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Banca Ifis

Public disclosure

Pillar 3

31/12/2020

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Introduction

Document Objectives

As of 1 January 2014, reforms of the Basel Committee's ('Basel III') agreements were transposed into European Union law to strengthen banks' ability to absorb shocks resulting from financial and economic tensions, regardless of their origin, to improve risk management and governance, and to strengthen transparency and disclosure. The Basel Committee has maintained the three-pillar approach on which the previous agreement on capital ('Basel 2') was based. It integrated and strengthened it in order to increase, in qualitative and quantitative terms, the capital position of intermediaries by introducing countercyclical supervisory instruments, regulations on liquidity risk management and leverage limits.

In particular, the Third Pillar (hereinafter also "Pillar 3") is based on the assumption that the Market Discipline may contribute to strengthen capital regulations and therefore promote the stability and soundness of banks and the financial sector.

Therefore, the purpose of Pillar 3 is to combine the minimum capital requirements (Pillar 1) and the process of prudential monitoring (Pillar 2) through the identification of a set of disclosure transparency requirements which allow the market operators to be provided with relevant, comprehensive and reliable information about capital adequacy, exposure to risks and general characteristics of the systems intended to identify, measure and manage said risks.

Within the European Union, "Basel 3" measures have been transposed into two legislative acts:

- Directive 2013/36/EU of 26 June 2013 (hereinafter "CRD IV") implemented by the Bank of Italy following the issue of Circular no. 285 of 17 December 2013 "Supervisory provisions for banks". These EU provisions govern, inter alia, the conditions for accessing banking activities, the freedom of establishment and the freedom to provide services, the supervisory review and additional capital buffers;
- (EU) Regulation no. 575/2013 of 26 June 2013 (hereinafter "CRR") which governs the prudential supervisory institutions set by Pillar 1 and the rules on public disclosure (Pillar 3).

The provisions issued by the Bank of Italy are added to the European Union legislation, in particular with Circular no. 285 of 17 December 2013 (hereinafter "Circular no. 285/2013"), which contains the prudential supervisory provisions applicable to Italian banks and banking groups, revised and updated in order to adapt internal regulations to the changes in the international regulatory framework, with particular regard to the new regulatory and institutional framework for EU banking supervision, as well as to take into account the needs identified to ensure supervision of banks and other intermediaries.

The aforementioned Circular does not set out specific rules for the preparation and publication of Pillar 3, but merely reports the list of provisions for the purpose envisaged by the CRR. The matter, therefore, is directly regulated by:

- the CRR itself, Part 8 "Disclosure by institutions" (art. 431 - 455) and Part 10, Title I, Chapter 3 "Transitional provisions on disclosure of own funds" (art. 492);
- Regulations of the European Commission, whose preparation is entrusted to the EBA (European Banking Authority), containing the Regulatory Technical Standard (RTS) and Implementing Technical Standard (ITS) to create standard models for the publication of different types of information.

Further indications were then provided by the EBA with a specific document concerning guidelines on materiality, proprietary and confidentiality and on the frequency of information to be provided in the Third Pillar (EBA/GL/2014/14 - Guidelines on materiality, proprietary and confidentiality and on disclosures

frequency under Articles 432 (1), 432 (2) and 433 of Regulation No (EU) 575/2013) which regulates further relevant aspects in the preparation of the disclosure: (i) the implementation by the institutions of the criterion of materiality of the disclosure; (ii) the implementation by the institutions of the exclusivity and confidentiality of the disclosure; (iii) the need to publish information more than annually. Based on art. 433 CRR, the information to the public which is required by Community legislation must be published by the banks at least once a year, together with the financial statements. The CRR does not explicitly require the publication of an interim report, leaving the banks the right to publish some or all of the information more frequently. Banca Ifis has decided to maintain an annual public disclosure frequency, and not using internal systems for calculating the capital requirements on credit or operational risks.

The Pillar 3 Public Disclosure was also analysed by the Basel Committee in its January 2015 document “Revised Pillar 3 disclosure requirements”. This document provides indications to the supervisory bodies, who should have them incorporated into national legislation (in our case, EU) in order to enter into force. In this context, the EBA, in December 2016, published the final version of the “EBA/GL/2016/11 - Guidelines on disclosure requirements under Part Eight of Regulation No (EU) 575/2013” providing guidelines aimed at increasing and improving coherence and the comparability of the information to be provided in the Third Pillar. These guidelines were incorporated in the proposed draft amendment to the CRR published in November 2016. At the end of March 2017, the Basel Committee published the document “Pillar 3 disclosure requirements - consolidated and enhanced framework’, which constitutes the second review phase of the reference legislative framework of the Public Disclosure, initiated with the above-mentioned document of January 2015. This revision aims to further promote market discipline by consolidating all the requirements already introduced and by providing a selection of the more representative indicators of the main prudential dimensions in order to support the market in data analysis, by making them more comparable. These guidelines are applicable, from 31 December 2017, only to “Globally and Other Systemically Important Institutions” (G-SII and O-SII), while the competent authorities may enforce other institutions to implement some or all of the guidelines contained therein. In April 2018, the Bank of Italy, taking into account the principle of proportionality, decided for Italy’s less significant banks (LSI) to only request the publication of specific information on Governance together with the publication of the Annual Report on the financial year ending on 31 December 2018.

In May 2018, the consultation phase of the 'Pillar 3 disclosure requirements - updated framework’ document, published as a draft in February 2018 by the Basel Committee, was completed. This document represents the third revision phase of the disclosure requirements issued in 2004 and, in continuity with the previous revision phases, it aims to establish a single reference framework in terms of disclosure, for the purpose of harmonising market discipline. The final version of the document was published in December 2018; the deadline for the complete implementing of the new disclosure requirements is 1 January 2022. Lastly, in the same month, the Basel Committee put out for consultation a document on proposals to change the leverage ratio and the public disclosure requirements. The consultation phase will end on 13 March 2019 with the aim of establishing the implementation of the new disclosure obligations, by 1 January 2022.

The EBA has also integrated the provisions of the aforementioned guidelines, issuing in June 2017 the 'Guidelines on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) No 575/2013' (EBA/GL/2017/01) with additional information requirements on liquidity risk measured through the liquidity coverage ratio. The guidelines require only “Globally and Other Systemically Important Institutions” (G-SII and O-SII) to publish detailed quantitative information on the Liquidity Coverage Ratio (LCR); the other Banks are required to just publish the average values of a reduced number of aggregates. In this regard, Banca Ifis has included this quantitative disclosure in a simplified manner in § 1.4.3.2 of this document.

Then, in January 2018 the EBA issued the 'Guidelines on uniform disclosures under Article 473a of Regulation (EU) No 575/2013 as regards the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds' (EBA/GL/2018/01), which define the formats suitable for publishing information on the impacts on own funds as a result of the introduction of Regulation (EU) 2017/2395

containing 'Transitional provisions aimed at mitigating the impact of the introduction of IFRS 9 on own funds'. Considering that the Banca Ifis Group opted for the transitional treatment with the so-called 'static' approach to mitigate this impact, it is also required to provide the market with information relating to the amounts of own funds, Common Equity Tier 1 capital, Tier 1 capital, CET1 ratio, Tier 1 ratio, Total ratio and fully loaded leverage ratio, as if it had not applied this transitional treatment. In this regard, Banca IFIA has included this information in the § 18of this document, also taking into account the recent updates referred to by (EU) Regulation 2020/873, which amends Regulations 575/2013 and 2019/876 in response to the Covid-19 pandemic.

On 27 April 2018 the EBA submitted for public consultation up to 27 July 2018 the document 'Draft Guidelines on disclosure of non-performing and forborne exposures' (EBA/CP/2018/06), which contains guidelines on the disclosure to be provided on impaired loans and exposures subject to renegotiation. In December 2018, the EBA made the final version of the document “Guidelines on disclosures of non-performing and forborne exposures” (EBA/GL/2018/10) available. The Group has taken steps to align itself with the guidelines in paragraph § 19 according to the principle of proportionality.

Following the publication in the Official Journal of the European Union on 7 June 2019 of Regulation (EU) 2019/876 - also known as CRR II (Capital Requirements Regulation) - which forms part of the broader package of regulatory reforms that also includes CRD V (Capital Requirements Directive), BRRD II (Banking Recovery and Resolution Directive) and SRMR II (Single Resolution Mechanism Regulation) - concerning EBA disclosure requirements, in Q4 2019, it developed draft regulatory and implementing technical standards to streamline and standardise, in line with the regulatory changes introduced by CRR II, which will apply from 2021, the disclosures to be provided to the market periodically. Specifically, EBA submitted for public consultation:

- on 16 October 2019, the document 'Draft Implementing Technical Standards on public disclosures by institutions of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013' (EBA-CP-2019-09) aiming to establish a single reference framework with a view to harmonising the Market Regulations pursuant to Article 434 bis 'Models for disclosure' of CRR II;
- on 22 November 2019, the document 'Draft Implementing Technical Standards on disclosure and reporting of MREL and TLAC', which specifies the standard formats and templates and related methodological instructions for the use of the templates concerning the amount and composition of the Total Loss Absorbing Capacity (TLAC) instrument introduced by CRR II and the Minimum Requirement for own funds and Eligible Liabilities (MREL) as amended by BRRD II.

During 2020, the ECB and the EBA implemented a series of measures aimed at mitigating the negative effects deriving from the Covid-19 pandemic.

On April 2, 2020, the EBA issued the document “Guidelines on legislative and non-legislative moratorium on loan repayments applied in the light of the COVID-19 crisis”, relating to the granting of legislative and non-legislative moratoriums implemented through the amendment of the payment plan in favour of requesting counterparties with financial difficulties that arose following the crisis generated by Covid-19. The initial deadline for granting the moratoriums was initially scheduled for 30 June 2020; subsequently, this deadline was extended to 30 September with the issue of the document EBA/GL/2020/08 “Guidelines amending Guidelines EBA/GL/2020/02”. Following the resurgence of the pandemic, on 2 December 2020 the application of the moratoriums was extended until 31 March 2021 (EBA/GL/2020/15 “Guidelines amending Guidelines EBA / GL / 2020/02”); these guidelines make it possible to extend the moratoriums granted after 30 September for a maximum period of nine months, while the deadlines relating to the moratoriums granted before that date remain unchanged.

