: purchased or originated impaired financial assets	-	-	-	-	-	-	-	-
D. Commitments to disburse funds and financial guarantees issued								
- Stage one	-	-	-	262	48	-	1,561,887	1,562,197
- Stage two	-	-	-	-	-	-	-	-
- Stage three	-	-	-	-	-	-	-	-
Total (D)	**-**	**-**	**-**	**262**	**48**	**-**	**1,561,887**	**1,562,197**
Total (A+B+C+D)	**1,784**	**75,121**	**3,321,425**	**246,355**	**67,232**	**876**	**3,073,431**	**6,786,224**

Credit quality class	Risk weighting coefficients				ECAI
	Governments and central banks	Supervised intermediaries, public sector bodies, local and regional authorities (*)	Multilateral development banks	Companies and others	Standard & Poor's
1	0%	20%	20%	20%	AAA to AA-
2	20%	50%	50%	50%	A+ to A-
3	50%	100%	50%	100%	BBB+ to BBB-
4	100%	100%	100%	100%	BB+ to BB-
5	100%	100%	100%	150%	B+ to B-
6	150%	150%	150%	150%	CCC+ and below

(*) According to the "New prudential supervisory provisions for banks" for these categories, reference should be made to the merit class in which exposures to the central government of the State in which these entities have their head office are classified.

A.3 Distribution of guaranteed credit exposures by guarantee type

A.3.1 Guaranteed on- and off-balance sheet credit exposures to banks

			Collateral (1)				Personal guarantees (2)									
							Credit derivatives					Endorsement credits				
								Other derivatives								
	Gross exposure	Net exposure	Real estate - mortgages	Real estate - finance leases	Securities	Other collateral	CREDIT LINK NOTES	Central counterparties	Banks	Other financial companies	Other entities	Public administrations	Banks	Other financial companies	Other entities	Total (1)+(2)
1. Guaranteed On-Balance-sheet credit exposures:																
1.1 totally secured	1,143,292	1,143,253	-	-	1,143,253	-	-	-	-	-	-	-	-	-	-	1,143,253
– of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 partially secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
– of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Off-balance sheet credit exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.1 totally secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
– of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 partially secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
– of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.3.2 Guaranteed on- and off-balance sheet credit exposures to customers

			Collateral (1)				Personal guarantees (2)									
							Credit derivatives					Endorsement credits				
								Other derivatives								
	Gross exposure	Net exposure	Real estate - mortgages	Real estate - finance leases	Securities	Other collateral	CREDIT LINK NOTES	Central counterparties	Banks	Other financial companies	Other entities	Public administrations	Banks	Other financial companies	Other entities	Total (1)+(2)
1. Secured on-balance sheet exposures:																
1.1 totally secured	188,900	188,900	-	-	188,900	-	-	-	-	-	-	-	-	-	-	188,900
– of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 partially secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
– of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Secured off-balance sheet credit exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.1 totally secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
– of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 partially secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
– of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

B. DISTRIBUTION AND CONCENTRATION OF CREDIT EXPOSURES

B.1 Distribution by sector of on- and off-balance sheet credit exposures to customers

Exposures/Counterparties	Public administrations		Financial companies		Financial companies (of which insurance companies)		Non-financial companies		Households	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-balance sheet credit exposures										
A.1 Non-performing loans	-	-	391	1,491	-	-	-	206	-	-
- of which: forborne exposures	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
- of which: forborne exposures	-	-	-	-	-	-	-	-	-	-
A.3 Impaired past-due exposures	-	-	2,713	1,834	-	-	-	-	-	-
- of which: forborne exposures	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	3,255,464	654	106,353	165	-	-	135,504	13	876	5
- of which: forborne exposures	-	-	-	-	-	-	-	-	-	-
TOTAL A	**3,255,464**	**654**	**109,456**	**3,491**	**-**	**-**	**135,504**	**219**	**876**	**5**
B. Off-balance sheet credit exposures										
B.1 Impaired exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	262	1	1,229,811	-	-	-	21,505	-	1	-
TOTAL B	**262**	**1**	**1,229,811**	**-**	**-**	**-**	**21,505**	**-**	**1**	**-**
TOTAL (A + B) 31/12/2020	**3,255,726**	**655**	**1,339,267**	**3,491**	**-**	**-**	**157,009**	**219**	**877**	**5**
TOTAL (A + B) 31/12/2019	**4,355,273**	**2,366**	**1,401,580**	**1,680**	**-**	**-**	**215,109**	**2,141**	**1,426**	**14**

The table also includes the credit exposure classified under item "110 Non-current assets and groups of assets held for disposal".

B.2 Geographical distribution of on- and off-balance sheet credit exposures to customers

Exposures/ Geographic areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-balance sheet credit exposures										
A.1 Non-performing loans	391	1,697	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Impaired past-due exposures	2,713	1,834	-	-	-	-	-	-	-	-
A.4 Performing exposures	3,492,836	836	5,292	1	69	-	-	-	-	-
TOTAL A	**3,495,939**	**4,367**	**5,292**	**1**	**69**	**-**	**-**	**-**	**-**	**-**
B. Off-balance sheet credit exposures										
B.1 Impaired exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	1,251,274	1	305	-	-	-	-	-	-	-
TOTAL B	**1,251,274**	**1**	**305**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total 31/12/2020	**4,747,213**	**4,369**	**5,597**	**1**	**69**	**-**	**-**	**-**	**-**	**-**
Total 31/12/2019	**5,954,388**	**6,199**	**23,008**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

The table also includes the credit exposure classified under item "110 Non-current assets and groups of assets held for disposal".

B.3 Geographical distribution of on- and off-balance sheet credit exposures to banks

Exposures/ Geographic areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-balance sheet credit exposures										
A.1 Non-performing loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Impaired past-due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	1,526,815	125	183,412	317	7,380	3	306	-	-	-
TOTAL A	**1,526,815**	**125**	**183,412**	**317**	**7,380**	**3**	**306**	**-**	**-**	**-**
B. Off-balance sheet credit exposures										
B.1 Impaired exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	308,862	-	1,757	-	-	-	-	-	-	-
TOTAL B	**308,862**	**-**	**1,757**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) (31/12/2020)	**1,835,677**	**125**	**185,169**	**317**	**7,380**	**3**	**306**	**-**	**-**	**-**
Total (A+B) (31/12/2019)	**1,711,694**	**390**	**111,653**	**55**	**8,896**	**3**	**1,397**	**1**	**992**	**-**

C. SECURITISATION TRANSACTIONS

Not applicable.

D. DISCLOSURE OF STRUCTURED ENTITIES NOT CONSOLIDATED IN THE ACCOUNTS (OTHER THAN SPECIAL PURPOSE VEHICLES FOR SECURITISATION TRANSACTIONS - SPVs)

QUANTITATIVE INFORMATION

Financial statement items/ Structured entity type	Asset accounting portfolio	Total assets (A)	Liability accounting portfolio	Total liabilities (B)	Net book value (C = B-A)	Maximum exposure to the risk of loss (D)	Difference between exposure to loss risk and book value (E = D-C)
1. UCIs	Financial assets measured at fair value through profit or loss	33,299	-	-	33,299	70,000	36,701

E. DISPOSALS

Not applicable.

F. CREDIT RISK MEASUREMENT MODELS

DEPObank does not use internal portfolio models to measure credit risk exposure.

SECTION 2 - MARKET RISKS

INTEREST RATE RISK AND PRICE RISK – REGULATORY TRADING BOOK

QUALITATIVE INFORMATION

1. General aspects

Market risk is the risk of loss generated by market transactions in financial instruments (regulatory trading book), currencies and commodities, resulting from the evolution of market factors or the situation of the issuer. The activities that generate Market Risk are the responsibility of the Chief Financial Officer (CFO) Area, and in particular the Treasury Service.

These activities are governed by the Finance Regulation, which defines the operating limits for the sub-components of Market Risk, such as Foreign Exchange Risk, Interest Rate Risk on the Trading Portfolio, Issuer Risk, Country Risk and Counterparty Risk. In addition, for the various types of assets the Finance

Regulation defines operating limits in terms of the value held, VaR, maximum periodic loss ("stop loss") and the criteria and methods for monitoring positions.

2. Processes for managing and methods for measuring interest rate risk and price risk

The governance model established to oversee DEPObank's risk management and control process is based, on the one hand, on the separation between risk management processes and control processes and, on the other hand, on the development of these processes in keeping with the Bank's hierarchical structure, as well as through a process of delegation of authority.

First-level controls are managed by the CFO Area, whereas second-level controls are carried out by the Risk Management Service, which monitors Market Risk on a daily basis, through VaR, performing second-level controls on compliance with the assigned limits.

The VaR model used is of a parametric type with a confidence interval of 99% over a 10-day time horizon, in line with the recommendations defined by the Basel Committee.

The VaR, defined in order to obtain a reasonable estimate of potential losses under normal market conditions, does not propose and does not cover the analysis of extreme events: rather, the use of stress testing permits investigation of the impact on the portfolio in extreme conditions and in the violation of the assumptions underlying the model used, capturing the residual risk and providing complementary indications to VaR. The methodology used is based on the VaR track record of the trading portfolio and exchange positions.

In addition, the Risk Management Service collects and processes daily, on an ex-post basis, the data related to the overall risk positions and prepares the reports necessary to verify the limits set by the Finance Regulation. The Risk Management Service is also responsible for carrying out specific tests in order to verify the degree of risk of scenarios already in place, or prospective scenarios on the existing portfolio. The Head of the Risk Management Service, when he/she detects that the VaR limits have been exceeded, is obliged to promptly inform the corporate function that holds the position, the relevant Head of Management and the Chief Executive Officer.

QUANTITATIVE INFORMATION

1. Regulatory trading book: distribution by maturity (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives.

Currency of denomination: Euro

Type/residual maturity	sight	up to 3 months	more than 3 months to 6 months	more than 6 months to 1 year	more than 1 year to 5 years	between 5 and 10 years	10 years or more	indeterminate maturity
1. On-balance sheet assets								
1.1 Debt securities								
- with early redemption option	-	-	-	-	-	-	-	-
- other		-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2 On-balance sheet liabilities								
2.1 Repos	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3 Financial derivatives								
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	7,085	-	-	-	-	-	-
+ Short positions	-	874,057	-	-	-	-	-	-

Currency of denomination: Other currencies

Type/residual maturity	**sight**	**up to 3 months**	**more than 3 months to 6 months**	**more than 6 months to 1 year**	**more than 1 year to 5 years**	**between 5 and 10 years**	**10 years or more**	**indeterminate maturity**
1. On-balance sheet assets								
1.1 Debt securities								
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2 On-balance sheet liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Repos	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3 Financial derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	872,166	-	-	-	-	-	-
+ Short positions	-	7,085	-	-	-	-	-	-

2. Regulatory trading book: distribution of exposures in equity instruments and share indices for the main stock market countries

Type of transactions/Quote index	Listed	Not listed
	ITALY	
A. Equity instruments		
- long positions	1	-
- short positions	-	-
B. Purchases not yet settled on equity instruments	**-**	**-**
- long positions	-	-
- short positions	-	-
C. Other derivatives on equity instruments	**-**	**-**
- long positions	-	-
- short positions	-	-
D. Derivatives on equity indices	**-**	**-**
- long positions	-	-
- short positions	-	-

INTEREST RATE RISK AND PRICE RISK – BANKING BOOK

QUALITATIVE INFORMATION

1. General aspects, management procedures and measurement methods for interest rate and price risk

Banking book interest rate risk is the risk of decrease in the value of the banking book due to potential changes in interest rates. The main source of this type of interest rate risk is *repricing risk*, that is, the risk deriving from the time *mismatches* between the maturity and repricing of assets and liabilities, the main aspects of which are:

- yield curve risk, the risk deriving from the exposure of DEPObank's positions to changes in the slopes and shape of the yield curve;
- basis risk, risk deriving from the imperfect correlation in changes in the rates payable and receivable on different instruments that may also have similar repricing characteristics.

DEPObank monitors the impact that unexpected changes in market interest rates may have on banking book positions from the following perspectives:

- current earnings – in order to assess interest rate risk based on the sensitivity of net interest income to changes in interest rates over a defined time horizon. Negative changes in net interest impact a bank's potential financial stability by weakening its capital adequacy. The change in interest income depends on interest rate risk in its various forms;
- economic value – changes in interest rates may affect the economic value of the asset and liability. The economic value of a bank is represented by the present value of the expected cash flows, defined as the algebraic sum of the present value of the expected cash flows of assets, liabilities and positions

in derivatives. Unlike the current earnings perspective, the economic value perspective identifies the risk generated by repricing or maturity gap over a long-term time horizon.

In the interest rate risk management model adopted by DEPObank, the centrality of the following risk measures is important:

- sensitivity of net interest income;
- sensitivity of economic value.

Interest rate risk exposure expressed in terms of interest margin sensitivity quantifies the impact of an interest rate curve shock on the short-term (12 months) interest margin. This measurement shows the effect of rate changes on the portfolio being measured, excluding possible future changes to the asset/liability mix, and therefore cannot be considered a provisional indicator of the future interest margin. The Bank calculates the sensitivity of net interest income through an approach based on constant rates and volumes. According to this model, maturing items are reinvested at constant volumes, rates and maturities. The scenarios applied are the same as for the sensitivity analysis of economic capital.

Exposure to interest rate risk expressed in terms of economic value sensitivity is measured with reference to the banking book assets and liabilities (this therefore excludes positions in the trading portfolio - Other). The sensitivity analysis of economic value makes it possible to assess the impact of yield curve shifts (shocks) on the value of equity. The method applied was established by the 32nd update of Circular 285/2013, including the adoption of the stress scenarios mentioned in the EBA Guidelines (EBA/GL/2018/02). However, Circular 285/2013 allows tier 2 banks like DEPObank to "*refine the simplified scenarios...relating to the estimate of the core component and to its division into the bands up to a maximum of 5 years*". In accordance with this possibility, the Bank has defined criteria more in line with its specificity.

QUANTITATIVE INFORMATION

1. Banking book: distribution by maturity (repricing date) of on-balance sheet financial assets and liabilities

Currency of denomination: EUR

Type/Unexpired term	sight	up to 3 months	more than 3 months to 6 months	more than 6 months to 1 year	more than 1 year to 5 years	between 5 and 10 years	more than 10 years	Indeterminate maturity
1 On-balance sheet assets								
1.1 Debt securities								
– with option of advance repayment	-	-	-	-	-	-	-	-
– others	503,668	155,521	994,229	101,079	1,516,982	-	-	-
1.2 Loans to banks	147,598	1,450,429	-	2,377	-	-	-	-
1.3 Loans to customers	-	-	-	-	-	-	-	-
– current account	12,478	-	-	-	-	-	-	-
- Other loans	-	-	-	-	-	-	-	-
- with option of advance repayment	-	-	-	-	-	-	-	-
– others	18,783	189,009	103	190	19,076	-	-	-
2 On-balance sheet liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Payables due to customers	-	-	-	-	-	-	-	-
– current account	7,485,688	-	-	-	-	-	-	-
– other payables	-	-	-	-	-	-	-	-
– with option of advance repayment	-	-	-	-	-	-	-	-
– others	22,705	-	-	-	-	-	-	-
2.2 Payables due to banks	-	-	-	-	-	-	-	-
– current account	584,484	-	-	-	-	-	-	-
– other payables	236,890	-	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
– with option of advance repayment	-	-	-	-	-	-	-	-
– others	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
– with option of advance repayment	-	-	-	-	-	-	-	-
– others	-	-	-	-	-	-	-	-

(cont'd)

Currency of denomination: EUR

Type/Unexpired term	sight	up to 3 months	more than 3 months to 6 months	more than 6 months to 1 year	more than 1 year to 5 years	between 5 and 10 years	more than 10 years	Indeterminate maturity
3 Financial derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
4 Other off-balance sheet transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-

“Payables due to customers - current account” represent accounts established for the performance of services relating in particular to the activity of the Depositary Bank, which as such have a high level of stability of the relationship and of the corresponding collection.

Currency of denomination: Other currencies

Type/Unexpired term	sight	up to 3 months	more than 3 months to 6 months	more than 6 months to 1 year	more than 1 year to 5 years	between 5 and 10 years	more than 10 years	Indeterminate maturity
1 On-balance sheet assets								
1.1 Debt securities								
- with option of advance repayment	-	-	-	-	-	-	-	-
– others	-	12,584	-	-	-	-	-	-
1.2 Loans to banks	84,911	-	-	-	-	-	-	-
1.3 Loans to customers	-	-	-	-	-	-	-	-
– current account	7,023	-	-	-	-	-	-	-
- Other loans	-	-	-	-	-	-	-	-
– with option of advance repayment	-	-	-	-	-	-	-	-
– others	69	-	-	-	-	-	-	-
2 On-balance sheet liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Payables due to customers	-	-	-	-	-	-	-	-
– current account	865,446	-	-	-	-	-	-	-
– other payables	-	-	-	-	-	-	-	-
– with option of advance repayment	-	-	-	-	-	-	-	-
– others	315	-	-	-	-	-	-	-
2.2 Payables due to banks	-	-	-	-	-	-	-	-
– current account	95,047	-	-	-	-	-	-	-
– other payables	-	118	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
– with option of advance repayment	-	-	-	-	-	-	-	-
– others	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
– with option of advance repayment	-	-	-	-	-	-	-	-
– others	-	-	-	-	-	-	-	-

(cont'd)

Currency of denomination: Other currencies

Type/Unexpired term	sight	up to 3 months	more than 3 months to 6 months	more than 6 months to 1 year	more than 1 year to 5 years	between 5 and 10 years	more than 10 years	Indeterminate maturity
3 Financial derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
4 Other off-balance sheet transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-

"Payables due to customers - current account" represent accounts in foreign currencies established for the performance of services relating in particular to the activity of the Depositary Bank, which as such have a high level of stability of the relationship and of the corresponding collection.

2. Fair value hedging activities

Not applicable.

3. Cash flow hedging activity

Hedging strategies are generic in nature and may also refer to the interest rate risk of the sight deposits core component.

4. Hedges of foreign investments

Not applicable.

EXCHANGE RATE RISK

QUALITATIVE INFORMATION

1. General aspects, management processes and measurement methods for exchange rate risk

Exchange rate risk is the risk of loss generated by market transactions in financial instruments, currencies and commodities resulting from the evolution of market factors or the situation of the issuer.

Exchange rate risk originates from trading activities carried out on behalf of customers in foreign currencies and is constantly monitored not only by the Treasury Service that performs the competent level I controls, but also by the Risk Management Service through the calculation of the VaR and the monitoring of limits.

Exposure to exchange rate risk – determined on the basis of the net foreign exchange position using a methodology based on the supervisory regulations – is limited, since any foreign exchange transaction of a significant amount closed with institutional counterparties is normally "hedged" by executing a transaction of the opposite sign on the market. Minor transactions carried out on behalf of customers that generate a position open to exchange rate risk are monitored in real time by the Treasury Service in compliance with the limits established by the current Regulation.

Positions open to exchange rate risk may only be maintained within very strict (and in any case always amply observed) limits by maximum overall exposure, single currency and VaR.

2. Exchange rate risk hedging

The risk associated with the trading book is mainly hedged through spot forex transactions. The Risk Management Service verifies on a daily basis that the VaR on existing positions is within the limit set by the Finance Regulation.

QUANTITATIVE INFORMATION

1. Distribution of assets, liabilities and derivatives by currency

Items	Currencies					
	US dollars	Pounds	Yen	Canadian dollars	Swiss francs	Other currencies
A. Financial assets						
A.1 Debt instruments	12,584	-	-	-	-	-
A.2 Equity instruments	2,375	-	-	-	-	207
A.3 Loans to banks	36,619	6,614	5,854	2,751	6,543	26,529
A.4 Loans to customers	3,897	2,053	412	-	76	653
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**1**	**12**	**1**	**2**	**35**	**8**
C. Financial liabilities						
C.1 Payables due to banks	48,941	10,300	628	7,927	6,779	20,590
C.2 Deposits from customers	497,833	100,332	104,728	42,028	40,843	80,750
C.3 Debt instruments	-	-	-	-	-	-
C.4 Other financial assets	-	-	-	-	-	-
D. Other liabilities	**-**	**-**	**-**	**-**	**-**	**-**
E. Financial derivatives	**-**	**-**	**-**	**-**	**-**	**-**
- Options	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-
+ Long positions	508,571	101,776	99,229	46,954	40,939	74,697
+ Short positions	5,218	100	79	1,000	-	687
Total assets	**564,048**	**110,455**	**105,496**	**49,708**	**47,592**	**102,093**
Total liabilities	**551,992**	**110,732**	**105,435**	**50,956**	**47,622**	**102,028**
Difference (+/-)	**12,057**	**-277**	**61**	**-1,248**	**-30**	**65**

SECTION 3 - DERIVATIVES AND HEDGING POLICIES

DERIVATIVE INSTRUMENTS

DEPObank's transactions in derivatives mainly concern trading activities that are balanced on behalf of customers and transactions in derivatives on swaps performed by the Treasury Service with the aim of converting the revenues into euros or other currencies. DEPObank does not hold innovative or complex financial products.

3.1 TRADING DERIVATIVES

A. FINANCIAL DERIVATIVES

A.1 Trading financial derivatives: notional end-of-period value

Underlying assets/ Derivative types	31/12/2020				31/12/2019			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	With netting agreements	
1. Debt securities and interest rates								
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and share indices	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	835,458	-	-	-	794,259	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
5. Other	**-**	**-**	**12**	**-**	**-**	**-**	**12**	**-**
Total	**-**	**-**	**835,470**	**-**	**-**	**-**	**794,271**	**-**

A.2 Trading financial derivatives: positive and negative gross fair value – breakdown by products

Type of derivatives	31/12/2020				31/03/2019			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Positive fair value								
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	-	-	-	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	-	1,763	-	-	-	868	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	**-**	**-**	**1,763**	**-**	**-**	**-**	**868**	**-**
2. Negative fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	-	-	-	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	-	4,039	-	-	-	6,248	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	**-**	**-**	**4,039**	**-**	**-**	**-**	**6,248**	**-**

A.3 OTC financial derivatives - notional values, positive and negative gross fair values by counterparty

Underlying assets	Central counterparties	Banks	Other financial companies	Other entities
CONTRACTS NOT COVERED BY NETTING AGREEMENTS				
1) Debt securities and interest rates				
- Notional value	X	-	-	-
- Positive fair value	X	-	-	-
- Negative fair value	X	-	-	-
2) Equity securities and share indices		**-**	**-**	**-**
- Notional value	X	-	-	-
- Positive fair value	X	-	-	-
- Negative fair value	X	-	-	-
3) Currencies and gold		**-**	**-**	**-**
- Notional value	X	835,458	-	-
- Positive fair value	X	1,763	-	-
- Negative fair value	X	4,039	-	-
4) Commodities		**-**	**-**	**-**
- Notional value	X	-	-	-
- Positive fair value	X	-	-	-
- Negative fair value	X	-	-	-
5) Other		**-**	**-**	**-**
- notional value	X	-	-	12
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
CONTRACTS COVERED BY NETTING AGREEMENTS		**-**	**-**	**-**
1) Debt securities and interest rates		**-**	**-**	**-**
- Notional value	X	-	-	-
- Positive fair value	X	-	-	-
- Negative fair value	X	-	-	-
2) Equity securities and share indices		**-**	**-**	**-**
- Notional value	X	-	-	-
- Positive fair value	X	-	-	-
- Negative fair value	X	-	-	-
3) Currencies and gold		**-**	**-**	**-**
- Notional value	X	-	-	-
- Positive fair value	X	-	-	-
- Negative fair value	X	-	-	-
4) Commodities		**-**	**-**	**-**
- Notional value	X	-	-	-
- Positive fair value	X	-	-	-
- Negative fair value	X	-	-	-
5) Other		**-**	**-**	**-**
- Notional value	X	-	-	-
- Positive fair value	X	-	-	-
- Negative fair value	X	-	-	-

A.4 Residual life of OTC financial derivatives: notional values

Underlying/Residual Life	Up to 1 year	1 year to 5 years	More than 5 years	Total
A. Regulatory trading book				
A.1 Financial derivatives on debt securities and interest rates	-	-	-	-
A.2 Financial derivatives on equity securities and shares indices	-	-	-	-
A.3 Financial derivatives on exchange rates and gold	835,458	-	-	835,458
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	12	12
Total 31/12/2020	**835,458**	**-**	**12**	**835,470**
Total 31/12/2019	**794,259**	**-**	**12**	**794,271**

SECTION 4 - LIQUIDITY RISK

QUALITATIVE INFORMATION

1. General aspects, management procedures and measurement methods for liquidity risk

Liquidity risk is defined as the risk that the bank may be unable to meet its obligations at maturity and/or that it may have to bear non-market financing costs in relation to an unbalanced net financial position, due to the inability to procure funds (funding liquidity risk) or due to the presence of limits on the liquidation of assets (market liquidity risk).

With regard to the governance of the liquidity framework, the Board of Directors is responsible for defining the risk tolerance threshold and approving methodologies, stress assumptions, early warning indicators, the Contingency Funding and Recovery Plan (CFRP) and principles relating to the definition of the pricing system for the internal transfer of funds. The Chief Executive Officer is responsible for implementing the strategic guidelines and governance policies defined by the Board of Directors, in compliance with the risk tolerance threshold in accordance with Circular 285/13, Part 1, Title V, Chapter 6, Section II, para. 2.2; the CEO also receives regular reports concerning the monitoring of Liquidity Risk and informs the Board of Directors at least quarterly, and more frequently in the event of a deterioration in the liquidity situation. The Board of Statutory Auditors verifies the consistency of the entire liquidity framework with the Internal Control System and compliance with current legislation.

The role of the Risk Management Service, as the function responsible for risk assessment in the design of second-level controls, is defined in accordance with the regulatory requests of Circular 285/13, Part 1, Title V, Chapter 6, Section II, para. 3; the Risk Management Service focuses on monitoring the Bank's exposure to Liquidity Risk, defining and calculating stress tests, monitoring compliance with liquidity indicators, verifying the adequacy of liquidity reserves, preparing reports to corporate bodies and supporting the assessment of the pricing system for the internal transfer of funds.

The Audit Service checks the adequacy of the liquidity management system and the control system that presides over this management at least once a year, reporting to the Corporate Bodies on the results of the audits carried out.

DEPObank's business model is focused on providing banking services to participants in Italy's national banking and financial system; its lending and financial investment businesses are currently mainly managed as ancillary to its core businesses, with relationships developed mainly at the interbank level. In addition to the liquidity generated by the balances of the accounts deriving from depositary bank business and the time lag between the credits recorded and the payment arrangements made with counterparties, DEPObank can also meet its needs through liquidity from: highly liquid assets, repurchase agreement funding, unsecured over-the-counter (OTC) interbank market funding, refinancing operations with the European Central Bank (ECB) and inflows from its assets that have reached maturity.

The relevant document is entitled the "Liquidity Risk Policy and Contingency Funding and Recovery Plan", approved by the Board of Directors. It defines the guidelines for the liquidity risk policy and the rules to be adopted in a state of liquidity crisis (Contingency Funding and Recovery Plan), transposing the latest regulatory updates (see Bank of Italy Circular 285/2013) and the principles enshrined in the Risk Policy, complementing and completing the rules laid down in the Finance Regulation.

As part of the Risk Appetite Framework, specific liquidity metrics have been defined, both regulatory, Liquidity Coverage Ratio – LCR and Net Stable Funding Ratio – NSFR, and internal, "Ratio of minimum cumulative net balance to total assets", in order to better represent the operational reality of the Bank.

Liquidity monitoring, which is performed in accordance with the maximum risk tolerance threshold, and therefore also with the nature, objectives and operational complexity of DEPObank, aims to ensure the ability to meet expected or unforeseen cash payment commitments over a four-month horizon[4], and this is done by calculating two indicators to monitor the sustainability of the short-term balance in a complementary manner, both under normal business conditions and in stress scenarios:

- Cumulative net balance at 30 days, referring to the daily analysis of the projected liquidity at one month on a rolling basis;
- Minimum cumulative net balance, referring to the weekly analysis of time bands up to four months in the maturity ladder scheme.

Liquidity monitoring is carried out both in a situation of normal going concern business and in a stress scenario. The results of stress tests are used to verify:

- DEPObank's ability to cope autonomously (time to survival) with unforeseen liquidity crises in the first period in which they occur and before initiating structural interventions aimed at changing the structure of assets/liabilities;

4 The reference time horizon for short-term liquidity may be up to 12 months, but for DEPObank is up to four months is relevant, since items with longer maturities are residual and relate exclusively to maturing securities in the proprietary portfolio.

- whether the level of limits/early warning results in the maintenance of liquidity reserves that allow DEPObank to cope with the initial period of systemic or idiosyncratic stress;
- the effectiveness of crisis management.

The stress tests are based on the calculation of the Basel 3 coefficient – LCR (the same indicator monitored for the liquidity risk tolerance threshold), in relation to the most important items for DEPObank. In particular, the items taken into account are counterbalancing capacity, the negative balances of large corporate current accounts and bank reciprocal accounts and the credit facility margins.

Liquidity risk also includes the intraday risk deriving from the time mismatch between outflows (settled at daily cut-offs or when orders are received from customers) and inflows (settled at different intraday cut-offs), which may render it impossible for the Bank to discharge its payment obligations when they are called in due to a temporary lack of funds. To hedge intraday liquidity risk, rules are defined for the maintenance of a minimum portfolio of eligible securities, functional to meet requirements for intraday and periodic refinancing from central banks.

As already specified in the paragraph "Impacts of the COVID-19 pandemic", due to its particular type of operation DEPObank has not suffered any significant impacts. DEPObank's liquidity position, which is healthy and constantly monitored, has always remained solid thanks to the wide availability of liquid reserves and the high stability of funding, so that the "Basel 3" liquidity indicators Liquidity Coverage Ratio, LCR, and Net Stable Funding Ratio, NSFR, show values as at 31 December 2020 of 324% and 318%, respectively, well above the regulatory limits.

QUANTITATIVE INFORMATION

1. Breakdown of financial assets and liabilities by residual contractual maturity

Currency of denomination: Euro

Items/Time bands	sight	more than 1 day to 7 days	more than 7 days to 15 days	more than 15 days to 1 month	more than 1 month to 3 months	more than 3 months to 6 months	more than 6 months to 1 year	more than 1 year to 5 years	more than 5 years	indefinite duration
On-balance sheet assets										
a.1 Government bonds	-	-	-	-	114,000	63,000	100,000	2,887,501	2	-
a.2 Other debt instruments	-	-	-	10,000	7,500	4,500	-	2,501	3	-
a.3 Units of UCIs	33,300	-	-	-	-	-	-	-	-	-
a.4 Loans	-	-	-	-	-	-	-	-	-	-
banks	261,388	215,506	506,562	259,287	296,162	-	2,377	-	-	171,255
customers	31,454	2,570	63,259	43,062	79,906	106	195	19,078	-	-
On-balance sheet liabilities	-	-	-	-	-	-	-	-	-	-
b.1 Deposits and current accounts	-	-	-	-	-	-	-	-	-	-
banks	736,234	131,000	-	87,125	-	-	-	18,824	-	-
customers	7,728,086	-	-	-	22	-	-	24	-	-
b.2 Debt instruments	-	-	-	-	-	-	-	-	-	-
b.3 Other liabilities	619,706	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions	-	-	-	-	-	-	-	-	-	-
c.1 Financial derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
long positions	-	7,003	-	82	-	-	-	-	-	-
Short positions	-	16,415	473,738	345,735	38,168	-	-	-	-	-
c.2 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
long positions	-	-	-	-	-	-	-	-	-	-
Short positions	-	-	-	-	-	-	-	-	-	-
c.3 Deposits and loans to be collected	-	-	-	-	-	-	-	-	-	-
long positions	-	-	-	-	-	-	-	-	-	-
short positions	-	-	-	-	-	-	-	-	-	-
c.4 Irrevocable commitments to lend funds	-	-	-	-	-	-	-	-	-	-
long positions	-	-	-	-	-	-	-	-	-	-
short positions	-	-	-	-	-	-	-	-	-	-
c.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
c.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
c.7 Credit derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
long positions	-	-	-	-	-	-	-	-	-	-
short positions	-	-	-	-	-	-	-	-	-	-
c.8 Credit derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
long positions	-	-	-	-	-	-	-	-	-	-
short positions	-	-	-	-	-	-	-	-	-	-

Currency of denomination: Other currencies

Items/Time bands	sight	more than 1 day to 7 days	more than 7 days to 15 days	more than 15 days to 1 month	more than 1 month to 3 months	more than 3 months to 6 months	more than 6 months to 1 year	more than 1 year to 5 years	more than 5 years	indefinite duration
On-balance sheet assets										
a.1 Government bonds	-	-	-	-	-	-	-	-	-	-
a.2 Other debt instruments	-	-	-	-	12,224	-	-	-	-	-
a.3 Units of UCIs	-	-	-	-	-	-	-	-	-	-
a.4 Loans	-	-	-	-	-	-	-	-	-	-
banks	85,017	-	-	-	-	-	-	-	-	-
customers	7,155	-	-	-	-	-	-	-	-	-
On-balance sheet liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
b.1 Deposits and current accounts	-	-	-	-	-	-	-	-	-	-
banks	95,047	-	-	-	118	-	-	-	-	-
customers	865,446	-	-	-	-	-	-	-	-	-
b.2 Debt instruments	-	-	-	-	-	-	-	-	-	-
b.3 Other liabilities	1,068	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
c.1 Financial derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
long positions	-	16,417	471,225	346,354	38,170	-	-	-	-	-
Short positions	-	7,002	-	82	-	-	-	-	-	-
c.2 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
long positions	-	-	-	-	-	-	-	-	-	-
Short positions	-	-	-	-	-	-	-	-	-	-
c.3 Deposits and loans to be collected	-	-	-	-	-	-	-	-	-	-
long positions	-	-	-	-	-	-	-	-	-	-
short positions	-	-	-	-	-	-	-	-	-	-
c.4 Irrevocable commitments to lend funds	-	-	-	-	-	-	-	-	-	-
long positions	-	-	-	-	-	-	-	-	-	-
short positions	-	-	-	-	-	-	-	-	-	-
c.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
c.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
c.7 Credit derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
long positions	-	-	-	-	-	-	-	-	-	-
short positions	-	-	-	-	-	-	-	-	-	-
c.8 Credit derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
long positions	-	-	-	-	-	-	-	-	-	-
short positions	-	-	-	-	-	-	-	-	-	-

SECTION 5 - OPERATIONAL RISKS

QUALITATIVE INFORMATION

1. General aspects, management procedures and measurement methods for operational risk

Operational risk is defined as the risk of losses deriving from the inadequacy or malfunctioning of processes, human resources and internal systems, or from external events.

Operational risk is characterised by a cause and effect, such that an adverse event is generated by one or more triggers that directly results in a financial loss; an operational loss can thus be defined as all the adverse economic effects resulting from operations, recorded on the company's accounts, and impacting the income statement.

Operational risk has the peculiar characteristic of being intrinsically linked both to the decision to undertake a given type of activity and to the performance of the business more generally.

Unlike the other risks, for which the bank, based on its propensity for risk, knowingly assumes credit or lending positions in order to achieve its desired risk/return profile, the approach to operational risks requires controls both upstream, in order to restrict their occurrence, and downstream, in order to reduce their impact. The number, extent and depth of these controls depends on the propensity for risk, i.e. the knowing acceptance of a specific level of potential losses in exchange for a certain ability to generate business and profits. In order to assess the exposure to operational risks and the effects that appropriate mitigation measures have on them, qualitative and quantitative information should be combined as appropriate.

In this context, the Internal Control System must be the main safeguard for the prevention and containment of these risks. In particular, company policies and procedures to define, identify, assess and manage operational risk exposure must be approved and implemented.

The operational risk governance framework consists of a structured set of processes, functions and resources for the identification, assessment and control of operational risks, including those arising from events characterised by low frequency and particular severity, with the aim of ensuring an effective risk prevention and mitigation action.

Elements characterising this framework, consistent with the prudential regulatory provisions, are:
- the assessment of operational risk exposure as a process closely integrated into the risk management process in all company activities;
- formalisation and assignment of responsibilities;
- the reporting system.

In addition to the provisions on capital requirements, DEPObank has activated a specific process aimed at fully analysing the operational risks to which it is exposed, identifying any areas of vulnerability and providing adequate management and control systems. The framework consists of four key elements:

- Identification;
- Measurement;
- Monitoring and Reporting; and
- Management.

Identification of operational risks involves collecting operational risk information through the coherent, coordinated treatment of all relevant sources of information; the objective is establishing a complete information base. The necessary information is internal loss data accompanied by all information relevant for management purposes and subjective assessments acquired through risk self-assessment and control processes. This information is collected on the basis of specific classification models, designed to ensure a homogeneous representation of the data. The Identification phase consists of the following processes:

- Collection of operational loss data. In this regard, DEPObank has set up a system for collecting and storing data on Operational Risks, including significant losses and related recoveries, suitable for making the management system effective. The Loss Data Collection (LDC) process involves collecting all adverse events related to any business process.
- Identification and assessment of operational risks. DEPObank has implemented a system for identifying potential losses due to operational events that, regardless of past scenarios, present a plausible probability of occurrence. The process of identifying and assessing Operational Risks is carried out in the following phases:
  - Design of new services/products, identifying the possible types of adverse events related to the initiative, their possible impact in terms of the project and/or product/service and the objectives and control and mitigation actions to be pursued;
  - Identification and assessment of the coherence of the risk profile of Major Transactions with the defined risk appetite;
  - Assessment of the operational risk profile of the processes in place: an overall assessment is carried out regularly, for the relevant operating segments, of the level of exposure to Operational Risks, through the Risk Control Self-Assessment (RCSA) process;
  - Assessment of IT risk for the identification of specific risks inherent in the ICT sphere, internal or dependent on outsourcers, and a better qualification of operational risk through the evaluation of the specific elements characteristic of the automatic processing of information.

Measurement is the risk-valuation activity aimed at quantifying the capital to be allocated for operational risk. DEPObank calculates regulatory capital for operational risks using the basic approach, taking into account the degree of compliance with the minimum qualitative and quantitative requirements defined for access to the most advanced models (standardised and advanced). In addition, for a better assessment of risk exposure, DEPObank has implemented a quantitative operational risk assessment process (OpVaR) that monitors DEPObank's operational risk calculated to the 99.9th percentile.

The risk profile **Monitoring** phase aims to define a set of risk indicators that allow any critical issues and/or anomalies to be reported through an appropriate reporting system. This indicators comprise qualitative and quantitative ones.

The **Reporting** phase aims to ensure timely and appropriate communication in support of management decisions of corporate bodies and organisational functions. Reporting includes the outcomes of the following activities:

- the identification and monitoring of loss events identified through the Loss Data Collection and Risk Control Self Assessment (LDC and RCSA) processes;
- the assessment of the operational risks to which the bank's processes are exposed (e.g. assessment of New Products/Services/Major Transactions);
- the definition of the action plans undertaken in risk management and mitigation, indicating the time horizon of the plan, the contact person responsible for managing it and any supporting operational documents;
- the trend of monitoring indicators (RAF and monitoring indicators for risk measurement and control systems).

The planning and development of control activities are subject to follow-up processes involving their entry into a "Dashboard" and the related monitoring by the control functions (Risk Management, Compliance and Audit) of all the actions envisaged for the improvement of the internal control system. The results of the monitoring are prepared on a quarterly basis and reported periodically to the Corporate Bodies, in order to provide an overview of the main problems to which the Bank is exposed and the progress of the corrective actions implemented or to be addressed, and then sent to the Bank of Italy.

The phase of **Managing** operational risk aims to continually assess the risk control and reduction strategies, deciding, on the basis of the nature and scale of the risk and in relation to the risk propensity expressed by senior managers, whether to accept it and therefore assume it, on the part of the person in charge of the process, to refuse it, and there reduce activities, to implement mitigation policies or to transfer it to third parties by way of suitable insurance policies.

A fundamental instrument for mitigating operational risk is also represented by the Business Continuity and Disaster Recovery Plan, reviewed annually in compliance with the requirements of the Supervisory Instructions on internal controls; the Bank of Italy legislation has in fact extended the concept of Business Continuity to all critical "business processes", focusing not only on the technological component, but on all the factors (human resources, logistics, essential services, etc.) that contribute to the mitigation of operational risks in the context of new crisis scenarios.