On June 2, 2020, the document “Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID - 19 crisis” (EBA / GL / 2020/07) was published, which requires information on exposures subject to payment moratoriums, forbearance measures connected

to the Covid-19 crisis, subject to state guarantee schemes. Within § 20, information tables have been reported to implement these guidelines.

Due to the persistence of the emergency period, on 24 June 2020 the European Parliament and the Council of the European Union, through the accelerated approval process (the so-called "Quick fix"), issued Regulation (EU) 2020/873 effectively anticipating the applicability of some rules contained in Regulation 2019/876 (CRR2), initially scheduled for June 28, 2021, as well as adopting some targeted interventions to mitigate the impacts on the system in response to the Covid-19 pandemic.

Further guidelines regarding the changes required by this Regulation are contained in the EBA/GL/2020/11 and GL/2020/12 Guidelines.

With reference to the public disclosure document, Banca Ifis provides that:

- given its relevance to the public, its shall be approved by the Board of Directors before it is distributed;
- it shall be published at least once a year together with the financial statements (art. 433 of CRR);
- it shall be subject to certification by the Financial Reporting Officer pursuant to art. 154-bis of Italian Legislative Decree 58/1998 (Consolidated Law on Financial Intermediation).

This document has been prepared by the Bank at consolidated level and refers to its regulatory consolidation scope, which includes the holding company La Scogliera S.p.A., in application of the relevant regulations, with the consequent inclusion of minority interests in consolidated own funds.

Further information on the Banking Group's risk profile, based on art. 434 of the CRR, is also published in the consolidated financial statements of 31 December 2020. In the light of the above, if similar information is already disclosed by two or more means, the reference is inserted in each of them and therefore the Banking Group makes use of this opportunity to complete the information by indicating the reference accordingly. Further information relating to the various risk categories to which the Banking Group is exposed is indicated in part E of the Notes to the consolidated financial statements.

With particular reference to information regarding financial leverage, it should be noted that in February 2016, the Commission Implementing Regulation 2016/200 was published in the EU Official Journal, which establishes the technical implementing standards for disclosure on the Leverage ratio, pursuant to EU Regulation 575/2013.

As of 31 December 2016 disclosure requirements regarding countercyclical capital buffer were also implemented; the disclosure therefore includes - in addition to the amount of the countercyclical capital buffer - the detail of the geographical distribution of the credit exposures relevant for the purposes of calculating the countercyclical capital buffer according to the prescribed detail. In this regard, Banca Ifis S.P.A., due to the fact that it does not have significant risk exposures to countries to which a specific minimal countercyclical coefficient is assigned, with reference to the date of 31 December 2020, it is not required to make allocations to this type of capital reserve.

More information on the internal control system, on the statutory audit of the accounts and on the attestation of correspondence of accounting documents to the results of the accounting books and records by the Chief Financial Officer are present in the Report on corporate governance and on the ownership structure.

Unless otherwise specified, the data contained in the sections dedicated to quantitative information is expressed in thousands of euros. Reports without information, as they are not applicable to the Banking Group, are not published; there is also no information regarding the internal template methodologies, currently not used by the Banking Group.

The Banca Ifis Group will publish this public disclosure document and any subsequent updates on its website at the address www.bancaIfis.it, in the Institutional Investor Relations - Financial results and presentations section.

The Risk Management process dedicated to the preparation of this document is constantly evolving to ensure compliance with the regulatory requirements and the best practices developed by banking intermediaries, in compliance with the **principle of proportionality** on which large parts of the prudential supervisory regulations are based, considering the level and complexity of the activities performed by each intermediary, as well as the business models and risk management systems specifically used.

1. Risk management objectives and policies (Art. 435 CRR)

1.1 Foreword

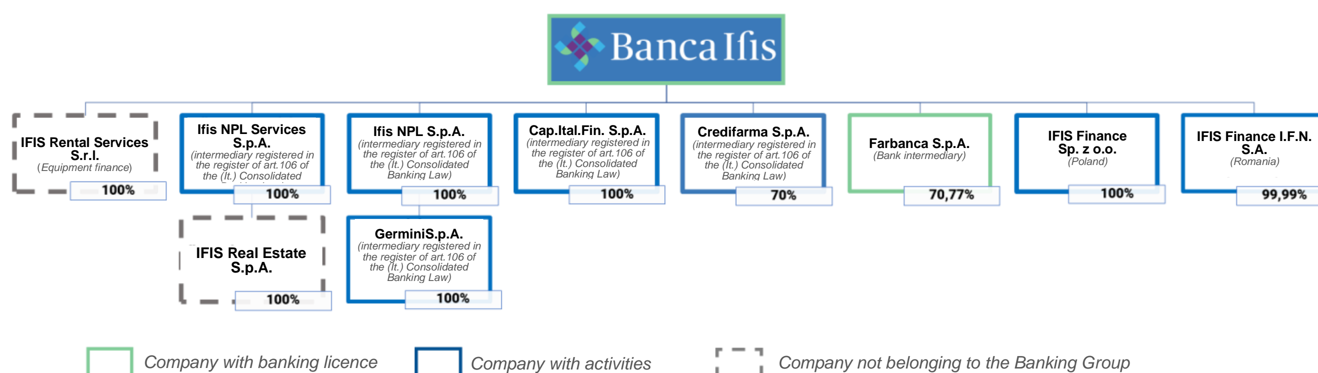
The supervisory activity is based on a system of rules and incentives allowing to pursue more effectively the objectives of a more accurate measurement of the potential risks related to banking and financial activities, and to maintain a capital structure that is more closely commensurate with the actual degree of risk exposure of each intermediary.

The Banca Ifis Banking Group

As of December 31, 2020, the Banca Ifis Banking Group, controlled by the company La Scogliera S.p.A., following the acquisition of the banking operator Farbanca S.p.A., which took place on November 27, 2020 and the authorization to operate for Ifis Finance I.F.N. S.A.[1] issued by the National Bank of Romania on 23 December 2020, is made up of the Parent Company **Banca Ifis S.p.A**. and by the subsidiaries **Ifis NPL Servicing S.p.A.**, **Ifis NPL S.p.A.**[2], **Cap.Ital.Fin. S.p.A.**, **Credifarma S.p.A., Farbanca S.p.A., Ifis Finance Sp. z o.o.** and **Ifis Finance I.F.N. S.A.**.

For a complete assessment of the Group's risks, the subsidiary Ifis Rental Services Srl excluded from the scope of the banking group and that of the prudential consolidation, was also taken into account, as it is a non-financial company operating in the market for long-term rental of capital goods.

The Banca Ifis Group, at the reporting date of 31/12/2020 was composed as follows:



[1] Ifis Finance I.F.N S.A. was included in the banking perimeter on 31 December 2020 following the authorization received from the National Bank of Romania, but from an operational point of view its activity will start in 2021.

[2] The subsidiary of Ifis NPL is Gemini S.p.A., a company registered in the Register pursuant to art. 106 of Italian Legislative Decree 385/1993 of the Consolidated Law on Banking on 15 December 2020, non-operational during the 2020 financial year.

Mission and corporate responsibility

The organisational structure is divided into the following sectors:

- Commercial and Corporate Banking Sector;
- NPL sector
- Governance & Services and Non-core Sector.

Commercial and Corporate Banking Sector

The Commercial and Corporate Banking Sector represents the Group's commercial offer dedicated to businesses and is made up of the Business Factoring, Leasing, Corporate Banking and Lending shown below:

- Factoring: Area dedicated to support the trade credit of SMEs operating in the domestic market, which develop abroad or from abroad to Italian customers; It also includes an organisational unit designed to support the trade credit of the Local Health Authority suppliers and an organisational unit specialising in pharmacy credit, which is also carried out through the subsidiary company Credifarma as well as a business unit specializing in the purchase of tax credits assigned by insolvency proceedings. This unit buys both accrued and accruing tax receivables on which repayment has already been requested or which shall be requested in the future, and that arose during insolvency proceedings or in prior years.
- Leasing: This area targets the segment of small economic operators and SMEs through financial leasing and operating leases,excepting real estate leasing not covered by the Group.
- Corporate Banking & Lending: Business area that includes several units: Structured Finance area, which supports companies and private equity funds in arranging bilateral or syndicated loans; the Special Situations area, which supports the financial recovery of businesses that managed to overcome financial distress; and the Equity Investment area, dedicated to investing in non-financial companies and intermediaries; the Lending area, which supports the Group's medium / long-term operations and the company's operating cycle with interventions ranging from the optimization of funding sources to the support of working capital up to productive investments.

NPL sector

This is the Banca Ifis Group’s business area dedicated to the non-recourse acquisition and management of both unsecured and secured non-performing loans, as well as the management of third-party portfolios. The business is by nature closely associated with converting impaired exposures into performing assets and collecting them.

Governance & Services and Non-core Sector

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

Strategic governance, management and control bodies

The overall risk management and control process involves, with different roles, the administrative and control bodies of the Group's companies and subsidiaries as well as the Parent Company's Management and the operational units of the entire Group.

In the model adopted by the Parent Company Banca Ifis S.p.A.:

- strategic supervision is carried out by the Board of Directors;
- management is performed by the CEO, assisted by the General Manager;
- control is performed by the Board of Statutory Auditors.

The Parent Company's **Board of Directors** plays a crucial role in the corporate organization as it is the body responsible for determining the company guidelines and strategic objectives and for verifying their implementation, complying with industrial plans and implement strategic transactions, also by setting the principles of the direction and coordination activity of the Banca Ifis Group's companies, in the interest of the Shareholders. It carries out a supervisory function with regards to the achievement of the strategic objectives of the Bank and of the Group as a whole. In particular, concerning governance and risk controls, it is responsible for:

- defining strategic guidelines and risk assumption, management and control with their periodic review, thanks also to an accurate, comprehensive and timely information flow system;
- approving and periodically reviewing organisational, disclosure and risk control procedures;
- defining and updating the roles and the responsibilities of organisational functions entrusted with the performance of company processes related to risk management;
- guaranteeing the implementation, efficiency and effectiveness of the risk management and control system through periodical reviews and by deciding the measures to be taken to remove any deficiencies and dysfunctions that may have emerged during the risk management process.