"Business continuity" includes all initiatives aimed at reducing to an acceptable level the damage resulting from accidents and catastrophes that could directly or indirectly affect the bank, while the Disaster Recovery Plan sets out the technical and organisational measures to deal with events that result in the unavailability of data processing centres and is aimed at enabling the functioning of the relevant IT procedures at alternative sites.

Finally, an additional mitigation tool, in particular with regard to unexpected risks, consists of insurance coverage, which the bank uses for certain risk areas that are inherent in the business and for cases (typically low frequency and high impact) that are not effectively mitigated by the prevention of line operational controls alone.

QUANTITATIVE INFORMATION

Operational Risk

31/12/2020		31/12/2019	
Years	**Relevant indicator**	**Years**	**Relevant indicator**
2018	136,065	2017	177,867
2019	131,576	2018	129,515
2020	119,089	2019	131,576
Average	**128,910**		**146,319**
Operational Risk	**19,336**		**21,948**

PART F - INFORMATION ON SHAREHOLDERS' EQUITY

B. Quantitative information

B.1 Equity: breakdown

Items/values	Amount 31/12/2020	Amount 31/12/2019
1. Share capital	42,557	42,557
2. Share premium	148,242	148,242
3. Reserves		
- earnings		
a) legal	20,000	20,000
b) Articles of Association		
c) treasury shares		
d) others	253,458	280,583
- others	10,848	10,848
4. Equity instruments		
5. (Treasury shares)		
6. Valuation reserves		
- Equity instruments measured at fair value through other comprehensive income		
- Hedging of equity instruments measured at fair value through other comprehensive income		
- Financial assets (other than equity instruments) measured at fair value through other comprehensive income	-749	770
- Tangible assets		
- Intangible assets		
- Hedging of foreign investments		
- Cash flow hedges		
- Hedging instruments (undesignated elements)		
- Foreign exchange differences		
- Non-current assets held for sale and disposal groups		
- Financial liabilities measured at fair value through profit or loss (changes in creditworthiness)		
- Actuarial gains (losses) relating to defined benefit plans	-1,268	-1,246
- Share of valuation reserves for equity investments measured at equity		
- Special revaluation laws	-	-
7. Profit (loss) for the financial year	-35,784	-29,166
Total	**437,304**	**472,587**

B.2 Valuation reserves for financial assets measured at fair value through profit or loss: breakdown

Assets/Values	31/12/2020		31/12/2019	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities				
2. Equity securities	1,648	-2,396	2,972	-2,202
3. Loans				
Total	**1,648**	**-2,396**	**2,972**	**-2,202**

B.3 Valuation reserves for financial assets measured at fair value through other comprehensive income: annual changes

	Debt securities	Equity securities	Loans
1. Opening balances	**-**	**770**	**-**
2. Positive changes			
2.1 Increases in fair value		2,042	-
2.2 Adjustments in value for credit risk		X	
2.3 Reclassification to income statement of negative reserves following disposal		X	
2.4 Transfers to other equity items (equity securities)			
2.3 Other changes			
3. Negative changes			
3.1 Decreases in fair value			
3.2 Adjustments in value for credit risk			
3.3 Reclassification to the income statement of positive reserves: - on disposal		X	
3.4 Transfers to other equity items (equity securities)		2,042	
3.5 Other changes		1,518	
4. Closing balances	**-**	**-748**	**-**

B.4 Valuation reserves for defined benefit plans: annual changes

The valuation reserve for defined-benefit plans refers exclusively to the post-employment benefits accrued before 1 January 2006. As there are no assets servicing the plan, the valuation reserve includes only the actuarial effect on the liability, the change in which was as follows:

	Gross actuarial effect	Income taxes	Valuation reserve
Opening balances	**-1,726**	**478**	**-1,246**
Increases in actuarial effect	-32	9	-23
Decreases in actuarial effect			-
Closing balances	**-1,758**	**487**	**-1,269**

SECTION 2 – OWN FUNDS AND REGULATORY RATIOS

2.1 Own funds

A. Qualitative information

As at 31 December 2020 the Bank's own funds have been determined in accordance with the harmonised regulations for banks and investment firms contained in Directive 2013/36/EU (CRD IV) and in Regulation (EU) 575/2013 (CRR) of 26 June 2013, which transposed into the European Union the standards set by the Basel Committee on Banking Supervision (the “Basel III framework”) and on the basis of Bank of Italy Circulars 285, 286 and 154.

Common Equity Tier 1 capital is €328,041,000. The Bank does not have additional Tier 1 or Tier 2 capital. Own Funds therefore coincide with the amount of Common Equity Tier 1 capital.

2.2 Capital adequacy

A. Qualitative information

For more details, refer to the information on own funds and capital adequacy contained in the public disclosure (“Pillar 3”).

Part G - BUSINESS COMBINATIONS OF COMPANIES OR BUSINESS UNITS

SECTION 1 - TRANSACTIONS COMPLETED DURING THE YEAR

On 20 January 2020, DEPObank acquired 100% of the share capital of the German company Cara Services GmbH. Cara Services GmbH does not have any equity investments.

The purchase of Cara Services contributed to achieving DEPObank's "2019-2023 Strategic Plan" ("DEPObank: the Italian FinTech Multispecialist"), the approval of which launched the selection of potential acquisitions able to accelerate the company's switch to a FinTech model.

The search resulted in the identification of an opportunity to enable the Bank to upgrade its technology by acquiring a company (Cara Services GmbH) that owns a next-generation technology platform capable of managing the various phases of the lending process through artificial intelligence and highly digitalised processes.

On 25 July 2019 DEPObank thus entered into an agreement with PrestaCap Holdings S.A. for the acquisition of 100% of the capital of Cara Services GmbH for €20 million.

In addition to acquiring a highly scalable innovative specialised lending platform, developed in the cloud, which uses innovative machine learning and business intelligence solutions, through this transaction the Bank also acquired a highly competent and motivated team with specialist know-how that can be used for the digitalisation of processes, including in the Bank's more traditional business areas.

The company's statement of financial position at the purchase date showed total assets of €1.3 million and equity of €0.7 million, which included a loss for the period (from 1 to 20 January 2020, closing date) totalling €0.1 million.

The following table shows the financial position of the company on the acquisition date (and on the date of the last financial statements before same).

Assets	**31/12/2019**	**20/01/2020**
Tangible assets	4	4
Intangible assets	943	943
Receivables due from banks	0	72
Receivables due from customers	387	102
Other assets	89	142
of which security deposits	*25*	*25*
of which receivables from the Treasury	*18*	*21*
of which other	*45*	*96*
Total assets	**1,423**	**1,263**

Liabilities	**31/12/2019**	**20/01/2020**
Tax liabilities	242	242
of which deferred tax liabilities	*242*	*242*
Other liabilities	439	315
of which payables to suppliers	*313*	*192*
of which payables to employees	*79*	*69*
of which other	*47*	*54*
Reserves	1,177	767
Share capital	25	25
Profit /(loss) for financial year	-460	-86
Total liabilities and equity	**1,423**	**1,263**

(Figures in thousands of euros)

The corporate events that affected the Parent Company, as described in the Report on Operations, led, among other things, to the Vesta Project being abandoned and to the strategies and purposes of holding the investee Cara Services to be reviewed, initiating a programme for its disposal (to be completed before the transfer of control of the Bank to BFF).

In the financial statements at 31 December 2020, the stake in Cara Services was therefore classified under “Non-current assets held for sale and disposal groups” pursuant to IFRS 5, the Board having determined the existence of the criteria for such a classification in its meeting held on 17 December 2020.

In 2020, Cara Services recorded revenues of €1.4 million and a loss for the year of €0.4 million, almost entirely accrued after the acquisition of the stake by DEPObank.

SECTION 2 - TRANSACTIONS AFTER THE CLOSING OF THE YEAR

There were no transactions completed after the end of 2020. The sale of the equity investment in Cara Services GmbH is expected by the end of February 2021.

SECTION 3 - RETROSPECTIVE ADJUSTMENTS

Not applicable.

Part H - TRANSACTIONS WITH RELATED PARTIES

1. Information on remuneration of executives with strategic responsibilities

The following table summarises the remuneration paid by the Bank to directors and executives with strategic responsibilities as defined in Part 2.

	31/12/2020
Directors' fees	2,421
Remuneration of other executives with strategic functions and supervisory bodies	3,692
Total	**6,113**

2. Information on related party transactions

The purpose of International Accounting Standard 24 (*Related Party Disclosures*) is to ensure that an entity's financial statements contain the disclosures necessary to highlight the possibility that its financial position and economic result may have been altered by the existence of related parties and by transactions and balances with such parties.

Based on these indications, applied to the Bank's organisational and governance structure, the following are considered related parties:

a) parties who, directly or indirectly, including through subsidiaries, fiduciaries or nominees, control, including jointly, the Bank, or hold an investment in the Bank that can exert a significant influence on it;
b) subsidiaries or companies under joint control of the entities referred to above;
c) subsidiaries, affiliated companies or companies subject to joint control by the Bank;
d) executives with strategic responsibilities of the Bank and its parent and its subsidiaries, subject to joint control or significant influence;
e) the close relatives of the natural persons included in points a) and d) above;
f) supplementary pension funds set up for employees of the Bank or its related entities.

The effects of the transactions with related parties as defined above are shown in the following summary table.

(Figures in thousands of euros)

Transactions with related parties	**Total item**	**Subsidiaries**	**Other related parties**	**Directives, executives and control bodies**
40. Financial assets measured at amortised cost	5,200,596	-		-
a) receivables due from banks	1,717,913	1,322		-
b) receivables due from customers	3,482,683	-		-
120. Other assets	264,408		15,544	
10. Financial liabilities measured at amortised cost	9,899,701	-		-
a) due to banks	916,539	-		
b) due to customers	8,983,162		490,345	
80. Other liabilities	274,874		-	
10. Interest income and similar income	51,240	-	-	-
40. Fee and commission income	111,608		-	-
160. Administrative costs	-109,244			-6,113
200. Other operating income/expenses	9,323		-	-
Commitments and guarantees	1,562,198		72	

It should be noted that these relationships are governed by specific contractual agreements which – without prejudice to the objective of optimising synergies, economies of scale and scope and using centres of excellence – refer to objective, constant parameters over time based on criteria of transparency and substantial fairness. The quantification of fees for the services provided is defined and formalised according to parameters that take into account the actual use by each end user.

Such relations with related parties, which are part of normal banking activity, are normally at arm's length.

PART I - PAYMENT AGREEMENTS BASED ON OWN SHARES

There were no payment arrangements based on own shares.

PART M - INFORMATION ON LEASES

SECTION 1 - LESSEE

Qualitative information

Refer to the section "Other aspects" of Part A - Accounting policies of these Notes.

Quantitative information

Refer to:
- information on lease rights of use contained in Part B, Assets;
- information on lease liabilities contained in Part B, Liabilities;
- information on interest expense on lease liabilities contained in Part C;
- information on the Bank's choices contained in Part A of the Notes.

DEPObank
BANCA DEPOSITARIA ITALIANA

Report of the Board of Statutory Auditors

DEPObank S.p.A.

* * *

REPORT OF THE BOARD OF STATUTORY AUDITORS

TO THE SHAREHOLDERS' MEETING

(In accordance with Article 2429 paragraph 2 of the Italian Civil Code)

* * *

During 2020, the Board of Statutory Auditors carried out its supervisory duties in accordance with current laws and regulations. The activities of the Board of Statutory Auditors were carried out in coordination with the independent auditors (Deloitte & Touche S.p.A., hereinafter also "Deloitte").

As a preliminary point, it should be noted that the Board of Statutory Auditors in office at the date of this report is composed of Gianluigi Fiorendi (Chairman), Lorenzo Banfi and Paolo Lazzati, Statutory Auditors. The Board of Statutory Auditors thus composed was appointed by the Shareholders' Meeting on 26 April 2018 and assigned the functions of the Supervisory Body pursuant to Italian Legislative Decree no. 231/2001 on 27 April 2018.

* * *

Establishment of the Banking Group and strategic evolution

The beginning of the year saw the establishment of the DEPObank Banking Group in January 2020 following DEPObank's acquisition of full control of the German company Cara Services GmbH, which owns a next-generation specialised lending platform that will enable the Bank to upgrade its technology in the implementation of the "2019-2023 Strategic Plan" ("*DEPObank: the Italian FinTech Multispecialist*").

However, in subsequent months the corporate events that affected the Bank led to the abandonment of the plan to create a new SME Lending Business Unit (the so-called "Vesta Project"), cornerstone of the new asset-side strategy envisaged in the Strategic Plan.

The transaction involving the merger by incorporation of DEPObank into Banca Farmafactoring S.p.A. ("BFF") was announced to the market on 13 May 2020, as part of a wider project involving the prior (although virtually simultaneous) transfer of control of the Bank from the parent company Equinova UK HoldCo ("Equinova") to the acquiring company, a transfer scheduled to take place on 1 March 2021.

As more extensively detailed below, the operation offers significant opportunities for value creation as BFF and DEPObank have solid and complementary business models that will continue to be developed in a synergistic and integrated manner.

With a view to integration with BFF, DEPObank's board of directors initiated a thorough review of the purposes for holding the investee Cara Services, undertaking a programme for its disposal.

In the financial statements at 31 December 2020, the stake in Cara Services was therefore classified under "Non-current assets held for sale" pursuant to IFRS 5, the Board having determined the existence of the criteria for such a classification in its meeting held on 17 December 2020.

Against this background, made all the more complex by the spread of the COVID-19 pandemic, the activities of the Bank's two traditional Business Units (Securities Services and Banking Payments) were managed normally, producing results that, although lower than the Plan's targets, remain satisfactory.

Nevertheless, the Parent Company's financial statements show a loss for the year of €35.8 million, strongly influenced by the economic impacts deriving in particular from the sale/termination of certain assets/contracts, related to the commitments assumed by the controlling shareholder and by the Bank for the implementation of the aforementioned merger with BFF.

At the level of the consolidated financial statements, the Banking Group saw a loss for the year of €35.9 million due to a €0.2 million decrease in the value of the associate Unione Fiduciaria's shareholders' equity.

Transactions of particular relevance - Merger with Banca Farmafactoring

As anticipated, the corporate events that affected the Bank, resulting from the assessments of the controlling shareholder regarding capitalising on its stake, led to the abandonment of the plan to create a new SME Lending Business Unit.

The Board of Directors of DEPObank, to the extent of its remit and for the reasons outlined below, has approved the proposed integration with BFF, deeming it suitable for ensuring an adequate outlook for the Bank's traditional Business Units while achieving the strategic development already identified and necessary to ensure a solid outlook of stability and growth, adequately balancing the needs of the various stakeholders who, together with the controlling shareholder, engage with the Bank.

This led to the Extraordinary Shareholders' Meeting held on 27 January 2021 resolving on the merger by incorporation of DEPObank into Banca Farmafactoring S.p.A. (the "Merger") as part of a structured transaction (the "Transaction"), of which the Merger is an essential component.

Moving on to outline the structure of the Transaction in more detail, it is governed by the Sale Purchase and Merger Agreement (hereinafter "SPMA") signed on 13 May 2020 by BFF, Equinova and (limited to certain contractual provisions) DEPObank, and envisages:

(i) BFF's acquisition of a majority of the DEPObank shares owned by the current controlling shareholder, Equinova, and BFF's acquisition of all the DEPObank shares owned by minority shareholders (where these have not previously been acquired by Equinova) (collectively, the "Acquisition"), and
(ii) immediately after the Acquisition, the Merger.

In addition to the aforementioned divestment of all assets/contracts related to the Vesta Project (including participation in Cara Services GmbH), the Transaction included the obligation to sell part of the securities portfolio held by DEPObank to BFF on the SPMA signing date and at market prices as a way of mitigating the risk of the portfolio of government securities held by DEPObank and classified as held to collect.

With regard to the strategic rationale underlying the Transaction, it allows following up on DEPObank's repositioning and, despite interrupting the development of the SME Specialised Lending initiative, implementing a complete asset-side strategy that makes the most of the excess liquidity generated by the Securities Services and Digital Payments business lines, thus ensuring a more solid growth outlook for the aforementioned business lines.

It also completes the process of capitalising on the interests held by shareholders in the Bank's capital, initiated in 2015 with the sale (total or partial) of the stakes held at the time by shareholder banks to the companies belonging to the fund consortium managed by Advent International Corporation, Bain Capital Investors LLC and Clessidra SGR S.p.A. ("ABC Funds") and continued with the listing, in April 2019, of Nexi S.p.A. and the group belonging to it on the Mercato Telematico Azionario organised and managed by Borsa Italiana S.p.A.

As a result of the Transaction DEPObank will have the added benefit of joining a solid, listed group with a long track record of profitability, characterised by a low risk profile (given that its exposure is almost entirely to the European public sector), with high standards of operational efficiency and a leader in niche sectors poorly served by traditional banks (existing customers of DEPObank).

Furthermore, the Transaction will strengthen BFF's strategic positioning as an independent leader in specialty finance, making it the largest operator in Italy, expanding both the business segments in niche markets where DEPObank is a leader, and the funding base, thus creating value for all stakeholders.

As a result of the Merger, the acquiring company, BFF, will change its corporate name to "BFF Bank S.p.A." and the related banking group resulting from the Merger will be renamed "BFF Banking Group".

Selection of the new core banking provider

September 2019 saw the launch of the IT migration project aimed at replacing the current core banking IT solution and the related Facility Management environment, moving from the current provider Creval SpA to the new one CSE Consorzio Servizi Bancari Soc. Cons. a r.l.

In 2020, the project underwent an initial analysis phase aimed at correctly defining methods for migrating to the target solution as well as identifying the adjustments necessary to manage the peculiar characteristics of the Bank's business and applications.

In May, following the signing of the SPMA with BFF, the project activities were suspended pending the definition of the new project scope and the confirmation of the choice of the target solution for the combined entity.

Subsequently, in July 2020, the project activities were resumed with CSE and a Letter of Intent was signed defining the new project scope and new release timings, which envisage the end of the project in October 2021 as regards the management of the current DEPObank business, and in November 2021 as regards the IT convergence on the CSE solution of all the activities of the combined entity.

In October 2020, the parties finally signed a five-year contract relating to the migration project, which governs both the project activities and related commitments and the subsequent running period, with the relative SLAs and expected service levels.

The project, which is now under way, is in line with the agreed schedule and involves all Bank structures and many suppliers given that the information system is divided into specialised modules, most of which are outsourced to technological outsourcers.

Organisational structure of DEPObank

Steps were taken during the year to simplify the Bank's organisational structure.

Specifically, the following managerial positions were removed: the Deputy General Manager and those who reported directly thereto, namely the Chief Lending Officer (CLO) and Chief Operating Officer (COO), who were involved in particular as part of the plan to diversify and expand DEPObank's business by developing SME Lending. The functions reporting directly to these managers have been moved directly to the CEO's staff.

In addition, some fine-tuning of the second- and third-level organisational structures was carried out with a view to continually improving operational efficiency.

Notwithstanding the issues created by the Covid-19 emergency, extensive use of flexible working practices meant that the Bank could operate without interruptions or serious problems. Monitoring has revealed that, excluding senior managers, around 85%-90% of employees have engaged in remote working.

The main technical/organisational measures adopted include:
- activation of an extraordinary crisis procedure, including the establishment of the Crisis Committee;
- monitoring of remote staff and those in the office;
- analysis of processes and procedures for remote operational management that could ensure the continuity of services while minimising the associated risks;
- internal updates on the measures taken and the conduct required.

In the field of cyber security, a series of activities were carried out to mitigate cyber risk and comply with current regulations.

In order to enable implementation of the multiple activities aimed at the merger with BFF, a project structure has been outlined that involves all the main internal functions.

The project was divided into two distinct functional components at closing: the first, the Closing Agenda, includes the activities strictly pertaining to the closing and related to the obligations of DEPObank and BFF; the second, the Integration & IT Migration Plan, refers instead to the activities of the merger areas conducted jointly with BFF and related to IT aspects and to the individual functions of the Bank.

The analyses and implementations related to the project that are ongoing at the date of this Report are managed by 7 separate working groups.

COVID-19 emergency

During the challenging COVID-19 environment, the Bank prioritised the health of its employees and support for its customers.

At the date of writing of this report and as previously noted, the Bank in fact defined and adopted a series of technical and organisational measures aimed at protecting the safety of personnel and business continuity, while minimising the impacts on service levels provided, in compliance with the measures by the competent authorities.

In light of the above, to date the Bank's operations are guaranteed without critical situations and there are no situations of operational tension.

There are currently no liquidity stress situations, no significant increases in credit risk, and no significant increases in operating costs related to the pandemic.

The potential effects of the pandemic on the Bank's financial position are constantly monitored.

Transactions with related and connected parties

The Board of Directors has adequately reported and illustrated the transactions with the related parties indicated, in accordance with IAS 24, in the Report on Operations and in the Notes.

In order to minimise the risk that the proximity of certain parties (so-called "related parties") to the decision-making centres of the company may compromise the objectivity and impartiality of company decisions, with possible distortions in the resource allocation process, exposure of the company to inadequately measured or supervised risks, potential damage to the company and its stakeholders, DEPObank has adopted a Regulation on Transactions with Related Parties in compliance with the provisions of the Bank of Italy Circular no. 263 of 2006 ("New prudential supervisory provisions for banks"). Furthermore, with a resolution dated 2 July 2018 the Board of Directors appointed a Committee (the Committee for Transactions with Related Parties) which these transactions are submitted to.

* * *

Activities of the Board of Statutory Auditors during the year

- The Board of Statutory Auditors supervised compliance with laws, regulations and the Articles of Association.
- The draft financial statements for the year ending 31 December 2020 complete with the Notes to the Financial Statements and accompanied by the Directors' Report on Operations, and the draft consolidated financial statements complete with the Notes to the Financial Statements, were approved by the Board of Directors on 17 February 2021 and made available to the Board of Statutory Auditors.
- In carrying out its control activities, the Board of Statutory Auditors complied with the rules laid down by Italian Legislative Decree no. 39/2010, Bank of Italy Circular no. 285/2013, Bank of Italy Communication no. 264010 of 4 March 2008 and subsequent updates, the Joint Bank of Italy, Consob and Isvap (now Ivass) Documents no. 2 of 6 February 2009 and no. 4 of 3 March 2010, the contents of Art. 2429, paragraph 2, of the Italian Civil Code, as well as the principles of conduct recommended by the National Council of Accounting Professionals.
- To perform the aforementioned supervisory functions, the Board of Statutory Auditors acquired information through both meetings with the heads of the competent corporate structures, especially control structures, and participation in meetings of the Board of Directors, the Risk Committee and the Committee for Transactions with Related Parties.
- In 2020 the Board of Statutory Auditors attended all the meetings of the Board of Directors and met with the Deputy Chairman, the Deputy General Manager, the Chief Financial Officer, the head of the Human Resources & Organisation Department and the heads of the Depositary Bank & Controls and Securities Services Operations BUs to discuss specific issues. On these occasions, it received adequate information on the activities carried out and on the company transactions with the greatest impact on financial performance and financial position. It may reasonably be assured that the actions decided and carried out comply with the law and the Articles of Association and are not manifestly imprudent, risky, in conflict of interest, in contrast with the decisions taken by the Shareholders' Meeting, or such as to compromise the integrity of company assets.
- The Board of Statutory Auditors supervised, to the extent of its competence, the adequacy of the organisational structure and compliance with the principles of sound administration. It did so through the collection of information from the managers of the organisational functions and meetings with the independent auditors, for the mutual exchange of relevant data and information. In this regard, there are no particular findings to report.
- The adequacy of the overall system of internal controls was verified with frequent meetings with the heads of the Audit, Risk Management and Compliance & AML departments, with the examination of the reports periodically submitted to the Board of Statutory Auditors, the Board of Directors and the Risk Committee (Quarterly Dashboard, reports on the progress of scheduled activities and annual activity plans, etc.).

In particular:

- at its meeting on 6 February 2020 the Board of Directors approved the Group Regulation and the update of the Parent Company Regulation;
- at its meeting on 6 February 2020 the Board of Directors approved the update of the policy for managing conflicts of interest and the Corporate Governance Code;
- at its meeting on 19 March 2020, the Board of Directors approved the Annual Self-Assessment Report on the continued fitness requirements of the Depositary Bank and the Report on the manner in which investment and ancillary services and activities are carried out;
- at its meeting on 6 April 2020 the Board of Directors took note of the summaries of the activities carried out by the Control Functions in 2019 and the business plans for 2020 (2020-2022 in the case of the Audit Service), the summary of the activities carried out by the DPO in 2019 and the business plan for 2020, the report on the internal whistleblowing system referring to the financial year 2019, the summary report on the IT risk situation in 2018, the changes to the Non-Conformity Risk Policy, the changes made to the Anti-Money Laundering and Anti-Terrorism Policy and the adoption of the Privacy Policy;
- at its meeting on 7 May 2020 the Board of Directors approved the Summary Report on the 2019 cyber risk situation;
- at its meeting of 24 June 2020, the Board of Directors approved the new RAF framework, the ICAAP/ILAAP Report as at 31 December 2019, the 2020 Recovery Plan and the updated version of the Regulation for Transactions with Related Parties. It also took note of the Annual Report on important operational functions for the year 2019;
- at its meeting on 6 July 2020 the Board of Directors approved the new organisational structure;
- at its meeting on 4 August 2020 the Board of Directors took note of the descriptive document pursuant to the Bank of Italy Order dated 5 December 2019;
- at its meeting on 17 September 2020 the Board of Directors approved the Report on the results of the analysis of operational and security risks related to payment services;
- at its meeting on 15 October 2020 the Board of Directors approved the updated version of the 2020 Business Plans for Compliance & AML and Audit services and the descriptive document pursuant to the Bank of Italy Order dated 5 December 2019;
- at its meeting on 5 November 2020 the Board of Directors approved some changes to the Operational Risk Management Policy;
- at its meeting on 17 December 2020 the Board of Directors approved the amendments to the Anti-Money Laundering and Anti-Terrorism Policy. It also approved the update of the Business Continuity Plan and took note of the results of the assessment relating to the SWIFT 2020 Security Certification and the completion of the Bank of Italy Target2 2020 Security Questionnaire.

• The Board of Statutory Auditors monitored the proper performance of anti-money laundering controls by the company.

- The Board of Statutory Auditors monitored the implementation by the company of the corrective actions and interventions identified and suggested by the Audit Service.
- The Supervisory Body, established in accordance with Italian Legislative Decree no. 231 of 8 June 2001 and whose functions have been consolidated into the Board of Statutory Auditors, continued its activity without finding anomalies or objectionable facts.
- The adequacy of the administrative-accounting system and its reliability in correctly representing operating events was verified. This was done by acquiring information from the managers of the respective functions, examining corporate documents and analysing the results of the work done by the independent auditors, as well as by supervising the activities of those responsible for internal control.
- The Board of Statutory Auditors held regular meetings with the independent auditors, exchanging information regarding the company's auditing activities. No significant issues and/or criticalities emerged in relation to this activity.
- In addition to the audit assignments of the annual and half-yearly accounts, the auditing firm Deloitte & Touche S.p.A. and other entities belonging to the auditing firm's network in 2020 were assigned the following tasks separate from the statutory audit:
  - performing the work necessary to issue the report required by article 23, paragraph 7 of the Bank of Italy Regulation of 5 December 2019 implementing articles 4-undecies and 6, paragraph 1, letters b) and c-bis) of Italian Legislative Decree no. 58/1998 for each of the financial years of the 2019-2027 period (a service unrelated to audits but that must be done by the auditing firm);
  - voluntary audit of the IFRS financial statements as at 31 December 2020 of Cara Services GmbH;
  - carrying out certain agreed procedures on the input data for price calculations as defined in Annex 3.2 of the "Sale and Purchase and Merger Agreement" and related Annexes signed on 13 May 2020 by DEPObank, its controlling shareholder Equinova and Banca Farmafactoring S.p.A.
- The 2020 report on operations complies with applicable regulations and is consistent with the resolutions of the governing body and with the results of the financial statements; as already mentioned, it contains adequate information on the activity during the year and on transactions with related parties. The notes to Part E contain an indication of the risks and related hedging policies, as recommended by the joint Bank of Italy, Consob and Isvap documents no. 2 of 6 February 2009 and no. 4 of 3 March 2010.
- The financial statements have been prepared according to the structure and schedules imposed by current regulations. In particular, the financial statements for the year ended 31 December 2020, in compliance with the provisions of Regulation (EC) No 1606 of 19 July 2002, have been prepared in compliance with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), as endorsed by the European Commission and transposed into Italian law by Legislative Decree no. 38/2005.

  The IASs/IFRSs in effect from 31 December 2018 and the instructions for preparing financial statements issued by the Bank of Italy in its Order of 22 December 2005, concurrent Circular No. 262 and subsequent updates have been adopted in preparing the financial statements. There were no derogations from the IASs/IFRSs.

The independent auditors issued their financial statements and consolidated financial statements on 26 February 2021. With regard to the financial statements for the year, the opinion expressed is that they are in full compliance as they provide a truthful and correct representation of the Bank's assets and financial situation at 31 December 2020, of the profit and loss and of the cash flows for the year ended on that date in compliance with the International Financial Reporting Standards adopted by the European Union as well as with the measures issued to implement article 43 of Italian Legislative Decree no. 136/15. They also express an unqualified opinion of the Report Operations.

- In accordance with Article 17 of Italian Legislative Decree no. 39/2010, the independent auditors also declare there are no causes that could compromise their independence.
- During the year, the Board of Statutory Auditors issued the opinions required by law, supervisory regulations and the Articles of Association. Among others, the following opinions should be noted:
  - the opinion dated 6 February on the granting of powers to the CEO;
  - the opinion dated 06 April 2020 on the variable remuneration of the Chief Executive Officer for 2019;
  - the opinion dated 06 April 2020 on the variable remuneration of the Chief Executive Officer for 2020;
  - the opinion dated 6 April 2020 on the variable remuneration of the Deputy Chairman for 2019;
  - the opinion dated 6 April 2020 on the variable remuneration of the Deputy Chairman for 2020;
  - the opinion dated 6 April 2020 on the variable remuneration to be paid to the heads of the Audit, Compliance & AML and Risk Management functions for 2019;
  - the opinion dated 11 May 2020 on Deloitte's proposal for the provision of non-auditing services other than those prohibited under article 5 of Regulation (EU) no. 537/2014, paragraph 1;
  - the opinion dated 27 May 2020 on the theoretical profile of the candidate for the position of Chief Executive Officer;
  - the opinion dated 22 June 2020 on some amendments to the Regulation for Transactions with Related Parties;
  - the opinion dated 22 June 2020 on the ICAAP/ILAAP Report as at 31 December 2019;
  - the opinion dated 22 June 2020 on the report on controls carried out on important operational functions;
  - the opinion dated 6 July 2020 on the proposed disbursement to the Chairman of the End-of-Service Bonus and stipulation of a Non-Competition Agreement;
  - the opinion dated 6 July 2020 on the appointment of Mr. Paolo Testi as Director of the Board of Directors pursuant to article 2386 of the Italian Civil Code;
  - the opinion dated 6 July 2020 on the determination of the remuneration of the new Chief Executive Officer and General Manager pursuant to article 2389 of the Italian Civil Code;

- the opinion dated 20 November 2020 on Deloitte's request to supplement its fees in consideration of the new auditing activities related to the Company's acquisition of a controlling interest in Cara Services GmbH;
- the opinion dated 30 November 2020 on the appointment of the new head of the Compliance & AML service, as well as the anti-money laundering company manager and head of suspicious transaction reporting (SOS);
- the opinion dated 17 December 2020 on the appointment of the new Chief Executive Officer;
- the opinion dated 17 December 2020 on the confirmation of the total emolument to the Chief Executive Officer.

- The Board of Statutory Auditors did not receive any complaints pursuant to Art. 2408 of the Italian Civil Code or petition.
- The supervisory activities of the Board of Statutory Auditors were detailed in the minutes of the 8 meetings held during 2020 (of which 1 joint with the Committee for Transactions with Related Parties and with the Risk Committee). The Board of Statutory Auditors also attended 18 meetings of the Board of Directors and held 4 meetings as the Supervisory Body pursuant to Italian Legislative Decree no. 231/2001. It is generally acknowledged that the supporting documentation for the items on the agenda was exhaustive and was sent well in advance.
- In the course of the supervisory activity carried out, and based on the information obtained from the independent auditors, no omissions, objectionable facts or irregularities were detected, nor, in any case, were there any material facts to be reported to the supervisory authorities or mentioned in this report.

* * *

Supervisory activities pursuant to Art. 19 of Italian Legislative Decree no. 39/2010

Pursuant to Art. 19 of Italian Legislative Decree no. 39/2010, the Board of Statutory Auditors is responsible for: monitoring the financial reporting process; overseeing the effectiveness of the company's internal quality control and risk management systems and of internal auditing; monitoring the statutory auditing of the financial statements; and verifying and monitoring the independence of the independent auditors.

Although the above report in part already provides the information referred to in the aforementioned Art. 19, it is specified that the supervisory activity related to the financial reporting process, the system of internal controls and risk management, the statutory audit activity and the independence of the auditor did not reveal any further elements to be reported.

* * *

Proposal to the Shareholders' Meeting

Financial statements as at 31 December 2020

In view of the results of the activities carried out by the body responsible for auditing the accounting and the results contained in the reports issued on 26 February 2021, the Board of Statutory Auditors expresses a favourable opinion of the approval of the financial statements at 31 December 2020, which closed with a loss for the year of €35,784,266, and of the proposal to cover the loss made by the Directors.

Shareholders,

With the approval of these Financial Statements the Board of Statutory Auditors concludes its three-year term of office and therefore thanks you for the trust you have placed in it.

Milan, 01 March 2021

The Board of Statutory Auditors

Gianluigi Fiorendi, Chairman
Lorenzo Banfi
Paolo Lazzati

FOR THE BOARD OF STATUTORY AUDITORS
THE CHAIRMAN

DEPObank
BANCA DEPOSITARIA ITALIANA

Report of the Independent Auditors on the financial statements

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INDEPENDENT AUDITOR'S REPORT
PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010
AND ARTICLE 10 OF THE EU REGULATION 537/2014

To the Shareholders of
DEPObank S.p.A.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of DEPObank S.p.A. (the "Bank"), which comprise the balance sheet as at December 31, 2020, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at December 31, 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 43 of Italian Legislative Decree no. 136/15.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Accounting effects resulting from the signing of the “Sale and Purchase and Merger Agreement”	
Description of the key audit matter	On May 13, 2020, a “Sale and Purchase and Merger Agreement” (hereinafter “SPMA”) was signed between Banca Farmafactoring S.p.A. (“BFF”) and the actual controlling shareholder of the Bank, Equinova UK Holding Ltd (“Equinova”), as well as, limited to some contractual provisions, DEPObank S.p.A.. The SPMA, in brief, provides and regulates, subject to the realization of certain conditions upon closing, (i) the acquisition by BFF of the control of DEPObank (the”acquisition”) and (ii) immediately after the acquisition, the merger by incorporation of DEPObank into BFF. The closing of the transaction is expected by the end of the first quarter 2021. The SPMA includes, among other things: • as a risk mitigation mechanism on the portfolio of government bonds held by DEPObank, the obligation to sell to BFF of nominal Euro 770.5 million of the bond “CCT-EU TV Eur6M+0.95% AP25 EUR” (“CCTS Float 04/15/25”); the interruption of the SME Specialized Lending Development project (so-called “Vesta project”); and as further conditions enabling the closing of the acquisition, the disposal of all the assets/contracts related to it, among which the following ones: - the sale of the entire holding held in Cara Services GmbH; - the sale of the quota of the loan granted in pool to Prelios S.p.A.; - the *clean early termination* of some employees; • the sending of a notice of termination – in the first date available under the corresponding contracts – of all commercial agreements relating to the Vesta project, including the lease of a portion of the Milan office. In the Board of Directors’ Report on Operations – paragraph “Merger with Banca Farmafactoring” and in the notes to the financial statements - part A – Accounting policies, Paragraph “Accounting effects deriving from the signing of the "Sale and Purchase and Merger Agreement” with Banca Farmafactoring S.p.A. and Equinova UK HoldCo Ltd on 13 May 2020” the information on the above-described aspects and the related accounting effects is given. Considering the structure and complexity of the impact on the balance sheet and income statements resulting from the terms and conditions of the abovementioned Agreement and the relevance of the amounts, we have considered the accounting effects of the signing of the “Sale and Purchase and Merger Agreement” as a key audit matter for the of the Financial Statement of the Bank at December 31, 2020.

Audit procedures performed	The main procedures carried out as a part of our audit work have included the following: • obtaining and analyzing the "Sale and Purchase and Merger Agreement"; • analysis and understanding, with discussion with the Bank's management too, of the accounting effects related to the provision of the SPMA; • verification of the application of the International Accounting Standards for accounting records relating to the provisions of the SPMA; • verification on a sample basis of the consequent accounting observations made by the Bank; • analysis of subsequent events occurred after the reference date of the financial statements; • verification of the completeness and compliance of the disclosure provided by the Bank in the financial statements.
Impairment test of goodwill allocated to the CGU "Banking Payments"	
Description of the key audit matter	The Bank has recorded in the intangible assets of the Financial Statements at December 31, 2020 a goodwill of Euro 81 million allocated to *the Cash generating Unit* (CGU) "Banking Payments". According with IAS 36 – "Impairment of assets", goodwill is subjected to an impairment test at least once a year, by comparing it with the recoverable amount of the CGU. For the purposes of the impairment test, the recoverable amount used by the Board of Directors of DEPObank S.p.A. is the value in use. The impairment test was carried out on the basis of the CGU's economic and financial expectations considered in the strategic plan 2020-2023 (the "Plan") approved by the Bank's Board of Directors on February 21, 2020, taking into account, inter alia: • the exclusion of the expected impacts on the Plan from *the assets side strategy* related to the "Vesta project"; • the results of the first year of the plan, with special reference to the impacts related to the Covid-19 pandemic and the SPMA subscription on May 13, 2020; • the projections underlying the 2021 Budget approved by the Board of Directors of the Bank on December 17, 2020 and of the related medium-term economic and financial projections prepared taking into consideration the particular macro-economic context related to the emergency connected with the Covid-19 pandemic.

	The Value in Use of the CGU has been determined by applying the Dividend Discount Model (DDM) methodology in the Excess Capital version, discounting the underlying projections at a rate considered adequate and representative of the investment. Based on the results of such process, the Bank's directors did not determine the need to recognize any write-down of the goodwill allocated to Banking Payments CGU. The notes to the financial statements – Part A – Accounting Policies; Part B – Information on the balance sheet, Section 9 of Assets – provide the disclosures on the aspects mentioned above. Considering the amount of the goodwill recorded in the financial statements, the subjectivity of the estimates relating to the determination of the expected cash flows, which are even relevant because the macro-economic context related to the Covid-19 pandemic, and the key assumptions of the model used for the impairment test, we considered that the impairment test of the goodwill allocated to the CGU "Banking Payments" as a key audit matter for the Financial Statement of the Bank at December 31, 2020.
Audit procedures performed	The main procedures carried out as part of our audit work, also with the support of experts belonging to Deloitte network, have included the following: • identification and understanding of key controls put in place by the Bank over the impairment testing process; • obtaining an understanding of the methods and assumptions adopted by the Bank to carry out the impairment test; • analysis of the reasonableness of the main assumptions adopted by the Bank to estimate cash flow forecasts, the definition of key variables, also by obtaining information from the Bank and comparisons with publicly available information taking into account the uncertainties connected with the current macro-economic context resulting from the Covid-19 pandemic; • analysis of actual figures compared with the original plans to assess the nature of the variances and the reliability of estimation of the expected cash flows; • verification of the calculation accuracy of the models used to determine the recoverable amount; • review of the sensitivity analysis prepared by the Bank; • analysis of subsequent events occurred after the reference date of the financial statements;

- verification of the completeness and compliance of the disclosure provided by the Bank with respect to the requirements of IAS 36 "Impairment of assets" and of the notices issued by the supervisory authorities in the context of the emergency related to the Covid-19 pandemic.

Responsibilities of the Directors and the Board of Statutory Auditors for the Financial Statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 43 of Italian Legislative Decree no. 136/15 and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Bank or for the termination of the operations or have no realistic alternative to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of DEPObank S.p.A. has appointed us on April 29, 2019 as auditors of the Bank for the years from December 31, 2019 to December 31, 2027.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Bank in conducting the audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14, paragraph 2 (e), of Legislative Decree 39/10

The Directors of DEPObank S.p.A. are responsible for the preparation of the report on operations of DEPObank S.p.A. as at December 31, 2020, including its consistency with the related financial statements and its compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations with the financial statements of DEPObank S.p.A. as at December 31, 2020 and on its compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations is consistent with the financial statements of DEPObank S.p.A. as at December 31, 2020 and is prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the entity and of the related context acquired during the audit, we have nothing to report.