Within the Board of Directors are:

- the **Control and Risks Committee**, providing consulting services and support to the resolutions issued by the Board of Directors, in particular on the internal control and risk management system, as well as to the approval of the periodic financial reporting documents;
- the **Appointments Committee**, which provides support in appointing and co-opting Directors, as well as in the self-assessment of Corporate Bodies (Board of Directors and Internal Committees), in the support of verifying the continued existence of the professionalism, integrity and independence requirements of company officers and in the preparation of succession plans for senior management positions;
- the **Remuneration Committee**, submitting proposals and providing consulting and monitoring services in the area of remuneration and incentive policies in compliance with the relevant supervisory provisions.

The management function is performed by the **Chief Executive Officer**; the **General Manager** participates in this function. The CEO is responsible for implementing the strategies and guidelines defined by the Board of Directors, to which they directly report in that regard, as well as the adoption of all the interventions necessary to ensure the adherence of the organisation and the internal control system to the principles and requirements established by the supervisory provisions, by continuously monitoring their compliance with them. For this purpose, the CEO defines the risk management, control and mitigation processes.

The following Management Committees have recently been set up:

- the **Management Committee**, which supports the Chief Executive Officer in the implementation and performance of the business guidelines approved by the Board of Directors by constantly monitoring economic performance, the development of programmes, plans and initiatives relevant to the Group;

- the **Business Committee**, which is responsible for passing resolutions on the assumption of credit risk, within the limits and in the manner defined by the Board of Directors in the System of Delegations and provides advice on the assumption of credit risk exceeding the limits of autonomy delegated to it;
- the **Finance Committee**, with deliberative tasks, within the limits and in the manner defined by the Board of Directors in the System of Delegations for the assumption of financial risks and the support of asset & liability management and liquidity and portfolio management issues, overseen respectively by the ALM Technical Committee and liquidity and the Technical Committee for Proprietary Finance;
- the **Products Committee**, whose task is to manage the product catalogue through the preliminary screening of new business ideas for the development of new products or the significant modification of existing ones;
- the **Brand Committee**, which has a consultative role in the definition of guidelines for business activities in terms of brand identity.
- **NPL Market Committee**, which coordinates the Group's operations in the non-performing loan market; it also receives and processes the information flows that are periodically conveyed and represented by the Manager of the NPL Department of Banca Ifis on a periodic basis or, as needed, regarding the purchase and sale of NPL loan portfolios on the primary and secondary market.

The **Board of Statutory Auditors** oversees compliance with the law, regulations and articles of association, correct administration, the adequacy of the Bank’s accounting and organisational structure, and the functionality of the overall internal control system. Considering the plurality of functions and corporate structures having control tasks and responsibilities, this body is required to check the effectiveness of all the structures and functions involved in the internal control system and their adequate coordination, promoting the corrective actions for any deficiencies and irregularities detected. Given the importance that these tasks hold for the purposes of supervision, the Board of Statutory Auditors must inform the Bank of Italy without delay of any facts and actions that it becomes aware of that may constitute an irregularity in the management of the Bank or a breach of the rules governing the banking activities.

Internal Control System

The Internal Control System of Banca IFIA Group plays a key role in the company’s organisation. It represents a key element of expertise for the management bodies in order to guarantee full awareness of the situation and an effective monitoring of company risks and their interrelations. In this context: i) it directs changes in strategic guidelines and company policies and allows them to be adapted in a coherent manner to the organizational context; ii) it oversees the functionality of management systems and compliance with prudential supervisory institutions; iii) it favours the dissemination of a correct culture of risks, legality and corporate values.

The Internal Control System consists of the set of regulations, functions, structures, resources, processes and procedures aimed at ensuring, in compliance with a sound and prudent management, the achievement of the following objectives:

- executing business strategies and policies;
- the identification of tasks and responsibilities such as to ensure the separation between operating and control functions;
- risk containment within the limits set forth by the Risk Appetite Framework (RAF) for determining the Bank’s risk appetite;
- the safeguard of the value of assets and protection against losses; the effectiveness and efficiency of business processes; the reliability and security of company information and IT procedures;

- the prevention of the risk that the Group is involved, even unintentionally, in illegal activities (with particular reference to those connected with money laundering, usury and terrorist financing);
- ensuring operations comply with the law and supervisory regulations as well as internal policies, rules and procedures.

The Parent Company Banca Ifis S.p.A formalises and informs the Subsidiaries of the criteria governing the various phases that make up the risk management process. It also validates risk management processes within the Group. With regards to the credit risk in particular, the Parent Company sets the evaluation criteria for the accounts and creates a common information base that enables the Subsidiaries to be familiar with the clients' exposure vis-à-vis the Group as well as the evaluations pertaining to the accounts of the financed companies. The Parent Company decides on the adoption of internal risk measurement systems, and it determines their basic characteristics, assuming responsibility for project execution as well as for supervising the proper functioning of said systems and their constant adjustment from a methodological, organisational and procedural standpoint.

The Parent Company also provides the subsidiaries with directives for creating their internal control systems. These companies equip themselves with an Internal Control System that is consistent with the Group's strategy and policy on the subject of controls, without prejudice to compliance with any regulations that may apply at individual level. It is, however, necessary that the Parent Company, while respecting local constraints, adopts all initiatives intended to ensure standards of control and protective measures that are comparable to those provided for by Italian supervisory regulations, including in cases where foreign legislation does not provide for similar levels of attention.

In order to verify that the companies of the Group are behaving in a compliant manner with the Parent Company's guidelines, as well as the effectiveness of the Internal Control System, the Parent Company, within organisational limits, ensures, at consolidated level, that internal auditing is periodically carried out on-site in the Subsidiaries, taking into account the importance of the various types of risk assumed by the various entities.

The internal control system is designed in compliance with the applicable regulations and the peculiarities of the business carried out by both Banca Ifis S.p.A and its subsidiaries. At the date of this document, the control functions of Ifis NPL S.p.A. and Ifis NPL Servicing S.p.A. are centralised at the Parent Company, whereas for Ifis Rental Services, Ifis Real Estate and Ifis Finance Sp. z o.o, with regard to the operating characteristics as well as the limited level of risk of the same for the Group, the control functions have not been established. However, Ifis Finance Sp. z o.o, in compliance with local legislation and regulatory requirements, has appointed a member of its Board as head of its anti-money laundering operations.

Regarding Cap.Ital.Fin S.p.A. and Credifarma S.p.A., the Internal Audit department has been centralised within the Parent Company, while an organisational structure has been established that includes the risk control unit, the unit that manages the risk of non-compliance with legislation and regulatory requirements and the anti-money laundering unit, with a view to strengthening the safeguards of sound and prudent management of the intermediary. Following the acquisition of Farbanca S.p.A., completed on 27 November 2020, the Group's choice was to centralize all control functions to the Parent Company. On 23 December 2020, the authorization by the National Bank of Romania was issued to the Romanian subsidiary Ifis Finance I.F.N. S.A., registered in the "general register" of the Romanian regulator, with reference to which local legislation only requires the establishment of third-level control, and so it was decided that it would be outsourced to the Parent Company.

Audits involve, with different roles, the Corporate Bodies of the Group's companies and subsidiaries, the Parent Company's Management and the Group's personnel.

Some types of audits are highlighted below:

- Line audits aim to ensure operations are carried out correctly. These audits are carried out by the operational structures themselves, incorporated in procedures, or performed as part of back office operations. The operating structures are the first responsible for the risk management

process: during day-to-day operations these structures must identify, measure or evaluate, monitor, mitigate and report the risks deriving from the ordinary business activity in accordance with the risk management process; they must comply with the operating limits assigned to them in line with the risk objectives and with the procedures in which the risk management process is structured;
- controls on risks and compliance (so-called "second-level controls"), with the aim of ensuring the correct implementation of the risk management process, compliance with the operating limits assigned to the various functions, and compliance of company operations to standards, including self-regulating ones;
- internal audit activities (so-called "third-level checks"), aimed at identifying violations of procedures and regulations as well as periodically assessing the completeness, adequacy, functionality (in terms of efficiency and effectiveness) and the reliability of the internal control system and of the information system.

The corporate bodies promote a company culture that values the control function: all personnel, at all levels within the organisation, must be aware of the role assigned to them within the internal control system, and must be fully involved.

The roles of the various players in the internal control system (Board of Directors, Control and Risk Committee, Executive Director in charge of the internal control system, Supervisory Body pursuant to Italian Legislative Decree 231/2001, Internal Audit depts., Financial Officer Reporting Officer, and Risk Management, Compliance, Anti-Money Laundering and Coordination or Controlling Subsidiary Companies depts.) are described in detail in the Report on Corporate Governance and Ownership Structures prepared in accordance with the third paragraph of Art. 123-bis of Italian Legislative Decree February 24, 1998 n. 58 (TUF) and subsequent updates, the latest version of which was approved by the Board of Directors on 11 March 2021 and published on the Bank's website in the Corporate Governance section.