DELOITTE & TOUCHE S.p.A.

Signed by
Antonio Zecca
Partner

Milan, Italy
February 26, 2021

This report has been translated into the English language solely for the convenience of international readers.

DEPObank

BANCA DEPOSITARIA ITALIANA

Consolidated Financial Statements at 31 December 2020

Consolidated Balance Sheet

(Figures in thousands of euros)

	ASSETS		31/12/2020
10.	**Cash and cash equivalents**		**4,920,953**
20.	**Financial assets measured at fair value through profit or loss**		**35,179**
	a) financial assets held for trading	*1,773*	
	c) other financial assets mandatorily measured at fair value	*33,406*	
30.	**Financial assets measured at fair value through other comprehensive income**		**3,298**
40.	**Financial assets measured at amortised cost**		**5,199,274**
	a) Receivables due from banks	*1,717,913*	
	b) Receivables due from customers	*3,481,361*	
70.	**Equity investments**		**10,108**
90.	**Tangible assets**		**22,021**
100.	**Intangible assets**		**103,675**
	of which: goodwill	81,017	
110.	**Tax assets**		**75,695**
	a) current	*40,469*	
	b) deferred	*35,226*	
120.	**Non-current assets and asset groups held for disposal**		**22,402**
130.	**Other assets**		**264,409**
	Total assets		**10,657,014**

The DEPObank Banking Group was created on 20 January 2020, following the acquisition of Cara Services GmbH by DEPObank SpA. There are therefore no comparative amounts in the tables referring to the previous year.

(Figures in thousands of euros)

LIABILITIES		31/12/2020	
10.	**Financial liabilities measured at amortised cost**		**9,899,701**
	a) Payables due to banks	*916,539*	
	b) Payables due to customers	*8,983,162*	
20.	**Financial liabilities held for trading**		**4,039**
60.	**Tax liabilities**		**5,128**
	b) deferred	*5,128*	
70.	**Liabilities associated with disposal groups**		**571**
80.	**Other liabilities**		**274,873**
90.	**Employee severance pay**		**3,167**
100.	**Provisions for risks and charges**		**30,688**
	a) commitments and guarantees given	*1*	
	b) post-employment benefits and similar obligations	*296*	
	c) other allowances for risks and charges	*30,391*	
120.	**Valuation reserves**		**-2,017**
150.	**Reserves**		**286,008**
160.	**Share premium**		**148,242**
170.	**Share capital**		**42,557**
190.	**Equity attributable to minority interests (+/-)**		**-**
200.	**Profit (loss) for financial year (+/-)**		**-35,943**
	Total liabilities		**10,657,014**

The DEPObank Banking Group was created on 20 January 2020, following the acquisition of Cara Services GmbH by DEPObank SpA. There are therefore no comparative amounts in the tables referring to the previous year.

Consolidated Income Statement

(Figures in thousands of euros)

INCOME STATEMENT		31/12/2020	
10.	Interest income and similar income		51,213
20.	Interest expenses and similar charges		-16,227
30.	**Net interest income**		**34,986**
40.	Fee and commission income		111,608
50.	Fee and commission expense		-30,055
60.	**Net fee and commission income**		**81,553**
70.	Dividends and similar income		375
80.	Profits (losses) on trading		5,761
100.	Profits (losses) on disposal or repurchase of:		-36,382
	a) Financial assets measured at amortised cost	-36,382	
110.	**Profits (losses) on financial assets and liabilities measured at fair value through profit or loss:**		**1,141**
	b) Other financial assets subject to mandatory fair value measurement:	1,141	
120.	**Net interest and other banking income**		**87,434**
130.	Net write-downs/write-backs for impairment of:		1,828
	a) Financial assets measured at amortised cost	1,828	
150.	**Net result from banking activities**		**89,262**
180.	**Profits (losses) of banking and insurance management**		**89,262**
190.	Administrative expenses:		-110,786
	a) personnel expenses	-34,936	
	b) other administrative expenses	-75,850	
200.	Net provisions for risks and charges		-8,228
	a) commitments and guarantees given	6	
	b) other net provisions	-8,234	
210.	Net value adjustments to tangible assets		-2,924
220.	Net value adjustments to intangible assets		-10,915
230.	Other operating income/expenses		10,725
240.	**Operating expenses**		**-122,128**
250.	Profits (Losses) on equity investments		-159
290.	**Profit (Loss) from continuing operations before taxes**		**-33,025**
300.	Income taxes for the financial year on continuing operations		10,804
310.	**Profit (Loss) from continuing operations after taxes**		**-22,221**
320.	Profit (Loss) from discontinued operations after taxes		-13,722
330.	**Profit (Loss) for the financial year**		**-35,943**
340.	Profit (Loss) for the financial year attributable to minority interests		-
350.	**Profit (Loss) for the financial year attributable to the Parent Company**		**-35,943**

The DEPObank Banking Group was created on 20 January 2020, following the acquisition of Cara Services GmbH by DEPObank SpA. There are therefore no comparative amounts in the tables referring to the previous year.

Statement of the consolidated comprehensive income

(Figures in thousands of Euros)

	Items	2020
10.	**Profit (Loss) for the financial year**	-35,943
	Other comprehensive income, net of taxes, without reclassification to the income statement	
20.	Equity instruments measured at fair value through other comprehensive income	382
70.	Defined-benefit plans	-23
170	**Total other comprehensive income, net of taxes**	**359**
180	**Comprehensive income (Item 10 + 170)**	**-35,584**
190.	Consolidated comprehensive income attributable to minority interests	-
200.	**Consolidated comprehensive income attributable to the Parent Company**	**-35,584**

The DEPObank Banking Group was created on 20 January 2020, following the acquisition of Cara Services GmbH by DEPObank SpA. There are therefore no comparative amounts in the tables referring to the previous year.

Statement of changes in consolidated shareholders' equity as at 31/12/2020

(Figures in thousands of euros)

	Balances as at 20.01.2020	Change to opening balances	Balances as at 20.01.2020	Allocation of profit/loss for the previous year		Changes in the year										Minority interests as of 31.12.2020
							Shareholders' equity transactions									
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity interests	Other comprehensive income 31.12.2020	Group shareholders' equity as at 31.12.2020	
Share capital:																
a) ordinary shares	42,557		42,557											–	42,557	
b) other shares			–											–	–	
Share premium	148,242		148,242											–	148,242	
Reserves:																
a) retained earnings	273,062		273,062			2,042				56				–	275,159	
b) others	10,848		10,848											–	10,848	
Valuation reserves	-476		-476			-1,900								359	-2,017	
Equity instruments			–											–	–	
Interim dividends			–											–	–	
Treasury shares			–											–	–	
Profit (Loss) for the year			–											-35,943	-35,943	
Group shareholders' equity	**474,237**	–	**474,237**	–	–	**142**	**–**	**–**	**–**	**56**	**–**	**–**	**–**	**-35,584**	**438,847**	**–**
Minority interests			–											–	–	

CONSOLIDATED CASH FLOW STATEMENT

CASH FLOW STATEMENT INDIRECT METHOD

A. OPERATING ACTIVITIES	2020
1. Cash flow from operations	**-8,285**
- net profit/loss for the year (+/-)	–35,943
- gains/losses on financial assets held for trading and other assets measured at fair value through profit or loss (+/-)	–
- Gains/losses on hedging operations (+/-)	–
- net value adjustments/write-backs for credit risk (+/-)	–1,828
- net adjustments/recoveries on tangible and intangible assets (+/-)	13,791
- net allocations to provisions for risks and charges and other costs/income (+/-)	8,228
- taxes, duties and tax credits, unpaid (+/-)	–10,887
- net adjustments/recoveries on discontinued operations, net of the tax effect (+/-)	19,335
- other adjustments (+/-)	–982
2. Cash flow generated/absorbed by financial assets	**1,067,265**
- financial assets held for trading	–896
- financial assets at fair value	–
- financial assets subject to mandatory fair value measurement	–836
- financial assets measured at fair value through other comprehensive income	2,449
- financial assets measured at amortised cost	1,061,208
- other assets	5,341
3. Cash flow generated/absorbed by financial liabilities (+/-)	**1,553,175**
- financial liabilities measured at amortised cost	1,603,912
- financial liabilities held for trading	–2,209
- financial liabilities carried at fair value	–
- other liabilities	–48,528
Net cash generated/absorbed by operating activity A (+/-)	**2,612,155**
B. INVESTING ACTIVITIES	
1. Cash flows generated by	**–**
- sales of equity investments	–
- dividends collected on equity investments	–
- sales of tangible assets	–
- sales of intangible assets	–
- disposals of business units	–
2. Cash flows absorbed by	
- purchases of equity investments	–20,072
- purchases of tangible assets	–370
- purchases of intangible assets	–5,444
- purchases of business units	–
Net cash generated/absorbed by investing activity B (+/-)	**–25,886**
C. FUNDING ACTIVITIES	
- issue/purchase of treasury shares	–
- issue/purchase of equity instruments	–
- distribution of dividends and other purposes	–
Net cash generated/absorbed by financing activity C (+/-)	**–**
NET CASH GENERATED/ABSORBED DURING THE FINANCIAL YEAR D=A+/-B+/-C	**2,586,270**

The DEPObank Banking Group was created on 20 January 2020, following the acquisition of Cara Services GmbH by DEPObank SpA. There are therefore no comparative amounts in the tables referring to the previous year.

RECONCILIATION

(Figures in thousands of euros)

Financial statement items	2020
Cash and cash equivalents at start of financial year	**2,334,663**
Total net cash generated/absorbed during the financial year	2,586,270
Cash and cash equivalents: effect of changes in exchange rates	
Cash and cash equivalents at end of financial year G=E+/-D+/-F	**4,920,953**

Key:
(+) generated
(-) absorbed

(*) Cash and cash equivalents at the start of the year refer to that of the Bank.

DEPObank
BANCA DEPOSITARIA ITALIANA

Notes to the Consolidated Financial Statements

PART A - ACCOUNTING POLICIES

A.1 - GENERAL CRITERIA

SECTION 1 - STATEMENT OF COMPLIANCE WITH INTERNATIONAL ACCOUNTING STANDARDS

The DEPObank Banking Group (hereinafter also the "Group" or "Banking Group" and with reference to DEPObank S.p.A. also the "Bank" or the "Parent Company"), in accordance with the provisions of Regulation (EC) no. 1606 of 19 July 2002, has prepared these consolidated financial statements for the first time, in compliance with the International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), as endorsed by the European Commission and transposed by the Italian legislature with Legislative Decree 38/2005.

In preparing these consolidated financial statements, the IASs/IFRSs in force as at 31 December 2020 have been applied.

In order to better guide the application of the accounting standards, reference has been made to the interpretations provided by the International Financial Reporting Interpretations Committee (IFRIC), as well as to the documents on the application of IASs/IFRSs in Italy prepared by the Italian Accounting Organisation (OIC) and to the interpretative documents prepared by the Italian Banking Association (ABI). There were no derogations from the IASs/IFRSs.

These consolidated financial statements have been prepared on the basis of Bank of Italy Circular No. 262 of 22 December 2005 and the following updates and interpretative clarifications provided by the Bank of Italy. Specifically, the sixth update of 30 November 2018 and the Communication of the Bank of Italy of 15 December 2020, concerning the additions to the provisions of Circular no. 262 have been taken into account to represent specific information on the impacts of COVID-19 and the measures to support the economy and amendments to IAS/IFRSs.

SECTION 2 - GENERAL PREPARATION PRINCIPLES

The Consolidated Financial Statements comprise the mandatory statements set out in IAS 1 (i.e. the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity and Cash Flows) and the Notes. They are also accompanied by the Directors' Report on operations, on the economic results achieved and on the financial position and cash flows. In particular, the information required for the Report on Operations in the Bank of Italy Circular No. 262/2005, as updated, is contained in the Report on Operations.

All information required by law and the supplementary disclosures deemed necessary to give a true and fair view of the Group's situation are provided in the Notes. These financial statements are prepared assuming that the company is a going concern, there being no uncertainty about the Group's ability to continue to operate. Moreover, as underscored in the Report on Operations, it should be noted that the Extraordinary Shareholders' Meeting held on 27 January 2021 resolved on the merger by incorporation of the Bank into Banca Farmafactoring S.p.A. The mandatory tables and the details required by the Bank of Italy are separately identified according to the numbering established by the supervisory authority. The Consolidated Financial Statements at 31 December 2020 were prepared using the euro as the reporting currency; unless specified otherwise, amounts are in thousands of euros.

The consolidated financial statements at 31 December 2020 are based on the requirements of the international accounting standards endorsed by the European Commission. They also reflect the general assumptions of the IASB Systematic Framework for the preparation and presentation of financial statements.

Measurement criteria have been adopted according to the going concern assumption and comply with the principles of accrual basis accounting, relevance and materiality of accounting information and the precedence of economic substance over legal form.

The Financial Statements and the Notes present only the amounts relating to the reporting period as it is the first year of the Group's existence. The tables relating to the "changes" in balance sheet items include the first consolidation balances in “Increases - Others”.

CONTENT OF THE FINANCIAL STATEMENTS

Statement of financial position, income statement and statement of comprehensive income

The consolidated statement of financial position, income statement and statement of comprehensive income consist of items, sub-items and additional details. In the income statement, revenues have been presented without sign, whereas costs are preceded by a minus sign.

Statement of changes in equity

The statement of changes in equity, which presents movements in equity during the reporting period, is broken down into share capital, capital reserves, earnings and valuation reserves and profit or loss. No equity instruments other than ordinary shares have been issued.

Statement of cash flows

The statement of cash flows during the reporting year was prepared on the basis of the indirect method, according to which the cash flows from operations are represented by the results for the period, adjusted by the effects of non-monetary operations.

The cash flows are divided between those generated by operations, those generated by investment activities and those generated by funding activities.

Given that cash and cash equivalents include cash and cash equivalents at central banks, the movements for the year are represented exclusively by financial movements.

In the statement, the cash flows generated during the year are indicated without sign, while cash absorbed is preceded by a minus sign.

The Parent Company's opening balances at the beginning of the year have been conventionally considered as opening balances.

Content of the Notes

The Notes contain the information deemed necessary to give a true and fair view of financial performance and financial position.

The measurement criteria described below have been adopted in determining all information contained in these consolidated financial statements.

SECTION 3 - SCOPE AND BASIS OF CONSOLIDATION

The Consolidated Financial Statements contain the assets and liabilities and results of subsidiaries and associates.

In accordance with the combined requirements of IFRS10 “Consolidated Financial Statements”, IFRS11 “Joint Arrangements” and IFRS12 “Disclosure of Interests in Other Entities”, the Group consolidated subsidiaries using the full consolidation method and associates and joint arrangements using the equity method.

Banking group structure

As at 31 December 2020, the composition of the Banking Group that emerged on 20 January 2020 is as follows:

- DEPObank – Banca Depositaria Italiana S.p.A., Parent Company listed in the Register of Banks.
- Cara Services GmbH, a special purpose company that is wholly owned by the Parent Company.

Scope of consolidation

The scope of consolidation of the financial statements of the DEPObank Group as at 31 December 2020 includes, in addition to the Banking Group companies, the company Unione Fiduciaria S.p.A., an investee company which the Parent Company has a 24% stake in, corresponding to 24.59% of voting rights given the own shares held by the company. The consolidation took place with values consistent with those of the consolidated parent company Equinova UK HoldCo Ltd, in compliance with the principles of reference.

2. Significant assessments and assumptions to determine the consolidation area

The consolidation scope is defined based on IFRS 10 “Consolidated Financial Statements”, which requires the following three conditions to be met for control to be established:

- power over the investee, i.e. substantive rights to the relevant activities of the entity in which the investment has been made;
- exposure or rights to variable returns from involvement with the investee; and
- the ability to use power over the investee to affect the amount of the variable returns.

The full consolidation to which the subsidiaries are subject entails eliminating the book value of the equity investment against the relative equity following allotment of minority interests, in consideration of the assumption of aggregates from the statement of financial position and income statement. The positive differences in addition to the capital gains and losses are recognised as goodwill. The assets, liabilities, income and expense deriving from transactions between consolidated companies are eliminated on consolidation.

The equity method is used to consolidate associates and joint arrangements. Associates are companies subjected to significant influence, i.e. the power to participate in but not control the company’s relevant activities. Significant influence is deemed to exist if a company holds at least 20% of the voting rights in its investee. The following should also be considered or taken into account: potential rights still to be exercised by virtue of options, warrants, conversion options embedded within financial instruments, ownership structures and voting rights held by other investors.

Pursuant to IFRS 11, joint arrangements require both the existence of a binding contractual arrangement and that said contractual arrangement gives two or more parties joint control of the arrangement.

The equity method provides that any difference in equity of the investee (including profits or losses) from the time of purchase is included in the carrying amount of the investment (originally recorded at cost); this value is reduced if the investment distributes dividends. The consolidated income statement shows the pro-rata of the profit or loss of the investment, as well as any permanent reduction or recovery of value; all other differences are recorded directly in shareholders' equity.

SECTION 4 - EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

On 17 February 2021, the Board of Directors of DEPObank S.p.A. examined these draft financial statements and authorised their publication. In referring to the paragraph of the Report on Operations entitled "Significant events after the reporting period" for a general discussion on developments after the reporting period, it is reported that after 31 December 2020 and until the date of approval of this report no circumstances or events occurred that would require any adjustments to the financial statements as at 31 December 2020 (“adjusting events”).

SECTION 5 - OTHER ISSUES

IFRS accounting standards, amendments and interpretations applied with effect from 1 January 2020

Other accounting standards, amendments and interpretations were applied for the first time by the Group as at 1 January 2020:

- On 31 October 2018 the IASB published the document "Definition of Material" (amendments to IAS 1 and IAS 8). That document introduced changes to the definition of "material" contained in IAS 1 - Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors. Its aim was to make the definition of "material" more specific, and to introduce the concept of "obscured information" alongside the concept of omissions or misstatements, which were already present in the two amended standards. The amendment clarifies that information is "obscured" if it has been described in such a way that produces, for the primary readers of financial statements, an effect similar to that which would have occurred if that information had been omitted or misstated. The adoption of this amendment had no effect on the consolidated financial statements.
- On 29 March 2018, the IASB published an amendment to the "References to the Conceptual Framework in IFRS Standards". The amendment is effective for years starting on or after 1 January 2020, but early adoption is permitted. The Conceptual Framework defines the basic concepts of financial reporting and guides the Board in elaborating the IFRS standards. The document helps to ensure that the standards are conceptually coherent and that similar transactions are dealt with in the same way, in order to provide useful information to investors, lenders and other creditors. The Conceptual Framework supports businesses in elaborating accounting standards when no IFRS applies to a specific transaction. In general it also helps the parties to understand and interpret the standards. The adoption of this amendment had no effect on the consolidated financial statements.
- On 26 September 2019, the IASB published "Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform". It amended IFRS 9 Financial Instruments and IFRS 39 – Financial Instruments: Recognition and Measurement as well as IFRS 7 - Financial Instruments: Disclosures. The amendment changed some of the requirements for the application of hedge accounting, by introducing temporary derogations to mitigate the impact of the uncertainty of the IBOR reform (which is still in progress) on future cash flows in the period preceding its completion. The amendment also requires companies to report additional information about their hedging relations that are directly affected by the uncertainties of the reform, to which these derogations apply. The adoption of this amendment had no effect on the consolidated financial statements.
- On 22 October 2018 the IASB published "Definition of a Business" (amendments to IFRS 3). The document provides clarification regarding the definition of business for the correct application of IFRS 3. In particular, the amendment clarifies that while a business usually produces an output, the presence of an output is not strictly necessary to identify a business in the presence of an integrated set of activities/processes and assets. However, to satisfy the definition of a business, an integrated set of activities/processes and assets must include, at a minimum, a substantial input and process that together contribute significantly to the ability to create output. To this end, the IASB has replaced the term "ability to create output" with "ability to contribute

to the creation of output" to clarify that a business can exist even without the presence of all the inputs and processes necessary to create an output. The amendment also introduced an optional concentration test that rules out the presence of a business if the price paid refers substantially to a single asset or group of assets. The amendments apply to all business combinations and acquisitions of assets after 1 January 2020, but early application is allowed. The adoption of this amendment had no effect on the consolidated financial statements.

- On 28 May 2020 the IASB published an amendment entitled "COVID-19 Related Rent Concessions" (Amendment to IFRS 16). The document allows lessees to account for the reductions in rents related to COVID-19 without having to assess whether the definition of lease modification in IFRS 16 is respected through an analysis of the contracts. Therefore, lessees who apply this option will be able to account for the effects of the rent reductions directly to the income statement on the effective date of the reduction. This amendment applies to financial statements starting on 1 June 2020, but [the Group/Company has availed itself of the possibility of applying this amendment early on 1 January 2020. The adoption of this amendment had no effect on the consolidated financial statements.

IFRS and IFRIC accounting standards, amendments and interpretations approved by the European Union, not yet applicable and not adopted in advance by the Group as of 31 December 2020

At the date of this document, the competent bodies of the European Union have not yet concluded the certification process required for the adoption of the amendments and standards described hereunder.

- On 18 May 2017 the IASB published IFRS 17 - Insurance Contracts, which is intended to replace IFRS 4 - Insurance Contracts. The objective of the new standard is to ensure that an entity provides relevant information that faithfully represents the rights and obligations deriving from the insurance contracts issued. The IASB has developed the standard to eliminate inconsistencies and weaknesses in existing accounting policies, providing a single principle-based framework to take into account all types of insurance contracts, including reinsurance contracts that an insurer holds. The new standard also provides for presentation and disclosure requirements to improve comparability between entities in this sector. The new principle measures an insurance contract based on a General Model or a simplified version of it, called a Premium Allocation Approach ("PAA"). The standard applies from 1 January 2023 but early application is permitted only for entities that apply IFRS 9 - Financial Instruments and IFRS 15 - Revenue from contracts with customers. The directors do not expect effects in the consolidated financial statements from the adoption of this principle.
- On 23 January 2020 the IASB published "Amendments to IAS 1 - Presentation of Financial Statements: Classification of Liabilities as Current or Non-current". The document aims to clarify how to classify payables and other liabilities as short or long term. The amendments will come into force on 1 January 2023, but early adoption is permitted. The directors do not expect a significant effect in the consolidated financial statements from the adoption of this amendment.

- On 14 May 2020 the IASB published the following amendments:
  - Amendments to IFRS 3 Business Combinations: the amendments are intended to update the reference in IFRS 3 to the Conceptual Framework in the revised version, without entailing changes to the provisions of IFRS 3.
  - Amendments to IAS 16 - Property, Plant and Equipment: the amendments are intended to prevent the deduction from the cost of tangible assets of the amount received from the sale of goods produced during the testing phase of the activity. These sales revenues and related costs will therefore be recognised in the income statement.
  - Amendments to IAS 37 - Provisions, Contingent Liabilities and Contingent Assets: this amendment clarifies that all costs directly attributable to the contract must be taken into account in the estimate of the possible cost of a contract. Consequently, the assessment of the possible cost of a contract includes not only the incremental costs (e.g., the cost of direct material used in processing), but also all the costs that the company cannot avoid since it has entered into the contract (e.g. the share of the personnel cost and depreciation of the machinery used for the fulfilment of the contract).
  - 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.

  All amendments will come into force on 1 January 2022. The directors do not expect a significant effect in the consolidated financial statements from the adoption of these amendments.
- On 30 January 2014 the IASB published IFRS 14 - Regulatory Deferral Accounts, which allows only entities that adopt IFRS for the first time to continue to recognise rate regulation activities in accordance with the previous accounting standards adopted. As the Group is not a first-time adopter, this standard is not applicable.

Risks, uncertainties and impacts of the COVID-19 epidemic

With a Communication of 15 December 2020, the Bank of Italy published the "Supplements to the provisions of Circular no. 262 ‘Banks' financial statements: layout and preparation’ concerning the impacts of COVID-19 and the measures to support the economy and amendments to IAS/IFRSs”. In applying it, the documents issued by the European regulatory and supervisory bodies and the standard setters have been taken into account.

Given the specific operations of the Bank and the Group, there were no significant impacts in the preparation of the financial statements; in particular, the Bank (and the Group):

- Did not detect any significant impacts of COVID-19 on its ability to continue to operate as a going concern. The Bank has recorded temporary drops in operating volumes and related fee income, attributable to the restrictive measures or the price of financial assets on the benchmark markets. Moreover, there were no impacts recorded on the service commercial relations or competitive market position. Owing to its particular operations, which are very different from those of commercial banks, and to the nature of the assets it holds, the Bank has not registered any notable impairment in asset quality.

- Also taking into account the above, there have been no changes in accounting estimates related to COVID-19 that have had a significant impact or that are expected to have an effect in future years. The main areas subject to estimation by the Directors are as follows:
  - Impairment testing of goodwill and intangible assets with finite useful lives (in particular, customer contracts).
  - Value adjustments of financial assets at amortised cost.
  - Valuation of financial assets measured at fair value (level 3).
  - Recoverability of prepaid taxes.
  - Allocations for provisions for risks and charges.
  - Actuarial gains/losses related to the severance indemnity fund.

Moreover, the following is noted regarding contractual amendments due to COVID-19

- Contractual amendments and derecognition (IFRS 9): during the year there were no contractual amendments related to the measures implemented by the Italian government, trade associations or the Group due to the COVID-19 pandemic. Therefore, there were no impacts on derecognition issues of financial assets or liabilities in the financial statements.
- Amendment to IFRS 16: there was no need to consider the possible application of the practical expedient provided for in Regulation (EU) no. 1434/2020 as a result of modifications to the terms of loans.

Parts B and C of the Statement of Financial Position and Income Statement of these Notes provide, where applicable, the supplementary information required by Circular 262.

Part E of these Notes includes, with reference to risks and related hedging policies, specific information on the impacts deriving from the COVID-19 pandemic.

There were no other aspects worthy of note to be reported, including with reference to the Bank of Italy/Consob/IVASS Document No. 6 of 8 March 2013.

A.2- SECTION ON THE MAIN FINANCIAL STATEMENT ITEMS

The accounting standards adopted in preparing the consolidated financial statements of the DEPObank Banking Group as at 31 December 2020 are presented below.

STATEMENT OF FINANCIAL POSITION

1 - Financial assets at fair value through profit or loss

Classification criteria

This category includes financial assets other than those classified as financial assets measured at fair value through other comprehensive income or as financial assets measured at amortised cost. In particular this item includes:

- financial assets held for trading;
- financial assets with a mandatory fair value valuation that do not meet the requirements for valuation at amortised cost or at fair value with an impact on comprehensive income. These are financial assets the contractual terms of which do not provide solely for payments of principal and interest or that are not held within a business model the aim of which is to hold assets to collect the contractual cash flows (a “held-to-collect” business model) or the aim of which is to collect the contractual cash flows and sell the financial assets (a “held-to collect-and-sell” business model);
- financial assets measured at fair value, namely financial assets which are thus designated upon initial recognition, where the requirements are met. In such cases, an entity can irrevocably designate, upon recognition, a financial asset as measured at fair value through profit and loss if and only if by so doing it would eliminate or significantly reduce an inconsistency in measurement.

This item therefore includes:

- debt instruments and loans that are included in an other/trading model (therefore not related to the "held-to-collect” or “held-to-collect-and-sell" business models) or that fail the contractual characteristics test (SPPI test);
- equity instruments – which cannot be qualified as controlling or connected – for which the designation at fair value through comprehensive income has not been made upon initial recognition;
- units of UCIs.

The item also includes derivatives, recognised among financial assets held for trading, which are represented as assets if the fair value is positive.

In general, IFRS 9 does not allow reclassifications to other categories of financial assets except where the entity changes its business model with regard to the management of financial assets (the exception being equity securities, for which no reclassifications are permitted). In such cases, which are expected to be extremely infrequent, the financial assets may be reclassified from the category measured at fair value through profit or loss to one of the other two IFRS 9 categories (Financial assets measured at amortised cost or Financial assets measured at fair value through other comprehensive income). The transfer value is represented by the fair value at the time of reclassification and the effects of reclassification operate on a forward-looking basis, from the date of reclassification. In this case, the effective interest rate of the reclassified asset is determined on the basis of its fair value on the reclassification date. That date is taken to be the date of first recognition, for stage assignment for impairment purposes.

Recognition criteria

The initial recognition of financial assets takes place on the date of settlement for debt instruments and equity instruments, on the date of disbursement for loans, and on the date of subscription, for derivatives.

Financial assets at fair value through profit or loss are initially recognised at fair value, normally represented by the price of the transaction, without considering transaction costs or income directly attributable to the instrument itself.

Measurement criteria

After first recognition, financial assets valued at fair value affecting profit and loss are valued at fair value. The effects of applying this valuation principle are charged to the income statement. Market prices are used to determine the fair value of financial instruments quoted on an active market. In the absence of an active market, commonly adopted estimation and valuation models are used. These take into account all the risk factors related to the instruments and are based on observable market data such as: the valuation of listed instruments with similar characteristics, discounted cash flow calculations, option pricing models, the recorded values of recent comparable transactions, etc. For equity instruments and derivatives not quoted on an active market, the cost criterion is used to estimate the fair value only on a residual basis and in limited number of circumstances, namely if none of the above valuation methods can be applied or if there is a wide range of possible fair value valuations, within which the cost is the most significant estimate. For more information on the criteria for determining fair value see Section “A.4 Information on fair value”.

Derecognition criteria

Financial assets or parts of financial assets are derecognised if and only if disposal entails the substantial transfer of all the related risks and benefits.

In particular, financial assets sold are derecognised when the entity retains the contractual rights to receive the cash flows of the asset but enters into a simultaneous obligation to pay those cash flows and only those cash flows to third parties, without significant delays.

2 - Financial assets at fair value through other comprehensive income

Classification criteria

This category includes financial assets that meet both the following conditions:
- the asset is held within a “held-to-collect-and-sell” business model; and
- the contractual conditions of the financial asset provide for cash flows on certain dates which consist only of payments of capital and interest on the amount of the principal to be repaid.

This category also includes equity instruments not held for trading for which, at the time of first recognition, the option for designation at fair value through other comprehensive income has been exercised.

In particular this item includes:
- debt instruments that are attributable to a held-to-collect-and-sell model which have passed the contractual characteristics test (SPPI test);
- equity interests that cannot be qualified as subsidiaries, associates or joint arrangements, which are not held for trading purposes, and for which an option for designation at fair value through comprehensive income has been exercised.

Reclassifications to other categories of financial assets are only permitted if the entity changes its business model with regard to the management of financial assets. In such cases, which are expected to be very infrequent, the financial assets may be reclassified from the category of assets valued at fair value through comprehensive income to one of the other two categories permitted by IFRS 9 (Financial assets measured at amortised cost or Financial assets measured at fair value through profit or loss). The transfer value is represented by the fair value at the time of reclassification and the effects apply on a prospective basis from that date, with the following impacts:
- in the case of reclassification from this category to the amortised cost category, the cumulative profit or loss recognised in the revaluation reserve is carried as an adjustment to the fair value of the financial asset on the date of reclassification;
- in the case of reclassification into the category of fair value through profit or loss, the profit or loss that was previously recognised in the revaluation reserve is reclassified from equity to the profit or loss for the year.

Recognition criteria

The initial recognition of financial assets takes place on the settlement date for debt and equity instruments.

Assets are initially recognised at fair value inclusive of the transaction costs or income directly attributable to the instrument.

Measurement criteria

After initial recognition, assets classified at fair value through other comprehensive income other than equity instruments are measured at fair value and the impacts of application of amortised cost are taken to the income statement together with the effects of impairment and any foreign exchange effect, while the other gains or losses due to changes in fair value are taken to a specific equity reserve until the financial asset is derecognised.

Upon total or partial disposal, the gain or loss in the revaluation reserve is recycled, in full or in part, to on the income statement.

Equity instruments that have been classified in this category by election are measured at fair value and amounts taken to equity must not then be recycled to the income statement, even in the case of disposal.

The only component relating to the equity instruments in question that is recorded on the income statement is dividends.

Financial assets measured at fair value through other comprehensive income are subject to testing for a significant increase in credit risk (impairment) under IFRS 9 and the resulting impairment for expected losses is taken to the income statement. More specifically, on instruments classified to stage 1 (i.e. on financial assets at origination and on instruments for which there has been no significant increase in credit risk compared to the date of initial recognition), an expected loss of one year is recorded on the date of initial recognition and on each subsequent reporting date.

For instruments classified in stage 2 (performing exposures for which there has been a significant increase in credit risk compared to the initial recognition date) and stage 3 (non-performing exposures), an expected loss is recognised over the remaining life of the financial instrument.

Conversely, equity instruments are not subjected to the impairment process. Financial assets are derecognised if and only if the disposal has resulted in the substantial transfer of all the risks and benefits connected to the assets.

The fair value is determined on the basis of the principles already illustrated, for the Financial assets designated at fair value through profit or loss.

Derecognition criteria

Financial assets or parts of financial assets are derecognised if and only if disposal entails the substantial transfer of all the related risks and benefits.

In particular, financial assets sold are derecognised when the entity retains the contractual rights to receive the cash flows of the asset but enters into a simultaneous obligation to pay those cash flows and only those cash flows to third parties, without significant delays.

3 – Financial assets at amortised cost

Classification criteria

This category includes financial assets (in particular, loans and debt instruments) that meet both the following conditions:

- the asset is held within a “held-to-collect” business model; and
- the contractual conditions of the financial asset provide for cash flows on certain dates which consist only of payments of capital and interest on the amount of the principal to be repaid.

In particular this item includes:

- loans to banks in the different technical forms that meet the requirements of the preceding paragraph;
- loans to customers in the different technical forms that meet the requirements referred to in the previous paragraph;
- debt instruments that meet the requirements set out in the preceding paragraph.

Reclassifications to other categories of financial assets are only permitted if the entity changes its business model with regard to the management of financial assets. In such cases, which are expected to be very infrequent, the financial assets may be reclassified from the category of assets valued at fair value through comprehensive income to one of the other two categories permitted by IFRS 9 (Financial assets valued at amortised cost or Financial assets valued at fair value affecting profit or loss). The transfer value is represented by the fair value at the time of reclassification and the effects of reclassification operate on a forward-looking basis, from the date of reclassification. The profits or losses resulting from the difference between the amortised cost of the financial asset and its relative fair value are recognised on the income statement in the case of reclassification among Financial assets designated at fair value through profit or loss and Shareholders' equity, in the relevant revaluation reserve, in the case of reclassification among Financial assets designated at fair value through other comprehensive income.

Recognition criteria

The initial recognition of the financial assets takes place on the date of settlement for debt instruments and on the date of disbursement for loans. At the time of first recognition, the assets are recognised at fair value inclusive of the transaction costs or income directly attributable to the instrument.

With reference to loans in particular, the date of disbursement is usually the date on which the contract is signed. If this is not the case, when the contract is signed a commitment will be included to disburse funds, and this commitment ends on the date the loan is drawn down.

The loan is recognised on the basis of its fair value, equal to the amount lent including the costs or income directly linked to the individual loan.

Measurement criteria

After initial recognition these financial assets are measured at amortised cost according to the effective interest rate method. This method is not used for assets measured at historical cost whose short duration makes the effect of discounting negligible, for those without a defined maturity or for revocable credit lines.

The measurement criteria are closely connected to the inclusion of these instruments in one of the three stages of credit risk provided for in IFRS9, the last of which (stage 3) includes impaired assets, whereas the others (stages 1 and 2) include performing assets.

With reference to the presentation of these measurement effects, the value adjustments referring to this type of asset are recorded on the income statement:

- at the time of first recognition, for an amount equal to the loss expected at 12 months;
- at the time of subsequent valuation, if the credit risk has not increased significantly compared to the initial recognition, based on the changes in the value adjustments due to expected losses over the next twelve months;
- at the time of subsequent valuation, if the credit risk has significantly increased compared to initial recognition, based on the recognition of value adjustments for expected losses over the entire residual contractual life of the asset;
- upon subsequent measurement, if – after there has been a significant increase in the credit risk compared to initial recognition – the materiality of that increase no longer exists in relation to the change in cumulative value adjustments to take into account the transition from a loss over the asset's lifetime, to one over twelve months.

If the financial assets in question are performing, they are subjected to a valuation intended to define the value adjustments to be taken from the financial statements for each loan account (or "tranche" of the security), based on the risk parameters: probability of default (PD), loss given default (LGD) and exposure at default (EAD). If, together with a significant increase in the credit risk there is also objective evidence of a loss in value, the amount of the loss is measured as the difference between the book value of the asset – classified as impaired, in the same way as all the other relations with the same counterparty – and the current value of the estimated future cash flows, discounted at the original effective interest rate.

The amount of the loss recorded on the income statement is defined according to a detailed valuation process, or is determined for identical categories and therefore, is attributed in detail to each position. Impaired assets include financial instruments that have been given non-performing status, unlikely to pay or overrun/past-due for more than 90 days according to the Bank of Italy regulations, in line with the IAS/IFRS and supervisory regulations. The expected cash flows take into account the expected recovery times and the presumed realisation value of any guarantees.

The effective original rate of each asset remains unchanged over time, even if there has been a restructuring of the account that led to the change in the contractual rate, and even if the account is not, in practice bearing contractual interest. If the reasons for the impairment cease to apply as a result of a subsequent event occurring after the recognition of the change in value, write-backs are made and allocated to the income statement.

The write-back may not exceed the amortised cost that the financial instrument would have had without such adjustments having been made. Write-backs connected to the passage of time are posted in the interest margin. In some cases, during the life of the financial assets in question and of the loans in particular, the original contractual conditions are then modified by the parties to the contract.

If the contractual terms are modified during the life of an instrument, there is a need to check whether the original asset is still to be recognised or needs to be de-recognised, and a new financial instrument recognised in its place. In general, changes to a financial asset lead to its de-recognition and the entry of a new asset, if the changes are substantial.

Considerations about whether the changes substantial are based on qualitative and quantitative factors.

The analyses intended to define the substance of the contractual changes made to a financial asset must therefore consider:

- the reasons why the changes were made: for example, renegotiations for commercial reasons and concessions due to financial difficulties of the counterparty;
  - commercial reasons, designed to "keep" the customer, involve a debtor that is not in a situation of financial difficulty. This type of case includes any renegotiation designed to adapt the burden of the debt to the market conditions. These operations involve a change to the original contractual conditions, usually requested by the debtor, and relate to the onerousness off the debt resulting in an economic benefit to the debtor.
    In general it is considered that whenever the Bank renegotiates to avoid losing the customer, the renegotiations must be considered as substantial because if they did not take place, the customer could obtain finance from another bank, and the Bank would see a decline in its expected future revenue;
  - the second type of renegotiation, which is done for "credit risk reasons" (forbearance measures), relates to the Bank's attempt to maximise the recovery of cash flows from the original loan. The underlying risks and benefits after the changes are not usually substantially transferred, and therefore the accounting presentation that gives the most relevant information to the reader of the financial statements is "modification accounting" – which implies the recognition on the income statement of the difference between the book value and the discounted value of the modified cash flows, discounted at the original interest rate – and not through derecognition.
- the presence of objective elements or triggers that affect the characteristics and/or contractual flows of the financial instrument (including change of currency, or changes to the type of risk the Bank is exposed to) which the derecognition is expected to involve considering their significant impact on the original contractual flows.

Derecognition criteria

Financial assets or parts of financial assets are derecognised if and only if disposal entails the substantial transfer of all the related risks and benefits.

In particular, financial assets sold are derecognised when the entity retains the contractual rights to receive the cash flows of the asset but enters into a simultaneous obligation to pay those cash flows and only those cash flows to third parties, without significant delays.

4 – Equity investments

Classification criteria

This item includes interests in associates and joint ventures. Companies are considered to be joint ventures if their control is shared between the Group and one or more other parties or when the unanimous consent of all the controlling parties is necessary for decisions about significant assets. Companies in which the bank holds 20% or more of the voting rights and companies for which the administrative, financial and management choices are considered to be subject to significant influence are considered to be associates, due to the legal and factual links.

In establishing the existence of control over joint ventures and significant influence over associates, there are no situations to report in which it was necessary to carry out particular assessments or make significant assumptions.

Recognition criteria

Investments in joint ventures and associates are recorded in the financial statements at cost, equal to the fair value of the consideration paid, adjusted for impairment.

Measurement criteria

The Group uses the equity method to measure these investments, adjusting the initial value to reflect changes in the Group's significant net assets since the purchase date. At each reporting date for the investments, the existence of objective evidence that the carrying amount of the assets may not be fully recoverable is verified. The impairment testing process requires checking for impairment indicators and determining the impairment loss, where applicable.

Impairment indicators may essentially be divided into two categories:
- qualitative indicators such as losses or a significant deviation from the budget targets or the targets in long-term plans announced to the market, the announcement/start of insolvency proceedings or restructuring plans, or the a rating downgrade by a specialised company of more than two notches;
- quantitative indicators, represented by a reduction in fair value below book value, by a book value of the equity investment in the separate financial statements

that exceeds the book value in the consolidated financial statements of the net assets and goodwill of the subsidiary or by the distribution by a subsidiary of a dividend in excess of its total income.

The presence of impairment indicators implies the recognition of a write-down to the extent that the recoverable value is less than the carrying amount. The recoverable value is the greater of the fair value net of costs to sell and value in use. The value in use is the present value of the expected cash flows from the asset; it reflects the estimate of the expected cash flows from the asset, the estimate of possible changes in the amount and/or timing of the cash flows, the time value of money, the price to remunerate the risk of the asset and other factors that may influence the appreciation by market participants of the expected cash flows from the asset.

5 – Property, plant and equipment

Classification criteria

Tangible assets include land, non-investment property, technical installations, furniture, fittings and equipment of all kinds.

With effect from 1 January 2019, the item also includes rights of use of a tangible asset acquired on lease (for lessees), assets granted on operating leases (for lessors) and improvements and incremental expenses incurred on owned assets and rights of use of property and equipment lease contracts.

Improvements and incremental expenses incurred on third-party assets deriving from leasing contracts pursuant to IFRS16 from which future benefits are expected to flow are recorded:

- if they may be separately and distinctly identified, under item "90. Tangible assets", in the most suitable category;
- if they may not be separately and distinctly identified, under item "90. Tangible assets", as an increase in the right of use, recognised under IFRS16, to which they refer.

Improvements and incremental expenses incurred on leased assets, other than those referred to in the previous paragraph, are recorded:

- if they may be separately and distinctly identified, under item "90. Tangible assets", in the most suitable category;
- if they may not be separately and distinctly identified, under item "130. Other assets".

Non-investment property is considered to include properties that are owned (or leased under a finance leasing contract) and are used in the production and provision of services or for administrative purposes, with a useful life exceeding one year.

Recognition criteria

Tangible assets purchased on the market are recognised when the main risks and rewards related to the asset are transferred. Initial recognition takes place at cost, meaning both the purchase price and any ancillary charges directly attributable to the purchase and commissioning of the asset.

Land is also recognised separately when purchased together with the building using a component approach. The value of the land and the building are determined on the basis of external appraisals.

Extraordinary maintenance costs that lead to an increase in future economic benefits are accounted for as an increase in the value of the assets, whereas other ordinary maintenance costs are expensed to the income statement.

Measurement criteria

Tangible assets (including both investment and non-investment properties) with finite useful lives are subsequently measured at cost adjusted for accumulated depreciation and any impairment losses and recoveries.

The depreciable value of property, plant and equipment, equal to the cost of assets since the residual value at the end of the depreciation process is considered insignificant, is systematically divided into constant portions over the estimated useful life according to a distribution criterion that reflects the technical and economic duration and the residual possibility of use of the individual elements.

The useful lives of the main categories of fixed assets are as follows:
- furniture and furnishings: 8 years;
- non-investment properties: 33 years;
- investment properties: 33 years.

Land is not depreciated, as it has an indefinite useful life, nor are works of art, as their useful lives cannot be estimated and their value will normally increase over time.

At each reporting date, the Group assesses whether there is any indication that tangible assets may have become impaired. Where there is evidence of impairment, the carrying amount of the asset is compared to its recoverable amount, defined as the greater of fair value and value in use.

Tangible assets represented by the right of use of assets under lease contracts

Under IFRS 16, a lease is a contract, or part of a contract, that, in exchange for consideration, transfers the right to use an asset (the underlying asset) for a period of time. A financial lease essentially transfers to the lessee (user) all the risks and rewards arising from ownership of the asset. Otherwise, the contract is classified as an operating lease. The inception of a lease is the date from which the lessee is authorised to exercise his right to use the leased asset; it coincides with the date of initial recognition of the lease and also includes rent-free periods, i.e. contractual periods in which the lessee uses the asset free of charge. At the inception of a contract, the lessee recognises:

- an asset consisting of the right of use of the asset underlying the lease contract. The asset is recognised at cost, calculated as the sum of:
  - the lease liability;
  - lease payments made on or before the effective date of inception of the lease (net of lease incentives already received);
  - initial direct costs, and
  - any (estimated) costs to dispose of or restore the asset underlying the lease;
- a financial liability arising from the leasing contract (lease liability) corresponding to the current value of payments due for the leasing. The discount rate used is the implicit interest rate, if determinable; otherwise, the marginal financing interest rate of the lessee is used.

Where a lease contract contains “non-leasing components” (for example, the provision of services, such as routine maintenance, to be accounted for in accordance with IFRS 15), the lessee must separately account for "leasing components” and “non-leasing components” and distribute the contract price between the various components on the basis of the respective prices.

The lessee may choose to recognise lease payments:

- directly by expensing them to the income statement, on a straight-line basis throughout the term of the lease contract;
- according to another systematic method representative of the way in which the economic benefits are received, in the case of short-term leases (equal to or less than 12 months) that do not include an option for the lessee to purchase the leased asset and of leases in which the underlying asset is of low value.

The lease term is determined taking into account:

- periods covered by an extension option, where the exercise of the extension option is reasonably certain;
- periods covered by an option to terminate the lease, if the exercise of the termination option is reasonably certain.

During the term of the lease contract, the lessee must:

- measure the right of use at cost, net of accumulated depreciation and accumulated value adjustments determined and accounted for in accordance with the provisions of IAS 36 – Impairment of Assets, adjusted to take account of any restatement of lease liabilities;
- increase the liability arising from the lease transaction following the accrual of interest expense calculated at the implicit interest rate of the lease, or alternatively, at the marginal financing rate and reduce it for payments of principal and interest.

In the event of changes in lease payments, the liability must be restated; the impact of the restatement of the liability is accounted for with a contra-entry to the right of use asset.

Derecognition criteria

Tangible assets are derecognised when they are disposed of or when no future economic benefits are expected to flow from use or disposal.

The right of use deriving from lease contracts is derecognised at the end of the lease term.

6 – Intangible assets

Classification criteria

Intangible assets are identifiable non-physical non-monetary assets that can generate future economic benefits that can be controlled by the company.

Recognition criteria

Intangible assets are recognised at the acquisition cost, adjusted for any ancillary costs, when the main risks and benefits related to the asset are transferred, if and only if the related future economic benefits are likely to be realised and the cost can be reliably measured. Otherwise, the cost of an intangible asset is expensed to the income statement in the year in which it is incurred.

Measurement criteria

All intangible assets recognised other than goodwill are considered to have a finite useful life and are therefore amortised considering the costs and useful lives of the individual assets.

In particular:

- Intangible assets based on technology, such as application software acquired under an indefinite user license and software development costs, are amortised according to their expected technological obsolescence and in any case over no more than five years. In particular, costs incurred for the development of software projects are recognised as intangible assets if and only if all of the following conditions are met:
  i. the cost attributable to the development activity is reliably determinable;
  ii. the entity has the intention, the financial resources and the technical capacity to make the asset available for use or sale;
  iii. it can be demonstrated that the asset is capable of generating future economic benefits. Capitalised software development costs include only the costs incurred that can be directly attributed to the development process.
- Intangible assets relating to depositary bank contracts, recognised following the acquisition of contracts or business units, have an estimated useful life of ten years, taking into account the contractual parameters.

The residual value of the various assets is assumed to be zero.

The Group assesses, on an annual basis, whether there is any indication that intangible assets may have become impaired. Where there is evidence of impairment, the carrying amount of the asset is compared to its recoverable amount, defined as the greater of fair value and value in use.

Derecognition criteria

An intangible asset is derecognised when it is disposed of or when no future economic benefit is expected to flow from its use or disposal.

Goodwill

Goodwill arising from business combination transactions is represented by the difference between the purchase cost, inclusive of ancillary charges, and the acquisition date fair value of the acquiree's assets and liabilities. If positive, it is recognised as an asset at cost (goodwill), since it represents a payment made by the acquirer in view of future economic benefits deriving from assets that cannot be identified individually and recognised separately. If negative, it is expensed directly to the income statement (badwill).

Goodwill is recognised in the financial statements at cost, net of any accumulated impairment, and is not subject to amortisation.

Even if there are no impairment indicators, goodwill is tested for impairment annually.

Goodwill arising from a business combination is allocated to cash generating units ("CGUs") or groups of CGUs that are expected to benefit from the synergies of the combination. The recoverable value of an asset or CGU is the greater between its value in use ("VIU") and its fair value less costs of disposal ("FVLCD"). Impairment is recognised if the carrying amount of the CGU exceeds its recoverable value. Impairment of goodwill is taken to the income statement and is not recovered in subsequent years.

Adjustments in value of goodwill are recorded in the income statement under item 270. "Goodwill impairment" and are not reversed in subsequent periods even in the event of a recovery.

7 – Current and deferred taxes

Income taxes, calculated in accordance with national tax laws, are accounted for as a cost according to the accruals principle, in line with the method of recognition of the costs and revenues that generated them. They therefore represent the balance of current and deferred taxation relating to income for the year.

Current tax assets and liabilities include the net balance of the Group's tax positions in respect of the tax authorities. In particular, these items include the net balance of current tax liabilities for the year, calculated on the basis of a prudent forecast of the tax burden due for the year, according to current tax laws, and current tax assets (prepayments, other tax credits for taxes withheld and other tax credits from previous years that the Group has applied to set off against taxes from subsequent years).

Current taxes not yet paid at the reporting date, in full or in part, are included among the tax liabilities in the statement of financial position. If the current tax payment for the current or previous years exceeds the related tax liability, the excess must accounted for as an asset on the statement of financial position.

Current tax assets also include tax credits for which the Group has requested a refund from the competent tax authorities.

Current and deferred taxes are taken to the income statement under item 300 "Income taxes for the financial year on continuing operations", with the exception of those relating to transactions taken directly to equity without affecting the income statement (such as the measurements of financial instruments through other comprehensive income and actuarial gains and losses), changes in the value of which are taken directly to valuation reserves.

Deferred tax assets and liabilities are recognised in open balances without set-offs, the former being included in item 110 "Tax assets" and the latter in item 60 "Tax liabilities".

Deferred tax assets and liabilities are calculated on the basis of the temporary differences between the values attributed to an asset or liability for financial reporting and tax purposes. The Group recognises a deferred tax asset (item 110.b) for the deductible temporary differences and past tax losses that will be reversed in the coming years, as it considers it likely that it will realise taxable income over this period, on the basis of the strategic plans, against which this asset can be used.

Deferred tax liabilities are calculated on all temporary taxable differences, with the sole exception of reserves subject to tax suspension, as, considering the amount of available reserves already subject to taxation, it is considered that there will be no transactions that will result in their being taxed.

Deferred tax assets and liabilities are determined according to the tax rates that are expected to be applicable in the year in which the tax asset will be realised or the tax liability will be settled, based on current tax legislation.

Deferred tax assets and liabilities are systematically assessed to take into account any changes in the rules or rates, as well as any different subjective situations of the Group companies.

8 – Provisions for risks and charges

Provisions for risks and charges relating to commitments and guarantees issued

This item includes the provisions for credit risk recognised in respect of commitments to disburse funds and guarantees issued that fall within the scope of the impairment rules in accordance with IFRS 9. In such cases, the same allocation methods between credit risk stages are adopted, along with the same calculation of the expected losses as presented with reference to financial assets measured at amortised cost or at fair value through other comprehensive income.

Provisions for post-employment benefits and similar obligations

Provisions for post-employment benefits are set up to reflect company agreements and are classified as defined-benefit plans. The liabilities relating to these plans and the pension cost associated with current workers are determined according to actuarial assumptions, applying the actuarial method known as the "Projected Unit Credit Method", which projects the future expenditure based on historical statistical analysis, the demographic curve, and the financial discounting of these cash flows based on the market interest rate. The contributions paid in each year are considered as separate units and are identified and valued individually for the purposes of determining the final obligation. The discount rate used is determined according to the market returns recognised on the valuation date, for the obligations of leading companies taking into account the liability's average residual life. The current value of the obligation on the reporting date is also adjusted by the fair value of any assets servicing the plan.

Actuarial gains and losses (i.e., the changes in the present value of the obligation deriving from changes in the actuarial assumptions and adjustments based on past experience) are presented in the statement of comprehensive income.

Other provisions

Provisions for risks and charges are liabilities the amounts or dates of which are uncertain but which are recognised because:

- the Bank has a present obligation (legal or constructive) as a result of a past event;
- the outlay of financial resources is probable, to fulfil the obligation;
- the probable future expenditure can be reliably estimated.

Such provisions include accruals for presumed losses in litigation brought against the Bank.

If the time factor is significant, the provisions are discounted at current market rates. The accrual and increases due to the time factor are taken to the income statement. In particular, in cases where the present value of the provision has been recognised, the increase in the value of the provision recorded in the financial statements in each year to reflect the passage of time is accounted for among interest expense.

The provisions recognised, as well as the potential liabilities, are reviewed on each reporting date and are adjusted to reflect the best current estimate. If it is no longer probable that resources will need to be expended to discharge the obligation, the provision is released to the income statement.

9 - Non-current assets held for sale and discontinued operations

Classification criteria

This category includes individual non-current assets (tangible, intangible and financial) or groups of assets held for sale, with associated liabilities, as governed by IFRS 5.

Individual assets and liabilities (or groups of assets held for disposal) are classified under asset item "120. Non-current assets and groups of assets held for disposal" and liability item "70. Liabilities linked to assets held for sale".

Measurement criteria

The aforementioned assets and liabilities (or groups of assets held for sale) are measured at the lesser of their book value less costs to sell, except for some types of assets (e.g. financial assets falling under the scope of IFRS 9) for which IFRS 5 specifically provides that the measurement criteria for the relevant accounting standard must be applied.

Income and expense (net of the tax effect) relating to discontinued operations recorded after their classification are displayed under "Income (Loss) (+/-) from discontinued operations after taxes" on the income statement.

10 - Financial liabilities at amortised cost

Classification criteria

A financial instrument issued is classified as a liability when, on the basis of the substance of the contractual agreement, there is a contractual obligation to deliver money or another financial asset to another entity.

Amounts due to banks and customers refer to the funding raised on the interbank market and from customers, including through repurchase agreements and the placement of bonds and certificates of deposit.

Amounts payable recognised as lessee under finance lease transactions are also included.

Recognition criteria

Transactions with banks are accounted for on the date the contract is signed, which normally coincides with the receipt of the sums collected or the issue of the debt instruments.

Financial liabilities are initially measured at fair value, which normally coincides with the amount received or the issue price, adjusted for any directly attributable costs/income. Internal administration costs are excluded.

Measurement criteria

Except for sight and short-term items, after initial recognition financial liabilities are measured at amortised cost according to the effective interest rate method.

Interest is taken to item 20 “Interest expenses and similar charges” of the income statement.

Derecognition criteria

Financial liabilities, or parts of financial liabilities, are derecognised when they are settled, or when the obligation is discharged, cancelled or expires.

11 – Financial liabilities held for trading

Financial liabilities held for trading include derivative contracts held for trading with negative values and liabilities related to technical overdrafts on securities.

All trading liabilities are measured at fair value through profit or loss.

The measurement and recognition criteria are similar to those described with reference to “Financial assets classified as held for trading”.

12 – Foreign currency transactions

Initial recognition

Transactions in foreign currency are converted, upon initial recognition, into the functional currency by applying the exchange rate in force on the date of the transaction to the amount in foreign currency.

Subsequent measurement

At each statement of financial position date, items in foreign currency are measured as follows: monetary items are converted at the current exchange rate at the statement of financial position date;

- non-monetary items measured at historical cost are converted at the exchange rate on the transaction date;
- non-monetary items measured at fair value are converted using the exchange in effect on the date fair value was determined.

Exchange rate differences deriving from the settlement of monetary elements or from the conversion of monetary elements at rates other than those of initial conversion, or of conversion of previous financial statements, are taken to the income statement for the period in which they arise, whereas those relating to non-monetary elements are taken to equity or to the income statement depending on the approach to recognising the gains or losses that include such a component.

Costs and revenues in foreign currencies are recognised at the exchange rate when they are accounted for or, where in the process of accruing, at the exchange rate in effect at the reporting date.

13 – Other information

Allowances for employee severance pay

A severance indemnity is a form of remuneration for personnel deferred beyond the end of the contract. It accrues in proportion to the duration of the relationship, constituting an additional element of personnel cost.

After the supplementary pension reform, pursuant to Italian Legislative Decree no. no. 252 of 5 December 2005, employee severance pay accruing from 1 January 2007 is determined without applying any actuarial methodology, since the burden borne by companies is limited to the contribution payable by them per the Italian Civil Code (defined-contribution plan according to IAS 19).

The severance pay accruing with effect from 31 December 2006 continues to be accounted for as a defined-benefit plan in accordance with IAS 19. Accordingly, the related liability is determined according to actuarial assumptions, applying the actuarial method known as the "Projected Unit Credit Method", which projects the future expenditure based on historical statistical analysis, the demographic curve, and the financial discounting of these cash flows based on the market interest rate.

The rate used to discount post-employment benefit obligations (whether funded or unfunded) varies according to the country of allocation of the liability and is determined according to the market yields on the reporting date of the bonds of leading companies with average durations in line with that of the liability concerned.

More precisely, the amount recognised as a liability under item 90 is equal to the net total amount of the present value of the obligation on the reporting date, the sum of any actuarial gains or losses, less any pension costs relating to past work not yet recognised and the present value on the reporting date of assets servicing the programme, if any, which will serve to directly settle the obligations.

Treasury shares

The Group companies do not own treasury shares.

Determining the fair value of financial instruments

The fair value of financial instruments has been determined by using the market prices, in the case of instruments quoted in active markets, or by using internal assessment models for the other financial instruments.

For further details, refer to section A.4. Information on fair value.

For receivables and payables recognised at cost or amortised cost, the fair value shown in the Notes is determined according to the following methodology:

- for medium-to-long term fixed-rate assets and liabilities: discounting of future cash flows at a market rate adjusted to include credit risk;
- for floating-rate, sight or short-term assets, the carrying amount net of the individual and collective impairment is considered a good approximation of fair value as it incorporates the change in rates and the measurement of the counterparty's credit risk;
- for floating-rate and short-term fixed-rate liabilities, the carrying amount is considered a good approximation of fair value for the reasons indicated above;
- for medium-to-long term fixed-rate liabilities: discounting of future cash flows at a market rate. The change in credit spread is not taken into account, given its limited relevance.

Impairment testing of goodwill

Goodwill is generally tested for impairment according to the discounted cash flow method, and in particular the excess capital variant of the dividend discount model.

Income statement

Revenues

Revenues are the gross flows of economic benefits deriving from the company's ordinary business, when these flows result in increases in equity other than increases deriving from the contribution of shareholders.

Revenue deriving from contractual obligations with customers is recognised if and only if all of the following criteria are met:

a. the parties to the contract have approved the contract and committed to fulfilling their respective obligations;
b. the entity may identify the rights of either party with respect to the goods or services to be transferred;
c. the entity may identify the terms of payment for the goods or services to be transferred;
d. the contract has a commercial substance (i.e. the risk, timing or amount of the entity's future cash flows are destined to change as a result of the contract); and
e. it is likely that the entity will receive the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In assessing the likelihood of receiving the amount of the consideration, an entity shall only consider the customer's ability and intention to pay the amount of the consideration when it is due.

Interest income and expense

Interest income and expenses and similar income and expenses relate to cash and cash equivalents, non-derivative financial assets and liabilities held for trading, measured at fair value through profit or loss and measured at amortised cost.

Interest income and expenses are taken to the income statement for all instruments measured at amortised cost according to the effective interest method.

Fees and commissions

Fees and commissions are recognised on an accruals basis.

In particular, trading commissions on transactions in securities are recognised when the service is provided.

Commissions included in amortised cost when calculating the effective interest rate, which are recognised under interest, are excluded.

Dividends

Dividends are taken to the income statement when distribution is approved.

Other income and charges

Other income and charges are recognised on an accruals basis.

Costs

Costs are recognised when they are incurred in compliance with the criterion of the correlation between costs and revenues that derive directly and jointly from the same transactions or events. Costs that cannot be associated with revenues are taken immediately to the income statement.

Costs directly attributable to financial instruments measured at amortised cost and determinable from the outset, regardless of when they are settled, flow to the income statement in application of the effective interest rate.

Losses are taken to the income statement in the year in which they are recognised.

Use of estimates and assumptions in preparing the consolidated financial statements

Line items are measured according to the principles set out above.

The application of these principles sometimes entails the use of estimates and assumptions capable of having a significant impact on the values recognised in the statement of financial position and income statement and on the disclosures regarding contingent assets and liabilities in the financial statements.

It bears reiterating that the use of reasonable estimates is an essential part of preparing the financial statements, without affecting their reliability; the main cases requiring the use of subjective assessments by management are reported below:

- the quantification of losses due to impairment in the value of receivables and of other financial assets;
- measurement of financial assets not quoted in active markets;
- measurement of intangible assets – including goodwill and other intangible assets with finite useful lives – and equity investments;
- the quantification of provisions for risks and charges;
- estimates and assumptions on the recoverability of deferred tax assets.

It should also be noted that an estimate may be adjusted due to changes in the circumstances on which it was based, new information or greater experience. Any changes in the estimates are applied prospectively and therefore result in an impact on the income statement in the year which the change occurs as well as that for future years.

The main factors of uncertainty that could affect the Group's future operating scenarios include the possible direct and indirect consequences for the global and Italian economy of the coronavirus (COVID-19) epidemic, the impacts of which currently cannot be estimated. The information and sensitivity analyses provided with reference to the main financial statement items subject to estimation (in particular goodwill) are believed to be capable of reflecting the impacts related to the elements of uncertainty that may be assumed at the reporting date.

With regard to the determination of the expected loss on receivables, securities, guarantees given and commitments, as required by IFRS 9 reference was also made to forward-looking information such as, in particular, the evolution of the macroeconomic scenarios used in calculating value adjustments. The evolution and weighting of these scenarios are subject to periodic evaluation with last update as at 31 December 2020.

Accounting effects deriving from the signing of the "Sale and Purchase and Merger Agreement" with Banca Farmafactoring S.p.A. and Equinova UK HoldCo Ltd on 13 May 2020

As indicated in the Report on Operations, to which reference is made for further details, on 13 May 2020 a “Sale and Purchase and Merger Agreement” (hereinafter “SPMA”) was stipulated by Banca Farmafactoring S.p.A. (“BFF”), the Bank's current controlling shareholder, Equinova UK Holding Ltd (“Equinova”) and (limited to certain contractual provisions) DEPObank S.p.A. which, in very simple terms, provides for and governs, subject to the fulfilment of certain closing conditions, (i) BFF's acquisition of control of DEPObank (the "Acquisition”) and (ii) immediately following the Acquisition, the merger by incorporation of DEPObank into Banca Farmafactoring. The transaction is expected to be closed by the end of Q1 2021.

Among other things the SPMA provides for certain conditions, including:

- as a risk mitigation mechanism on the portfolio of government bonds held by DEPObank, the obligation to sell to BFF, at the signing date of said SPMA and at market prices, "Cct-Eu Tv Eur6M+0.95% Ap25 Eur" securities with a nominal value of €770.5 million. As a result of the sale, in the income statement the Bank recorded item "100. Gains (losses) on disposal or repurchase of financial assets measured at amortised cost" the realised loss of approximately €37.4 million, before taxes;
- the abandonment of the SME Specialised Lending project (so-called Vesta Project) and the disposal of all assets/contracts related to it, including, as conditions for the closing of the Acquisition:
  - the sale of the entire equity investment in Cara Services GmbH. The assets and liabilities related to this investment, in line with the resolutions of the Bank's Board of Directors on 17 December 2020, were classified under item "120. Non-current assets and groups of assets held for disposal" and "70. "Liabilities associated with groups of assets held for disposal" in the balance sheet. Their valuation at fair value, identified through the expected price of the sale of the investment to third parties quantified on the basis of the offers received by the Bank for the related sale, resulted in the recognition of a loss of value, attributable to the impairment of goodwill equal to €17.9 million, which was recorded net of tax effects under item "320. Profit (loss) from discontinued operations after taxes";
  - the sale of the share of the loan disbursed in the pool to Prelios S.p.A. This loan, in line with the resolutions of the Board of Directors of the Bank on 17 December 2020, was classified under asset balance sheet item "120. Non-current assets and groups of assets held for disposal" and valued at the presumed sale price. The loss of €1.2 million was recorded net of tax effects under item "320. Profit (loss) from discontinued operations after taxes";
  - Clean Early Termination of certain Bank employees. The costs of the agreements reached with the employees covered by this accord, amounting to approximately €3.6 million, have been set aside in the provisions for risks and charges on the basis of the conditions envisaged in the agreements stipulated or in the stipulation phase;
  - the sending of a notice of termination – at the earliest date available under the relevant agreements – of all relevant commercial agreements, including the lease of a portion of the Milan office. This termination was formalised with the lessor in February 2021. In the financial statements at 31 December 2020, on the basis of the conditions assumed for early termination, the relative right of use recorded among tangible assets was impaired, the balance of payables related to the fees to be paid was adjusted, and the penalty envisaged for the early termination of the lease and the charges related to the release of the property were allocated to the provision for risks and charges. These items were recorded in the income statement for a gross total amount of €2.2 million.

A.3 - TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

There were no business model changes in 2020.

A.4 - INFORMATION ON FAIR VALUE

IASs/IFRSs require that financial instruments classified as "Financial assets at fair value through profit or loss", "Financial assets at fair value through comprehensive income" and "Financial liabilities held for trading" be measured at fair value.

The fair value is the price that would be received for a sale of an asset or which would be paid for the transfer of a liability in a normal operation between market operators (in other words, not a forced liquidation or sale below cost) on the valuation date. The fair value is a market valuation criterion, not specific to the entity. An entity needs to assess the fair value of an asset or liability by adopting the assumptions that the market operators would use when determining the price of the asset or liability, assuming that the market operators act to satisfy their own economic interests in the best possible way.

In determining the fair value of a financial instrument, IFRS 13 establishes a hierarchy of criteria in terms of the reliability of the fair value according to the degree of discretion applied by entities, giving priority to the use of observable market parameters that reflect the assumptions that market participants would use in valuing (pricing) an asset/liability.

Three different input levels are identified:

- Level 1: inputs represented by (unmodified) quoted prices on active markets for identical assets or liabilities, which can be accessed on the measurement date;
- Level 2: inputs other than quoted prices included in Level 1 that are observable, directly (as in the case of prices) or indirectly (i.e. as derived from prices), for the assets or liabilities to be measured;
- Level 3: unobservable inputs for the asset or liability.

The choice between the aforementioned methodologies is not optional, since they must be applied in hierarchical order: absolute priority is given to the official prices available on active markets for the assets and liabilities to be measured (level 1) or for assets and liabilities measured using valuation techniques based on observable market parameters other than the prices of the financial instrument (level 2), and lower priority is given to assets and liabilities whose fair value is calculated using valuation techniques based on parameters that are not observable on the market and are therefore more discretionary (level 3).

In compliance with the rules described above, the market price recorded at the end of the reporting period is used for instruments quoted in active markets (Level 1).

The fair value of financial instruments not listed on active markets has been determined by using valuation techniques based mainly on the discounting of cash flows. The valuation techniques used incorporate all the factors considered by the market when setting the price and are based mainly on observable market inputs (Level 2). In particular:

- bonds are measured by discounting the future cash flows provided for in the contractual plan of the security, using the market rates adjusted for the counterparty risk for this purpose;
- derivative contracts, consisting of overnight interest rate swaps (OISs), are measured on the basis of market valuation models using market rates as the prevailing parameters, adjusted for counterparty risk. This risk includes, where relevant, both changes in the counterparty's creditworthiness and changes in the issuer's creditworthiness (own credit risk);
- for equities, there is a hierarchy and an order of application of valuation methods that considers, first of all, any transactions in the security recorded over a sufficiently short period of time compared to the valuation period, comparable transactions of companies operating in the same sector and the application of analytical financial, income-based and equity-based valuation methods.

The measurement method for a financial instrument is adopted on a continuing basis, and is only changed if there are significant variations in the market or subjective conditions of the issuer of the financial instrument.

The Group does not hold Level 3 financial instruments, except for an immaterial amount (equal to €0.1 million).

QUALITATIVE INFORMATION

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

With reference to Level 2 financial instruments, mainly represented by swaps and loans to customers and to banks measured at amortised cost, the valuations as at 31 December 2020 have been based on interest rates and volatility factors derived from the market.

In the case of swaps, the valuations as at 31 December 2020 have been based on interest rates and volatility factors derived from the market. In view of the Group's limited dealings in the over-the-counter derivatives segment and its dealings mainly with the most relevant counterparties based on risk-mitigating collateralisation agreements, the adjustments made to the measurement of Level 2 instruments to incorporate counterparty risk were not significant.

With reference to units of UCIs, classified in level 2 of the hierarchy, it is determined using the official NAV.

The only instrument classified in level 3 is the amount due from the Interbank Deposit Protection Fund's voluntary scheme.

A.4.2 Processes and sensitivity of valuations

As highlighted above, the only instrument classified to level 3 is the amount due from the Interbank Deposit Protection Fund's voluntary scheme.

A.4.3 Fair value hierarchy

Transfers between fair value levels are based on empirical observation of the intrinsic phenomena of the instrument considered or of the markets in which it is traded.

The transfer from Level 1 to Level 2 is a consequence of the loss of an adequate number of contributors, i.e. the limited number of investors holding the outstanding free floating shares.

Conversely, securities with limited liquidity when issued and a large number of trades – classified as Level 2 – are transferred to Level 1 when there is found to be an active market.

A.4.4 Other information

The Group has not exercised the option under IFRS 13.48 to measure net positions for groups of assets and liabilities managed on a net basis.

The Group also does not hold assets the current use of which differs from their maximum and best use.

QUANTITATIVE INFORMATION

A.4.5 Fair value hierarchy

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

Financial assets/liabilities measured at fair value	31/12/2020		
	L1	L2	L3
1. Financial assets measured at fair value through profit or loss			-
a) financial assets held for trading	8	1,764	-
b) financial assets at fair value			
c) other financial assets mandatorily measured at fair value	-	33,299	107
2. Financial assets measured at fair value through other comprehensive income	143	3,155	-
3. Hedging derivatives			
4. Tangible assets			
5. Intangible assets			
Total	**152**	**38,218**	**107**
1. Financial liabilities held for trading	-	4,039	-
2. Financial liabilities designated at fair value			
3. Hedging derivatives			
Total	**-**	**4,039**	**-**

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

There were no transfers of assets or liabilities between Level 1 and Level 2 during the year.

Taking into account the limited dealings of DEPObank in the OTC derivatives segment, in any case essentially consisting of dealings with Italian institutional counterparties, the fair value indicated above is not significantly influenced by correction factors for counterparty risk (credit value adjustment and/or debit value adjustment). It should also be noted that the counterparty risk for the above transactions is mitigated by the presence of collateral.

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

	Financial assets measured at fair value through profit or loss				Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Tangible assets	Intangible assets
	Total	of which: a) Financial assets held for trading	of which: b) Financial assets designated at fair value	of which: c) Other financial assets subject to mandatory fair-value measurement				
1. Opening balances	-	-	-	-	-	-	-	-
2. Increases								
2.1 Purchases								
2.2 Profits charged to:								
2.2.1 Income Statement								
- *of which capital gains*								
2.2.2 Shareholders' equity		X	X	X				
2.3 Transfers from other levels								
2.4 Other increases	107			107				
3. Decreases								
3.1 Sales								
3.2 Repayments								
3.3 Losses charged to:								
3.3.1 Income Statement								
- *of which capital losses*								
3.3.2 Shareholders' equity		X	X	X				
3.4 Transfers from other levels								
3.5 Other decreases								
D. Closing balances	**107**	-	-	**107**	-	-	-	-

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

	31/12/2020			
Assets and liabilities not valued at fair value or valued at fair value on a non-recurring basis	**BV**	**L1**	**L2**	**L3**
1. Financial assets measured at amortised cost	5,199,274	3,347,525	2,143,917	-
2. Tangible assets held for investment				
3. Non-current assets and groups of assets held for disposal				
Total	**5,199,274**	**3,347,525**	**2,143,917**	**-**
1. Financial liabilities measured at amortised cost	9,899,701	-	9,899,701	-
2. Liabilities linked to assets held for sale				
Total	**9,899,701**	**-**	**9,899,701**	

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

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

With reference to paragraph 28 of IFRS7, in some cases, an entity does not recognise gain or loss upon the initial recognition of a financial asset or financial liability because fair value is not based on a price quoted in an active market for an identical asset or liability (i.e. a Level 1 input) nor on a valuation technique that uses only observable market data (see paragraph B5.1.2 A of IFRS 9). In such cases, for each class of financial asset or liability, an entity must disclose:

a. the accounting principles it uses when recognising in profit or loss the difference between the fair value at initial recognition and the transaction price to reflect a change in the factors (including time) that market participants would take into account when determining the price of the asset or liability (see paragraph B5.1.2 A (b) of IFRS 9);
b. the total difference still to be recognised in profit or loss at the beginning and end of the year and the reconciliation of changes in the balance of that difference;
c. the reason why the entity concluded that the transaction price was not the best evidence of fair value, including a description of the evidence supporting fair value.

There are no transactions attributable to this case.

PART B - INFORMATION ON THE CONSOLIDATED BALANCE SHEET

Assets

SECTION 1 - CASH AND CASH EQUIVALENTS – ITEM 10

1.1 Cash and cash equivalents: breakdown

	31/12/2020
a) Cash	186
b) Demand deposits with central banks	4,920,767
Total	**4,920,953**

SECTION 2 - FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS - ITEM 20

2.1 Financial assets held for trading: breakdown

Items/values	31/12/2020		
	L1	L2	L3
A. On-balance-sheet assets			
1. Debt securities:	8	-	-
1.1 Structured securities	-	-	-
1.2 Other debt securities	8	-	-
2. Equity securities	-	-	-
3. Units of UCIs	1	-	-
4. Loans:	-	1	-
4.1 Repurchase agreements	-	1	-
4.2 Others	-	-	-
Total A	**9**	**1**	**-**
B. Derivatives			
1. Financial derivatives:	-	1,763	-
1.1 held for trading	-	1,763	-
1.2 connected to the fair value option	-	-	-
1.3 others	-		-
2. Credit derivatives:			
2.1 held for trading	-	-	-
2.2 connected to the fair value option	-	-	-
2.3 others	-	-	-
Total B	**-**	**1,763**	**-**
Total (A+B)	**9**	**1,764**	**-**

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

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

Items/values	31/12/2020
A. On-balance-sheet assets	
1. Debt securities	
a) Central Banks	-
b) Public administrations	4
c) Banks	4
d) Other financial companies	-
of which: insurance companies	-
e) Non-financial companies	-
2. Equity securities	
a) Banks	-
b) Other financial companies:	-
of which: insurance companies	-
c) Non-financial companies	1
d) Other issuers	-
3. Units of UCIs	**1**
4. Loans	
a) Central Banks	-
b) Public administrations	-
c) Banks	-
d) Other financial companies	-
of which: insurance companies	-
e) Non-financial companies	-
f) Households	-
Total A	**10**
B. Derivatives	
a) Central counterparties	-
b) Others	1,763
Total B	**1,763**
Total (A + B)	**1,773**

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

Items/values	31/12/2020		
	L1	L2	L3
1. Debt securities			
1.1 Structured securities			
1.2 Other debt securities			
2. Equity securities			
3. Units of UCIs		**33,299**	
4. Loans			
4.1 Repurchase agreements			
4.2 Others			107
Total	**-**	**33,299**	**107**

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

“Units of UCIs” are mainly represented by assets managed by Fondo Italiano di Investimento SGR and to a lesser extent (€ 1 million) by the interests held by the Bank in the Atlante Fund, Fondo di Investimento Alternativo (FIA).

The item "Loans - Others” is represented by receivables due from the Interbank Deposit Protection Fund Voluntary Scheme.

2.6 Other financial assets mandatorily at fair value: breakdown by debtor/issuer

	31/12/2020
1. Equity securities	
of which: banks	
of which: other financial companies	
of which: other non-financial companies	
2. Debt securities	
a) Central Banks	
b) Public administrations	
c) Banks	
d) Other financial companies	
of which: insurance companies	
e) Non-financial companies	
3. Units of UCIs	**33,299**
4. Loans	
a) Central Banks	
b) Public administrations	
c) Banks	
d) Other financial companies	
of which: insurance companies	
e) Non-financial companies	107
f) Households	
Total	**33,406**

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

Items/values	31/12/2020		
	L1	L2	L3
1. Debt securities			
1.1 Structured securities	-	-	-
1.2 Other debt securities	-	-	-
2. Equity securities	**143**	**3,155**	**-**
3. Loans			**-**
Total	**143**	**3,155**	**-**

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

3.2 Financial assets measured at fair value with impact on comprehensive income: breakdown by borrower/issuer

Items/values	31/12/2020
1. Debt securities	
a) Central Banks	-
b) Public administrations	-
c) Banks	-
d) Other financial companies	-
of which: insurance companies	-
e) Non-financial companies	-
2. Equity securities	**-**
a) Banks	350
b) Other issuers:	
– other financial companies	2,682
of which: insurance companies	
– non-financial companies	266
– others	
3. Loans	
a) Central Banks	-
b) Public administrations	-
c) Banks	-
d) Other financial companies	-
of which: insurance companies	-
e) Non-financial companies	-
f) Households	-
Total	**3,298**

SECTION 4 – FINANCIAL ASSETS AT AMORTISED COST – ITEM 40

4.1 Financial assets measured at amortised cost: breakdown of receivables due from banks

Type of operations/Values	31/12/2020					
	Book value			Fair value		
	Stage one and Stage two	Stage three	of which: purchased or originated impaired	L1	L2	L3
A. Receivables due from Central Banks						
1. Time deposits	-	-	-	X	X	X
2. Reserve requirements	171,255	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X
4. Others	-	-	-	X	X	X
B. Receivables due from banks		-	-			
1. Loans						
1.1 Current accounts and on-demand deposits	224,586	-	-	X	X	X
1.2 Time deposits	12,424	-	-	X	X	X
1.3 Other loans:	-	-	-			
- Reverse Repurchase Agreements	1,143,253	-	-			
- Finance leases	-	-	-			
– Others	133,796	-	-			
2. Debt securities	-	-	-			
2.1 Structured securities	14,976	-	-	14,989	-	-
2.2 Other debt securities	17,623	-	-	12,853	4,788	-
Total	**1,717,913**	**-**	**-**	**27,842**	**4,788**	

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

The item "Due from central banks - Minimum reserves" also includes the amounts deposited to meet the reserve requirement on behalf of client banks, to which DEPObank provides the service of indirect compliance with reserve requirements.

The item "Receivables due from banks - Repurchase agreements" refers to contracts governed by global master repurchase agreements (GMRAs).

"Receivables due from banks - Other" consist mainly of operating receivables, i.e. receivables for transactions connected to the provision of services, and in particular (€113 million) of daily positions connected to the provision of payment cards settlement services.

The Group had no subordinated securities as at 31/12/2020.

4.2 Financial assets at amortised cost: breakdown by type of customer receivables

Type of operations/Values	31/12/2020					
	Book value			Fair value		
	Stage one and Stage two	Stage three	of which: purchased or originated impaired	L1	L2	L3
1. Loans						
1.1 Current accounts	18,180	3,104	-	X	X	X
1.2 Reverse repurchase agreements	188,900	-	-	X	X	X
1.3 Mortgages	-	-	-	X	X	X
1.4 Credit cards and personal loans, including salary assignment loans	862	-	-	X	X	X
1.5 Finance leases	-	-	-	X	X	X
1.6 Factoring	-	-	-	X	X	X
1.7 Other loans	18,851	-	-	X	X	X
2. Debt securities	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Structured securities	-	-	-	-	-	-
2.2 Other debt securities	3,251,464	-	-	3,319,682	-	-
Total	**3,478,257**	**3,104**	**-**	**3,319,682**	**-**	**-**

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

Current account credit facilities are represented by the use of lines of credit, functional to service needs, granted to funds and asset management companies to which depositary bank services are rendered (as part of the services offered by the Securities Services business unit) or by corporate customers to whom collection and payment services are provided (as part of the services provided by the Banking Payments Department).