Briefly, in addition to that already stated in the previous paragraph in terms of the roles and tasks performed by the administrative bodies, the roles and tasks assigned to the remaining players of the internal control system are summarised below, in particular:

- **Executive director in charge of the internal control and risk management system:** the Parent Company's Board of Directors has identified the CEO as the executive director in charge of overseeing the functioning of the internal control and risk management system. The CEO, availing himself in particular of the General Manager and of the Head of the Internal Audit Department, ensures effective management of operations and associated risks; he constantly verifies the overall functionality, effectiveness and efficiency of the Internal Control System, adjusting it if necessary; he identifies and assesses risk factors, and defines the tasks of the control units and the relevant information flows;
- **Supervisory Body pursuant to Italian Legislative Decree 231/2001:** To fully comply with and interpret Banca Ifis Organisation, Management and Control Model, as set out by Italian Legislative Decree 231/2001, the Supervisory Body was established by resolution of the Board of Directors on 26 October 2004. The members of the Board are not subject, in this capacity and in the performance of their duties, to the hierarchical and disciplinary power of any corporate body or function. The Supervisory Body is made up of a Statutory Auditor, chosen by the Board of Statutory Auditors, by the Managers while in office, the heads of Internal Audit and Compliance as well as by two independent Directors, chosen by the Board, one of whom with the office of president;
- **The Financial Reporting Officer in charge of preparing financial reports:** The financial reporting officer in charge of preparing financial reports, consistently with the provisions of Art. 154 bis of the (It.) Consolidated Law on Finance, shall ensure the reliability of the equity, economic and financial position of the Bank and the Group, contributing to the overall assessment of the suitability of the Internal Control System in terms of financial reporting;

- **Internal Audit Department:** The Parent Company's Internal Audit Office is assigned the task of checking, on the one hand, from the stand point of third-level checks, including onsite checks, the proper performance of operations and the risk evolution and, on the other, the completeness, adequacy, functionality and reliability of the organisational structure and of the other components of the Internal Control System, bringing to the attention of Governing bodies any suggestions for improvement, particularly to the Group's RAF, the risk management process and to the instruments used to measure and control risks;
- **Risk Management Department**: the mission of the Parent Company's Risk Management Department is to (i) identify the relevant risks to which the Parent Company and Group companies are exposed; (ii) assess, measure and monitor the Group's significant risks, and (iii) guarantee a holistic and integrated view of the risks to which the group as a whole and the companies that make it up are exposed, ensuring adequate information to the governing bodies;
- **Compliance Department**: the mission of the Parent company's Compliance department is to oversee, according to a *risk-based* approach, the management of non-compliance risk in connection with the entire company activity. This is done by assessing the adequacy of internal procedures to prevent the violation of external rules (laws and regulations) and self-regulation (for example codes of conduct and codes of ethics) applicable to both the Bank and its subsidiaries;
- **The Anti-Money Laundering Department:** the mission of the Parent company's anti-money laundering department is to monitor and ensure that corporate procedures are consistent with the objective of preventing involvement and combating the carrying out of money laundering or terrorist financing operations, as well as avoiding the violation of external laws (laws and regulations) and self-regulation regarding recycling and financing of terrorism.

1.2 Organisation of the Risk Management organisational unit (Art. 435 co.1, b)

Mission of the Parent Company's Risk Management department

The mission of the Parent Company's Risk Management department is to:

- guarantee a holistic and integrated vision of the risks to which the Group and the Companies that are part of it are exposed while ensuring adequate reporting to the Corporate Bodies;
- identify, measure, evaluate and monitor risks that are relevant to the Group;
- ensure adequate reporting on the assumed risks to the Corporate Bodies and Committees, to the Control Functions and to the Managers of the areas subject to the risk management process;
- monitor the governance and risk management processes in accordance with the strategies and policies defined by the corporate bodies;
- guarantee an on-going development and improvement of methodologies, models, metrics and risk measurement and integration instruments;
- facilitate the transposition of supervisory regulations and directives;
- assist the Corporate Bodies in carrying out their respective tasks within the internal control system, facilitating: (i) the timely and coordinated interception of relevant information for the purpose of quantifying and managing risks; (ii) a condensed description of the corporate risks and main issues identified by the risk management system; (iii) the adoption of appropriate and timely corrective measures addressing any identified issues and priorities.

The Parent Company's Risk Management carries out its functions for Banca Ifis S.p.A. and, within its own management and coordination activities, it expands its scope of competence to all the companies of the Group.

Organisational positioning of the Parent Company's Risk Management Department

Within the internal control system, the risk control function is part of the Risk Management Department, which reports hierarchically to the CEO. The Head of Risk Management (also Chief Risk Officer or CRO has direct access to the Board of Directors and the Board of Statutory Auditors and communicates with them without restrictions or intermediaries.

Risk Management:

- is granted the authority and has the resources and expertise necessary for carrying out its tasks;
- has access to corporate data and to external data in order to appropriately manage its tasks;
- has access to all the activities of the Parent Company and of the Group companies, carried out at the head offices and at the branches, as well as to all information that is relevant for carrying out the assigned tasks, also through individual meetings with the personnel;
- has access to resources that are qualitatively and quantitatively adequate in terms of number, technical and professional skills, continuous updating, also through participation in on-going training programmes.

The Risk Management Department is separate from the Internal Audit Department and from the Compliance and Anti-Money Laundering Departments from an organisational standpoint. Moreover, it is not involved in risk assumption processes. The structures considered involved in risk assumption are those that possess the following characteristics, even if not cumulatively:

- are empowered to authorise risk assumption;
- are remunerated in proportion to business results;
- have goals that involve risk taking.

Main activities

The Parent Company's Risk Management Department, in fulfilling its own mission, plays a central role in governing and managing risks.

The Chief Risk Officer is the Head of this department, and, through the Chief Executive Officer, supports the Parent Company's Board of Directors in defining the Group RAF, the general lines of the ICAAP and ILAAP processes, the Contingency Funding Plan, the Group policies for the governance and management of risks and the various phases that make up the risk management process.

This department identifies the risks to which the Parent Company and Group companies are exposed and provides for the measurement and periodic monitoring of the same through specific risk indicators, planning any mitigation actions for significant risks. In this context, it ensures adequate information to the governing bodies.

The Risk Management activities are subject to periodic reporting to the corporate bodies and to the Committees through the Tableau de Bord, and, where required, also to the Bank of Italy, Consob and the Market. In particular, the Department guarantees the preparation, for that within its responsibility, of the group disclosures on the various regulatory (Risk Map, RAF, ICAAP and ILAAP reports, Group Contingency Funding Plan and Recovery Plan) and market (this Pillar 3, disclosure, sections E of the notes to the consolidated and individual financial statements) risk profiles.

The CRO, at the beginning of each management cycle, defines the Program of activities of the organisational units that supervises, taking into account both any deficiencies that have emerged in the checks, and any new risks. The program includes the activities to be carried out both for the Bank on an individual basis and for the Group as a whole. This document is shared with the CEO, submitted to the Control and Risk Committee and to the Board of Statutory Auditors, and approved by the Board of Directors.

At the end of each management cycle, the CRO prepares, at least annually, a Report that shows the checks performed, the results that have emerged, the weaknesses that have been detected and the proposals for actions to be taken for their removal. This report is shared with the Chief Executive Officer and subsequently sent to the Control and Risk Committee and the Board of Statutory Auditors, as well as to the Board of Directors.

The CRO reports to the Chief Executive Officer, for issues falling within its responsibility, as regards completeness, adequacy, functionality and reliability of the Group's internal control system. They also support the CEO in the implementation of the Group RAF.

The CRO ensures the development and maintenance of methodologies, models, metrics and tools for integrated risk measurement and management. Furthermore, he oversees the process of validating the internal management models used for measuring Group risks.

The CRO supports the Parent Company's Board of Directors in defining the criteria and processes for identifying significant transactions (OMRs) and, through the organisational units that report to him, formulates preventive opinions on OMRs' consistency with the RAF; these significant transactions are subject to his assessment, during which the CRO acquires, based on the nature of the transaction, the opinion of other departments involved in the risk management process.

Furthermore, through the organisational units that report to him, the CRO:

- guarantees the monitoring of the risks arising from new products and services and those arising from entry into new business and market segments;
- guarantees the monitoring of risks arising from transactions with related parties and associated persons;
- participates in the definition of remuneration and incentive policies;
- participates in the strategic planning process with reference to aspects relating to capital requirements, prospective funding requirements and prospective assessment of Group risks;

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- supports the Finance department, for the activities within his remit, in preparing the Group's periodic financial information;
- guarantees the performance of second-level controls on credit activity and, in general, to the extent applicable, on the Group's risks;
- guarantees the risk awareness process also through specific training provided to the various Group structures;
- prepares analyses and disclosures in response to specific requests from the Supervisory Authority within the scope of his responsibility.

The Risk Management unit, at the reporting date, includes four second-level units, specialised in relation to individual risk profiles ('Corporate Credit Risks'[3], 'NPL and Tax Receivables', 'Operational and Reputational Risks', and 'Financial Risks'). In addition to these, there are three additional second-level organisational units: i) 'Risk Data Governance', aiming to develop and ensure the adequacy of data quality standards in all risk areas; ii) 'Model Development', aiming to continuously develop and improve risk measurement methodologies, models and metrics; iii) 'Anti-Fraud Monitoring', aiming to monitor the risk of fraudulent actions that may be perpetrated against the Group in the course of its operations.

The Risk Management structure is completed by the presence of two additional organisational units that work for the Chief Risk Officer, i) "Risk Governance", with the task of supporting the CRO in the decision-making processes and ensuring an overall view of the various risks and their mutual interaction; ii) "Validation", which is responsible for the validation of internal risk measurement systems for management purposes.

The main objective of the aforementioned organisational units, within the scope of their activities, is:

- to provide support to the CRO in defining the Group's processes and instruments for the identification, assessment, monitoring, mitigation and reporting, linking up with the other Companies' Risk Management structures;
- to control, monitor and evaluate risk profiles, carrying out the checks and analyses defined in the relevant group policies for managing credit, financial, operational and reputational risks;
- to guarantee the development and improvement of risk measurement methodologies and models, by continuously assessing the reliability and consistency of the results;
- to collaborate in the preparation and updating of the reports and of directional and regulatory information pertaining to the Risk Management Function.

The Parent Company's Risk Management Regulation, in compliance with the Supervisory Provisions for banks pursuant to Circular no. 285/2013 of the Bank of Italy, describes in detail the scope and the mission of the same, also with reference to the management and coordination activity carried out by the Parent Company on the subsidiaries, the related organisational structure, the tasks of the staff, second-level and third-level organisational units that comprise it, the relationships that the Function maintains with the Corporate Bodies and the other organisational units of Banca Ifis S.p.A. as well as with the Group subsidiaries involved in the process of risk management and finally the main information flows implemented.