The item "Loans - Repurchase agreements" is represented by exposures arising in relation to contracts with customers regulated by the global master repurchase agreements (GMRAs).

The item "Other loans" consists mainly (€18 million) of security deposits functional to settlement activities related to the typical operations of the Securities Services and Banking Payments business areas.

"Debt securities" are entirely represented by Italian government securities.

4.3 Financial assets at amortised cost: breakdown by borrower/issuer of customer receivables

	31/12/2020		
Type of operations/Values	**Stage one and Stage two**	**Stage three**	**of which: purchased or originated impaired assets**
1. Debt securities			
a) Public authorities	3,251,464	-	-
b) Other financial companies	-	-	-
of which: insurance companies	-	-	-
c) Non-financial companies	-	-	-
2. Loans to:			
a) Public authorities	-	-	-
b) Other financial companies	110,351	3,104	-
of which: insurance companies	-	-	-
c) Non-financial companies	115,566	-	-
d) Households	876	-	-
Total	**3,478,257**	**3,104**	**-**

4.4 Financial assets measured at amortised cost: gross amount and total adjustments

	Gross value				Total value adjustments			Total partial write-offs (*)
	Stage one	of which: Instruments with low credit risk	Stage two	Stage three	Stage one	Stage two	Stage three	
Debt securities	3,284,752	3,284,752	-	-	689	-	-	-
Loans	1,912,695	1,332,206	6	6,635	593	-	3,532	-
Total 31/12/2020	**5,197,447**	**4,616,958**	**6**	**6,635**	**1,282**	**-**	**3,532**	**-**
of which: purchased or originated impaired financial assets	X	X	-	-	X	-	-	-

(*) Value presented for informative purposes

There are no loans measured at amortised cost subject to COVID-19 support measures.

The methods for calculating adjustments to loans are described in Section E of these Notes.

SECTION 7 – EQUITY INVESTMENTS – ITEM 70

7.1 Equity investments: information on shareholding relationships

Name	Head office	Operational headquarters	Shareholding	Votes held
			%	%
B. Companies subject to significant influence				
1. Unione Fiduciaria S.p.A.	Milan	Milan	24.59	24.59

The stakes displayed in the table take into account treasury shares held by the company (and purchased during 2020). The interest as a portion of the number of shares issued is 24%.

7.2 Significant shareholdings: book values, fair values and dividends received

Name	Book value	Fair value	Dividends received
B. Companies over which significant influence is exercised			
1. Unione Fiduciaria	10,108	X	-
Total	**10,108**		**-**

7.3 Significant shareholdings: accounting information

Name	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues	Profit (Loss) from continuing operations before taxes	Profit (Loss) from continuing operations after taxes	Profit (loss) for the financial year (1)	Other income components, after taxes (2)	Profit (Loss) from discontinued operations after taxes	Profit (loss) for the financial year (1)	Other income components, after taxes (2)	Comprehensive income (3) = (1) + (2)
B. Companies subject to significant influence														
1. Unione Fiduciaria (*)	14,001	1,109	54,844	-	69,954	21,809	-	2,504	4,201	6,202	-	6,202	-2,001	4,201
Total	**14,001**	**1,109**	**54,844**	**-**	**69,954**	**21,809**	**-**	**2,504**	**4,201**	**6,202**	**-**	**6,202**	**-2,001**	**4,201**

(*) The figures refer to the financial statements as at 31/12/2019.

The valuation at equity of the investment in the Consolidated Financial Statements takes into account the balance sheet data as at 30 September 2020 examined by the Company's Board of Directors.

7.5 Equity investments: annual changes

	31/12/2020
A. Opening balance	
B. Increases	
B.1 Purchases	-
B.2 Write-backs	-
B.3 Revaluations	1,544
B.4 Other changes	8,564
C. Decreases	**-**
C.1 Sales	-
C.2 Value adjustments	-
C.3 Depreciation	
C.4 Other changes	-
D. Closing balances	**10,108**
E. Total revaluations	**1,544**
F. Total adjustments	**-**

SECTION 9 – PROPERTY AND EQUIPMENT – ITEM 90

9.1 Tangible assets with functional use: breakdown of assets measured at cost

Assets/Values	31/12/2020
1. Owned assets	
a) land	2,640
b) buildings	4,905
c) furniture and fittings	246
d) electronic systems	-
e) others	625
2. Lease rights of use	**-**
a) land	-
b) buildings	13,397
c) furniture and fittings	-
d) electronic systems	-
e) others	208
Total	**22,021**
of which: obtained by enforcement of guarantees received	

Owned buildings and land refer to the property in Rome - Via Elio Chianesi 110/d, home to the Bank's Rome headquarters.

The leased buildings refer to the property in Milan - Via Anna Maria Mozzoni 1.1, home to the Bank's registered office and to its Milan management and operational headquarters.

9.6 Tangible assets with functional use: yearly changes

	Land	Buildings	Furnishings	Electronic systems	Others	Total
A. Gross opening balances						
A.1 Total net write-downs						
A.2 Opening net balances						
B. Increases						
B.1 Purchases	-	100	2	-	277	379
B.2 Capitalised expenditures on improvements	-	-	-	-	-	-
B.3 Write-backs	-	-	-	-	-	-
B.4 Increases in fair value charged to:	-	-	-	-	-	-
a) Shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Transfers from properties held for investment	-	-	-	-	-	-
B.7 Other changes	2,640	23,829	274	-	957	27,699
C. Decreases						
C.1 Sales	-	-	-	-	-	-
C.2 Depreciation	-	2,172	30	-	306	2,508
C.3 Impairment losses charged to:	-	-	-	-	-	-
a) Shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.4 Decreases in fair value charged to:	-	-	-	-	-	-
a) Shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) tangible assets held for investment	-	-	-	-	-	-
b) non-current assets and groups of assets held for disposal	-	-	-	-	7	7
C.7 Other changes	-	3,455	-	-	87	3,542
D. Closing net balances	**2,640**	**18,302**	**246**	**-**	**833**	**22,021**
D.1 Total net write-downs	-	2,172	30	-	306	2,508
D.2 Closing Gross Amount	**2,640**	**20,474**	**276**	**-**	**1,139**	**24,529**
E. Measurement at cost						

The “Other changes” in decline refer to the impairment on the Right of Use of a portion of the property in Milan - Via Anna Maria Mozzoni 1.1, subject to a separate independent lease, resulting from the commitment to terminate the relevant contract entered into with the signing of the SPMA.

SECTION 10 - INTANGIBLE ASSETS - ITEM 100

10.1 Intangible assets: breakdown by type of asset

Assets/Values	31/12/2020	
	Finite useful life	Indefinite useful life
A.1 Goodwill	**x**	**81,017**
A.2 Other intangible assets	**22,658**	**-**
A.2.1 Assets measured at cost:	-	-
a) Intangible assets created internally	-	-
b) Other assets	22,658	-
A.2.2 Assets valued at fair value:	-	-
a) Intangible assets created internally	-	-
b) Other assets	-	-
Total	**22,658**	**81,017**

The goodwill recorded as at 31 December 2020 refers to the Banking Payments cash-generating unit (CGU).

Other assets are represented for €15 million by "Customer contracts” (intangible assets with a finite useful life, arising from the acquisitions, between 2011 and 2014, of business units relating to depository bank and ancillary activities, originally recognised at the price paid less the unit's net assets and amortised over a period of ten years) and for €7 million at multi-year costs incurred in particular for the purchase of software and/or the development of the company's information system.

10.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: internally generated		Other intangible assets: others		Total
		FIN	INDEF	FIN	INDEF	
A. Opening balance						
A.1 Total net write-downs						
A.2 Opening net balances						
B. Increases						
B.1 Purchases	-	-	-	5,444	-	5,444
B.2 Increases in internal intangible assets	x	-	-	308	-	308
B.3 Write-backs	x	-	-	-	-	-
B.4 Positive changes in fair value	-	-	-	-	-	-
– to Shareholders' equity	x	-	-	-	-	-
– to income statement	x	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Other changes	81,017	-	-	29,029	-	110,046
C. Decreases						**-**
C.1 Sales	-	-	-	-	-	-
C.2 Value adjustments	-	-	-	-	-	-
- Amortisation	x	-	-	10,915	-	10,915
- Write-downs	-	-	-	-	-	-
+ shareholders' equity	x	-	-	-	-	-
+ income statement	-	-	-	-	-	-
C.3 Decreases in fair value	-	-	-	-	-	-
– to Shareholders' equity	x	-	-	-	-	-
– to income statement	x	-	-	-	-	-
C.4 Transfers to non-current assets held for sale	-	-	-	1,207	-	1,207
C.5 Negative foreign exchange differences	-	-	-	-	-	-
C.6 Other changes	-	-	-		-	-
– operations of business combinations						-
D. Closing net balances	**81,017**	**-**	**-**	**22,658**	**-**	**103,675**
D.1 Total net write-downs	-	-	-	10,915	-	10,915
E. Closing gross balances	**81,017**	**-**	**-**	**33,574**	**-**	**114,590**
F. Valuation at cost						-

Key:
FIN = finite useful life
INDEF = indefinite useful life

10.3 Intangible assets: other information

Impairment testing

In accordance with IAS 36 – *Impairment of Assets*, DEPObank carried out the annual impairment test on intangible assets with an indefinite useful life (goodwill) at the reporting date by determining each asset's recoverable value and comparing it with the asset's book value.

Scope of analysis and book value of the CGUs

The company's accounts at 31 December 2020 recognise a single intangible asset with an indefinite useful life (Goodwill) pertaining to the Banking Payments cash generating unit (CGU).

The Banking Payments CGU is the same Business Unit identified by the Strategic Plan, as identifiable in the company organisation and represented in the Bank's management reports; the Business Unit is responsible, in an integrated form, for payment services of a banking nature and for related back-office services in favour of banks, companies and institutions.

The CGU's book value is the same as its goodwill value that appears in the company's accounting records (and separate financial statements), i.e. €81.0 million.

Since the capital underlying the book value of the CGU is assumed to be zero, an initial capital deficit (equal to the regulatory minimum capital initially required for the CGU's operations) is taken into account in determining the recoverable value.

Determination of recoverable value of the CGUs

Below is an illustration of the underlying assumptions and methodologies used for the impairment test conducted according to the applicable international accounting standard, IAS 36.

In line with the indications provided in the joint Bank of Italy/Consob/ISVAP document no. 4 of 3 March 2010, the procedure and the assessment parameters for the impairment testing of goodwill were approved by the Board of Directors independently and in advance of the approval of the draft 2020 financial statements.

In accordance with international accounting standards, the amount of any impairment loss is determined by the difference between the carrying amount of the CGU and its recoverable amount, where lower. The recoverable value is defined as the greater of:

- value in use, i.e. the present value of future cash flows that are expected to be generated by the continuous use of a specific asset or by a CGU;
- fair value, less costs to sell, i.e. the amount obtainable from the sale of an asset or CGU, in a free transaction between informed, independent parties.

The impairment test was conducted after the drawing-up of statement of the financial position and income statement projections underlying the "2020–2023 Strategic Plan" approved by the Board of Directors on 21 February 2020, taking into account:

- the exclusion (consistent with the choice adopted in the Financial Statements at 31 December 2019) of the impacts (financial position and results) expected in the Strategic Plan from the asset-side strategy underlying the Vesta Project (the so-called As-is Plan);
- the "COVID effects" on the aforementioned projections developed starting from the "Base Scenario" on COVID 2020 impacts shared in the Board of Directors meeting held on 28 April 2020;
- evidence from the first year of the Plan, with particular reference to the impacts of the COVID-19 pandemic and the signing in May 2020 of the Sale, Purchase and Merger Agreement between Banca Farmafactoring, Equinova and, limited to some articles, DEPObank;
- the projections underlying the 2021 Budget approved by the Board of Directors on 17 December 2020 and the related medium-term statement of financial position and income statement projections (hereinafter the "Updated Plan").

To determine the recoverable value of the CGU, both the value in use and fair value have been determined.

The value in use of the CGU has been determined by applying the Dividend Discount Model (DDM) methodology in the Excess Capital version, developed from the aforementioned projections for the 2021-2023 period. This method establishes that the economic value of a company (W), or of a branch thereof, subject to capital constraints of a binding nature is given by the discounting of a flow of dividends determined on the basis of income capacity and compliance with the minimum capital constraints imposed by the relevant supervisory authority. This method is based on the following evaluation formula:

$$W = DIV_a + TV_a$$

where:

DIV_a = the present value of the maximum theoretical distributable dividends (or capital deficits) (DIV) in the explicit forecast period, based on the following formula

$$\sum_{t=0}^{n} \frac{DIVt}{Ke}$$

TV_a = the present value of the terminal value (TV), calculated as a perpetual income of the long-term distributable dividend, based on the following formula:

$$TV = \frac{DIV\,t+1}{(Ke-g)}$$

where:

DIV_{t+1} = normalised dividend (sustainable average at the end of the explicit forecast horizon), calculated on the basis of supervisory requirements

K_e = Cost of equity

g = long-term growth rate

The cost of equity (K_e) was estimated according to the Capital Asset Pricing Model ("CAPM"), according to which the return on a risky activity is equal to the sum of a risk-free rate (R_f) and an equity risk premium (ERP), determined taking into account the specific risk of the activity (β), according to the following formula:

$$K_e = R_f + \beta \times ERP$$

The formula parameters were determined as follows:
- Risk-free rate: 12-month average of the gross yield of Italian 10-year BTPs observed at 31 December 2020 (incorporating "country risk");
- Beta: average value of monthly observations for a sample of comparable companies over an observation period of 5 years from 31 December 2020;
- Equity Risk Premium: in line with international best assessment practices (Source: A. Damodaran) – 12-month average given a floor of 5.5%.

The following was considered with reference to the estimation of the terminal value:
- a prudential increase (add-on) of 1.00% of the cost of equity (Ke), in continuity with the previous year;
- a long-term growth rate (g) of 1.35%, in line with long-term inflation expectations for Italy (Source: International Monetary Fund, 2020). With this in mind, since the ECB has not provided updates on the eurozone long-term growth rate adopted last year (2%), it was deemed appropriate to use the recent estimates from the International Monetary Fund as an alternative and equally authoritative source.

The following table summarises the formation and measurement of the cost of equity used in the impairment test for the year 2020.

	Banking Payments CGU
Risk-free rate (R_f)	1.12%
Beta (ß)	1.06
Equity Risk Premium (ERP)	5.50%
Cost of equity (K_e) Explicit period	**6.96%**
Cost of equity (K_e) Terminal Value	**7.96%**

The potentially distributable dividends during the explicit forecast period and for the terminal value were determined considering:

- the income flows pertaining to the CGU based on projections from the Updated Plan;
- a minimum capital requirement determined on the basis of the Leverage parameter, more stringent at the company level, equal to the minimum prospective regulatory requirement (CRR2) of 3.0%, plus a buffer of 0.5%, to take into account the possible volatility of total assets (induced in particular by funding in the form the accounts held by depository bank customers).

Calculating the minimum capital requirement based on the Leverage parameter is a requirement adopted in the previous year and determined in particular by excluding the growth outlook of the SME Specialised Lending business line for impairment purposes.

In fact, the Bank, in its current configuration, presents an atypical (compared to ordinary banks) “sensitivity” to the aforementioned regulatory requirements, due to a low *RWA density* (calculated as the ratio of Risk Weighted Assets to Total Exposure), equal to about 10%, which makes the CET 1 ratio unrepresentative of the company's minimum regulatory capital requirements, with Leverage being much more stringent than that proportionate to RWAs.

In continuity with the impairment test of the previous year, fair value was determined by applying the market multiples method, based on the analysis of the stock prices of a selected sample of (comparable) companies operating in the reference sector of the Banking Payments CGU and on the subsequent application of multiples resulting from this analysis to the corresponding amounts of the CGU being valued.

The multiple selected is price/earnings (P/E), calculated as the ratio of the market capitalisation of the comparable companies selected for the Banking Payments CGU to their respective projected net profits.

This multiple is a commonly accepted and used indicator both nationally and internationally and is in line with professional practice when assessing institutions or branches thereof subject to capital requirements.

The market multiple is particularly high - on average above 30x in the 2020--2022 period and 20x in 2023 - since it is the mathematical effect of stock market capitalisations connected to current 2020 and expected profits that are low because of the negative impacts of the current health emergency. For this reason, from a prudential perspective and with the aim of mitigating the effects of significant short-term fluctuations in market multiples associated with extraordinary or speculative events, and as recommended by best measurement practice, it was deemed appropriate to refer to the adjusted P/E multiple.

The average value and median value of the market multiple in question obtained from the analysis of the comparison sample, considering the 12-month average stock market capitalisation, were applied to the expected net profits of the CGU in the corresponding year. Although estimates are available on the future income prospects of the sample of comparable companies up to 2023, it was decided to take the 2022 financial year (second year of the Plan) as a reference, in continuity with the approach used for the impairment test carried out last year. It should also be noted that no years before or after 2022 show any signs of impairment of the goodwill allocated to the CGU.

The values of the multiples used are presented in the table below.

	Banking Payments CGU
Average	17.3x
Median	17.1x

The fair value of the CGU was then determined as the average of the fair values identified by applying the average market multiple and the median market multiple - considering different stock market capitalisation horizons as described above - taking into account the initial capital requirement (deficit) calculated on the basis of the same assumptions and parameters illustrated when determining value in use.

However, it should be noted that, given the significant fluctuations that the health emergency has produced on the formation of stock market prices in recent months, which in turn can cause a significant volatility of the Fair Value even in the short term, it was considered appropriate to identify the recoverable value of the CGU taking only the Value in Use as reference.

Summary of results

Based on the underlying assumptions and methodologies illustrated, the impairment test at 31 December 2020 did not determine the need to recognise any write-down of goodwill allocated to the Banking Payments CGU, as the recoverable value of the CGU was higher than its carrying amount;

Sensitivity analysis

In accordance with IAS 36, a sensitivity analysis of the recoverable amount was carried out in order to assess the variability of the recoverable amount due to reasonable changes in the underlying assumptions. In particular, the data shown in the tables below represent:

- (on the left) the difference (in absolute value and percentage) between the recoverable value and the book value, assuming a decrease in the growth rate (g) while keeping the cost of equity constant (Ke);
- (on the right) the level that the "Ke" rate would have to take to eliminate the positive difference between the recoverable value and the book value, in various "g" growth rate scenarios.

Banking Payments CGU Terminal value grow rates "g"/ Cost of equity "Ke" (difference between recoverable amount and reference value in millions of euros) (as a percentage of value in use)				
		Ke (TV Ke)		
		6.96% (7.96%)		Ke (TV Ke)
g	1.00%	+ 26.8	+ 33.0%	8.25% (9.25%)
	1.35%	+ 32.2	+ 39.8%	8.43% (9.43%)
	1.70%	+ 38.3	+ 47.2%	8.62% (9.62%)

SECTION 11 – TAX ASSETS AND TAX LIABILITIES – ITEM 110 OF ASSETS AND ITEM 60 OF LIABILITIES

11.1 Advance tax assets: breakdown

	31/12/2020
IRAP	
Goodwill alignment	758
Amortisation	1,498
Others	248
IRES	
Goodwill alignment	3,740
Provisions	5,430
Amortisation	8,301
Tax loss	13,110
Others	2,142
Total	**35,226**

11.2 Deferred tax liabilities: breakdown

	31/12/2020
IRAP	
Valuation reserves	99
Goodwill	657
Others	
IRES	
Valuation reserves	24
Goodwill	3,243
Others	1,104
Total	**5,128**

11.3 Changes in deferred tax assets (through profit or loss)

	31/12/2020
1. Initial amount	
2. Increases	
2.1 Advance taxes recognised during the year	
a) relating to previous years	
b) due to changes in accounting criteria	
c) value write-backs	
d) others	17,804
2.2 New taxes or increases in tax rates	
2.3 Other Increases	19,073
3. Decreases	
3.1 Advance taxes cancelled during the year	
a) reversals	2,309
b) impairments of non-recoverable items	
c) due to changes in accounting criteria	
d) others	
3.2 Reductions in tax rates	
3.3 Other reductions	
a) transformation into tax credits, Italian Law 214/2011	
b) others	
4. Final amount	**34,569**

11.4 Changes in deferred tax assets pursuant to Law n. 214/2011

	31/12/2020
1. Initial amount	
2. Increases	**16,193**
3. Decreases	
3.1 Reversals	1,982
3.2 Transformation into tax credits	
a) deriving from losses for the year	
b) deriving from tax losses	
3.3 Other reductions	
4. Final amount	**14,211**

11.5 Changes in deferred tax liabilities (through profit or loss)

	31/12/2020
1. Initial amount	
2. Increases	
2.1 Deferred taxes recognised during the year	
a) relating to previous years	
b) due to changes in accounting criteria	
c) others	199
2.2 New taxes or increases in tax rates	
2.3 Other Increases	4,806
3. Decreases	
3.1 Deferred taxes cancelled during the year	
a) reversals	-
b) due to changes in accounting criteria	
c) others	
3.2 Reductions in tax rates	
3.3 Other reductions	
4. Final amount	**5,005**

11.6 Changes in deferred tax assets (recorded in equity)

	31/12/2020
1. Initial amount	
2. Increases	
2.1 Advance taxes recognised during the year	
a) relating to previous years	
b) due to changes in accounting criteria	
c) others	117
2.2 New taxes or increases in tax rates	
2.3 Other Increases	637
3. Decreases	
3.1 Advance taxes cancelled during the year	
a) reversals	97
b) impairments of non-recoverable items	
c) due to changes in accounting criteria	
3.2 Reductions in tax rates	
3.3 Other reductions	
4. Final amount	**658**

11.7 Changes in deferred tax liabilities (recorded in equity)

	31/12/2020
1. Initial amount	
2. Increases	
2.1 Deferred taxes recognised during the year	
a) relating to previous years	
b) due to changes in accounting criteria	
c) others	4
2.2 New taxes or increases in tax rates	
2.3 Other Increases	222
3. Decreases	
3.1 Deferred taxes cancelled during the year	
a) reversals	103
b) due to changes in accounting criteria	
c) others	
3.2 Reductions in tax rates	
3.3 Other reductions	
4. Final amount	**123**

SECTION 12 – NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS AND ASSOCIATED LIABILITIES - ITEM 120 OF ASSETS AND ITEM 70 OF LIABILITIES

12.1 Non-current assets held for sale and discontinued operations: breakdown by type

	31/12/2020
A. Assets held for sale	
A.1 Financial assets	18,617
A.2 Equity investments	-
A.3 Tangible assets	7
A.4 Intangible assets	2,698
A.5 Other non-current assets	1,080
Total A	**22,402**
of which measured at cost	
of which measured at fair value level 1	
of which measured at fair value level 2	
of which measured at fair value level 3	22,402
B. Discontinued operations	
B.1 Financial assets measured at fair value with impact on income statement	
- financial assets held for trading	
- financial assets at fair value	
- other financial assets subject to mandatory fair value measurement	
B.2 Financial assets measured at fair value through other comprehensive income	
B.3 Financial assets measured at amortised cost	
B.4 Equity investments	
B.5 Tangible assets	
of which: obtained by enforcement of guarantees received	
B.6 Intangible assets	
B.7 Other assets	
Total B	
of which measured at cost	
of which measured at fair value level 1	
of which measured at fair value level 2	
of which measured at fair value level 3	
C. Liabilities associated with assets held for sale	
C.1 Payables	
C.2 Securities	
C.3 Other liabilities	571
Total C	**571**
of which measured at cost	
of which measured at fair value level 1	
of which measured at fair value level 2	
of which measured at fair value level 3	571
D. Liabilities associated with discontinued operations	
D.1 Financial liabilities measured at amortised cost	
D.2 Financial liabilities held for trading	
D.3 Financial liabilities designated at fair value	
D.4 Provisions	
D.5 Other liabilities	
Total D	
of which measured at cost	
of which measured at fair value level 1	
of which measured at fair value level 2	
of which measured at fair value level 3	

12.2 Other information

The assets classified under this item include:

- assets attributable to the subsidiary Cara Services, including goodwill amounting to €1.5 million (compared with €19.4 million allocated to this asset on the basis of the acquisition price of the Equity Investment);
- “Prelios Loan”: share of €20 million of the pool loan (total €380 million) granted to Prelios S.p.A. in November 2019; the asset is recognised at the reporting date for €18.6 million.

As indicated in the Report on Operations, the aforementioned classification was approved by the Board of Directors at its meeting on 17 December 2020, considering the commitments made with the signing of the aforementioned “Sale, Purchase and Merger Agreement” for the disposal of assets referring to the so-called “Vesta Project”, together with the state of implementation of the conditions at the closing of the Acquisition underlying the aforementioned agreement.

SECTION 13 - OTHER ASSETS - ITEM 160

13.1 Other assets: breakdown

Assets/Values	31/12/2020
Receivables from the Tax Authorities for withholdings related to interest to customers and other receivables from the Tax Authorities	21,058
Negotiated cheques to be settled	8,346
Correspondents for past-due securities and coupons to be collected	532
Commissions and other income to be charged	39,774
BI-REL, credit transfers, Setif flows, messages received, e-money	155,654
Sundry and residual items	39,045
Total	**264,409**

In bank payment processing, the suspense accounts relating to the item "BI-REL, credit transfers, Setif flows, messages received”, include settlement that was suspended and then completed in the first business days after the reporting date of these financial statements.

Liabilities

SECTION 1 - FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST - ITEM 10

1.1 Financial liabilities at amortised cost: product breakdown of payables due to banks

Type of operations/Values	31/12/2020			
	Book value	Fair value		
		Level 1	Level 2	Level 3
1. Payables due to central banks	**3,537**	**x**	**x**	**x**
2. Payables due to banks		**x**	**x**	**x**
2.1 Current accounts and sight deposits	675,994	x	x	x
2.2 Time deposits	236,991	x	x	x
2.3 Loans				
2.3.1 Repurchase agreements - payable	-	x	x	x
2.3.2 Others	-	x	x	x
2.4 Debts for commitments to repurchase equity instruments	-	x	x	x
2.5 Payables for leases	-	x	x	x
2.6 Other Payables	17			
Total	**916,539**		**916,539**	

Time deposits are mainly related to the deposits required for the services rendered to client banks, such as indirect compliance with compulsory reserve requirements.

1.2 Financial liabilities measured at amortised cost: breakdown of payables due to customers

Type of operations/Values	31/12/2020			
	Book value	Fair value		
		Level 1	Level 2	Level 3
1. Current accounts and sight deposits	**8,351,133**	**x**	**x**	**x**
2. Time deposits	**24**	**x**	**x**	**x**
3. Loans	**-**			
3.1 Repurchase agreements - payable	-	x	x	x
3.2 Others	-	x	x	x
4. Liabilities in respect of commitments to repurchase own equity instruments	**-**	**x**	**x**	**x**
5. Payables for leases	**11,248**			
6. Other payables	**620,758**	**x**	**x**	**x**
Total	**8,983,162**		**8,983,162**	

Current account balances mainly refer to operating accounts, i.e. accounts opened in favour of customers (funds, asset management companies, corporate customers and institutions) in connection with the core service range (depositary bank and collection and payment services).

Other payables are mainly represented (€596 million) by outstanding cashier's cheques, issued as part of the service that allows affiliated banks to provide their customers with a credit instrument issued by DEPObank under a mandate agreement.

1.6 Payables for leases

Type of operations/Values	31/12/2020 book value
Payables for leases	11,248

SECTION 2 – FINANCIAL LIABILITIES HELD FOR TRADING – ITEM 20

2.1 Financial liabilities held for trading: breakdown by type

Operations/values	31/12/2020				
	NV	Fair value			FV*
		L1	L2	L3	
A. On-balance sheet liabilities					
1. Payables due to banks	-	-	-	-	-
2. Payables due to customers	-	-	-	-	-
3. Debt securities	-	-	-	-	-
3.1. Bonds	-	-	-	-	-
3.1.1 Structured	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X
3.2 Other securities	-	-	-	-	X
3.2.1 Structured	-	-	-	-	X
3.2.2 Others	-	-	-	-	X
Total (A)	**-**	**-**	**-**	**-**	**-**
B. Derivatives					
1. Financial derivatives					
1.1 Held for trading	X	-	4,039	-	X
1.2 Connected to the fair value option	X	-	-	-	X
1.3 Others		-	-	-	
2. Credit derivatives		-	-	-	
2.1 Held for trading	X	-	-	-	X
2.2 Connected to the fair value option	X	-	-	-	X
2.3 Others	X	-	-	-	X
Total (B)	**X**	**-**	**4,039**	**-**	**X**
Total (A + B)	**X**	**-**	**4,039**	**-**	**X**

Key:
NV = nominal or notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3
FV* = Fair value calculated excluding changes in value due to the change in the issuer's creditworthiness compared to the date of issue.

SECTION 6 - TAX LIABILITIES - ITEM 60

Refer to Section 11 of Assets.

SECTION 7 - LIABILITIES ASSOCIATED WITH DISCONTINUED OPERATIONS - ITEM 70

Refer to Section 12 of Assets.

SECTION 8 - OTHER LIABILITIES - ITEM 80

8.1 Other liabilities: breakdown

	31/12/2020
Tax payables, withholding taxes payable and other payables	2,287
Cheques, cheques truncation flows to be credited	15,316
Securities transactions, foreign exchange and premiums paid for options, to be credited	1,835
Payables to employees	25,225
Other payables for expenses and interest commissions payable	32,613
Currency haircuts on portfolio transactions	-
BI-REL, credit transfers, payment flows to be credited and e-money	194,845
Sundry and residual items	2,750
Total	**274,873**

SECTION 9 – EMPLOYEE SEVERANCE PAY – ITEM 90

9.1 Employee severance indemnity: annual changes

	31/12/2020
A. Opening balance	
B. Increases	
B.1 Provision for the year	45
B.2 Other changes	3,516
C. Decreases	
C.1 Payments made	36
C.2 Other changes	358
D. Closing balances	**3,167**
Total	**3,167**

9.2 Other information

Main demographic and actuarial assumptions for the assessment of the post-employment benefit provision as at 31 December 2020	
Probability of death of pensioners due to retirement or old age	Probabilities relative to the Italian population by age and gender, as determined by ISTAT in 2000
Probability of death of pensioners due to total, permanent disability	Probabilities based on the disability tables currently used in reinsurance practice by age and gender.
annual frequency of advances	1.76%
annual frequency of turnover	1.86%
Probability of retirement	Upon reaching the first retirement requirement valid for Mandatory General Insurance.
Inflation rate	0.80%
Annual discount rate	0.34%, in accordance with para. 83 of IAS 19, on the Iboxx Corporate AA index with a duration of 10+ as recorded on the assessment date

Sensitivity analysis

As required by IAS 19, a sensitivity analysis of the post-employment benefit obligation has been carried out in relation to the actuarial assumptions considered most significant, aimed at showing how the statement of financial position liability would vary in relation to the reasonably possible fluctuations in each of these actuarial assumptions. In particular, the following table provides evidence of the change in the post-employment benefit provision, assuming an increase or decrease in the main parameters used.

Sensitivity test for the main assessment criteria		
Turnover rate	+0.50%	3,154,726
Turnover rate	-0.50%	3,179,655
Discount rate	+0.50%	3,022,179
Discount rate	-0.50%	3,321,550
Mortality rate	+0.25%	3,167,643
Mortality rate	-0.25%	3,170,504

SECTION 10 – ALLOWANCES FOR RISKS AND CHARGES – ITEM 100

10.1 Provisions for risks and charges: breakdown

Items/Components	31/12/2020
1. Provisions for credit risk relating to commitments and financial guarantees given	1
2. Provisions for other commitments and guarantees issued	
3. Post-employment benefits and similar commitments	296
4. Other Provisions for risks and charges	30,391
Total	**30,688**

10.2 Provisions for risks and charges: annual changes

Items/Components	Provisions for other commitments and guarantees issued	Pension/ retirement funds	Other Provisions for risks and charges	Total
A. Opening balances				
B. Increases				
B.1 Provision for the year			8,808	8,808
B.2 Changes due to the passage of time				-
B.3 Changes due to variations in the discount rate				-
B.4 Other changes	6	330	23,036	23,372
C. Decreases				
C.1 Utilisation for the year		31	882	913
C.2 Changes due to variations in the discount rate				-
C.3 Other changes	5	3	571	579
D. Closing balances	**1**	**296**	**30,391**	**30,688**

Of the accruals during the year, €7,425,000 referred to charges that are likely to be incurred in the first half of 2021 in implementation of the commitments made under the SPMA.

10.3 Allowances for credit risk relating to commitments and financial guarantees given

	Provisions for credit risk relating to commitments and financial guarantees given			
	Stage one	Stage two	Stage three	Total
Commitments to disburse funds				
Financial guarantees given	1			1
Total	**1**			**1**

10.5 Defined-benefit pension funds

1. Illustration of the characteristics of the provisions and the related risks

The defined-benefit company pension fund consists of the provisions made in respect of the post-employment benefit obligations assumed by DEPObank. The estimated liability at 31 December 2020 is €296,000.

2. Changes in net defined-benefit liabilities (assets) and redemption rights during the year

The present value of the defined-benefit obligation amounted to €330,000 at 31 December 2019. During the year, benefits totalling €31,000 were disbursed.

10.6 Provisions for risks and charges - Other provisions

Other provisions mainly refer to claims/lawsuits for which payment is considered likely. The item also includes provisions for charitable expenses.

At 31 December 2020, there was also an amount not exceeding €5 million as a provision, in accordance with IAS 37, for a pending legal dispute pertaining to alleged risks not transferred when a business unit was sold.

SECTION 13 - GROUP SHAREHOLDERS' EQUITY - ITEMS 120, 130, 140, 150, 160, 170, 180 AND 200

13.1 Capital and treasury shares: breakdown

Items/values	31/12/2020
1. Share capital	42,557
2. Share premium	148,242
3. Reserves	286,008
4. Treasury shares (-)	-
5. Valuation reserves	-2,017
6. Equity instruments	-
7. Profit (loss) for the financial year	-35,943
Total	**438,847**

13.2 Capital - Number of parent company shares: annual changes

Items/Type	**Ordinary**	**Others**
A. Shares as of the beginning of the year		
- fully paid-in	14,110,599	
- not fully paid-in		
A.1 Treasury shares (-)		
A.2 Shares outstanding: initial balance	**14,110,599**	
B. Increases		
B.1 New issues		
- for cash:		
- operation of business combinations		
- conversion of bonds		
- exercise of warrants		
- others		
- free:		
- to employees		
- to Directors		
- others		
B.2 Sales of treasury shares		
B.3 Other changes		
C. Decreases		
C.1 Cancellation		
C.2 Purchase of treasury shares		
C.3 Disposal of companies		
C.4 Other changes		
D. Shares outstanding: closing balance	**14,110,599**	
D.1 Treasury shares (+)		
D.2 Shares existing at the end of the year	14,110,599	
- fully paid-in	14,110,599	
- not fully paid-in		

balances in units

Other information

1. Commitments and financial guarantees given (other than those designated at fair value)

	Notional value of commitments and financial guarantees given			
	Stage one	**Stage two**	**Stage three**	**31/12/2020**
Commitments to disburse funds				
a) Central Banks	-	-	-	-
b) Public administrations	-	-	-	-
c) Banks	308,855	-	-	308,855
d) Other financial companies	1,229,763	-	-	1,229,763
e) Non-financial companies	21,505	-	-	21,505
f) Households	1	-	-	1
Financial guarantees given	**-**	**-**	**-**	**-**
a) Central Banks	-	-	-	-
b) Public administrations	263	-	-	263
c) Banks	-	-	-	-
d) Other financial companies	49	-	-	49
e) Non-financial companies	-	-	-	-
f) Households	-	-	-	-

3. Assets given as collateral for own liabilities and commitments

Portfolios	**31/12/2020**
1. Financial assets measured at fair value through profit or loss	-
2. Financial assets measured at fair value through other comprehensive income	-
3. Financial assets measured at amortised cost	1,229,328
4. Tangible assets	
of which: tangible assets held as inventories	

The assets pledged as collateral consist mainly of government bonds securing the Bank's dealings for the settlement of transactions in its core businesses.

4. Administration and brokerage for third parties

Type of service	31/12/2020
1. Execution of orders for customers	
a) Purchases	
1. settled	-
2. not settled	-
b) sales	
1. settled	-
2. not settled	-
2. Portfolio management	**-**
a) Individual	
b) collective	
3. Custody and administration of securities	
a) third-party securities deposited: relating to depositary bank activities (excluding portfolio management)	48,569,221
1. instruments issued by the reporting bank	-
2. other securities	48,569,221
b) third party securities deposited (excluding portfolio management): others	82,965,057
1. instruments issued by the reporting bank	39,907
2. other securities	82,925,150
c) third party securities deposited with third parties	117,368,348
d) proprietary securities deposited with third parties	3,197,748
4. Other transactions	**-**

PART C - INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

SECTION 1 - INTEREST - ITEMS 10 AND 20

1.1 Interest income and similar income: breakdown

Items/Technical forms	Debt securities	Loans	Other transactions	31/12/2020
1. Financial assets measured at fair value through profit or loss:				
1.1 Financial assets held for trading	-	-	-	-
1.2 Financial assets at fair value	-	-	-	-
1.3 Other financial assets subject to mandatory fair value measurement	-	-	-	-
2. Financial assets measured at fair value through other comprehensive income:	**-**	**-**	**X**	**-**
3. Financial assets measured at amortised cost				
3.1 Receivables due from banks	1,150	5,873	X	7,023
3.2 Receivables due from customers	30,257	2,006	X	32,263
4. Hedging derivatives	**X**	**X**	**-**	**-**
5. Other assets	**X**	**X**	**480**	**480**
6. Financial liabilities	**X**	**X**	**X**	**11,447**
Total	**31,407**	**7,879**	**480**	**51,213**
of which: interest income on impaired assets				
of which: interest income on finance leasing				

1.3 Interest expense and similar expenses: breakdown

Items/Technical forms	Debt	Securities	Other transactions	31/12/2020
1. Financial liabilities measured at amortised cost				
1.1 Payables due to central banks	-	X	-	-
1.2. Payables due to banks	943	X	-	943
1.3. Payables due to customers	1,990	X	-	1,990
1.4. Securities issued	X	-	-	-
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**
3. Financial liabilities designated at fair value	**-**	**-**	**-**	**-**
4. Other liabilities and provisions	**X**	**X**	**506**	**506**
5. Hedging derivatives	**X**	**X**	**-**	**-**
6. Financial assets	**X**	**X**	**X**	**12,787**
Total	**2,933**	**-**	**506**	**16,227**
of which: interest expense relative to leasing liabilities				*388*

SECTION 2 - COMMISSION - ITEMS 40 AND 50

2.1 Fee and commission income: breakdown

Type of service/amounts	31/12/2020
a) guarantees given	5
b) credit derivatives	-
c) management, brokerage and advisory services:	-
1. securities trading	1,625
2. currency trading	-
3. portfolio management	-
4. custody and administration of securities	5,824
5. custodian bank	40,446
6. placement of securities	-
7. reception and transmission of orders	-
8. advisory services	189
8.1. related to investments	
8.2. related to financial structure	189
9. distribution of third party services	-
9.1. portfolio management	-
9.1.1. individual	-
9.1.2. collective	-
9.2. insurance products	-
9.3. other products	-
d) collection and payment services	58,162
e) securitisation servicing	-
f) factoring services	-
g) tax collection services	-
h) management of multilateral trading facilities	-
i) current account keeping and management	-
j) other services	5,358
Total	**111,608**

2.3 Fee and commission expense: breakdown

Services/Sectors	31/12/2020
a) guarantees received	46
b) credit derivatives	-
c) management and brokerage services:	
1. securities trading	-
2. currency trading	14
3. portfolio management:	-
3.1. proprietary	-
3.2. delegated to third parties	-
4. custody and administration of securities	4,393
5. placement of financial instruments	-
6. off-site distribution of financial instruments, products and services	-
d) collection and payment services	21,840
e) other services	3,762
Total	**30,055**

SECTION 3 - DIVIDEND INCOME AND SIMILAR REVENUE - ITEM 70

3.1 Dividends and similar income: breakdown

Items/income	31/12/2020	
	Dividends	Similar revenue
A. Financial assets held for trading		
B. Other financial assets subject to mandatory fair value measurement	9	
C. Financial assets measured at fair value through other comprehensive income	366	
D. Equity investments	-	
Total	**375**	**-**

SECTION 4 - NET TRADING RESULT - ITEM 80

4.1 Profits (losses) on trading: breakdown

Transaction/Income items	Capital gains (A)	Profits from trading (B)	Capital losses (C)	Losses from trading (D)	Net profit/ loss [(A+B) - (C+D)]
1. Financial assets held for trading					
1.1 Debt securities	-	1,663	-	-	1,663
1.2 Equity instruments	-	-	-	-	-
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 Others	-	-	-	-	-
3. Other financial assets and liabilities: exchange differences					**4,098**
4. Derivatives					
4.1 Financial derivatives:					
– On debt securities and interest rates	-	-	-	-	-
– On equity securities and share indices	-	-	-	-	-
- On currency and gold	X	X	X	X	-
– Others	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedging related to the fair value option	X	X	X	X	-
Total	**-**	**1,663**	**-**	**-**	**5,761**

The item "Other financial assets and liabilities: exchange differences" includes the margin relating to currency swaps used for treasury management, in particular funding from banks and customers in foreign currency.