Group companies, where a risk control function exists, carry out independently, through dedicated organisational units, the protection and management of certain risks, in accordance with the guidelines defined by the Parent Company with regards to management and coordination activities of the subsidiaries. Specifically, the management activities relating to credit, operational, reputational, market and counterparty risk, where present, are carried out independently by the individual group companies through their Risk Management structures. This organisational solution was adopted for the subsidiaries

[3] In the "Corporate Credit Risks" area, to enhance the different skills and the specific verticality of the structures, two third level organisational units have been set up, determined according to the specific activities carried out by the Group: 'Receivables Exposures to Companies', 'Leasing'.

Credifarma S.p.A. and Cap.Ital.Fin. S.p.A., whereas the risk management and control activities of the subsidiary Ifis NPL S.p.A., Ifis NPL Servicing S.p.A. and Farbanca S.p.A. were centralised within the Parent Company's Risk Management function, following the results of the assessments carried out by the Parent Company on the convenience of centralising risk control activities within the same.

1.3 Risk profile and risk management and measurement systems (Art. 435 co. 1, e, f)

The **Risk Appetite Framework** is the reference framework which governs, in line with the business model and strategic plan, the risk appetite, the thresholds of tolerance, the risk limits, and provides a single summary view of risk management policies and the reference processes that are necessary to define and implement them.

Within the RAF, the Strategic Supervisory Body (hereinafter OFSS) defines the strategic indicators necessary to monitor the Group's strategic-financial objectives.

For the Banca Ifis Group, the following two categories of indicators have been defined:

- **strategic indicators**: defined by the Strategic Supervisory Body (hereinafter also OFSS from the Italian Organismo con Funzione di Supervisione Strategica) and necessary for the monitoring of the strategic-financial objectives of the Group, as described in the Risk Appetite Framework;
- **risk indicators**: approved by the Strategic Supervisory Body, they include a set of operating limits for individual types of risks, seeking to take the process of controls over risks to a more granular level. They are defined in the various corporate risk management policies.

Within the broader scope of the risk management process, the Risk Management Department also identifies additional risk indicators designed to strengthen its monitoring, submitting them for approval to the OFSS.

The categories of indicators described above are subject to regular monitoring by the Risk Management Function and are notified to both Corporate Bodies and the other business structures, based on the relevant types.

With reference to strategic indicators, they are divided into strategic indicators with regulatory restrictions, measured according to consolidated logics, and strategic indicators for which no regulatory restriction has been defined and are measured at the single BU or Entity level, where necessary.

The reason that led to this distinction is to be found in the fact that for strategic indicators with no constraints expressly envisaged by the regulator, the attention and warning thresholds could potentially impact upon the sustainability of the Group's business model, without, however, abruptly affecting capital or liquidity vulnerability.

The following RAF-relevant concepts have been defined for each indicator:

- **Risk Profile** (actual risk): the actual risk assumed, measured at a particular instant in time;
- **Risk Appetite** (risk objective): the level of risk, overall and by type, which the Group intends to assume to fulfil its strategic objectives;
- **Risk Tolerance** (tolerance threshold): the maximum allowed deviation from Risk Appetite; the tolerance threshold is set to provide the Group with sufficient margins to operate in every case, even under stress, within the maximum risk that can be assumed;
- **Warning**: a threshold defined only for strategic indicators, free of regulatory restrictions, is the maximum level of risk that the Group intends to assume to achieve its strategic objectives;
- **Risk Capacity** (maximum assumable risk): a threshold defined only for the strategic indicators involving regulatory restrictions, it represents the maximum risk level that the Group is technically capable of assuming without breaching the regulatory requirements or other restrictions set by the Supervisory Authority (also taking account of any additional specific capital requirements imposed as a result of the SREP Process).

Strategic indicators	Profile	Appetite	Tolerance	Warning	Capacity
With regulatory constraints	√	√	√		√
Without regulatory constraints	√	√	√	√	

The strategic indicators are mainly attributable to:

- capital and capital adequacy
- liquidity;
- profitability;
- asset quality;

Following a breach of the above-mentioned thresholds, an escalation process is activated which requires the timely definition of the management procedures and interventions to be activated in order to reach the tolerance threshold, after an analysis of the reasons that led to the threshold being exceeded.

1.4 Strategies and processes for risk management

1.4.1 Risk taxonomy and mapping

Banca Ifis has defined a **Risk Taxonomy** which describes the logic followed in identifying the current and/or potential risks to which the Group could be exposed in reaching its strategic objectives and, for each type, the planned prevention and mitigation instruments.

The Parent Company carries out a first identification of the risks starting with the list of minimum risks identified by the current supervisory regulations and expanding it with further significant risks which emerged from the analysis of the business model and the reference markets in which the various Group companies operate, of the strategic prospects, the operating methods and the characteristics of loans and sources of financing. In order to ensure greater adherence with the specific business models of the Group, the risks have been grouped into macro-areas.

The identification of risks and the periodic updating of the risk taxonomy are the result of a joint effort of the second-level control functions (Risk Management, Compliance, Anti-Money Laundering, Chief Financial Officer) and third-level control functions (Internal Audit), which annually meet and examine, based on the results of the previous year's risk management, the possible introduction of new risk events and/or a change in the assessment of potential risks.

The process of assessing the potential relevance of risks (so-called “inherent risk”) does not take into account the possible checks or other mitigation factors that the Group has put in place.

The potential relevance of individual risks is summarised on a three-value scale (High, Medium, Low) on the basis of a joint subjective assessment of the Parent Company's control functions (so-called judgmental approach).

The Parent Company, for the purposes of the group processes adopted for the assessment of capital adequacy (ICAAP) and of the liquidity management and governance system (ILAAP), considers as **significant risks** the types of risk to which it has assigned the relevance levels 'High' and 'Medium' at the conclusion of the above risk assessment process.

The following types of risk fall within the relevant risks:

Credit Risk Area, within this area, the following risks are considered to be significant:

- Credit risk;
- Concentration risk

Financial Risk Area, within this area, the following risks are considered to be significant:

- Interest rate risk;
- Liquidity Risk;
- Risk related to the amount of encumbered assets.

Operational and Reputational Risk Area, within this area, the following risks are considered to be significant:

- Operational Risk;
- Reputational Risk;
- Model risk.

Other types of Risk Area:

- Strategic Risk.

A description of the above-mentioned individual risk categories, in terms of objectives and risk management policies, is provided in the following paragraphs.

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The Parent Company's Risk Management function focuses on the remaining risks, which are considered to be of **low relevance**. Please refer to the internal company regulations for the description of the risk management and control processes adopted for some of them.

The following types of risk fall into this 'low significance' category:

Credit Risk Area:

- Counterparty Risk;
- Country and Transfer Risk;
- Italy's Sovereign Risk;
- Residual Risk;
- Settlement and Delivery Risk;
- Risk arising from Securitisation Transactions;
- Investment risk.

Financial Risks Area:

- Market risk
- The credit valuation adjustment risk.

Other types of Risk Areas:

- Risk of excessive leverage.

1.4.2 Credit Risk Area

1.4.2.1 Credit risk

Credit risk is the risk of loss due to the insolvency or credit rating deterioration of the Group's counterparties and consists of the:

- *of the counterparty risk dimension. It is the risk of insolvency or credit rating deterioration of the Group's counterparties to which it is exposed;*
- *the size of the transaction risk. It concerns both the losses that the Group sustains due to the non-recovery of receivables from defaulting counterparties and the increase in exposure towards parties that, following a worsening of their economic-financial situation, tend (in all those cases of technical forms of credit facilities to so-called "uncertain value") to make greater use of the credit granted to them, thus reducing the residual margin available.*

Objectives and credit risk management policies

Objectives

Under the guidelines approved by the Administrative Body of the Parent Company and in line with the evolution of the regulatory supervision framework, the Group pursues the objective of strengthening its competitive position in the market in relation to small-medium sized enterprises. In this context, the Group aims to expand its market share in the trade receivables areas, also in relation to subjects with specialised needs such as pharmacies, leasing, tax credit and that of doubtful loans, by providing high quality financial services, a high level of customisation, profitability and credit risk control consistent with the quality offered.

Given the particular business of the Group's companies, credit risk is the most important element to consider as far as the general risks assumed by the Group are concerned. Maintaining an effective credit risk management is a strategic objective for the Banca Ifis Group, pursued by adopting integrated tools and processes that ensure proper credit risk management at all stages (preparation, lending, monitoring and management, and interventions on troubled loans).

Organizational aspects

Within the Banca Ifis Group, the Corporate Bodies of the Bank and the financial subsidiaries play a key role in managing and controlling credit risk, ensuring an appropriate supervision of credit risk within the scope of their responsibilities by identifying strategic guidelines as well as risk management and control policies, assessing their efficiency and effectiveness over time, and defining the duties and responsibilities of the corporate functions involved in the relevant processes.

In the current organisational structure, specific central areas of responsibility are involved in overseeing and managing credit risk, which guarantee, through an adequate level of segregation, the execution of management activities and of first- and second-level risk controls, through the adoption of adequate IT processes and applications.

Overall, despite some differences deriving from the various products/portfolios, the lending process follows a shared organisational approach with various operational stages and roles, responsibilities, and controls at different levels.

The organisational structure is therefore divided into the following business units broken down by type of activity:

- **Trade Receivables (Italy)**, the organisational unit that provides financing services for Italian companies;

- **Pharmacies**, organisational unit that provides financing to domestic pharmacies, both developed internally and reported by the sales network of the subsidiary Credifarma;
- **International**, the organisational unit that provides financing services for Italian exporters as well as foreign companies;
- **Tax receivables**, an organisational unit dedicated to acquiring tax receivables, mostly from companies in bankruptcy or in liquidation;
- **Corporate Finance**, organisational unit dedicated to providing structured finance or investment transactions in solvent non-financial businesses or in intermediate bodies;
- **Leasing and Renting**, organisational unit dedicated to the provision and management of leasing and renting products.
- **Insurance Developmen**t, organizational unit dedicated to offering insurance products;
- **Corporate Bank Projec**t, organizational unit dedicated to defining and monitoring the possible evolution of the Bank in terms of distribution model and product catalogue for SMEs;
- **Marketing and Business Strategy**, organizational unit that deals with the planning and monitoring of commercial production and the implementation of specific commercial campaigns, identifying the target, the contact channels and the monitoring tools.

In addition, at the reporting date the lending process included the lending operations of the subsidiaries:

- **Ifis NPL S.p.A.**, company dedicated to the acquisition, management and sale of nonperforming loans, mainly originating from financial institutions and banks, resulting from the transfer of the Banca IFIS business unit dedicated to the NPL business completed on 1 July 2018;
- **Ifis NPL Servicing S.p.A**. (formely Fbs S.p.A.), a company specialising in the management of NPLs and in servicing and recovery activities on behalf of third parties;
- **Ifis Real Estate S.p.A. (formerly Fbs Real Estate S.p.A.**), a company dedicated to real estate activities serving the subsidiaries Ifis NPL S.p.A. and Ifis NPL Servicing S.p.A.;
- **Cap.Ital.Fin. S.p.A.**, company operating in the field of salary-backed loans and pension- backed loans, salary deductions and in the distribution of financial products such as mortgages and personal loans;
- **Credifarma S.p.A.**, the reference for pharmacies when it comes to advances, medium- and long-term loans, equipment leases, and financial services;
- **Ifis Finance Sp. Z o.o.**, a factoring company operating in Poland;
- **Ifis Rental Services S.r.l.,** an unregulated entity specialising in operating leases.
- **Farbanca S.p.A.**, a banking operator mainly aimed at the world of pharmaceuticals and healthcare.

Each organisational unit develops and manages business relationships and opportunities in its respective segment by working together with the Branches located throughout Italy, in accordance with the strategic guidelines and objectives set by the Board of Directors.

With regard to the credit **granting** process, each business unit identifies the possibility of new transactions in compliance with the current credit policies and on the basis of the defined risk appetite; in this context it carries out the preliminary examination of the applications for new lending contracts and proceeds with formalising a proposal for submission to the competent decision-makers, ensuring the application of the credit policies and the established checks, and by carrying out a creditworthiness analysis as required by the internal legislation in force.

Proposals for assignment and/or acquisition of credits are presented to the competent decision-makers who, on the basis of their respective delegated powers, express their decision with regard to the granting of the loan requested; the credit decision always refers to the total exposure granted to the counterparty (or any related groups).

The branches of Banca Ifis S.p.A. do not have decision-making power in assuming credit risk; the management of the ordinary operations of customer relationships are assigned to them under the

constant monitoring of the central structures and within the limits and the procedures established by the relevant Managers.

The operations of the subsidiaries provide for local decision-making limits defined within the operational and organisational scope defined by the Parent Bank Banca Ifis.

This is followed by the credit **finalisation** phase which is reflected in the stipulation of the contract, in the activities relating to the acquisition of any guarantees, in the provision of the loan granted. In these stages, the business units are aided by specific supporting units responsible for preparing the agreement in accordance with the terms of the approval as well ensuring all activities leading to the granting of the credit facility are properly carried out.

The process for the acquisition of non-performing loan portfolios adopted by the structures of the NPL sector consists of similar stages that can be summarised as follows:

- origination, with the identification of the counterparties with which to carry out the purchase transactions and the evaluation of the commercial interest in the execution of such transactions;
- due diligence, as part of which highly-skilled analysts assess the quality of the portfolio being transferred and the relevant organisational impact. Once the due diligence is completed, the Group sets the terms and conditions for offering/acquiring the receivables portfolio and how to manage it (individual or collective method), assessing the relevant impact on operating structures;
- resolutions, with the activities necessary for the preparation of the appraisal file, the assumption, adoption and implementation of the resolution by the competent decisionmaker;
- finalisation: the parties prepare and finalise the purchase agreement, and the relevant consideration is paid.

The operational management of the credit, carried out for performing customers, mainly includes the **ordinary management** and **monitoring** activities carried out by structures set up at each Group company in order to ensure continuous and proactive verification of assigned customers. This activity is supported by a monitoring activity carried out at Group level by a specific organisational unit set up at the Parent Company, with the aim of identifying counterparties with anomalous trends, in order to anticipate the emergence of problematic cases and to provide adequate reporting to the competent business functions.

If the credit position is in an objective situation of distress, it is transferred to specific functions specialised in managing and **recovering** non-performing exposures.

Collection operations for receivables deriving from purchases of distressed retail loans are the responsibility of resources within the subsidiary Ifis NPL S.p.A. and Ifis NPL Servicing S.p.A. as well as of a broad and proven network of debt collection companies and financial agents operating across Italy. Out-of-court management consists mainly in the activation of the loan by the debtor subscribing to promissory notes or voluntary recovery plans; the activity of judicial management consists, on the other hand, in the transformation through legal action aimed at obtaining from the court the order of assignment (OdA) of a fifth of the pension or salary (the existence of which is a prerequisite for the start of this form of transformation) or the sale on the market of the asset to guarantee the loan (secured management).

Finally, it assesses the expediency of selling non-performing loan portfolios, mainly represented by processing queues, submitting any proposals for approval to the competent decision-making bodies, consistently with the BU's profitability targets and after analysing the relevant accounting, reporting, legal, and operational impacts. To do so, it relies on the in-depth inquiries conducted by the Parent company's competent business functions within their area of expertise.

During the course of 2020, in order to transpose the impacts of the health emergency due to the Covid-19 pandemic in the accounting valuation models of NPLs, new prudential logics were analysed and implemented, in addition to the institutional measures introduced for the temporary support of the national economy.

The Italian government has introduced measures aimed at providing financial support to businesses and families, through moratoriums and the strengthening of the public credit guarantee scheme in order to alleviate liquidity tensions caused by the emergency and encourage new credit. These measures also make it possible to mitigate any impacts on the credit quality of banks. The Group therefore intervened in revising the estimate of expected losses and the valuation of portfolios, both at the level of collective reserves and specific reserves.

In particular, for the NPL Sector, during the period of health emergency, recovery activities were strengthened through phone collection as the activities of the agent network were temporarily suspended. The restrictions imposed following the spread of Covid-19 resulted in the partial closure of production activities, including the temporary closure (in particular in the first half of 2020) of the courts, slowing down the performance of legal activities aimed at obtaining writs, foreclosures and ordinances for the allocation of funds, with the subsequent lengthening of collection times; this situation required calibration in the valuation models which resulted in a lower contribution to the interest margin for an amount of approximately 31 million euros.

As regards loans to individuals in the form of salary and pension-backed loans granted through the subsidiary Cap.Ital.Fin. S.p.A., the Group has suffered the effect of the closure and blocking of the production of numerous companies that have made use, in many cases, of the social safety net of the wages guarantee fund; this resulted in the payment of remuneration directly by INPS, generating, in many cases, delays in the disbursement of funds and, consequently, in the receipt of payments. The Group has granted certain counterparties the suspension of payment installments provided for in the amortization plan.

In the Corporate area, the Banca Ifis Group adhered to the Cura Italia Decree, the Abi Credit Agreement and the Liquidity Decree, with the consequent granting of moratoriums and disbursement of new loans covered by the Central Guarantee Fund.

During 2020, the Banca Ifis Group, in line with the Cura Italia Decree, implemented the following support measures for micro, small and medium-sized enterprises based in Italy that were classified as performing and with a lack of liquidity following the epidemic COVID-19:

- restriction on withdrawal of credit lines until 30 June 2021;
- extension until 30 June 2021 of non-instalment loans with prior contractual maturity;
- suspension until June 30, 2021 and deferral of loan installments and leasing installments.

As part of the financing to pharmacies, in line with the provisions of the Cura Italia Decree and the subsequent extensions introduced in order to take into account the developments of the pandemic, some counterparties who made a request were granted (subject to verification of the reduction of their company turnover) the suspension of the installments of the loans in progress.

Management, measurement, control and reporting systems

Credit risk is continuously monitored with the help of procedures and tools that allow for the timely identification of positions that present particular anomalies.

Over time, the Banca Ifis Group has implemented instruments and procedures allowing to specifically evaluate and monitor risks for each type of customer and product.

If the applicant passes the evaluation process and is granted a credit facility, the Group starts **monitoring** the credit risk on an ongoing basis, ensuring repayments are made on time and the relationship remains regular, reviewing the information that the Italian banking system reports to the Central Credit Register or select databases as well as the reputational profile, and examining the underlying causes for each one of these aspects.

Concerning portfolio monitoring operations, as previously mentioned, loans to customers are monitored by specific units within the mentioned business areas that are responsible for constantly and proactively

reviewing borrowers (**first line of defence**); a specific organisational unit conducts additional monitoring at a centralised level, using mainly performance analysis models—including models developed by the Parent's Risk Management function—to identify any potential issues through specific early warning indicators.

Credit risk exposures to Italian companies are assigned an internal rating based on a model developed in-house for the trade receivables portfolio. In 2020, the development of new rating models estimated on a larger population was completed, in addition to trade receivables, also for other businesses (i.e. leasing). The introduction of these models in the Bank's processes is set for the beginning of 2021 as the Bank has decided to temporally align the entry into force of the new definition of default with the rules for classifying exposures and the methods for measuring the expected loss. In fact, the PD calibration activity associated with the rating class was carried out on the basis of the new definition of default as per EBA Guidelines.

Risk Management plays a crucial role as part of the **second line** of defence in measuring and monitoring operations.

Concerning credit risks, the Risk Management function:

- controls, monitors and evaluates credit risks, by performing checks and analysis according to the defined guidelines; in particular: (i) evaluates the quality of credit, ensuring compliance with lending guidelines and strategies through the continuous monitoring of credit risk indicators; (ii) constantly monitors the exposure to credit risk and compliance with the operating limits assigned to the operating structures in relation to the assumption of credit risk; (iii) verifies, through second-level controls, the correct performance of monitoring on the individual exposures, in particular the impaired ones, and assesses the consistency of the classifications and the adequacy of the provisions; (iv) monitors the exposure to concentration risk and the performance of exposures classified as Large Exposures;
- performs quantitative analyses to support the business units in using risk measures;
- oversees the supervision of the value of collateral as well as personal and financial guarantees. Concerning the credit risk associated with bond and equity, the Bank constantly monitors their credit quality, and Banca Ifis's Board of Directors and Top Management receive regular reports on this matter.