SECTION 6 - PROFITS (LOSSES) ON DISPOSALS/REPURCHASES - ITEM 100

6.1 Profits (Losses) on disposals/repurchases: breakdown

Items/Income items	31/12/2020		
	Profit	Loss	Net profit/ loss
Financial assets			
1. Financial assets measured at amortised cost			
1.1 Receivables due from banks			
1.2 Receivables due from customers	979	37,361	-36,382
2. Financial assets measured at fair value through other comprehensive income			
2.1 Debt securities			
2.2 Loans			
Total assets (A)	**979**	**37,361**	**-36,382**
Financial liabilities measured at amortised cost			
1. Payables due to banks			
2. Payables due to customers			
3. Securities issued			
Total liabilities (B)	**-**	**-**	**-**

The loss on “Receivables from customers” refers entirely to the sale to Banca Farmafactoring S.p.A., at market prices, of the security “Cct-Eu Tv Eur6M+0.95% Ap25 Eur” securities in the DEPObank portfolio with a nominal value of €770.5 million, which took place on 13 May 2020 upon the signing of the SPMA and pursuant to the commitments made therein.

SECTION 7 - PROFIT (LOSS) ON OTHER FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS - ITEM 110

7.2 Net change in the value of other financial assets and liabilities measured at fair value through profit or loss: breakdown of other financial assets subject to mandatory fair-value measurement

Transaction/Income items	Capital gains (A)	Realised gains (B)	Capital losses (C)	Losses on disposal (D)	Net profit/ loss [(A+B)-(C+D)]
1. Financial assets					
1.1 Debt securities					
1.2 Equity instruments					-
1.3 UCITS units	1,271	3	132		1,141
1.4 Loans			-		-
2. Financial assets in currency: exchange differences	**X**	**X**	**X**	**X**	
Total	**1,271**	**3**	**132**	**-**	**1,141**

SECTION 8 - NET WRITE-DOWNS/WRITE-BACKS FOR CREDIT RISK - ITEM 130

8.1 Net losses/recoveries for credit risk relating to financial assets measured at amortised cost: breakdown

Transaction/Income items	Write-downs (1)			Write-backs (2)		31/12/2020
	Stage one and Stage two	Stage three		Stage one and Stage two	Stage three	
		Write-offs	Others			
A. Receivables due from banks						
- Loans	38		-	-		- 38
- Debt securities	-		-	41		41
of which: impaired receivables purchased or originated	-		-	-		
B. Receivables due from customers						
- Loans	-		134	248	-	114
- Debt securities	-		-	1,710		1,710
of which: impaired receivables purchased or originated	-		-			
C. Total	**38**	**-**	**134**	**2,000**	**-**	**1,828**

Note that the Group does not hold loans subject to moratoria or other concession measures in place as at the reporting date.

SECTION 12 - ADMINISTRATIVE EXPENSES- ITEM 190

12.1 Personnel costs: breakdown

Type of expense/Amounts	**31/12/2020**
1) Employees	32,120
a) wages and salaries	23,130
b) social security contributions	6,052
c) provision for employee severance pay	159
d) pension costs	57
e) provision for post-employment benefits	45
f) provision for pensions and similar obligations:	-
- defined contribution	-
– with defined benefits	-
g) payments to external pension funds:	-
- defined contribution	1,614
– with defined benefits	-
h) costs related to share-based payments	-
i) other employee benefits	1,063
2) Other personnel in service	5
3) Directors and statutory auditors	2,811
4) Early retirement costs	-
5) Recoveries of costs of employees seconded to other companies	-
6) Reimbursement of costs of third-party employees seconded to the company	-
Total	**34,936**

12.2 Average no. of employees per category

Employees	**31/12/2020**
a) managers	16
b) middle managers	140
c) other employees	201
Total	**357**

12.3 Defined-benefit pension funds: costs and revenues

The defined-benefit company fund is currently active only with reference to departed employees because the company pension fund for all existing employees is defined-contribution.

The costs of the defined-benefit fund recognised in the income statement refer to financial income of €3,000.

There are no plan assets.

12.5 Other administrative expenses: breakdown

Type of expenditure	31/12/2020
- data processing	18,171
- postal, transport of securities and couriers	293
- external services	13,990
- interbank network traffic	1,527
- telematic connections and costs for automation	2,872
- market access	49
- expenses for professional services	17,230
- agent commissions	-
- blank cashier's cheque forms	77
- maintenance and lease costs	4,276
- common area, rent, heating and lighting costs	1,630
- stationery and printing	99
- Insurance companies	512
- telegraph, telephone and telex	116
- card processing	-
- outsourced back office	-
- membership fees	1,484
- local security and office cleaning	166
- other expenses	10,296
- taxes and duties	3,062
Total	**75,850**

The following table shows the details of the fees invoiced in 2020 by the auditing firm entrusted with the audit assignment pursuant to Italian Legislative Decree no. 39 of 27 January 2010:

Type of service	Service provided by	Euro/000
Accounting audit	DELOITTE & TOUCHE S.P.A.	125
Certification services	DELOITTE & TOUCHE S.P.A.	94
Total		**219**

SECTION 13 - NET ALLOCATIONS TO PROVISIONS FOR RISKS AND CHARGES - ITEM 200

13.1 Net provisions for credit risk relating to commitments to disburse funds and financial guarantees given: breakdown

Type of expenditure	31/12/2020
Provisions for other risks and charges	6
Other provisions	-
Total	**6**

13.3 Other net provisions for risks and charges: breakdown

Type of expenditure	31/12/2020
Provisions for other risks and charges	- 8,234
Other provisions	-
Total	**- 8,234**

Of the accruals, €7,425,000 referred to charges that are likely to be incurred in the first half of 2021 in implementation of the commitments made under the SPMA.

SECTION 14 - IMPAIRMENTS/RECOVERIES ON TANGIBLE ASSETS - ITEM 210

14.1 Net write-downs/write-backs on tangible assets: breakdown

Asset/Income items	Amortisation (a)	Value adjustments for impairment (b)	Write-backs (c)	Net result (a + b - c)
A. Tangible assets				
1. Non-investment				
- Owned	489	-	-	489
- Lease rights of use	2,020	416	-	2,435
2. Held for investment				
- Owned	-	-	-	-
- Lease rights of use	-	-	-	-
3. Inventories	X	-	-	-
Total	**2,508**	**416**	**-**	**2,924**

The "Value adjustments for impairment" refer to the impairment on the Right of Use of the portion of the property in Milan – Via Anna Maria Mozzoni 1.1, subject to a separate independent lease, resulting from the commitment to terminate the relevant contract entered into with the signing of the SPMA.

SECTION 15 - IMPAIRMENTS/RECOVERIES ON INTANGIBLE ASSETS – ITEM 220

15.1 Net write-downs/write-backs on intangible assets: breakdown

Asset/Income items	Amortisation (a)	Value adjustments for impairment (b)	Write-backs (c)	Net result (a + b - c)
A. Intangible assets				
A.1 Owned				
- Generated internally by the company	44			44
- Others	10,871			10,871
A.2 Held under finance lease				
Total	**10,915**			**10,915**

The write-downs contain €7,673,000 for the amortisation of customer contracts, classed as intangible assets with useful lives.

SECTION 16 - OTHER NET OPERATING INCOME - ITEM 230

16.1 Other operating expenses: breakdown

	31/12/2020
Other charges	720
Fee expenses	-
Services revenue rebates	-
Total	**720**

16.2 Other operating income: breakdown

	31/12/2020
Rental income	991
Service revenues	4,685
Recovery of duty stamps from customers and postal charges	135
Other income	5,635
Total	**11,446**

The item "Service revenues " refers mainly to fixed processing fees, income related to the connection of the “ACH” network and recoveries of ABE Clearing processing costs. The item also includes €1,403,000 relating to Cara Services GmbH, of which €308,000 refers to capitalised internal costs for the development of the software underlying the service activity provided by the company.

SECTION 17 – PROFIT (LOSS) FROM EQUITY INVESTMENTS - ITEM 250

17.1 Profit (loss) from equity investments: breakdown

Income items/Sectors	31/12/2020
1) Joint control agreements	
A. Income	
1. Revaluations	
2. Gains on disposal	
3. Value write-backs	
4. Other income	
B. Charges	
1. Write-downs	
2. Value adjustments for impairment	
3. Losses on disposal	
4. Other charges	
Net profit/loss	
2) Companies under significant influence	
A. Income	
1. Revaluations	
2. Gains on disposal	
3. Value write-backs	
4. Other income	-
B. Charges	
1. Write-downs	159
2. Value adjustments for impairment	
3. Losses on disposal	
4. Other charges	
Net profit/loss	**- 159**
Total	**- 159**

SECTION 21 – INCOME TAXES ON CURRENT OPERATIONS - ITEM 300

21.1 Income taxes for the year on current operations: breakdown

Income items/Amounts	31/12/2020
1. Current taxes (-)	907
2. Adjustment to current tax of prior years (+/-)	-
3. Reduction of current tax for the year (+)	-
3.bis Reduction in current tax for the year due to tax credits (Law 214/2011 (+))	-
4. Change in prepaid taxes (+/-)	10,178
5. Change in deferred taxes (+/-)	-281
6. Income taxes accrued during the financial year (-)	10,804

SECTION 22 - PROFIT (LOSS) FROM DISPOSED OPERATIONS NET OF TAXES - ITEM 320

22.1 Profit (loss) from disposed operations net of taxes

Income items/Amounts	31/12/2020
1. Income	
2. Costs	
3. Result of valuations of the group of assets and associated liabilities	-19,040
4. Gains (losses) on disposals	
5. Taxes and duties	5,317
Profit (loss)	**-13,723**

In accordance with the principles of reference, the gross loss refers for €17,884 thousand to the reporting date valuation of the assets and liabilities related to the subsidiary Cara Service and for €1,156 thousand to the valuation of the "Prelios Loan".

22.2 Breakdown of income taxes relating to disposed operations

Income items/Amounts	31/12/2020
1. Current taxes (-)	-5,317
2. Change in prepaid taxes (+/-)	
3. Change in deferred taxes (+/-)	
4. Income tax for the year (+/-)	5,317

PART D - CONSOLIDATED COMPREHENSIVE INCOME

STATEMENT OF THE CONSOLIDATED COMPREHENSIVE INCOME

	Items	2020
10.	Profit (loss) for the financial year	-35,943
	Other income components not transferred to the income statement	
20.	Equity instruments measured at fair value through other comprehensive income	
	a) Fair value changes	413
	b) Transfers to other net equity items	
70.	Defined-benefit plans	-32
80.	Non-current assets held for sale and disposal groups	
90.	Share of valuation reserves for equity investments measured at equity	
100.	Income taxes on other comprehensive income without reclassification to the income statement	-23
	Other income components with reclassification to the income statement	
150.	Financial assets (other than equity instruments) at fair value through other comprehensive income	
	a) fair value changes	-
	b) reclassification to the income statement	
	- adjustments for credit risk	
	- profits/losses on disposals	
	c) other changes	
180.	Income taxes on other comprehensive income without reclassification to the income statement	
190.	**Total other income components**	**359**
200.	**Comprehensive income (Item 10 + 190)**	**-35,584**
210.	**Consolidated comprehensive income attributable to minority interests**	**-**
220.	**Consolidated comprehensive income attributable to the Parent Company**	**-35,584**

PART E – INFORMATION ON RISKS AND RELATED HEDGING POLICIES

Preamble

The DEPObank Banking Group (hereinafter also "Group") was created on 20 January 2020, following the acquisition of Cara Services GmbH.

The Group therefore comprises:
- DEPObank S.p.A., which is the head of the Banking Group and is included in the Bank of Italy's central register of Credit Institutions;
- Cara Services GmbH, a special purpose company under German law that is wholly owned by the Parent Company.

As a result of the acquisition in 2015, by a consortium of private equity funds managed by the Advent International, Bain Capital and Hourglass funds, of a controlling interest in the then Istituto Centrale delle Banche Popolari Italiane (ICBPI) and the subsequent reorganisation process in 2018 of the Banking Group to which it belonged, DEPObank (formerly ICBPI) must comply with the provisions of the EU Regulation in terms of capital requirements, based on the situation of the accounts referring to the scope of consolidation with Equinova UK HoldCo Ltd. at the top; the aforementioned scope of prudential consolidation in addition to the parent company Equinova (which holds 91.558% of the capital of DEPObank) comprises only DEPObank and Cara Services.

The Board of Directors of DEPObank is responsible for ensuring that an adequate and appropriate risk management process is in place for the Banking Group and fulfils its obligations by reviewing the risk management process and by approving the quarterly disclosure to the Bank of Italy regarding capital adequacy.

From the above with regard to the Group's components, it follows that the risk policy described below is intended to be applied to DEPObank, with the exception of the calculation of risk indicators, which is done at calculated at a prudential consolidated level.

Strategy and governance

The Group attaches great importance to risk management and control, as conditions for ensuring reliable, sustainable creation of value in an environment of controlled risk.

The risk management strategy aims at a complete, coherent view of risks, considering both the macroeconomic scenario and the bank's risk profile, stimulating the growth of a risk culture and strengthening a transparent, accurate representation of the risk of the bank's portfolios.

The Internal Control System is a process aimed at providing reasonable assurance on the achievement of the company's objectives of effectiveness and efficiency of business processes, safeguarding the value of assets and protection against losses, reliability and integrity of accounting and management information and compliance with the laws and regulations in force.

The Internal Control System is structured into different levels of control, such as:
- line controls, aimed at ensuring the correct conduct of operations; these are therefore hierarchical controls carried out by the production units themselves, generally incorporated in the procedures themselves or carried out in back office activities;
- risk management controls – aimed at defining the risk measurement methodologies, verifying compliance with the limits assigned to the various operational functions (level II controls) and checking the consistency of the operations of the individual production areas with the risk/return objectives;
- compliance control activities – aimed at controlling risks related to non-compliance with external and internal regulations;
- internal audit activities – aimed at identifying anomalous trends, breaches of procedures, internal and external regulations and assessing the overall functioning of the Internal Control System.

Risk management, compliance and internal audit are carried out by independent non-operating functions.

The Board of Directors is responsible for the internal control system, which is responsible for clearly identifying the degree of risk appetite chosen and, in this framework, for defining and approving the strategic guidelines and risk management policies; it is also responsible for the coherence of the Internal Control System with the risk management policy adopted and verifies that senior management defines the internal control structure in line with the risk appetite chosen.

The governance model established to oversee the risk management and control process is based, on the one hand, on the separation between risk management processes and control processes and, on the other hand, on the development of these processes in keeping with the hierarchical structure of DEPObank, as well as through a process of delegation of authority.

At DEPObank the supervision and control of risks are the responsibility of the Risk Management Service, which performs its role of direction, control and coordination in close contact with the Board of Statutory Auditors and management, and which reports on its work to the Board of Statutory Auditors, the Risk Committee and the Chief Executive Officer.

The Risk Management Service focuses on measuring, monitoring and reporting the risks associated with DEPObank's business and verifying that there are enough Own Funds to hedge the various types of risk.

The Service also provides specialist support in the regulatory areas and the manner defined in the "Non-Compliance Risk Management Policy" approved by the Board of Directors.

The Internal Control System includes the Risk Policy, which aims to identify the principles, purposes and methods of managing (methodology and tools) the main risks to which DEPObank is exposed in its business, as well as the Risk Appetite Framework, which – in line with the maximum acceptable risk, the business model and the strategic plan – defines risk appetite, tolerance thresholds, risk limits, risk governance policies and the processes of reference for designing and implementing them.

The Risk Appetite Framework (RAF) is therefore the general structure within which the risks assumed by DEPObank are to be managed, laying down the general risk appetite principles and designing the management system accordingly:

- the overall risk profile; and
- the main specific risks.

For each metric, the Risk Appetite Framework defines the parameters that represent the optimal level of risk to which the bank wishes to expose itself in order to achieve its objectives and define the business strategy (risk target), an early warning level (risk trigger), which represents a threshold beyond which mitigation actions must be implemented in order to avoid a further deterioration of the value assumed by the metric, and a maximum level of risk (risk limit) that the bank is willing to bear, considering, among others, the market context and existing regulatory constraints.

In view of the centrality of risk management in strategic planning processes, in a specific Operating Procedure DEPObank has also defined the operating procedures, roles and responsibilities of the Organisational Units involved in the process of identifying, assessing and monitoring Major Transactions. The risk resulting from a Major Transaction is assessed by assessing the consistency of the risk profile of the Major Transaction with the risk appetite defined in the RAF. The risk profile of these transactions and initiatives also takes into account the risk-taking policies approved by the Board of Directors (Risk Policy) and the rules and regulations issued by the supervisory authorities for supervised intermediaries.

The aforementioned Risk Policy and a specific Operating Procedure also govern the ICAAP/ILAAP Process, which is carried out taking into account the requirements of Bank of Italy Circular no. 285 of 17 December 2013 “Regulatory provisions for banks” and subsequent updates, as well as EBA and ECB instructions.

The Board of Directors' assessment of capital adequacy is based on the identification the risk appetite level, from which the strategic guidelines and risk management policies derive.

Basel 3 regulation

The reforms to the Basel Committee Accords (“Basel 3”) aimed at strengthening banks' capacity to absorb shocks from financial and economic tensions regardless of their origin, improving risk management and governance, and strengthening banks' transparency and reporting were transposed into European Union law with effect from 1 January 2014. In doing so, the Committee maintained the three-pillar approach underpinning the previous Basel 2 capital accord, expanding and strengthening it to increase the quantity and quality of intermediaries' capital, as well as introducing counter-cyclical supervisory tools, liquidity risk management rules and leverage limits.

At Community level, the contents of "Basel 3" were transposed into two pieces of legislation on 26 June 2013:

- Directive 2013/36/EU (Capital Requirements Directive - CRD IV), which concerns, inter alia, conditions for access to banking, freedom of establishment and freedom to provide services, the prudential supervision process and additional capital reserves;
- Regulation (EU) No 575/2013 (Capital Requirements Regulation - CRR), which governs Pillar One prudential supervision mechanisms and public disclosure rules (Pillar Three).

In this regard, on 20 May 2019 the European Parliament approved Directive 2019/878 (CRD V), amending Directive 2013/36/EU, and Regulation 2019/876 (CRR II), amending Regulation 575/2013, with gradual application starting from 28 June 2021.

In addition to European Union legislation, the Bank of Italy issued provisions referring to Circular 285 of 17 December 2013, which contains the prudential supervisory provisions applicable to Italian banks and banking groups, revised and updated to adapt domestic legislation to new developments in the international regulatory framework, with particular regard to the new regulatory and institutional framework of European Union banking supervision, as well as to take account of the needs arising in the exercise of supervision over banks and other intermediaries.

The adequacy of the risk control system is also represented in the annual report of the prudential control process for capital and liquidity adequacy purposes (ICAAP/ ILAAP Report), which was approved and sent to the Bank of Italy in June 2020.

As part of the adoption of "Basel 3", DEPObank includes information on capital adequacy, risk exposure and the general characteristics of the systems it uses to identify, measure and manage risks in the document entitled "Institutional Public Disclosure Pursuant To Regulation (EU) No 575/2013", published on its website (www.depobank.it) on an annual basis.

Impacts of the COVID-19 pandemic

The COVID-19 pandemic triggered a global health crisis, with an unprecedented impact on the global economy due to massive blockade measures and travel/ trade restrictions.

In terms of macroeconomic and (geo) political risks, the COVID-19 pandemic has shifted attention around the world to global and national efforts and measures to address this crisis, including an acceleration of the process of digitising financial institutions and a shift towards a new operating model.

DEPObank, which because its particular way of working is completely different from that of commercial banks and consists of providing products and services mainly in the payment systems and administrative custody, administration and settlement of securities segment has not been significantly affected by the COVID-19 pandemic, has nevertheless implemented, since the beginning of the emergency, preventive measures, including the strengthening of risk monitoring, in order to ensure the continuity of business operations and, at the same time, preserve the highest level of worker safety, and continues to proactively manage the evolving situation in all dimensions of its risk profile.

With particular regard to prudential and accounting rules on credit risk, it should be noted that various authorities and standard setters - European Commission, Ecofin, ECB, EBA, ESMA, IASB, BCBS - have expressed their views, recommending to make full use of the flexibility of the accounting and prudential standards issued during the year in order to support families and businesses affected by the pandemic. Considering, however, that the operation of DEPObank does not provide for the provision of credit unless closely related to the provision of products/services, it follows that DEPObank's exposure to credit risk did not suffer significant impacts as a result of the COVID-19 pandemic.

With regard to market risk, the abrupt market movements and the increase in relative volatility following the COVID-19 epidemic, which resulted in a general increase in the risk measurement metrics of the trading book, did not have significant impacts for DEPObank, as the securities portfolio, albeit of considerable overall size (approximately €3.2 billion at the end of 2020) is entirely related to the banking book (HTC portfolio).

With regard to operational risk, given the operational specificity of DEPObank, which is completely different from that of commercial banks, there are no significant increases in exposure to this risk; it is believed, in fact, that the impact on the operational risks of the COVID-19 pandemic concerns, first, the risks of external fraud (Type 2 event), in light of the rapid evolution of cyber threats, which seek to exploit for fraudulent purposes the fears and sense of urgency of people and the opportunities offered by the remote banking solutions activated by financial institutions, and events relating to employment and workplace safety (Type 3 event). In particular, further actions were immediately defined to effectively address the wide spread of the pandemic (e.g. extension of smart working, enhancement of the IT infrastructure for remote connectivity), security infrastructures for access to the corporate network and data and information protection measures were progressively strengthened with the aim of increasing the ability to cope with the sharp increase in threats and cyber attacks (e.g. Distributed Denial of Service, malware) and training initiatives and communication campaigns aimed at raising employee awareness of the growing social engineering/phishing campaigns were activated. With regard to measures to protect the health of workers, all useful initiatives have been taken to ensure the protection of their health and safety, as required by the relevant legislation and by instructions from the trade association: personal protective equipment has been purchased and distributed, sanitising gel has been provided and company premises have been regularly sanitised. The actions implemented to protect health, together with the business continuity initiatives, have been reflected in operating costs, mainly in relation to the lines of intervention represented by:

- prevention of risks in the workplace, with the adoption of the individual and collective protection measures required in order to respond adequately to the constant evolution of health requirements at national, local and sectoral level in relation to the development of the pandemic situation;

- large-scale application of flexible working, with related investments in IT equipment, evolution of operational processes and enhancement of cybersecurity to reduce the risk of attempted fraud.

DEPObank has thus recorded in LDC (Loss Data Collection) the highest costs incurred due to the pandemic in relation to smart working, sanitisation of environments and protective devices (masks, thermoscanners, etc.). For these registrations, the EBA guidelines (*EBA provides clarity on the implementation of the prudential framework in the context of COVID-19 - 7 July 2020*) and the clarifications of the ABI working group were followed. These amounts were insignificant compared with those incurred by commercial banks, as DEPObank has only two branches (Rome and Milan) and does not have branches open to the public.

With regard to liquidity risk, since the beginning of the emergency DEPObank has proactively adopted all the necessary management and control measures aimed at mitigating the potential worsening of systemic liquidity conditions. DEPObank's liquidity position, which is healthy constantly monitored, has always remained solid thanks to the wide availability of liquid reserves and the high stability of funding, so that there are no significant impacts on this kind of risk either, as shown by the “Basel 3” liquidity indicators (Liquidity Coverage Ratio, LCR, and Net Stable Funding Ratio, NSFR) being well above the regulatory limits.

Finally, it should be noted that on 11 November 2020, the Bank of Italy, following a similar ECB communication of 16 September of the same year with regard to the banks it supervises directly, published the Communication of 10 November 2020, in which it established and publicly declared the existence of exceptional circumstances that justify excluding, until 27 June 2021, the central bank exposures referred to in letters a) and b) of Article 500-ter, paragraph 1 of the CRR from the measure of the total exposure for the calculation of the leverage indicator. The exemptible amount for DEPObank is equal to the lower of the daily stock on the ECB managed account (so-called “PM account”) and the average of the total balance c/o Bankit of the last full maintenance period of the Mandatory Reserve. Other exposures that DEPObank has to the central bank, such as the current account surpluses used for operations on the Instant Payments service, are not included in the calculation of the aforementioned exemptible amount.

The magnitude of the impacts for DEPObank as well as any improvements or deteriorations in the coming months will be closely related to how the macroeconomic environment develops and, in particular, to the evolution of the COVID-19 scenario and any new tensions that may occur.

DEPObank is carefully monitoring how the situation is evolving, including by way of specific scenario and stress analyses to assess the impacts in terms of profitability and capital adequacy: for example, in relation to operational risk, an analysis model was created that considers loss scenarios greater than those used in the Stress Test model, as indicated in the letter "ICAAP/ILAAP Compliance and Recovery Plans” sent by the Bank of Italy on 21 April 2020 to “Less Significant” Italian banks. From these analyses it emerged that DEPObank will still be able to ensure compliance with the regulatory constraints and with the more stringent limits set internally.

SECTION 1 - ACCOUNTING CONSOLIDATION RISKS

QUANTITATIVE INFORMATION

A. Credit quality

A.1 Non-performing and performing credit exposures: amounts, write-downs, changes, and economic distribution

A.1.1 Breakdown of financial assets by portfolio and credit quality (book value)

Portfolio/quality	Non-performing loans	Unlikely-to-pay positions	Impaired past due exposures	Other impaired exposures	Performing exposures	Total
1. Financial assets measured at amortised cost	391	-	2,713	3	5,196,168	5,199,274
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	3,298
3. Financial assets designated at fair value	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	-	33,406
5. Financial assets held for sale	-	-	-	-	18,617	18,617
Total 31/12/2020	**391**	**-**	**2,713**	**3**	**5,214,785**	**5,254,595**

A.1.2 Breakdown of financial assets by portfolio and credit quality (gross and net amounts)

Portfolio/quality	Impaired				Performing			Total (net exposure)
	Gross exposure	Total value adjustments	Net exposure	Total partial write-offs	Gross exposure	Total value adjustments	Net exposure	
1 Financial assets at amortised cost	6,636	3,532	3,104	-	5,197,453	1,282	5,196,170	5,199,274
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	3,298	3,298
3. Financial assets designated at fair value	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	X	X	33,406	33,406
5. Financial assets held for sale	-	-	-	-	18,617	-	18,617	18,617
Total 31/12/2020	**6,636**	**3,532**	**3,104**	**-**	**5,216,070**	**1,282**	**5,251,491**	**5,254,595**

Portfolio/quality	Assets of evident poor credit quality		Other assets
	Cumulative capital losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	1,773
2. Hedging derivatives	-	-	-
Total 31/12/2020	**-**	**-**	**1,773**

SECTION 2 - PRUDENTIAL CONSOLIDATION RISK

1.1 CREDIT RISK

QUALITATIVE INFORMATION

1. General aspects

Credit risk is the risk that an unexpected change in the creditworthiness of a debtor may result in the default of the debtor, giving rise to unexpected losses on cash or commitment exposures (Insolvency Risk), or may in any case generate a corresponding unexpected change in the value of the credit position (Migration Risk). Therefore, not only the possibility of the insolvency of a counterparty, but also the mere deterioration of the creditworthiness, should be considered a manifestation of credit risk.

DEPObank is a "second-tier" bank, whose core business, as described earlier, is the supply of products and services, mainly in payment systems and the administrative custody, administration and settlement of securities. Lending is mostly ancillary and closely related to the provision of products/services and to the specific Treasury activities (managed through the granting of operating credit limits) and Securities Services activities (mostly managed through the granting of current account overdraft facilities).

In a communication of 30 June 2020, the Bank of Italy implemented the European Banking Authority's (EBA) “Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis” (EBA/GL/2020/07). The Guidelines require disclosure on:

1) exposures subject to “moratoria” falling within the scope of application of the EBA Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis (EBA/GL/2020/02);
2) exposures subject to COVID-19-related forbearance measures;
3) newly originated exposures that are subject to public guarantee schemes.

In this regard, it should be noted that in the aforementioned "Public disclosure by institutions pursuant to Regulation (EU) No 575/2013” document, prepared with reference to DEPObank and its scope of prudential consolidation and published on its website www.depobank.it, all the required information is reported annually.

2. Credit risk management policies

2.1 Organisational aspects

The activities that generate Credit Risk are the responsibility of the Chief Financial Officer (CFO) Area – particularly the Treasury Service and the Credit & Branches Service – and the units that deal with Securities Services activities.

With regard to first-level controls, the Operating Units supervise and verify that financial activities are carried out by their Service within the Operational Credit Limits and/or caps approved; as part of second-level controls, the Risk Management Service verifies compliance with the Operational Credit Limits and

Risk Concentration limits (so-called “Large Risks”) and calculates daily exposures to Related Parties.

In addition, the Risk Management Service monitors the performance of credit exposures, in the absence of a significant number of non-performing loans, on the basis of the persistence and amount (at the reference date at the end of the month) of negative balances of corporate accounts and bank accounts (beyond any credit line granted).

Due in part to the limited number of exposures normally assumed, the credit risk measurement methodologies adopted and the related performance control process of the various relationships are inspired by criteria of leanness and simplicity; accordingly, systems based on scoring and external and/or internal ratings are not used. Finally, it should be noted that, in accordance with the provisions of the Prudential Regulations (Bank of Italy Circular 285), the assessment/measurement carried out for credit risk includes counterparty risk, that is the risk that the counterparty in a transaction may default before the final settlement of the cash flows of a transaction, since the incidence of Counterparty Risk is extremely low compared to the total weighted assets.

DEPObank's organisational structure ensures an adequate risk monitoring and management process, particularly with regard to credit risk:
- the Board of Directors performs a strategic direction and supervision function, approving strategic guidelines and continuously verifying their implementation, grants delegated powers and decides, on proposal from the Credit Committee, on the applications within its purview, as defined in the delegation of authority scheme;
- the CEO is responsible, inter alia, for contributing to the definition of credit strategies and credit policies consistent with credit strategies and in compliance with the decision-making authority limits approved by the Board of Directors.

The main credit governance structures are represented by the Strategic & Financial Committee and the Credit Committee; while the former is responsible for providing non-binding opinions on matters within its purview, the latter is organised in two separate sessions in terms of the composition and role of the participants, by virtue of the specific responsibilities of competence: the performing section, with decision-making power on credit granting, and the NPE section, with decision-making power in matters of non-performing exposures.

The Board of Directors approves the strategic guidelines and risk management policies, as well as the bank's organisational structure, in the area of internal controls.

2.2 Management, measurement and control systems

The entire credit-granting, management and monitoring process is governed by a specific "Credit Regulation” and is divided into:
- credit-granting;
- management, monitoring and control of performing credit;
- management of non-performing exposures.

The creditworthiness assessment process begins after the customer contact phase. This step is aimed at assessing the creditworthiness of the counterparty on the basis of the information acquired and a quantitative and qualitative analysis aimed at ascertaining financial soundness, as well as prospective earning capacity, in addition to all other elements useful to determine the customer's debt-servicing capacity. The creditworthiness assessment phase also includes the acquisition of adequate guarantees and/or, in relation to the type of customer/economic entity of reference and credit instrument, the drafting of specific contractual clauses (known as "covenants").

At the end of the creditworthiness assessment phase, if the draft resolution submitted to the decision-making body is approved, the lines of credit are made operational in accordance with the provisions of the contract.

Credit management is mainly carried out through the following activities:
- periodic review;
- on-going monitoring at the counterparty and portfolio level and examination of the performance trend with the aim of detecting symptoms/signs of anomalies (e.g. late payments) and/or additional business opportunities;
- analysis of the findings reported by the functions that carry out credit checks.

The management of doubtful and non-performing credit includes processes differentiated according to the risk status, the type of counterparty and the size of the exposure.

The management of non-performing exposures includes the following main activities:
- classification of credit exposures;
- formulation, implementation and monitoring of the recovery strategy.

By contrast, in the process of setting operating credit limits and/or "intermediation" caps, there is no specific request from customers and the assessment is initiated at the initiative of the Treasury Service or the relevant organisational units.

As part of the management of counterparties providing retail processing services, specific operating credit limits have been established, aimed at monitoring and controlling the operations of these entities. In some cases, guarantees have been requested to mitigate the risk assumed for these activities.

OVERRUN MANAGEMENT

The Credit Office verifies and analyses all positions in excess on a daily basis, reporting all overruns found on the Customer Accounts (euro and foreign currency, with or without credit facilities) to the Organisational Units concerned, which, in the first instance, verify the consistency of the accounting movements and, if necessary, make the appropriate adjustments. The relevant Organisational Units analyse the causes of the overrun, invite customers to remedy it immediately, where appropriate, and report the actions taken to the Credit Office and the Risk Management Service.

Positions with particular problems are subject to the activation of the credit reclassification procedure, through an appropriate review process for the resolution by duly authorised bodies with the consequent reports in the Central Credit Register according to Bank of Italy regulations. In addition, following the introduction of Circular 285/2013, a structured process of continuous monitoring of non-performing exposures has been formulated and the scope of the activities of the Risk Management Service has been revised, to include, among other things, monitoring credit performance, the results of which are included, together with those of monitoring credit risk, in a special section of the Dashboard.

OPERATING CREDIT LIMITS

The Head of the Treasury Service supervises and verifies that the financial activities carried out by his Service are conducted within the Operating Credit Limits and/or caps approved. Monitoring of compliance with the Operating Credit Limits, based on conventional coefficients, which vary according to the nature of the instrument and the implicit volatility, as well as the duration or residual life of the transaction, is carried out daily as a second-level control by the Risk Management Service.

An application is used for central management and daily verification of the Operating Credit Limits in place and alert generation if the limit is exceeded.

RISK CONCENTRATION LIMITS

The Risk Management Service, in support of the relevant controls already carried out at Level I by the competent departments, performs daily monitoring on compliance with the Risk Concentration limits (so-called “Large Exposures” regulated by the Bank of Italy in Part Two, Chapter 10 of Circular 285 of 17 December 2013 and subsequent updates).

LIMITS ON EXPOSURES TO RISK ASSETS AND CONFLICTS OF INTEREST WITH ASSOCIATED PARTIES

The legislation on limits to Risky Assets in respect of Related Parties and parties connected to them introduces limits (in relation to Own Capital) on exposures to “Corporate officers”, “Controlling shareholders or shareholders with significant influence”, “Other shareholders” and “Entities subject to control or significant influence”.

In addition to the exposure to the individual Related Party, the total exposure to all Related Parties and their Connected Parties is also calculated daily.

CREDIT QUALITY MONITORING

Credit performance monitoring, included in the Dashboard for the first time in the first quarter of 2015, is performed, in the absence of a significant number of non-performing loans, on the basis of the persistence and amount (at the reference date at the end of the month) of negative balances of corporate accounts and bank accounts (beyond any credit line granted).

In particular, the monitoring detects:
- counterparties for which the total sum of negative balances exceeds € 1 million for at least 30/60/90 consecutive calendar days;
- counterparties for which the total sum of negative balances exceeds € 5 million for at least 10 consecutive working days;
- counterparties for which the total sum of negative balances exceeds € 10 million for at least 5 consecutive working days.

Since the survey of the first quarter of 2018, exposures exceeding the credit limit (if any) for more than 30 days of less than € 1 million (but more than € 100) have also been identified; in compliance with the accounting standard IFRS 9 in force from 1 January 2018, they are classified into specific "buckets".

Moreover, starting from the July 2019 measurement, the €100 threshold has been replaced with the materiality threshold set out in the June 2019 update of the Bank of Italy Circular 285 (entered into force on 31/12/20 but prudentially already applied in operational monitoring) in execution of the so-called "national discretions", i.e. an "absolute" component equal to €100 for retail exposures and €500 for other exposures, and a "relative" component equal to 1%, calculated on the total amount of all exposures to the same debtor, where applicable.

2.3 Methods of measuring expected losses

Amendments due to COVID-19

As already specified in the paragraph "Impacts of the COVID-19 pandemic", due to its particular type of operation the Group has not suffered any significant impacts. Consequently, DEPObank's method for assessing the significant increase in credit risk (SICR) is not applied in DEPObank, and, as regards the measurement of expected losses, DEPObank's IFRS 9 model has proved adequate even during the pandemic. Indeed, the securities model, taking the PD from Credit Default Swaps (CDS), already incorporates the forward-looking component built into CDS prices. As regards the lending model, the satellite model incorporates pandemic-driven estimates of macroeconomic variables (e.g. GDP, unemployment, inflation) for 2020 and 2021 in order to determine the point-in-time curve.

Measuring expected losses

IFRS9 establishes that Banks should make provisions not only for impaired loans but also for loans that may become impaired in future, thereby achieving the aim of registering the deterioration in credit quality as quickly as possible; with this in mind, the calculation of the value adjustments of loans and debt securities, in accordance with "expected loss" logic, is based on these two main aspects:
- the stage allocation of the credit exposures;
- the relative expected loss calculation.

For exposures to financial assets classified in Stage 1, impairment is equal to the expected loss calculated over a period of up to one year (see IFRS9 B5.5 - B5.5.43).

For exposures to financial assets classified in Stages 2 and 3, impairment is equal to the expected loss calculated over a time horizon equal to the residual duration of the related exposure (so-called Lifetime PD - ref. IFRS9 B5.5.3 and B5.5.43).

Financial assets measured at amortised cost: Proprietary securities portfolio

Stage allocation

The stage allocation classifies securities to the various stages according to their absolute or relative credit quality compared to the initial disbursement. In particular:

- Stage 1: includes newly acquired credit exposures as well as exposures that have not undergone a significant deterioration of credit risk compared to the initial recognition date and exposures with low credit risk at the reporting date;
- Stage 2: includes credit exposures that, although performing, have suffered a significant deterioration in credit risk compared to the date of initial recognition (see IFRS9 B5.5.9);
- Stage 3: includes non-performing credit exposures.

The stage allocation assessment model was based on a combination of relative and absolute elements:

- rating assessment, applying the low credit risk exemption to investment grade securities (at least 2 out of 3 rating agencies or, where unrated, a safe level PD >= 1 %);
- a transaction-level comparison between the PD at origination and at the reporting date; in line with the EBA stress tests, an increase of more than 300% is applied compared to that detected at the origination date.

It should also be noted that this is a numerically symmetrical model, i.e. the thresholds for the transition from Stage 1 to Stage 2 and vice versa are the same. An additional time control was added in order to limit a continuous change of status for securities with PD delta close to the 300% threshold, i.e. the transition from Stage 2 to Stage 1 takes place only if the position remains in this state for a reasonable period (from 3 to 6 months).

The PD delta is calculated on the one-year PD. This approach is consistent with CDS performance: when an issuer is in difficulty, the short-term CDS spread values exceed the long-term values. Accordingly, the calculation of the one-year PD incorporates the worst case.

Impairment

Impairment is calculated according to a "sophisticated approach”. In particular:

- PD (Probability of Default) expresses the probability of the occurrence of an event of default of the credit position, over a given period of time;

- LGD (Loss Given Default) expresses the estimated loss percentage, and therefore the expected recovery rate on the occurrence of an event of default of the credit position;
- EAD (Exposure at Default) expresses the extent of exposure at the time of the default event of the credit position. This corresponds to the amortised cost of the instrument as at the reporting date.

EAD*PD*LGD= Expected credit loss (ECL)

The model used provides for the calculation of the PD in two distinct steps:
1. calculation of the Risk Neutral PD, derived from observable market data and referring to the individual issuer;
2. calculation of the Real World PD for which the risk premium component of the Probability of Default implicit in market spreads is eliminated.