In the context of Basel 3 principles for calculating capital requirements against first-pillar credit risks, Banca Ifis chose to adopt the Standardised Approach.

In order to assess its vulnerabilities when it comes to managing capital and liquidity, the Parent Banca Ifis has developed quantitative and qualitative techniques to assess its exposure to exceptional but plausible events. These analyses, known as stress tests, measure the impact in terms of risk deriving from a combination of changes in economic-financial variables under adverse scenarios on the Banks and its subsidiaries. These analyses significantly concern credit risk.

Stress tests enable to verify the resilience of the Group, by simulating and estimating the impacts of adverse situations, and they provide important indications regarding its exposure to risks and instruments, the adequacy of the relative mitigation and control systems and the capacity to cope with unexpected losses also from a long-term planning perspective.

For regulatory purposes, the Parent Banca Ifis conducts stress tests when defining the Risk Appetite Framework and preparing the Recovery Plan as well as the ICAAP and ILAAP report at least on an annual basis, as required by applicable prudential supervisory regulations. In this context, it assesses, among other things, the sustainability of lending strategies under adverse market conditions.

Credit risk mitigation techniques

Credit risk mitigation techniques include those instruments that contribute to the reduction of the loss that the Group would bear in the event of counterparty default; specifically, it refers to the guarantees received from customers, both collateral and personal, and any contracts that may lead to a reduction in credit risk.

In general, as part of the credit granting and management process, for certain types of credit lines, customers are encouraged to provide suitable guarantees in order to reduce their risk. These may consist of collateral, such as liens on financial assets, mortgages on residential or non-residential property, and/or personal guarantees (usually sureties) provided by a third party, where an individual or legal entity takes responsibility for the customer's obligations in the event of insolvency.

Specifically:

- as part of factoring operations, when the type and/or quality of factored receivables do not fully satisfy requirements or, more generally, the invoice seller is not sufficiently creditworthy, the bank's established practice is to hedge the credit risk assumed by the Group by obtaining additional surety bonds from the shareholders or directors of the invoice seller. As for the account debtors in factoring relationships, wherever the Bank believes that the elements available to assess the account debtor do not allow to properly measure/assume the related credit risk, or the proposed amount of risk exceeds the limits identified during the debtor's assessment,, the Bank adequately hedges the risk of default of the account debtor. Guarantees issued by correspondent factors and/or insurance policies underwritten with specialised operators are the main hedge against non-domestic account debtors in non-recourse operations;
- in the area of loans to companies, where possible, suitable guarantees are acquired from the Central Guarantee Fund or from other companies within the public sphere such as SACE S.p.A.;
- in relation to the Special Situations and Structured Finance operations, guarantees are acquired according to the standing of the counterparty, the duration and the type of loan. Said collateral includes mortgage guarantees, liens on plant and equipment, pledges, surety bonds, credit insurance, and collateral deposits;
- as regards financial leases, it should be noted that the credit risk is mitigated by the presence of the leased asset. The Lessor maintains the ownership until the final purchase option becomes available, thus ensuring for itself a greater recovery rate in case of a default by the customer;
- in relation to transactions involving non-performing loans and the purchase of tax receivables arising from bankruptcy procedures, and the related business model, there are usually no actions taken to obtain coverage for credit risks;
- salary-backed loans certainly have low risk, considering the particular characteristics of this product: it requires having insurance against the customer's risk of death and/or loss of employment as well as imposing a lien on the Postemployment benefits earned by the customer as additional collateral for the loan.
- the operation of financing to pharmacies involves an advance payment combined with a transfer or a mandate for the collection of receivables with the possibility of using the subsequent advances to reduce existing loans.

In line with the provisions of the Liquidity Decree (Italian Legislative Decree 8 April 2020 n. 23) the Group took advantage of the guarantees offered by the state Guarantee Fund for the type of customers and loans provided for by the Decree, with coverage that can reach up to 100%. This guarantee allows for a reduction in RWAs relating to credit risk, in proportion to the amount of exposure covered by the Fund.

The acquired NPL portfolios include positions secured by mortgages on properties that present a lower risk than the overall acquired portfolio.

When calculating the overall credit limit for an individual customer and/or legal and economic group, the Bank considers specific criteria when weighing the different categories of risks and guarantees.

Specifically, when measuring collateral, it applies prudential 'spreads' differentiated by type of guarantee.

Banca Ifis S.p.A. continuously verifies the quality and adequacy of the guarantees acquired on the loan portfolio, with second level controls carried out by the Bank's Risk Management department and carried out in the Single File Review.

Further information is given in § 17of this document.

Non-performing credit exposures

Non-performing loans are classified according to the Bank of Italy's criteria.

The positions that have deteriorated or present significant problems are handled directly by specific organisational units at each of the Group's companies, which:

- assess the counterparty's willingness and ability to repay the debt in order to establish the most appropriate recovery strategy;
- manage judicial and non-judicial proceedings concerning debt collection operations;
- define and propose to the competent person, the possible amendment of the administrative status and the quantification of the 'doubtful analytical results' on the assigned positions;
- monitor the amount of exposures classified as bad loans and the relevant debt collection operations.

Non-performing exposures include the receivables mainly acquired by the subsidiary Ifis NPL S.p.A. and Ifis NPL Servicing at a significant discount to their par value, as well as the non-performing assets that largely arose from the business combination with the former GE Capital Interbanca Group at the time of the acquisition, in accordance with the standard IFRS9.

The Group's action is aimed towards two directions:

- constantly striving to improve not only screening and lending processes, but also the management of performing loans, focusing, if necessary, on the commercial and/or screening policies for individual transactions in order to curb the generation of non-performing loans as much as possible;
- defining quantitative goals (to be considered as maximum limits) in terms of non-performing exposures as well as default actions to be taken in accordance with appropriate implementation and priority criteria, so as to ensure compliance with the agreed limits over time.

In managing these aspects, the Group must also necessarily account for the different business segments and the associated types of receivables, identifying solutions and actions that are consistent with the peculiarities of each segment in order to deliver the best possible result in terms of value protection and timely resolution.

That said, when preparing its operational plan for managing NPLs in the short, medium, and long term, presented to the Supervisory Authority last March 2020, the Group has identified the following to ratios as performance indicators and explicit objectives to be pursued with careful and proactive management:

- “gross npe ratio”, consisting of the ratio between “gross impaired exposures” and “total loans granted to customers”;
- “net npe ratio”, consisting of the ratio between “impaired exposures net of the related adjustments” and the “total loans granted to customers”.

With reference to the cash credit exposures to customers existing at 31 December 2020, excluding the positions deriving from the purchase and management of third party originators' impaired loans managed by the subsidiaries Ifis NPL S.p.A. and Ifis NPL Servicing S.p.A., despite the economic impacts deriving from the ongoing Covid-19 emergency situation, the NPE ratio levels are better than the objectives set when defining the strategic guidelines contained in the 2020-2022 Business Plan. This

result is mainly attributable to the positive effects deriving from the granting of moratoriums on loans and the sale of securitized and State-guaranteed impaired loans (GACS). Regardless of the current economic situation, the Group expects and aims to pursue the goal of reducing the stock of short/medium-term non-performing exposures through a differentiated strategy based on the specificity of the individual portfolios concerned (considering the type of counterparty and the specificity of individual products). In general, the Group will take actions towards the following goals, which it has been pursuing for some time now:

- curbing the default rate in order to reduce the number of positions that become non-performing, extending and strengthening loan monitoring operations in order to anticipate, and potentially prevent, the impairment of exposures;
- improving 'performing' settlement rates by granting more forbearance measures to counterparties that show signs of financial distress;
- leveraging the expertise within the Banca Ifis Group and the virtuous collection processes currently in place to maximise collection rates;
- reducing the stock of non-performing loans by considering selective sales of individual significant positions as well as applying existing write-off policies.

The positions that have deteriorated or present significant problems are handled directly by specific organisational units at each of the Group's companies, which:

- assess the counterparty's willingness and ability to repay the debt in order to establish the most appropriate recovery strategy;
- manage judicial and non-judicial proceedings concerning debt collection operations;
- define and propose to the competent person, the possible amendment of the administrative status and the quantification of the 'doubtful analytical results' on the assigned positions;
- monitor the amount of exposures classified as bad loans and the relevant debt collection operations.

exploitation of the expertise currently present in Banca Ifis Group and of the existing virtuous recovery processes in order to maximise recovery rates;

Further information is given in § 7of this document.

1.4.2.2 Credit Concentration Risk

Risk arising from exposures to counterparties, including central counterparties, groups of connected counterparties, and counterparties operating in the same economic sector, in the same geographic region or that perform the same activity or deal with the same merchandise, as well as from the application of credit risk mitigation techniques, including, in particular, risks related to indirect exposures, such as, for example, to individual providers of guarantees.

Concentration risk management objectives and policies

The Banca Ifis Group pays particular attention to the concentration of credit risk with reference to all the Group's companies, both at an individual and consolidated level. Banca Ifis's Board of Directors has mandated the Top Management to take action to contain major risks. In line with the directives of the Board, those positions that are at risk and engage the Group to a considerable extent are subject to systematic monitoring.

In line with the supervisory requirements in the credit process, for the purposes of managing and controlling the concentration risk, two different phases can be distinguished: the first represented by the assignment, in particular when “large exposures” are taken on and the second is identifiable in the continuous monitoring of the quality of existing exposures, especially of higher amounts.

The Banca Ifis Group, with methods related to the nature of the products/customers handled, has adopted internal procedures consistent with the taking on and monitoring of “large exposures”, to be applied as a precautionary measure also to loans which, although not identified as “large exposures”, have dimensions such as to have significant effects on the financial soundness of the lending company in the event of a crisis of the entrusted subject/group. In particular, the Banking Group companies, relying first of all on the information provided by the Bank's database which identifies existing relationships and any legal and economic ties for all Banking Group customers, acquire during the preliminary investigation for the granting of a new loan or the monitoring of the position, all the data and information deemed necessary to evaluate the individual transaction in the overall amount of the exposure with the group to which the counterpart belongs, the composition of which is kept updated over time.