The Risk Neutral PD is estimated on the basis of the information and credit spreads quoted daily on the financial markets (so-called CDS spreads). Credit spreads for each single issuer are preferably used. In the event that for a given issuer equally significant specific credit spreads are available on several markets, use of the CDS market is preferred. Where market data do not allow the use of specific credit spreads, because they are absent, illiquid or insignificant, *the default probability term structure* associated with the issuer is obtained through a proxy methodology. This methodology involves identifying an issuer comparable to the issuer to be assessed for which specific credit spreads are available or a reference cluster for which it is possible to estimate a significant credit spread. The mapping of the individual issuer to the comparable issuer or to the reference cluster is based on the following analysis axes:
- industrial sector;
- geographical area of interest;
- rating (ECAI);
- analysis of key financial data.

The estimate of the Real World PD is based on the Risk Neutral PD and therefore remains strongly anchored to the market data and the forward-looking approach that distinguishes it. It is calculated using structural models based on the methodological system of the Merton model, in order to identify the PD implicit in the market spreads without the risk premium component.

The forward-looking approach is therefore included in the calculation of the PD as it is precisely calculated on the values of Credit derivatives which already incorporate future expectations into the price.

For the purposes of estimating the PD, the model involves the use of historical average data from the three months prior to the assessment date, this to ensure minimum stability to the input data used in the model.

Based on the above, the bank applied an average PD of the proprietary securities portfolio of approximately 0.12% at 31 December 2020. It should be noted that the portfolio classified as financial assets measured at amortised cost consists almost entirely of Italian government bonds (approximately 99%).

The calculation of the LGD is assumed to be constant for the entire time horizon of the financial asset under analysis and is a function of:

- the type of issuer (government or corporate securities);
- the ranking of the instrument (covered, senior, subordinated);
- the rating of the instrument;
- the classification of the issuing institution's country.

These data represent market standards used for the pricing of CDSs.

In particular, for government bonds, the historically calculated LGD value indicated by the annual document "Moody's Sovereign Default Rates" was used. This value has been set at 0.45 and will be kept constant unless substantial differences are found in subsequent publications of the aforementioned document (generally published annually).

Financial assets measured at amortised cost: Loan portfolio

Stage allocation

The calculation of the stage allocation must be carried out on exposures for which the "*Solely Payment of Principal and Interest*" (SSPI Test) test is passed. On the reporting date, all the bank's loans pass the SPPI test.

The Standard requires that all impaired financial instruments be classified into three distinct stages according to the level of impairment of the exposure observed at the date of analysis compared to an initial recognition date; in particular, the following cases are distinguished:

- Stage 1 positions. receivables which have:
  - just been recognised;
  - not undergone, at the date of analysis, a significant increase in the credit risk compared to initial recognition;
  - low credit risk at the reporting date.
- Stage 2 positions: these are receivables that, while performing, have undergone, at the date of analysis, a significant increase in the credit risk compared to initial recognition.
- Stage 3 positions: these are defaulted positions.

The main change relates to the need to calculate, for instruments classified to Stage 2, the expected loss over the remaining life of a financial instrument on the basis of the increased risk of default compared to "*initial recognition*[1]".

The accounting standard also specifies that the default risk expected in the 12 months following the reporting date can be considered a good approximation of the default risk expected over the residual life of the financial instrument[2]; it therefore permits, except in cases where assessment over the entire residual life is necessary, use of the probability of default at 12 months as a benchmark to determine whether there has been a significant increase in credit risk.

1 IFRS 9 Financial Instruments - 5.5.9, B5.5.1 and B5.5.7.
2 IFRS 9 Financial Instruments - B.5.5.13 and B5.5.1.

On the initial recognition date, an entity classifies an asset to Stage 1 unless it is already a credit-impaired position.

At each reporting date, the entity assesses whether there has been a significant change in the credit risk compared to initial recognition. In this case there will be a transfer between stages. Loans can migrate between Stages 1 and 2 according to a symmetrical model.

The following components are considered in the stage allocation process:
- relative criteria for classification in Stage 2 (the performance of a parameter relating to the counterparty's creditworthiness, i.e. its rating, which is observed over the period from origination to the assessment date);
- absolute criteria for classification in Stage 2 (past-due by 30 days and forborne exposures);
- use of the Low Credit Risk Exemption (for repurchase agreements within 3 months and reciprocal accounts);
- definition of default for classification in Stage 3.

Impairment

For the calculation of the ECL at the relationship level and in correspondence with a given macro-economic scenario, considering the risk parameters of the customer, the expected multi-year loss at the portfolio level is given by the present value of the expected losses of each period t (t=0,..., T) as follows[3]:

$$ECL_{multiyear}(t_0) = \sum_{i=1}^{N}\sum_{t=1}^{T} DF(t_0,t) \times (EAD_{i,t} \times LGD_{i,t} \times (cPD_{i,t} - cPD_{i,t-1}))$$

- i identifies the generic relationship;
- $[t_1 \ldots t_r]$ identifies the range of maturities at which cash flows are expected at the level of the individual position; in particular, it represents the last time point to be considered in the analysis depending on the stage in which the position has been classified;
- $DF(t_0,t)$ represents the discount factor relative to the maturity estimated at the point in time;
- $cPD_{i,t_k} - cPD_{i,t_{k-1}}$ represents the probability of default, estimated at the counterparty level, over the time interval $[t_{k-1};t_k]$ calculated as the difference between the values of the relevant cumulative PD curves at the extremes of the interval obtained by appropriate interpolation;
- $LGD_{i,t}$ represents the loss given default estimated at the level of each individual relationship at the point in time t_k;
- $EAD_{i,t}$ represents the exposure (Exposure At Default) expected in the case of default of position i at time t_k.

3 It should be noted that the formula below does not explicitly consider the presence of the scenario-dependency component. This aspect is dealt with and discussed in section 7 of this document.

The PD estimation methodology and its forward-looking and scenario-dependent component that achieves the greatest possible adherence to the new accounting standard and its indications is divided into the following steps:

1. Recovery of input data: this phase consists of the recovery of the set of information that is required for the estimation process, structured into the development of a lifetime TTC (through-the-cycle) curve and its calibration according to a PIT (point-in-time) logic through the inclusion of forward-looking and scenario-dependent information.
2. Construction of the TTC PD curve: this step consists of the development of the TTC (through-the-cycle) curve in a lifetime perspective with appropriate granularity.
3. Application of satellite models: this phase consists of estimating future default rates based on forecasts of the macro-economic scenario by applying satellite models capable of managing a defined granularity of detail.
4. Construction of PIT PD curve: this phase consists in the inclusion in the TTC curve of the estimates of the default rates previously obtained in order to render the curve PIT (point-in-time) and forward-looking.

The bank has various approaches to developing PD curves, depending on the type of counterparty considered. In particular, the elements used to formulate the probabilities of default are acquired from two data sources:

- Transition matrices from Standard&Poor's;
- Bank of Italy statistical database.

The following table provides an overview of the information set deriving from the methodological choices adopted by the bank, required for the estimation of the IFRS 9-compliant PD component.

This information is broken down by the geographical area and sector of the counterparty.

Geographical area	Cluster	Ratings	Transition matrix	Satellite Model variable target
Italy	Financial companies	Present	Transition matrix from Standard&Poor's	Impairment rates published by the Bank of Italy for the sector of Financial Companies
		Not present	Impairment rates published by the Bank of Italy for the sector of Financial Companies	
	Non-financial companies	Present	Transition matrix from Standard&Poor's	Impairment rates published by the Bank of Italy for the sector of Non-Financial Companies
		Not present	Impairment rates published by the Bank of Italy for the sector of Non-Financial Companies	
	Public administrations	Present	Transition matrix from Standard&Poor's	Impairment rates published by the Bank of Italy for the sector of Public Administrations
		Not present	Impairment rates published by the Bank of Italy for the sector of Public Administrations	
	Consumer households	Not present	Impairment rates published by the Bank of Italy for the sector of consumer families	Impairment rates published by the Bank of Italy for the sector of Consumer Households
Europe	Financial and non-financial companies	Present	Transition matrix from Standard&Poor's	Global default rates published by Standard&Poor's for the Corporate sector
		Not present - rating defined starting from the rating of the sovereign state, with downgrade of: 1 notch for banks, 2 notches for financial and non-financial companies.		
Rest of the World	Financial and non-financial companies	Present	Transition matrix from Standard&Poor's	Global default rates published by Standard&Poor's for the Corporate sector
		Not present - rating defined starting from the rating of the sovereign state, with downgrade of: 1 notch for banks, 2 notches for financial and non-financial companies.		
	PCT		PD curve derived from government security risk	

Table - Overview of the information set required to estimate the IFRS 9-compliant PD component.

The choices made reflect the need to find a fair trade-off between the availability of the data to calibrate the models and adherence to the riskiness linked to the sector and geographical area.

For the estimation of the LGD, the bank has adopted a prudential approach in line with current legislation (Article 161 CRR), placing it at 45% since the bank's credit portfolio consists entirely of unsecured exposures.

2.4 Credit risk mitigation techniques

As mentioned above, in order to mitigate credit risk, the decision-making bodies, based on the results of the relevant assessment, may decide to render the granting of the credit line subject to the acquisition of suitable guarantees.

The adequacy of the guarantees offered by the applicant with respect to the credit application is assessed according to various criteria depending on the type of guarantee:

- mortgage guarantee: the value of the asset is estimated by means of a special appraisal carried out by an appraiser/appraisal firm that complies with the requirements of independence and professionalism provided for by current legislation;
- personal guarantee: the value of the surety is determined on the basis of an estimate of the assets of the guarantor (set of pursuable assets) highlighting any encumbrances/adverse entries in place on the same assets;
- financial collateral: the value of the asset/financial instrument serving as collateral is estimated on the basis of the value expressed by the relevant market in which the asset or instrument is traded.

In addition, DEPObank has signed netting (ISDA) and collateral management (CSA) agreements consistent with EMIR regulations for credit risk mitigation purposes.

At 31 December 2020, DEPObank did not avail itself of any guarantees granted by counterparties in order to mitigate the impact of credit risk on internal capital (so-called “Credit Risk Mitigation”). For repurchase agreements for which the bank has signed specific GMRA contracts, DEPObank avails itself of the transfer of credit risk from the counterparty to the underlying of the repurchase agreement.

3. Non-performing credit exposures

3.1 Management strategies and policies

The Credit & Financial Committee periodically reviews all potentially anomalous positions, approving the recovery actions to be taken and, on the basis of appropriate parameters, any changes in the status of the positions; these resolutions are then submitted to the Board of Directors for review.

The classification of assets by quality of debtors, according to the categories provided for by current legislation, is as follows:

1. non-performing exposures: on-balance sheet (loans) and “off-balance sheet" assets (guarantees given and commitments to provide funds) falling into one of the following categories, as defined by the Bank of Italy:
   - bad loans: exposures to borrowers in a state of insolvency, even if not yet recognised in a court of law or in an essentially similar situation, regardless

of any loss forecasts made by the bank. Exposures for which the situation of irregularity relates to country risk profiles are excluded;
- unlikely to pay: credit exposures other than non-performing loans for which the bank considers it unlikely that the debtor will discharge their obligations in full (principal and interest) without the recourse to actions such as enforcement of guarantees;
- non-performing past due exposures: exposures other than the above that, at the reporting date, were past due by more than 90 days and exceeded a predetermined materiality threshold, defined in the legislation in force in a differentiated manner depending on whether a debtor or transaction approach is adopted;

2. performing past due exposures: these include both exposures that have been past due for more than 90 days and are not considered non-performing (for example because they do not exceed the materiality threshold established by current legislation – a fixed materiality threshold), as well as exposures that have been past due for less than 90 days;
3. forborne exposures: credit exposures are considered forborne where changes in contractual conditions or a total or partial refinancing have been granted due to the financial difficulties of the borrower, which could result in a loss for the lender. It is not necessary that the debtor has actually proved to be in default. The forbearance category is transversal to existing risk classes and may include both performing and non-performing loans. For a position to be presumed "forborne", it is sufficient for it to have been past due for more than 30 days at least once in the three months preceding the contractual change, lowering the alarm threshold from the 90 days provided for in the definitions of non-performing exposures. The following are created as a result:
   - non-performing forborne exposures: i.e. total and/or partial forbearance/contractual changes relating to exposures classified as non-performing;
   - performing forborne exposures: total and/or partial forbearance/contractual changes relating to exposures classified as performing when the forbearance presumption applies (see above).

Forborne positions must be constantly monitored and may be reclassified and thus cease to be considered forborne after an observation period with a positive trend of 24 months if the loan was classified as performing and of 36 months if it was classified as non-performing. The definition of “forborne” does not replace the existing categories of non-performing assets; rather, it is an additional information and monitoring tool.

Write-downs based on separate assessment of individual positions have been applied to non-performing positions.

3.2 Write-offs

For all bad loan positions, the Bank assesses whether it is appropriate to continue to classify the loan as non-performing inasmuch as the out-of-court or judicial actions in progress allow an expectation of recovery, partial or complete, to be considered reasonable, or whether it is appropriate to proceed with a total or partial write-off, due to the conclusion of the recovery process or the circumstance that there is no reasonable prospect of recovery.

In accordance with IFRS 9, a write-off is a reduction in the gross book value of a loan due to an acknowledgement that there is no reasonable expectation of recovery of the position in amounts beyond those considered collectable or already collected.

It does not imply a waiver by the bank of the legal right to recover the claim and must be made if all the information available indicates that the debtor is unable to repay all or part of the amount of the debt. The criteria that the Bank has identified to determine whether a position falls within the category to be evaluated for the purpose of a possible write-off depend on the possible presence of bankruptcy proceedings, the coverage levels and the seniority of the position in bad loan status.

As of 31 December 2020 the Group has not resorted to any write-offs.

3.3 Purchased or originated impaired financial assets

The Bank does not have any purchased or originated impaired financial assets at 31 December 2020.

4. Financial assets subject to commercial negotiations and forborne exposures

The process of deciding and granting renegotiations is part of the broader process of granting and disbursing loans at the bank.

Credit exposures at 31 December 2020 are instrumentally and closely related to the provision of products and services to support and complete depositary banking activities; consequently, since it is an ancillary rather than a primary activity, lending has not been affected by the economic support measures implemented by the government and by industry associations. Lending activity is therefore to be seen, in 2020 as well, as part of "second tier" banking activity, in which the core business is the supply of products and services in payment systems and administrative custody, administration and settlement of securities. From this perspective, the analysis and granting of credit lines originates from a pre-existing business. The identification and granting of renegotiations of credit agreements is normally carried out during the review and verification of outstanding exposures, an activity that therefore requires a preliminary investigation and consequently an analysis of specialist bodies and of resolution of collegial bodies. Therefore, the granting and possible renegotiation of certain variables are decided following an adequate credit assessment carried out by the various corporate functions involved, in compliance with the principles of separation and independence.

In 2020, there were five exposures totalling €4.5 million relating to receivables due from customers, which the bank designated forborne. The same exposures are linked to the real estate fund segment for which the bank acts as depositary bank. These are, therefore, revocable credit lines which were already renegotiated upon renewal last year. They are classified as non-performing and therefore Stage 3. There are no further forborne positions dating back to previous years.

In the context of the renegotiation, no additional guarantees were acquired, also due to the fact that the role of depositary allows constant monitoring of the cash flows of credit exposures. Since these are revocable credit lines (not subject to repayment in instalments) with a maximum term of 12 months, there is no direct impact on the net present value of the contractual cash flows of the forbearance measures granted.

QUANTITATIVE INFORMATION

A. CREDIT QUALITY

A.1 Non-performing and performing credit exposures: amounts, value adjustments, trends and economic breakdown

A.1.1 Prudential consolidation – Breakdown of financial assets by maturity (book values)

Portfolios/risk stages	Stage one			Stage two			Stage three		
	Between 1 and 30 days	Between 30 and 90 days	More than 90 days	Between 1 and 30 days	Between 30 and 90 days	over 90 days	Between 1 and 30 days	Between 30 and 90 days	over 90 days
1. Financial assets measured at amortised cost	-	-	3	-	-	-	-	-	3,104
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
Total 31/12/2020	**-**	**-**	**3**	**-**	**-**	**-**	**-**	**-**	**3,104**

A.1.2 Prudential consolidations - Financial assets, commitments to disburse funds and financial guarantees issued: trend in total value adjustments and total provisions

Description/risk stages	Total value adjustments													Total provisions on commitments to disburse funds and financial guarantees issued			Total
	Assets in stage one				Assets in stage two				Assets in stage three								
	financial assets measured at amortised cost	financial assets measured at fair value through other comprehensive income	of which individual write-downs	of which collective write-downs	financial assets measured at amortised cost	financial assets measured at fair value through other comprehensive income	of which individual write-downs	of which collective write-downs	financial assets measured at amortised cost	financial assets measured at fair value through other comprehensive income	of which individual write-downs	of which collective write-downs	*of which: purchased or originated impaired financial assets*	Stage one	Stage two	Stage three	
Opening balances																	**-**
Increases in purchased or originated financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Derecognitions other than write-offs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net value adjustments/write-backs for credit risk (+/-)	1,967	-	-	1,967	- 5	-	-	- 5	- 134	-	- 134	-	-	5	-	-	1,833
Contractual amendments without derecognitions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in estimate methodology	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other changes	- 3,227	-	-	- 3,227	- 16	-	-	- 16	- 3,397	-	- 3,397	-	-	- 6	-	-	- 6,646
Closing balances	**- 1,260**	**-**	**-**	**- 1,260**	**- 22**	**-**	**-**	**- 22**	**- 3,531**	**-**	**- 3,531**	**-**	**-**	**- 1**	**-**	**-**	**- 4,814**
Recoveries from receipts on written-off financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs recognised directly on the income statement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.1.4 Prudential consolidation - On- and off-balance sheet credit exposures to banks: gross and net values

Type of exposures/values	Gross exposure		Total adjustments and total provisions	Net exposure	Total partial write-offs*
	Impaired	Performing			
A. ON-BALANCE SHEET CREDIT EXPOSURES					
a) Non-performing loans	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
b) Unlikely-to-pay positions	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
c) Past-due impaired loans	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
d) Performing past-due exposures	X	-	-	-	-
- of which: forborne exposures	X	-	-	-	-
e) Other performing exposures	X	1,718,358	445	1,717,913	-
- of which: forborne exposures	X	-	-	-	-
TOTAL A	**-**	**1,718,358**	**445**	**1,717,913**	**-**
B. OFF-BALANCE SHEET CREDIT EXPOSURES	**-**	**-**	**-**	**-**	**-**
a) Impaired	-	X	-	-	-
b) Performing	X	310,619	-	310,619	-
TOTAL B	**-**	**310,619**	**-**	**310,619**	**-**
TOTAL A+B	**-**	**2,028,977**	**445**	**2,028,532**	**-**

A.1.5 Prudential consolidation - On- and off-balance sheet credit exposures to customers: gross and net values

Type of exposures/values	**Gross exposure**		**Total adjustments/ recoveries and total provisions**	**Net exposure**	**Total partial write-offs***
	Impaired	**Performing**			
A. CASH EXPOSURES					
a) Non-performing loans	2,088	X	1,697	391	-
- *of which: forborne exposures*	-	X	-	-	-
b) Unlikely-to-pay positions	-	X	-	-	-
- *of which: forborne exposures*	-	X	-	-	-
c) Impaired past due exposures	4,547	X	1,834	2,713	-
- *of which: forborne exposures*	-	X	-	-	-
d) Performing past due exposures	X				-
- *of which: forborne exposures*	X	-	-	-	-
e) Other performing exposures	X	3,479,540	1,282	3,478,258	-
- *of which: forborne exposures*	X	-	-	-	-
TOTAL A	**6,635**	**3,479,540**	**4,814**	**3,481,361**	**-**
B. OFF-BALANCE SHEET EXPOSURES	**-**	**-**	**-**	**-**	**-**
a) Impaired	-	X	-	-	-
b) Performing	X	1,251,579	1	1,251,578	-
TOTAL B	**-**	**1,251,579**	**1**	**1,251,578**	**-**
TOTAL A+B	**6,635**	**4,731,119**	**4,814**	**4,732,939**	**-**

A.1.7 Prudential consolidation - On-balance sheet credit exposures to customers: trend in gross non-performing exposures

Descriptions/Categories	**Non-performing loans**	**Unlikely-to-pay positions**	**Impaired past due exposures**
A. Opening balance - gross exposure			
- of which: assets sold but not derecognised			
B. Increases	**-**	**194**	**- 29**
B.1 transfers from performing exposures	-	194	- 29
B.2 transfers from purchased or originated impaired financial assets	-	-	-
B.3 transfers from other impaired exposures	-	-	-
B.4 Contractual amendments without derecognition	-	-	-
B.5 other increases	2,088	4,353	29
C. Decreases	**-**	**-**	**-**
C.1 transfers to performing exposures	-	-	-
C.2 write-offs	-	-	-
C.3 collections	-	-	-
C.4 proceeds from disposals	-	-	-
C.5 losses on disposal	-	-	-
C.6 transfers to other impaired exposures	-	-	-
C.7 Contractual amendments without derecognition	-	-	-
C.8 other decreases	-	-	-
D. Gross exposure closing balance	**2,088**	**4,547**	**-**
- of which: assets sold but not derecognised	-	-	-

A.1.7-bis Consolidated accounts for prudential supervision – On-balance sheet exposures with customers: changes in forborne exposures broken down by credit quality

Descriptions/Categories	**Forborne exposures: impaired**	**Forborne exposures: performing**
A. Opening balance - gross exposure		
- of which: assets sold but not derecognised		
B. Increases	**165**	**-**
B.1 transfers from unimpaired exposures not forborne	165	-
B.2 transfers from unimpaired forborne exposures	-	X
B.3 transfers from impaired forborne exposures	X	-
B.4 transfers from non-performing forborne exposures	–	–
B.5 other increases	4,382	-
C. Decreases	**-**	**-**
C.1 transfers to performing exposures not subject to forbearance measures	X	-
C.2 transfers to performing forborne exposures	-	X
C.3 transfers to non-performing forborne exposures	X	-
C.4 write-offs	-	-
C.5 collections	-	-
C.6 proceeds from disposals	-	-
C.7 losses on disposal	-	-
C.8 other decreases	-	-
D. Gross exposure closing balance	**4,547**	**-**
- of which: assets sold but not derecognised	-	-

A.1.9 Prudential consolidation - On-balance sheet non-performing credit exposures to Customers: trend of the total value adjustments

Descriptions/Categories	Non-performing loans		Unlikely-to-pay positions		Impaired past due exposures	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Total opening adjustments						
- of which: assets sold but not derecognised						
B. Increases	**-**	**-**	**-**	**-**	**-**	**-**
B.1 adjustments in value from purchased or originated impaired financial assets	-	X	-	X	-	X
B.2 other value adjustments	-	-	-	-	1,827	1,827
B.3 losses on disposal	-	-	-	-	-	-
B.4 transfers from other categories of non-performing exposures	-	-	-	-	-	-
B.5 contractual amendments without derecognition	-	X	-	X	-	X
B.6 other increases	1,697	-	-	-	7	7
C. Decreases	**-**	**-**	**-**	**-**	**-**	**-**
C.1 write-backs from valuation	-	-	-	-	-	-
C.2 write-backs from recoveries	-	-	-	-	-	-
C.3 gains on disposal	-	-	-	-	-	-
C.4 write-offs	-	-	-	-	-	-
C.5 transfers to other categories of impaired exposures	-	-	-	-	-	-
C.6 contractual amendments without derecognition	-	X	-	X	-	X
C.7 other decreases	-	-	-	-	-	-
D. Total final adjustments	**1,697**	**-**	**-**	**-**	**1,834**	**1,834**
- of which: assets sold but not derecognised	-	-	-	-	-	-

A.2 Classification of exposures based on internal and external ratings

A.2.1 Prudential consolidation - Distribution of financial assets, commitments to disburse funds and financial guarantees issued by classes of external ratings (gross values)

Exposures	External rating classes						No rating	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Financial assets measured at amortised cost	**1,784**	**73,800**	**3,321,425**	**246,093**	**48,567**	**876**	**1,511,544**	**5,204,088**
- Stage 1	1,784	73,800	3,321,425	246,093	48,567	876	1,504,903	5,197,447
- Stage 2	-	-	-	-	-	-	6	6
- Stage 3	-	-	-	-	-	-	6,635	6,635
B. Financial assets measured at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Stage 1	-	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
C. Financial assets held for sale	**-**	**-**	**-**	**-**	**18,617**	**-**	**-**	**18,617**
- Stage one	-	-	-	-	18,617	-	-	18,617
- Stage two	-	-	-	-	-	-	-	-
- Stage three	-	-	-	-	-	-	-	-
Total (A+B+C)	**1,784**	**73,800**	**3,321,425**	**246,093**	**67,184**	**876**	**1,511,544**	**5,222,705**
of which: purchased or originated impaired financial assets	-	-	-	-	-	-	-	-
D. Commitments to disburse funds and financial guarantees issued								
- Stage 1	-	-	-	262	48	-	1,561,887	1,562,197
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
Total (D)	**-**	**-**	**-**	**262**	**48**	**-**	**1,561,887**	**1,562,197**
Total (A+B+C+D)	**1,784**	**73,800**	**3,321,425**	**246,355**	**67,232**	**876**	**3,073,431**	**6,784,902**

Credit quality class	Risk weighting coefficients				ECAI
	Governments and central banks	Supervised intermediaries, public sector bodies, local and regional authorities (*)	Multilateral development banks	Companies and others	Standard & Poor's
1	0%	20%	20%	20%	AAA to AA-
2	20%	50%	50%	50%	A+ to A-
3	50%	100%	50%	100%	BBB+ to BBB-
4	100%	100%	100%	100%	BB+ to BB-
5	100%	100%	100%	150%	B+ to B-
6	150%	150%	150%	150%	CCC+ and below

(*) According to the "New prudential supervisory provisions for banks" for these categories, reference should be made to the merit class in which exposures to the central government of the State in which these entities have their head office are classified.

A.3 Distribution of guaranteed credit exposures by guarantee type

A.3.1 Prudential consolidation - Guaranteed on- and off-balance sheet credit exposures to banks

			Collateral (1)				Personal guarantees (2)									
							Credit derivatives					Endorsement credits				
								Other derivatives								
	Gross exposure	Net exposure	Real estate - mortgages	Real estate - finance leases	Securities	Other collateral	CREDIT LINK NOTES	Central counterparties	Banks	Other financial companies	Other entities	Public administrations	Banks	Other financial companies	Other entities	Total (1)+(2)
1. Secured on-balance sheet exposures:																
1.1 totally secured	1,143,292	1,143,253	-	-	1,143,253	-	-	-	-	-	-	-	-	-	-	1,143,253
- *of which impaired*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 partially secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- *of which impaired*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Secured off-balance Sheet credit exposures:	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 totally secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- *of which impaired*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 partially secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- *of which impaired*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.3.2 Prudential consolidation - Guaranteed on- and off-balance sheet credit exposures to customers

			Collateral (1)				Personal guarantees (2)									
							Credit derivatives					Endorsement credits				
								Other derivatives								
	Gross exposure	Net exposure	Real estate - mortgages	Real estate - finance leases	Securities	Other collateral	CREDIT LINK NOTES	Central counterparties	Banks	Other financial companies	Other entities	Public administrations	Banks	Other financial companies	Other entities	Total (1)+(2)
1. Secured on-balance sheet exposures:																
1.1 totally secured	188,900	188,900	-	-	188,900	-	-	-	-	-	-	-	-	-	-	188,900
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 partially secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Guaranteed "Off-Balance Sheet" credit exposures:	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 totally secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 partially secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

B. Breakdown and concentration of credit exposures

B.1 Prudential consolidation - Sector breakdown of on- and "off-balance sheet" credit exposures to customers

Exposures/Counterparties	Public administrations		Financial companies		Financial companies (of which insurance companies)		Non-financial companies		Households	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-balance sheet credit exposures										
A.1 Non-performing loans	-	-	391	1,491	-	-	-	206	-	-
- of which: forborne exposures	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
- of which: forborne exposures	-	-	-	-	-	-	-	-	-	-
A.3 Impaired past-due exposures	-	-	2,713	1,834	-	-	-	-	-	-
- of which: forborne exposures	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	3,255,464	654	106,353	165	-	-	134,182	13	876	5
- of which: forborne exposures	-	-	-	-	-	-	-	-	-	-
TOTAL A	**3,255,464**	**654**	**109,456**	**3,491**	**-**	**-**	**134,182**	**219**	**876**	**5**
B. Off-balance sheet credit exposures	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Impaired exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	262	1	1,229,811	-	-	-	21,505	-	1	-
TOTAL B	**262**	**1**	**1,229,811**	**-**	**-**	**-**	**21,505**	**-**	**1**	**-**
TOTAL (A + B) 31/12/2020	**3,255,726**	**655**	**1,339,267**	**3,491**	**-**	**-**	**155,687**	**219**	**877**	**5**

The table also includes the credit exposure classified under item "120. Non-current assets and groups of assets held for disposal".

B.2 Prudential consolidation - Territorial distribution of on- and "off-balance sheet" credit exposures to customers

Exposures/Geographic Areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-Balance-sheet exposures										
A.1 Non-performing loans	391	1,697	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Impaired past-due exposures	2,713	1,834	-	-	-	-	-	-	-	-
A.4 Performing exposures	3,492,836	836	3,970	1	69	-	-	-	-	-
TOTAL A	**3,495,939**	**4,368**	**3,970**	**1**	**69**	**-**	**-**	**-**	**-**	**-**
B. Off-balance sheet credit exposures	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Impaired exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	1,251,274	1	305	-	-	-	-	-	-	-
TOTAL B	**1,251,274**	**1**	**305**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL (A + B) 31/12/2020	**4,747,213**	**4,369**	**4,275**	**1**	**69**	**-**	**-**	**-**	**-**	**-**

The table also includes the credit exposure classified under item "120. Non-current assets and groups of assets held for disposal".

B.3 Prudential consolidation - Territorial distribution of on- and "off-balance sheet" credit exposures to banks

Exposures/Geographic Areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-Balance-sheet exposures										
A.1 Non-performing loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Impaired past-due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	1,526,815	125	183,412	317	7,380	3	306	-	-	-
TOTAL A	**1,526,815**	**125**	**183,412**	**317**	**7,380**	**3**	**306**	**-**	**-**	**-**
B. Off-balance sheet credit exposures	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Impaired exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	308,862	-	1,757	-	-	-	-	-	-	-
TOTAL B	**308,862**	**-**	**1,757**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL (A + B) 31/12/2020	**1,835,677**	**125**	**185,169**	**317**	**7,380**	**3**	**306**	**-**	**-**	**-**

C. SECURITISATION TRANSACTIONS

Not applicable.

C. DISPOSAL TRANSACTIONS

Not applicable.

E. PRUDENTIAL CONSOLIDATION - CREDIT RISK MEASUREMENT MODELS

DEPObank does not use internal portfolio models to measure credit risk exposure.

1.2 MARKET RISK

1.2. 1 Interest rate risk and price risk - regulatory trading portfolio

QUALITATIVE INFORMATION

1. General aspects

Market risk is the risk of loss generated by market transactions in financial instruments (regulatory trading book), currencies and commodities, resulting from the evolution of market factors or the situation of the issuer. The activities that generate Market Risk are the responsibility of the Chief Financial Officer (CFO) Area, and in particular the Treasury Service.

These activities are governed by the Finance Regulation, which defines the operating limits for the sub-components of Market Risk, such as Foreign Exchange Risk, Interest Rate Risk on the Trading Portfolio, Issuer Risk, Country Risk and Counterparty Risk. In addition, for the various types of assets the Finance Regulation defines operating limits in terms of the value held, VaR, maximum periodic loss ("stop loss") and the criteria and methods for monitoring positions.

2. Processes for managing and methods for measuring interest rate risk and price risk

The governance model established to oversee DEPObank's risk management and control process is based, on the one hand, on the separation between risk management processes and control processes and, on the other hand, on the development of these processes in keeping with the bank's hierarchical structure, as well as through a process of delegation of authority.

First-level controls are managed by the CFO Area, whereas second-level controls are carried out by the Risk Management Service, which monitors Market Risk on a daily basis, through VaR, performing second-level controls on compliance with the assigned limits.

The VaR model used is of a parametric type with a confidence interval of 99% over a 10-day time horizon, in line with the recommendations defined by the Basel Committee.

The VaR, defined in order to obtain a reasonable estimate of potential losses under normal market conditions, does not propose and does not cover the analysis of extreme events: rather, the use of stress testing permits investigation of the impact on the portfolio in extreme conditions and in the violation of the assumptions underlying the model used, capturing the residual risk and providing complementary indications to VaR. The methodology used is based on the VaR track record of the trading portfolio and exchange positions.

In addition, the Risk Management Service collects and processes daily, on an ex-post basis, the data related to the overall risk positions and prepares the reports necessary to verify the limits set by the Finance Regulation. The Risk Management Service is also responsible for carrying out specific tests in order to verify the degree of risk of scenarios already in place, or prospective scenarios on the existing portfolio. The Head of the Risk Management Service, when he/she detects that the VaR limits have been exceeded, is obliged to promptly inform the corporate function that holds the position, the relevant Head of Management and the Chief Executive Officer.

QUANTITATIVE INFORMATION

1. Regulatory trading book: distribution by maturity (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives.

Currency of denomination: Euro

Type/residual maturity	sight	Up to 3 months	more than 3 months to 6 months	more than 6 months to 1 year	more than 1 year to 5 years	between 5 and 10 years	more than 10 years	indefinite duration
1. On-balance sheet assets								
1.1 Debt securities								
- with early redemption option	-	-	-	-	-	-	-	-
- other		-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities								
2.1 Repos	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Others	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Others	-	-	-	-	-	-	-	-
+ Long positions	-	7,085	-	-	-	-	-	-
+ Short positions	-	874,057	-	-	-	-	-	-

Currency of denomination: other currencies

Type/residual maturity	sight	up to 3 months	more than 3 months to 6 months	more than 6 months to 1 year	more than 1 year to 5 years	between 5 and 10 years	more than 10 years	indefinite duration
1. On-balance sheet assets								
1.1 Debt securities								
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Repos	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	872,166	-	-	-	-	-	-
+ Short positions	-	7,085	-	-	-	-	-	-

2. Regulatory trading portfolio: distribution of exposures in equity instruments and share indices for the main stock market countries

Type of transactions/Quote index	Listed	Not listed
	ITALY	
A. Equity instruments		
- Long positions	1	-
- Short positions	-	-
B. Purchases not yet settled on equity instruments	**-**	**-**
- Long positions	-	-
- Short positions	-	-
C. Other derivatives on equity instruments	**-**	**-**
- Long positions	-	-
- Short positions	-	-
D. Derivatives on equity indices	**-**	**-**
- Long positions	-	-
- Short positions	-	-

1.2.2 Interest rate risk and price risk - banking book

QUALITATIVE INFORMATION

1. General aspects, management procedures and measurement methods for interest rate and price risk

Banking book interest rate risk is the risk of decrease in the value of the banking book due to potential changes in interest rates. The main source of this type of interest rate risk is *repricing risk*, that is, the risk deriving from the time *mismatches* between the maturity and repricing of assets and liabilities, the main aspects of which are:

- yield curve risk, the risk deriving from the exposure of DEPObank's positions to changes in the slopes and shape of the yield curve;
- basis risk, risk deriving from the imperfect correlation in changes in the rates payable and receivable on different instruments that may also have similar repricing characteristics.

DEPObank monitors the impact that unexpected changes in market interest rates may have on banking book positions from the following perspectives:

- current earnings – in order to assess interest rate risk based on the sensitivity of net interest income to changes in interest rates over a defined time horizon. Negative changes in net interest impact a bank's potential financial stability by weakening its capital adequacy. The change in interest income depends on interest rate risk in its various forms;

- economic value – changes in interest rates may affect the economic value of the asset and liability. The economic value of a bank is represented by the present value of the expected cash flows, defined as the algebraic sum of the present value of the expected cash flows of assets, liabilities and positions in derivatives. Unlike the current earnings perspective, the economic value perspective identifies the risk generated by repricing or maturity gap over a long-term time horizon.

In the interest rate risk management model adopted by DEPObank, the centrality of the following risk measures is important:
- sensitivity of net interest income;
- sensitivity of economic value.

Interest rate risk exposure expressed in terms of interest margin sensitivity quantifies the impact of an interest rate curve shock on the short-term (12 months) interest margin. This measurement shows the effect of rate changes on the portfolio being measured, excluding possible future changes to the asset/liability mix, and therefore cannot be considered a provisional indicator of the future interest margin. The bank calculates the sensitivity of net interest income through an approach based on constant rates and volumes. According to this model, maturing items are reinvested at constant volumes, rates and maturities. The scenarios applied are the same as for the sensitivity analysis of economic capital.

Exposure to interest rate risk expressed in terms of economic value sensitivity is measured with reference to the banking book assets and liabilities (this therefore excludes positions in the trading portfolio - Other). The sensitivity analysis of economic value makes it possible to assess the impact of yield curve shifts (shocks) on the value of equity. The methodology applied is the one established by the 32nd update of Circular 285/2013, including the adoption of the stress scenarios mentioned in the EBA Guidelines (EBA/GL/2018/02). However, Circular 285/2013 enables tier 2 banks, such as DEPObank, to “*refine the simplified scenarios...relating to the estimate of the core component and to its division into the bands up to a maximum of 5 years*”. In accordance with this possibility, the bank has defined criteria more in line with its specificity.

Quantitative information

1. Banking book: distribution by maturity (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives

Currency of denomination: euro

Type/Unexpired term	sight	up to 3 months	more than 3 months to 6 months	more than 6 months to 1 year	more than 1 year to 5 years	more than 5 years to 10 years	more than 10 years	Indefinite duration
1. On-balance sheet assets								
1.1 Debt securities								
- with early repayment option	-	-	-	-	-	-	-	-
- other	503,668	155,521	994,229	101,079	1,516,982	-	-	-
1.2 Loans to banks	147,598	1,450,429	-	2,377	-	-	-	-
1.3 Loans to customers	-	-	-	-	-	-	-	-
- c/c	11,156	-	-	-	-	-	-	-
- Other loans	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	18,783	189,009	103	190	19,076	-	-	-
2. On-balance sheet liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Payables due to customers	-	-	-	-	-	-	-	-
- c/c	7,485,688	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	22,705	-	-	-	-	-	-	-
2.2 Payables due to banks	-	-	-	-	-	-	-	-
- c/c	584,484	-	-	-	-	-	-	-
- other payables	236,890	-	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- others	-	-	-	-	-	-	-	-
3 Financial derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
4 Other off-balance sheet transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-

"Payables due to customers - current account" represent accounts established for the performance of services relating in particular to the activity of the Depositary Bank, which as such have a high level of stability of the relationship and of the corresponding collection.

Currency of denomination: other currencies

Type/Unexpired term	**sight**	**up to 3 months**	**more than 3 months to 6 months**	**more than 6 months to 1 year**	**more than 1 year to 5 years**	**more than 5 years to 10 years**	**more than 10 years**	**Indefinite duration**
1. On-balance sheet assets								
1.1 Debt securities								
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	12,584	-	-	-	-	-	-
1.2 Loans to banks	84,911	-	-	-	-	-	-	-
1.3 Loans to customers	-	-	-	-	-	-	-	-
- c/c	7,023	-	-	-	-	-	-	-
- Other loans	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	69	-	-	-	-	-	-	-
2 On-balance sheet liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Payables due to customers	-	-	-	-	-	-	-	-
- c/c	865,446	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	315	-	-	-	-	-	-	-
2.2 Payables due to banks	-	-	-	-	-	-	-	-
- c/c	95,047	-	-	-	-	-	-	-
- other payables	-	118	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3 Financial derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
4 Other off-balance sheet transactions	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-

“Payables due to customers - current account” represent accounts in foreign currencies established for the performance of services relating in particular to the activity of the Depositary Bank, which as such have a high level of stability of the relationship and of the corresponding collection.

1.2.3 Exchange risk

QUALITATIVE INFORMATION

1. General aspects, management processes and measurement methods for exchange rate risk

Exchange rate risk is the risk of loss generated by market transactions in financial instruments, currencies and commodities resulting from the evolution of market factors or the situation of the issuer.

Exchange rate risk originates from trading activities carried out on behalf of customers in foreign currencies and is constantly monitored not only by the Treasury Service that performs the competent level I controls, but also by the Risk Management Service through the calculation of the VaR and the monitoring of limits.

Exposure to exchange rate risk – determined on the basis of the net foreign exchange position using a methodology based on the supervisory regulations – is limited, since any foreign exchange transaction of a significant amount closed with institutional counterparties is normally "hedged” by executing a transaction of the opposite sign on the market. Minor transactions carried out on behalf of customers that generate a position open to exchange rate risk are monitored in real time by the Treasury Service in compliance with the limits established by the current Regulation.

Positions open to exchange rate risk may only be maintained within very strict (and in any case always amply observed) limits by maximum overall exposure, single currency and VaR.

2. Exchange rate risk hedging

The risk associated with the trading book is mainly hedged through spot forex transactions. The Risk Management Service verifies on a daily basis that the VaR on existing positions is within the limit set by the Finance Regulation.

QUANTITATIVE INFORMATION

1. Breakdown by currency of assets, liabilities and derivatives

Items	Currencies					
	US dollars	Yen	Pounds	Swiss francs	Canadian dollars	Other currencies
A. Financial assets						
A.1 Debt instruments	12,584	-	-	-	-	-
A.2 Equity instruments	2,375	-	-	-	-	207
A.3 Loans to banks	36,619	6,614	5,854	2,751	6,543	26,529
A.4 Loans to customers	3,897	2,053	412	-	76	653
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**1**	**12**	**1**	**2**	**35**	**8**
C. Financial liabilities	**-**	**-**	**-**	**-**	**-**	**-**
C.1 Payables due to banks	48,941	10,300	628	7,927	6,779	20,590
C.2 Deposits from customers	497,833	100,332	104,728	42,028	40,843	80,750
C.3 Debt instruments	-	-	-	-	-	-
C.4 Other financial assets	-	-	-	-	-	-
D. Other liabilities	**-**	**-**	**-**	**-**	**-**	**-**
E. Financial derivatives	**-**	**-**	**-**	**-**	**-**	**-**
- Options	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-
+ Long positions	508,571	101,776	99,229	46,954	40,939	74,697
+ Short positions	5,218	100	79	1,000	-	687
Total assets	**564,048**	**110,455**	**105,496**	**49,708**	**47,592**	**102,093**
Total liabilities	**551,992**	**110,732**	**105,435**	**50,956**	**47,622**	**102,028**
Difference	**12,057**	**- 277**	**61**	**- 1,248**	**- 30**	**65**

1.3 DERIVATIVES AND HEDGING POLICIES

DEPObank's transactions in derivatives mainly concern trading activities that are balanced on behalf of customers and transactions in derivatives on swaps performed by the Treasury Service with the aim of converting the revenues into euros or other currencies. DEPObank does not hold innovative or complex financial products.

1.3.1 Trading derivatives

A. FINANCIAL DERIVATIVES

A.1 Trading financial derivatives: notional end-of-period values

Underlying assets/Derivative types	Total 31/12/2020			
	Over the counter			Organised markets
	Central counterparties	Without central counterparties		
		With netting agreements	Without netting agreements	
1. Debt securities and interest rates				
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equity securities and share indices	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currencies and gold	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	835,458	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**
5. Other underlying	**-**	**-**	**12**	**-**
Total	**-**	**-**	**835,470**	**-**

A.2 Trading financial derivatives: positive and negative gross fair value - breakdown by products

Portfolios/Derivative types	31/12/2020			
	Over the counter			Organised markets
	Central counterparties	Without central counterparties		
		With netting agreements	Without netting agreements	
1. Positive fair value				
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	1,763	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**-**	**-**	**1,763**	**-**
2. Negative fair value	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	4,039	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**-**	**-**	**4,039**	**-**

A.3 OTC financial derivatives - notional values, positive and negative gross fair values by counterparty

Underlying assets	Central Counterparties	Banks	Other financial companies	Other entities
CONTRACTS NOT COVERED BY NETTING AGREEMENTS				
1) Debt securities and interest rates				
- Notional value	X	-	-	-
- Positive fair value	X	-	-	-
- Negative fair value	X	-	-	-
2) Equity securities and share indices	**-**	**-**	**-**	**-**
- Notional value	X	-	-	-
- Positive fair value	X	-	-	-
- Negative fair value	X	-	-	-
3) Currencies and gold	**-**	**-**	**-**	**-**
- Notional value	X	835,458	-	-
- Positive fair value	X	1,763	-	-
- Negative fair value	X	4,039	-	-
4) Commodities	**-**	**-**	**-**	**-**
- Notional value	X	-	-	-
- Positive fair value	X	-	-	-
- Negative fair value	X	-	-	-
5) Other	**-**	**-**	**-**	**-**
- Notional value	X	-	-	12
- Positive fair value	X	-	-	-
- Negative fair value	X	-	-	-
CONTRACTS COVERED BY NETTING AGREEMENTS	**-**	**-**	**-**	**-**
1) Debt securities and interest rates	**-**	**-**	**-**	**-**
- Notional value	X	-	-	-
- Positive fair value	X	-	-	-
- Negative fair value	X	-	-	-
2) Equity securities and share indices	**-**	**-**	**-**	**-**
- Notional value	X	-	-	-
- Positive fair value	X	-	-	-
- Negative fair value	X	-	-	-
3) Currencies and gold	**-**	**-**	**-**	**-**
- Notional value	X	-	-	-
- Positive fair value	X	-	-	-
- Negative fair value	X	-	-	-
4) Commodities	**-**	**-**	**-**	**-**
- Notional value	X	-	-	-
- Positive fair value	X	-	-	-
- Negative fair value	X	-	-	-
5) Other	**-**	**-**	**-**	**-**
- Notional value	X	-	-	-
- Positive fair value	X	-	-	-
- Negative fair value	X	-	-	-

A.4 Residual life of OTC financial derivatives: notional values

Underlying/Residual Life	Up to 1 year	1 year to 5 years	More than 5 years	Total
A. Regulatory trading book				
A.1 Financial derivatives on debt securities and interest rates	-	-	-	-
A.2 Financial derivatives on equity securities and shares indices	-	-	-	-
A.3 Financial derivatives on currencies and gold	835,458	-	-	835,458
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	12	12
Total 31/12/2020	**835,458**	**-**	**12**	**835,470**

1.4 LIQUIDITY RISK

QUALITATIVE INFORMATION

1. General aspects, management procedures and measurement methods of the liquidity risk

Liquidity risk is defined as the risk that the bank may be unable to meet its obligations at maturity and/or that it may have to bear non-market financing costs in relation to an unbalanced net financial position, due to the inability to procure funds (funding liquidity risk) or due to the presence of limits on the liquidation of assets (market liquidity risk).

With regard to the governance of the liquidity framework, the Board of Directors is responsible for defining the risk tolerance threshold and approving methodologies, stress assumptions, early warning indicators, the Contingency Funding and Recovery Plan (CFRP) and principles relating to the definition of the pricing system for the internal transfer of funds. The Chief Executive Officer is responsible for implementing the strategic guidelines and governance policies defined by the Board of Directors, in compliance with the risk tolerance threshold in accordance with Circular 285/13, Part 1, Title V, Chapter 6, Section II, para. 2.2; the CEO also receives regular reports concerning the monitoring of Liquidity Risk and informs the Board of Directors at least quarterly, and more frequently in the event of a deterioration in the liquidity situation. The Board of Statutory Auditors verifies the consistency of the entire liquidity framework with the Internal Control System and compliance with current legislation.

The role of the Risk Management Service, as the function responsible for risk assessment in the design of second-level controls, is defined in accordance with the regulatory requests of Circular 285/13, Part 1, Title V, Chapter 6, Section II, para. 3; the Risk Management Service focuses on monitoring the bank's exposure to Liquidity Risk, defining and calculating stress tests, monitoring compliance with liquidity indicators, verifying the adequacy of liquidity reserves, preparing reports to corporate bodies and supporting the assessment of the pricing system for the internal transfer of funds.

The Audit Service checks the adequacy of the liquidity management system and the control system that presides over this management at least once a year, reporting to the Corporate Bodies on the results of the audits carried out.

DEPObank's business model is focused on providing banking services to participants in Italy's national banking and financial system; its lending and financial investment businesses are currently mainly managed as ancillary to its core businesses, with relationships developed mainly at the interbank level. In addition to the liquidity generated by the balances of the accounts deriving from depositary bank business and the time lag between the credits recorded and the payment arrangements made with counterparties, DEPObank can also meet its needs through liquidity from: highly liquid assets, repurchase agreement funding, unsecured over-the-counter (OTC) interbank market funding, refinancing operations with the European Central Bank (ECB) and inflows from its assets that have reached maturity.

The relevant document is entitled the “Liquidity Risk Policy and Contingency Funding and Recovery Plan", approved by the Board of Directors. It defines the guidelines for the liquidity risk policy and the rules to be adopted in a state of liquidity crisis (Contingency Funding and Recovery Plan), transposing the latest regulatory updates (see Bank of Italy Circular 285/2013) and the principles enshrined in the Risk Policy, complementing and completing the rules laid down in the Finance Regulation.

As part of the Risk Appetite Framework, specific liquidity metrics have been defined, both regulatory, Liquidity Coverage Ratio – LCR and Net Stable Funding Ratio – NSFR, and internal, "Ratio of minimum cumulative net balance to total assets", in order to better represent the operational reality of the bank.

Liquidity monitoring, which is performed in accordance with the maximum risk tolerance threshold, and therefore also with the nature, objectives and operational complexity of DEPObank, aims to ensure the ability to meet expected or unforeseen cash payment commitments over a four-month horizon[4], and this is done by calculating two indicators to monitor the sustainability of the short-term balance in a complementary manner, both under normal business conditions and in stress scenarios:

- Cumulative net balance at 30 days, referring to the daily analysis of the projected liquidity at one month on a rolling basis;
- Minimum cumulative net balance, referring to the weekly analysis of time bands up to four months in the maturity ladder scheme.

Liquidity monitoring is carried out both in a situation of normal going concern business and in a stress scenario. The results of stress tests are used to verify:

- DEPObank’s ability to cope autonomously (time to survival) with unforeseen liquidity crises in the first period in which they occur and before initiating structural interventions aimed at changing the structure of assets/liabilities;
- whether the level of limits/early warning results in the maintenance of liquidity reserves that allow DEPObank to cope with the initial period of systemic or idiosyncratic stress;
- the effectiveness of crisis management.

The stress tests are based on the calculation of the Basel 3 coefficient – LCR (the same indicator monitored for the liquidity risk tolerance threshold), in relation to the most important items for DEPObank. In particular, the items taken into account are counterbalancing capacity, the negative balances of large corporate current accounts and bank reciprocal accounts and the credit facility margins.

Liquidity risk also includes the intraday risk deriving from the time mismatch between outflows (settled at daily cut-offs or when orders are received from customers) and inflows (settled at different intraday cut-offs), which may render it impossible for the Bank to discharge its payment obligations when they are called in due to a temporary lack of funds. To hedge intraday liquidity risk, rules are defined for the maintenance of a minimum portfolio of eligible securities,

4 The reference time horizon for short-term liquidity may be up to 12 months, but for DEPObank is up to four months is relevant, since items with longer maturities are residual and relate exclusively to maturing securities in the proprietary portfolio.

functional to meet requirements for intraday and periodic refinancing from central banks.

As already specified in the paragraph "Impacts of the COVID-19 pandemic", due to its particular type of operation the Group has not suffered any significant impacts. In fact the liquidity position, which is healthy and constantly monitored, has always remained solid thanks to the wide availability of liquid reserves and the high stability of funding, so that the "Basel 3" liquidity indicators Liquidity Coverage Ratio, LCR, and Net Stable Funding Ratio, NSFR, for the Parent Company show values as at 31 December 2020 of 324% and 318%, respectively, well above the regulatory limits.

Quantitative information

1. Time breakdown by contractual residual maturity of financial assets and liabilities

Currency of denomination: EUR

Items/Time bands	sight	more than 1 day to 7 days	more than 7 days to 15 days	more than 15 days to 1 month	more than 1 month to 3 months	more than 3 months to 6 months	more than 6 months to 1 year	more than 1 year to 5 years	more than 5 years	Indefinite duration
On-balance sheet assets										
A.1 Government bonds	-	-	-	-	114,000	63,000	100,000	2,887,501	2	-
A.2 Other debt instruments	-	-	-	10,000	7,500	4,500	-	2,501	3	-
A.3 Units of UCIs	33,300	-	-	-	-	-	-	-	-	-
A.4 Loans	-	-	-	-	-	-	-	-	-	-
- banks	261,388	215,506	506,562	259,287	296,162	-	2,377	-	-	171,255
- customers	30,132	2,570	63,259	43,062	79,906	106	195	19,078	-	-
On-balance sheet liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	-	-	-	-	-	-	-	-	-	-
- banks	736,234	131,000	-	87,125	-	-	-	18,824	-	-
- customers	7,728,086	-	-	-	22	-	-	24	-	-
B.2 Debt instruments	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	619,706	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
C.1 Financial derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	7,003	-	82	-	-	-	-	-	-
- Short positions	-	16,415	473,738	345,735	38,168	-	-	-	-	-
C.2 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be collected	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to lend funds	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

Currency of denomination: other currencies

Items/Time bands	sight	more than 1 day to 7 days	more than 7 days to 15 days	more than 15 days to 1 month	more than 1 month to 3 months	more than 3 months to 6 months	more than 6 months to 1 year	more than 1 year to 5 years	more than 5 years	Indefinite duration
On-balance sheet assets										
A.1 Government bonds	-	-	-	-	-	-	-	-	-	-
A.2 Other debt instruments	-	-	-	-	12,224	-	-	-	-	-
A.3 Units of UCIs	-	-	-	-	-	-	-	-	-	-
A.4 Loans	-	-	-	-	-	-	-	-	-	-
- banks	85,017	-	-	-	-	-	-	-	-	-
- customers	7,155	-	-	-	-	-	-	-	-	-
On-balance sheet liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	-	-	-	-	-	-	-	-	-	-
- banks	95,047	-	-	-	118	-	-	-	-	-
- customers	865,446	-	-	-	-	-	-	-	-	-
B.2 Debt instruments	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	1,068	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
C.1 Financial derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	16,417	471,225	346,354	38,170	-	-	-	-	-
- Short positions	-	7,002	-	82	-	-	-	-	-	-
C.2 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be collected	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to lend funds	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

1.5 OPERATIONAL RISKS

QUALITATIVE INFORMATION

1. General aspects, management procedures and measurement methods of the operational risk

Operational risk is defined as the risk of losses deriving from the inadequacy or malfunctioning of processes, human resources and internal systems, or from external events.

Operational risk is characterised by a cause and effect, such that an adverse event is generated by one or more triggers that directly results in a financial loss; an operational loss can thus be defined as all the adverse economic effects resulting from operations, recorded on the company's accounts, and impacting the income statement.

Operational risk has the peculiar characteristic of being intrinsically linked both to the decision to undertake a given type of activity and to the performance of the business more generally.

Unlike the other risks, for which the bank, based on its propensity for risk, knowingly assumes credit or lending positions in order to achieve its desired risk/return profile, the approach to operational risks requires controls both upstream, in order to restrict their occurrence, and downstream, in order to reduce their impact. The number, extent and depth of these controls depends on the propensity for risk, i.e. the knowing acceptance of a specific level of potential losses in exchange for a certain ability to generate business and profits. In order to assess the exposure to operational risks and the effects that appropriate mitigation measures have on them, qualitative and quantitative information should be combined as appropriate.

In this context, the Internal Control System must be the main safeguard for the prevention and containment of these risks. In particular, company policies and procedures to define, identify, assess and manage operational risk exposure must be approved and implemented.

The operational risk governance framework consists of a structured set of processes, functions and resources for the identification, assessment and control of operational risks, including those arising from events characterised by low frequency and particular severity, with the aim of ensuring an effective risk prevention and mitigation action.

Elements characterising this framework, consistent with the prudential regulatory provisions, are:

- the assessment of operational risk exposure as a process closely integrated into the risk management process in all company activities;
- formalisation and assignment of responsibilities;
- the reporting system.

In addition to the provisions on capital requirements, DEPObank has activated a specific process aimed at fully analysing the operational risks to which it is exposed, identifying any areas of vulnerability and providing adequate management and control systems. The framework consists of four key elements:

- Identification;
- Measurement;
- Monitoring and Reporting; and
- Management.

Identification of operational risks involves collecting operational risk information through the coherent, coordinated treatment of all relevant sources of information; the objective is establishing a complete information base. The necessary information is internal loss data accompanied by all information relevant for management purposes and subjective assessments acquired through risk self-assessment and control processes. This information is collected on the basis of specific classification models, designed to ensure a homogeneous representation of the data. The Identification phase consists of the following processes:

- Collection of operational loss data. In this regard, DEPObank has set up a system for collecting and storing data on Operational Risks, including significant losses and related recoveries, suitable for making the management system effective. The Loss Data Collection (LDC) process involves collecting all adverse events related to any business process.
- Identification and assessment of operational risks. DEPObank has implemented a system for identifying potential losses due to operational events that, regardless of past scenarios, present a plausible probability of occurrence. The process of identifying and assessing Operational Risks is carried out in the following phases:
    a. Design of new services/products, identifying the possible types of adverse events related to the initiative, their possible impact in terms of the project and/or product/service and the objectives and control and mitigation actions to be pursued;
    b. Identification and assessment of the coherence of the risk profile of Major Transactions with the defined risk appetite;
    c. Assessment of the operational risk profile of the processes in place: an overall assessment is carried out regularly, for the relevant operating segments, of the level of exposure to Operational Risks, through the Risk Control Self-Assessment (RCSA) process;
    d. Assessment of IT risk for the identification of specific risks inherent in the ICT sphere, internal or dependent on outsourcers, and a better qualification of operational risk through the evaluation of the specific elements characteristic of the automatic processing of information.

Measurement is the risk-valuation activity aimed at quantifying the capital to be allocated for operational risk. DEPObank calculates regulatory capital for operational risks using the basic approach, taking into account the degree of compliance with the minimum qualitative and quantitative requirements defined for access to the most advanced models (standardised and advanced). In addition, for a better assessment of risk exposure, DEPObank has implemented a quantitative operational risk assessment process (OpVaR) that monitors DEPObank's operational risk calculated to the 99.9th percentile.

The risk profile **Monitoring** phase aims to define a set of risk indicators that allow any critical issues and/or anomalies to be reported through an appropriate reporting system. This indicators comprise qualitative and quantitative ones.

The **Reporting** phase aims to ensure timely and appropriate communication in support of management decisions of corporate bodies and organisational functions. Reporting includes the outcomes of the following activities:

- the identification and monitoring of loss events identified through the Loss Data Collection and Risk Control Self Assessment (LDC and RCSA) processes;
- the assessment of the operational risks to which the bank's processes are exposed (e.g. assessment of New Products/Services/Major Transactions);
- the definition of the action plans undertaken in risk management and mitigation, indicating the time horizon of the plan, the contact person responsible for managing it and any supporting operational documents;
- the trend of monitoring indicators (RAF and monitoring indicators for risk measurement and control systems).

The planning and development of control activities are subject to follow-up processes involving their entry into a "Dashboard” and the related monitoring by the control functions (Risk Management, Compliance and Audit) of all the actions envisaged for the improvement of the internal control system. The results of the monitoring are prepared on a quarterly basis and reported periodically to the Corporate Bodies, in order to provide an overview of the main problems to which the bank is exposed and the progress of the corrective actions implemented or to be addressed, and then sent to the Bank of Italy.

The phase of **Managing** operational risk aims to continually assess the risk control and reduction strategies, deciding, on the basis of the nature and scale of the risk and in relation to the risk propensity expressed by senior managers, whether to accept it and therefore assume it, on the part of the person in charge of the process, to refuse it, and there reduce activities, to implement mitigation policies or to transfer it to third parties by way of suitable insurance policies.

A fundamental instrument for mitigating operational risk is also represented by the Business Continuity and Disaster Recovery Plan, reviewed annually in compliance with the requirements of the Supervisory Instructions on internal controls; the Bank of Italy legislation has in fact extended the concept of Business Continuity to all critical “business processes”, focusing not only on the technological component, but on all the factors (human resources, logistics, essential services, etc.) that contribute to the mitigation of operational risks in the context of new crisis scenarios.

“Business continuity” includes all initiatives aimed at reducing to an acceptable level the damage resulting from accidents and catastrophes that could directly or indirectly affect the bank, while the Disaster Recovery Plan sets out the technical and organisational measures to deal with events that result in the unavailability of data processing centres and is aimed at enabling the functioning of the relevant IT procedures at alternative sites.

Finally, an additional mitigation tool, in particular with regard to unexpected risks, consists of insurance coverage, which the bank uses for certain risk areas that are inherent in the business and for cases (typically low frequency and high impact) that are not effectively mitigated by the prevention of line operational controls alone.

PART F - INFORMATION ON SHAREHOLDERS' EQUITY

A. QUALITATIVE INFORMATION

The aggregate available capital at the end of the allocation process is the regulatory capital. Under this approach, the regulatory rules are a minimum requirement. Specifically, DEPObank's equity policy is based on full compliance with the requirements of supervisory regulations, which identify equity as the primary protection against possible unexpected losses arising from the various risks (credit, market and operational) assumed by banks. Available capital is therefore an essential support for growth projects.

In accordance with internal procedures, the competent officials regularly monitor capital absorption and compliance with the relevant requirements. At different intervals, this information is reported to senior managers and to the Board of Directors who, in accordance with the delegation of powers, are entrusted with governing the ways in which DEPObank pursues its equity management objectives. Equally, when there are new initiatives that may affect capital absorption, the effects on and adequacy of capital are simulated in advance.

Lastly, the policies on how the profit for the year is appropriated are also designed to ensure a sufficient degree of capitalisation, consistent with growth objectives.

B. QUANTITATIVE INFORMATION

B.1 Consolidated shareholders' equity: breakdown by type of enterprise

Items/values	Amount 31/12/2020	Insurance companies	Other companies	Eliminations and adjustments from consolidation	Total
1. Share capital	42,557				42,557
2. Share premium	148,242				148,242
3. Reserves					
- earnings					-
a) legal	20,000				20,000
b) Articles of Association					-
c) treasury shares					
d) others	255,160				255,160
- others	10,848				10,848
4. Equity instruments					-
5. (Treasury shares)					-
6. Valuation reserves					-
- Equities measured at fair value through other comprehensive income:					-
- Hedging of equity instruments measured at fair value through other comprehensive income	-748				-748
- Actuarial gains (losses) relating to defined benefit plans	-1,269				-1,269
- Share of valuation reserves for equity investments measured at equity					-
- Special revaluation laws					
Profit (loss) for the period attributable to the Group and minority interests	-35,943				-35,943
Shareholders' equity	**438,847**	**-**	**-**	**-**	**438,847**

B.2 Valuation reserves of the financial assets measured at fair value through profit or loss: breakdown

Assets/Values	**31/12/2020**	
	Positive reserve	**Negative reserve**
1. Debt securities		
2. Equity securities	1,648	-2,396
3. Loans		
Total	**1,648**	**-2,396**

B.3 Valuation reserves for financial assets measured at fair value through other comprehensive income: annual changes

	Debt securities	**Equity securities**	**Loans**
1. Opening balances	**-**		**-**
2. Positive changes		**2,042**	
2.1 Increases in fair value			-
2.2 Adjustments in value for credit risk		X	
2.3 Reclassification to income statement of negative reserves following disposal		X	
2.4 Transfers to other equity items (equity securities)			
2.5 Other changes		770	
3. Negative changes			
3.1 Decreases in fair value			
3.2 Adjustments in value for credit risk			
3.3 Reclassification through profit or loss of positive reserves: following disposal		X	
3.4 Transfers to other equity items (equity securities)		2,042	
3.5 Other changes		1,518	
4. Closing balances	**-**	**-748**	**-**

B.4 Revaluation reserves on defined benefit plans: annual changes

The valuation reserve for defined-benefit plans refers exclusively to the post-employment benefits accrued before 1 January 2006. As there are no assets servicing the plan, the valuation reserve includes only the actuarial effect on the liability, the change in which was as follows:

	Gross actuarial effect	Income taxes	Valuation reserve	
			Total	of which attributable to the Group
Opening balances				
Other changes	-1,724	478	-1,246	-
Increases in actuarial effect	-32	9	-23	-
Decreases in actuarial effect	-	-	-	-
Closing balances	**-1,756**	**487**	**-1,269**	**-**

SECTION 2 – OWN FUNDS AND REGULATORY RATIOS

2.1 – Own funds

A. Qualitative information

As a result of the acquisition in 2015, by a consortium of private equity funds managed by the Advent International, Bain Capital and Hourglass funds, of a controlling interest in the then Istituto Centrale delle Banche Popolari Italiane (ICBPI) and the subsequent reorganisation process in 2018 of the Banking Group to which it belonged, DEPObank (formerly ICBPI) must comply with the provisions of the relevant EU Regulations in terms of capital requirements, based on the situation of the accounts referring to the scope of consolidation with Equinova UK HoldCo Ltd. at the top; the aforementioned scope of prudential consolidation in addition to the parent company Equinova (which holds 91.558% of the capital of DEPObank) comprises only DEPObank and Cara Services.

PART G - BUSINESS COMBINATIONS OF COMPANIES OR BUSINESS UNITS

SECTION 1 - TRANSACTIONS COMPLETED DURING THE YEAR

On 20 January 2020, DEPObank acquired 100% of the share capital of the German company Cara Services GmbH. Cara Services GmbH does not have any equity investments.

The purchase of Cara Services contributed to achieving DEPObank's "2019-2023 Strategic Plan" ("DEPObank: the Italian FinTech Multispecialist"), the approval of which launched the selection of potential acquisitions able to accelerate the company's switch to a FinTech model.

The search resulted in the identification of an opportunity to enable the bank to upgrade its technology by acquiring a company (Cara Services GmbH) that owns a next-generation technology platform capable of managing the various phases of the lending process through artificial intelligence and highly digitalised processes.

On 25 July 2019 DEPObank thus entered into an agreement with PrestaCap Holdings S.A. for the acquisition of 100% of the capital of Cara Services GmbH for €20 million.

In addition to acquiring a highly scalable innovative specialised lending platform, developed in the cloud, which uses innovative machine learning and business intelligence solutions, through this transaction the Bank also acquired a highly competent and motivated team with specialist know-how that can be used for the digitalisation of processes, including in the Bank's more traditional business areas.

The company's statement of financial position at the purchase date showed total assets of €1.3 million and equity of €0.7 million, which included a loss for the period (from 1 to 20 January 2020, closing date) totalling €0.1 million.

The following table shows the financial position of the company on the acquisition date (and on the date of the last financial statements before same).

Assets	**31/12/2019**	**20/01/2020**
Tangible assets	4	4
Intangible assets	943	943
Receivables due from banks	0	72
Receivables due from customers	387	102
Other assets	89	142
of which security deposits	*25*	*25*
of which receivables from the Treasury	*18*	*21*
of which other	*45*	*96*
Total assets	**1,423**	**1,263**

Liabilities	**31/12/2019**	**20/01/2020**
Tax liabilities	242	242
of which deferred tax liabilities	242	242
Other liabilities	439	315
of which payables to suppliers	*313*	*192*
of which payables to employees	*79*	*69*
of which other	*47*	*54*
Reserves	1,177	767
Share capital	25	25
Profit /(loss) for financial year	-460	-86
Total liabilities and equity	**1,423**	**1,263**

(Figures in thousands of euros)

The book value of the acquired assets and liabilities was aligned with their fair value.

On the basis of the consideration transferred (€20.0 million) and the fair value at the acquisition date of the identifiable assets acquired and identifiable liabilities assumed measured in accordance with IFRS 3, goodwill of €19.4 million emerged at the acquisition date, the sustainability of which was to be sought in the investee's ability to accelerate the development of the new SME Lending Business Unit (the "Vesta Project") at the heart of the development and the new asset-side strategy envisaged in the aforementioned strategic plan.

The corporate events that affected the Parent Company, as described in the Report on Operations, led, among other things, to the Vesta Project being abandoned and to the strategies and purposes of holding the investee Cara Services to be reviewed, initiating a programme for its disposal (to be completed before the transfer of control of the Bank to BFF).

In the financial statements at 31 December 2020, the assets and liabilities relating to the subsidiary Cara Services were therefore classified under items "120.

Non-current assets and groups of assets held for disposal" and "70. Liabilities associated with groups of assets held for disposal" in the Balance Sheet pursuant to IFRS 5, the Board having determined the existence of the criteria for such a classification in its meeting held on 17 December 2020.

Their valuation at fair value, identified through the expected price of the sale of the investment to third parties quantified on the basis of the offers received by the Bank for the related sale, resulted in the recognition of a loss of value, attributable to the impairment of goodwill equal to €17.9 million, which was recorded net of tax effects under item "320. Profit (loss) from discontinued operations after taxes".

SECTION 2 - TRANSACTIONS AFTER THE CLOSING OF THE YEAR

There were no transactions completed after the end of 2020.

The sale of the equity investment in Cara Services GmbH, and with it the related assets and liabilities, is expected by the end of February 2021.

SECTION 3 - RETROSPECTIVE ADJUSTMENTS

Not applicable.

PART H – TRANSACTIONS WITH RELATED PARTIES

1. Information on remuneration of executives with strategic responsibilities

The following table summarises the remuneration paid by the bank to directors and executives with strategic responsibilities for the financial statements as defined in Part 2.

	31/12/2020
Directors' fees	2,421
Remuneration of other executives with strategic functions and supervisory bodies	3,692
Total	**6,113**

2. Information on related party transactions

The purpose of International Accounting Standard 24 (*Related Party Disclosures*) is to ensure that an entity's financial statements contain the disclosures necessary to highlight the possibility that its financial position and economic result may have been altered by the existence of related parties and by transactions and balances with such parties.

Based on these indications, applied to the bank's organisational and governance structure, the following are considered related parties:

a) parties who, directly or indirectly, including through subsidiaries, fiduciaries or nominees, control, including jointly, the bank, or hold an investment in the bank that can exert a significant influence on it;
b) subsidiaries or companies under joint control of the entities referred to above;
c) subsidiaries, affiliated companies or companies subject to joint control by the bank;
d) executives with strategic responsibilities of the bank and its parent and its subsidiaries, subject to joint control or significant influence;
e) the close relatives of the natural persons included in points a) and d) above;
f) supplementary pension funds set up for employees of the bank or its related entities.

The effects of the transactions with related parties as defined above are shown in the following summary table.

(figures in thousands of euros)

Transactions with related parties	**Total item**	**Subsidiaries**	**Other related parties**	**Directives, executives and control bodies**
40. Financial assets measured at amortised cost	5,199,327		-	
a) loans and receivables with banks	1,717,966			-
b) Receivables due from customers	3,481,361		-	-
130. Other assets	265,436		15,544	
10. Financial liabilities measured at amortised cost	9.899.701			
a) due to banks	916,539			
b) due to customers	8,983,162		490,345	
80. Other liabilities	275,119		-	
10. Interest income and similar income	51,213		-	-
40. Fee and commission income	111,608		-	-
190. Administrative costs	-110,786		-	-6,113
230. Other operating income/expenses	10,725		-	-
Commitments and guarantees	1,562,198		72	

It should be noted that these relationships are governed by specific contractual agreements which - without prejudice to the objective of optimising synergies, economies of scale and scope and using centres of excellence – refer to objective, constant parameters over time based on criteria of transparency and substantial fairness. The quantification of fees for the services provided is defined and formalised according to parameters that take into account the actual use by each end user.

Such relations with related parties, which are part of normal banking activity, are normally at arm's length.

PART I - PAYMENT AGREEMENTS BASED ON OWN SHARES

There were no payment arrangements based on own shares.

PART M - INFORMATION ON LEASES

SECTION 1 - LESSEE

Qualitative information

Refer to the section “Other aspects” of Part A - Accounting policies of these Notes.

Quantitative information

Refer to:
- information on lease rights of use contained in Part B, Assets;
- information on lease liabilities contained in Part B, Liabilities;
- information on interest expense on lease liabilities contained in Part C;
- information on the bank's choices contained in Part A of the Notes.

DEPObank
BANCA DEPOSITARIA ITALIANA

Report of the Independent Auditors on the consolidated financial statements

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INDEPENDENT AUDITOR'S REPORT
PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010
AND ARTICLE 10 OF THE EU REGULATION 537/2014

To the Shareholders of
DEPObank S.p.A.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of DEPObank S.p.A. and its subsidiaries (the "Group" or the "DEPObank Group"), which comprise the balance sheet as at December 31, 2020, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 43 of Italian Legislative Decree no. 136/15.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of DEPObank S.p.A. (the "Bank") in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Accounting effects resulting from the signing of the "Sale and Purchase and Merger Agreement"	
Description of the key audit matter	On May 13, 2020, a "Sale and Purchase and Merger Agreement" (hereinafter "SPMA") was signed between Banca Farmafactoring S.p.A. ("BFF") and the actual controlling shareholder of the Bank, Equinova UK Holding Ltd ("Equinova"), as well as, limited to some contractual provisions, DEPObank S.p.A.. The SPMA, in brief, provides and regulates, subject to the realization of certain conditions upon closing, (i) the acquisition by BFF of the control of DEPObank (the "acquisition") and (ii) immediately after the acquisition, the merger by incorporation of DEPObank into BFF. The closing of the transaction is expected by the end of the first quarter 2021. The SPMA includes, among other things: • as a risk mitigation mechanism on the portfolio of government bonds held by DEPObank, the obligation to sell to BFF of nominal Euro 770.5 million of the bond "CCT-EU TV Eur6M+0.95% AP25 EUR" ("CCTS Float 04/15/25"); the interruption of the SME Specialized Lending Development project (so-called "Vesta project"); and as further conditions enabling the closing of the acquisition, the disposal of all the assets/contracts related to it, among which the following ones: - the sale of the entire holding held in Cara Services GmbH; - the sale of the quota of the loan granted in pool to Prelios S.p.A.; - the *clean early termination* of some employees; • the sending of a notice of termination – in the first date available under the corresponding contracts – of all commercial agreements relating to the Vesta project, including the lease of a portion of the Milan office. In the Board of Directors' Report on Operations – paragraph "Merger with Banca Farmafactoring" and in the notes to the financial statements - part A – Accounting policies, Paragraph "Accounting effects deriving from the signing of the "Sale and Purchase and Merger Agreement" with Banca Farmafactoring S.p.A. and Equinova UK HoldCo Ltd on 13 May 2020" the information on the above-described aspects and the related accounting effects is given. Considering the structure and complexity of the impact on the balance sheet and income statements resulting from the terms and conditions of the abovementioned Agreement and the relevance of the amounts, we have considered the accounting effects of the signing of the "Sale and Purchase and Merger Agreement" as a key audit matter for the of the consolidated Financial Statement of the Group at December 31, 2020.

Audit procedures performed	The main procedures carried out as a part of our audit work have included the following: • obtaining and analyzing the "Sale and Purchase and Merger Agreement"; • analysis and understanding, with discussion with the Bank's management too, of the accounting effects related to the provision of the SPMA; • verification of the application of the International Accounting Standards for accounting records relating to the provisions of the SPMA; • verification on a sample basis of the consequent accounting made by the Group; • analysis of subsequent events occurred after the reference date of the consolidated financial statements; • verification of the completeness and compliance of the disclosure provided by the Group in the financial statements.
Impairment test of goodwill allocated to the CGU "Banking Payments"	
Description of the key audit matter	The Group has recorded in the intangible assets of the consolidated Financial Statements at December 31, 2020 a goodwill of Euro 81 million allocated to *the Cash generating Unit* (CGU) "Banking Payments". According with IAS 36 – "Impairment of assets", goodwill is subjected to an impairment test at least once a year, by comparing it with the recoverable amount of the CGU. For the purposes of the impairment test, the recoverable amount used by the Board of Directors of DEPObank S.p.A. is the value in use. The impairment test was carried out on the basis of the CGU's economic and financial expectations considered in the strategic plan 2020-2023 (the "Plan") approved by the Bank's Board of Directors on February 21, 2020, taking into account, inter alia: • the exclusion of the expected impacts on the Plan from *the assets side strategy* related to the "Vesta project"; • the results of the first year of the plan, with special reference to the impacts related to the Covid-19 pandemic and the SPMA subscription on May 13, 2020; • the projections underlying the 2021 Budget approved by the Board of Directors of the Bank on December 17, 2020 and of the related medium-term economic and financial projections prepared taking into consideration the particular macro-economic context related to the emergency connected with the Covid-19 pandemic.

	The Value in Use of the CGU has been determined by applying the Dividend Discount Model (DDM) methodology in the Excess Capital version, discounting the underlying financial projections at a rate considered adequate and representative of the investment. Based on the results of such process, the Bank's directors did not determine the need to recognize any write-down of the goodwill allocated to Banking Payments CGU. The notes to the financial statements – Part A – Accounting Policies; Part B – Information on the balance sheet, Section 9 of Assets – provide the disclosures on the aspects mentioned above. Considering the amount of the goodwill recorded in the financial statements, the subjectivity of the estimates relating to the determination of the expected cash flows, which are even relevant because the macro-economic context related to the Covid-19 pandemic, and the key assumptions of the model used for the impairment test, we considered that the impairment test of the goodwill allocated to the CGU "Banking Payments" as a key audit matter for the consolidated Financial Statement of the Group at December 31, 2020.
Audit procedures performed	The main procedures carried out as part of our audit work, also with the support of experts belonging to Deloitte network, have included the following: • identification and understanding of key controls put in place by the Group over the impairment testing process; • obtaining an understanding of the methods and assumptions adopted by the Group to carry out the impairment test; • analysis of the reasonableness of the main assumptions adopted to estimate cash flow forecasts, the definition of key variables, also by obtaining information from the Bank and comparisons with publicly available information taking into account the uncertainties connected with the current macro-economic context resulting from the Covid-19 pandemic; • analysis of actual figures compared with the original plans to assess the nature of the variances and the reliability of estimation of the expected cash flows; • verification of the calculation accuracy of the models used to determine the recoverable amount; • review of the sensitivity analysis prepared by the Group; • analysis of subsequent events occurred after the reference date of the consolidated financial statements;

- verification of the completeness and compliance of the disclosure provided by the Group with respect to the requirements of IAS 36 “Impairment of assets” and of the notices issued by the supervisory authorities in the context of the emergency related to the Covid-19 pandemic.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The Directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 43 of Italian Legislative Decree no. 136/15 and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of DEPObank S.p.A. or for the termination of the operations or have no realistic alternative to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Bank’s financial reporting process.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of DEPObank S.p.A. has appointed us on April 29, 2019 as auditors of the Bank for the years from December 31, 2019 to December 31, 2027.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Bank in conducting the audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14, paragraph 2 (e), of Legislative Decree 39/10

The Directors of DEPObank S.p.A. are responsible for the preparation of the report on operations of the DEPObank Group as at December 31, 2020, including its consistency with the related consolidated financial statements and its compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations with the consolidated financial statements of the DEPObank Group as at December 31, 2020 and on its compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations is consistent with the consolidated financial statements of DEPObank Group as at December 31, 2020 and is prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the entity and of the related context acquired during the audit, we have nothing to report.

DELOITTE & TOUCHE S.p.A.

Signed by
Antonio Zecca
Partner

Milan, Italy
February 26, 2021

This report has been translated into the English language solely for the convenience of international readers.

DEPObank

BANCA DEPOSITARIA ITALIANA

Resolutions of the Shareholders' Meeting of 4 March 2021

Resolutions of the Shareholders' Meeting

of 4 March 2021

The following is a summary of the resolutions passed by the Ordinary Shareholders' Meeting held in first call on 4 March 2021.

1. FINANCIAL STATEMENTS AT 31 DECEMBER 2020; BOARD OF DIRECTORS' REPORT ON OPERATIONS; REPORTS OF THE BOARD OF STATUTORY AUDITORS AND INDEPENDENT AUDITORS; RELATED RESOLUTIONS.
   The Shareholders' Meeting approved the financial statements as at 31 December 2020 as presented by the Board of Directors and the related coverage of the loss for the financial year.

2. DEPOBANK REMUNERATION POLICIES: 2020 SUMMARY. RELATED RESOLUTIONS.
   The Shareholders' Meeting approved DEPObank's remuneration policies as proposed by the Board of Directors.

DEPObank

BANCA DEPOSITARIA ITALIANA

List of shareholders

List of Shareholders

Banca Farmafactoring S.p.A.	Milan
Equinova UK HoldCo Limited	London