The Risk Management function periodically monitors the composition of customers and the relative degree of concentration, with particular focus on highly significant borrowers, in order to maintain, as far as possible, a satisfactory spread of credit risk and to limit potential losses in the event of insolvency of counterparties with significant debt exposures. With regard to retail portfolios, the monitoring activity on the subject of concentration is based on portfolio logics and through differentiated cases in relation to the type of product and management.

The Bank ensures constant compliance with the regulatory limits on risk concentration both on an individual and consolidated basis, as well as compliance with the most stringent regulatory limits referring to related parties. The results of the checks are reported on a quarterly basis to Top Management within the Tableau de Bord.

A quantitative representation of the 'Large exposures' in place on 31 December 2020 is shown in section E of the notes to the consolidated financial statements of the Banca Ifis Banking Group. The overall weighted amount of major exposures at 31 December 2020 consisted of 232 million Euro in tax assets and 193 million Euro in exposures to counterparties not included in the prudential scope of consolidation.

In order to perform a complete measurement of the risks to which the Group is exposed, in the second pillar Banca Ifis calculates the capital add-on against the single-name and geosectorial concentration risk.

As is known, the single-name concentration risk aims at “correcting” and integrating the quantification of credit risk, measured with a standardised method, by defining a capital addon that aims to cover the risk resulting from excessive concentration towards connected groups of companies. The Group measures the concentration risk relating to the 'banking portfolio', using the simplified method prescribed by Circular 285/2013 - Part One - Title III 'Prudential Control Process' - Chapter 1 - Annex B, for the purpose of calculating the relative regulatory capital requirement.

A specific process is used to calculate the internal capital against geo-sectorial concentration risk in accordance with the recently revised ABI methodological proposal, which aims to provide a simplified method for determining the possible internal capital add-on based on the difference between the concentration of the corporate portfolio and that of the reference geo-sectorial benchmark portfolio. When the approach is applied, as the Group does not have a main geographical area, it uses the national base portfolio as its reference.

A non-negligible exposure to concentration risk can be generated by the loans granted by the Bank to counterparties classifiable as medium and large companies mainly for corporate lending and Structured Finance activities. Receivables due to the Group from counterparties belonging to retail classes and medium-sized companies - which generally refer to factoring, leasing, pharmacy, family loans, as well as to risk positions arising from the acquisition of non-performing loans - have less influence on the concentration risk given the granularity and type of exposures at risk.

1.4.2.3 Counterparty risk

It is the risk that the counterparty to a transaction involving financial instruments defaults before the final settlement of the cash flows of the relevant transaction.

Counterparty risk currently relates to derivative products generated by Proprietary Finance, an Area belonging to the Capital Markets Department and responsible for identifying, implementing and creating investment strategies for the Banca Ifis Ownership Portfolio; there is also a residual portfolio of derivative products, mainly on interest rates, deriving from Corporate activities in which derivative contracts were offered to customers to cover the financial risks assumed by the latter; all outstanding transactions are covered, for the purpose of cancelling market risk, with back-to-back transactions, in which external market counterparties have assumed an opposite position to that sold to corporate customers.

Organisationally, the Capital Markets Department is responsible for managing operations in financial instruments in accordance with the policies defined and the guidelines assigned according to operational and risk limits and profitability targets.

With regard to counterparty risk connected to repos, its monitoring consists in a precise and constant verification of the structure and quality of the securities portfolio as the underlying risk is directly connected to the creditworthiness of the counterparties with which the collateralised financing operations are carried out (generally central counterparties such as Cassa di Compensazione e Garanzia and the European Central Bank) and is proportional to the price volatility of portfolio securities provided as a guarantee.

In relation to both the low level of exposure of the derivative product portfolio and the low incidence of absorbed internal capital connected to counterparty risk (CCR) on the total absorbed internal capital on risks, it is considered that the potential relevance of the aforementioned risk at Group level is “low”.

For the measurement of counterparty risk and the measurement of its internal capital, the Bank uses the methods prescribed by Regulation (EU) no. 575/2013 of 26 June 2013 - Part Three, Title II, Chapter 6 (CCR) and for its application in Italy by Circular 285/2013, for the purposes of calculating the relevant regulatory capital requirements. In particular, for transactions involving derivatives, for the purpose of measuring counterparty risk, it applies the “market value method” (Article 274 CRR).

Further information is given in § 5of this document.

1.4.2.4 Country Risk

It is the risk of losses caused by events that occur in a country other than Italy. The concept of country risk is broader than that of sovereign risk in that it refers to all exposures regardless of the nature of the counterparties, be they natural persons, businesses, banks or public administrations.

Country risk represents an additional component of the risk of insolvency of individual borrowers, measured in the context of the Group's credit risk control systems.

In general, country risk derives from the possibility of loss due to events that do not depend on the solvency of the debtor, but due to the country, understood in a broad sense, in which the subject is resident. Any international loan presents a country risk, due to the fact that the debtor's repayment ability and/or possibilities can be conditioned by economic, political and social factors that transcend the micro-economic dimension of the credit relationship. In the event that the debtor is a private operator, this risk takes the form of a series of political, economic and/or technical impediments for which the public authority is ultimately responsible; if, on the other hand, the debtor identifies with the government of a country or with any other public or publicly guaranteed entity (so-called “sovereign” debtor), this risk is manifested by direct incapacity (technical, economic, financial) or refusal of these individuals to fulfil their commitments.

Most of the Group's risk exposures are concentrated in Italy; the remaining exposures to non-domestic customers mainly refer to counterparties resident in Poland, other European Union countries, the United Kingdom, Switzerland and the USA, with a relative weight equal to or less than 1%.

The business units with credit exposures to foreign customers are the Italy Commercial Area, the International Area, the Proprietary Finance Area, the subsidiary Ifis Finance Sp. z.o.o., the Corporate Finance Area. The Italy Commercial Area operates abroad through factoring operations with definitive assignments with a debtor counterpart based abroad. The target customers which BU International serves concern financing services to domestic companies that carry out export activities as well as to foreign companies, operating directly or with the collaboration of foreign correspondents. The development of relations with foreign correspondents (foreign banks or non-bank factoring intermediaries) takes place in the import and export market mainly within the worldwide network of factoring companies 'Factors Chain International' (FCI). Ifis NPL Ifis Finance Sp. z.o.o, a financial company governed by Polish law, specialising in factoring (import/export) services in the Polish market; There are also exposures to corporate customers based abroad related to operations managed by the Structured Finance and Workout & Recovery Services.

With reference to exposures to 'sovereign' foreign borrowers, the Group does not present risk exposures.

A quantitative representation of the geographical distribution of cash and off-balance credit exposures to customers is shown in section E of the notes to the consolidated financial statements of the Banking Group. The majority of net credit exposures refer to domestic customers. In light of the above, it is considered that the potential relevance of the aforementioned risk at Group level is “low”.

1.4.2.5 Italy's Sovereign Risk

It is the risk that the Italian government will not respect its financial obligations due to economic, financial and political factors.

In 2020, the Group increased its exposure to the Italian state for investments in government securities.

Based on the trend in the share price recorded in 2020, the Group does not expect to undergo significant changes in assets, also availing itself of the right to neutralize unrealized profits and losses in the measures provided for by art. 468 of Regulation 575/2013; with reference to liquidity, no significant depreciation is expected on the available guarantees that can be used for refinancing on the collateralised market.

It should be noted that, with respect to total assets, the portion of liquidity invested in Italian government bonds is approximately 15% at the end of 2020.

Specific information on the Sovereign Debt is reported in section E of the notes to the consolidated financial statements of the Banca Ifis Banking Group. As of 31 December 2020, the book value of debt securities issued by the Italian Republic amounted to €1,808 million, net of the negative valuation reserve of € 2.7 million.

Pursuant to the CONSOB Communication, besides the exposure to sovereign debt, it is also necessary to consider receivables due from the Italian government, which at 31 December 2020 totalled 646 million, including 96 million Euros relating to tax receivables.

The evaluation of the incidence of Italy's sovereign risk is of a qualitative nature; it is considered that the potential relevance of Italy's sovereign risk at Group level is “low”.

1.4.2.6 Transfer risk

It is the risk that the Group, as assignor of a party that receives its main sources of income in a currency other than that of the loan, realises losses due to the debtor's difficulty in converting its currency into the currency in which the exposure is denominated.

The transfer risk impact on the operations generated by the Group, in particular in relation to import/export, or foreign factoring abroad.

The evaluation of the incidence of transfer risk is qualitative, the driver considered is the number of counterparties that are financed with a different currency than the one in which they receive the main sources of income.

Additionally, as part of the lending process, in order to identify potential future losses due to the difficulty of the counterparty to convert its currency, particular attention is paid in the underwriting phase to risk factors such as:

- the residence of the borrower;
- the currency of the transaction;
- the currency of the customer's main sources of income.

The potential relevance of the transfer risk at Group level is assessed as “low”.

1.4.2.7 Residual risk

It is the risk that recognised techniques for Credit Risk Mitigation used by the Group (so-called Credit Risk Mitigation) may be less effective than expected.

The residual risk is linked to the possibility that recognised techniques for credit risk mitigation used to reduce the capital requirement turn out to be less effective than expected. This generates, in the guaranteed exposures, losses greater than those covered by the corresponding capital requirements calculated by the Group in accordance with the standardised method for measuring the credit risk of the banking portfolio.

This generates, in the guaranteed exposures, losses greater than those covered by the corresponding capital requirements calculated by the Group in accordance with the standardised method for measuring the credit risk of the banking portfolio. In particular, Bank Ifis S.p.A., in relation to Corporate Finance operations, by mainly granting medium-term loans, favours transactions characterised by the acquisition of guarantees in relation to the counterparty's standing and the duration of the loan, for example mortgage guarantees, liens on plant and machinery, pledges, sureties, credit insurance and collateral deposits. In relation to subsidised finance, SMEs are financed with the support of the Guarantee Fund granted by the Ministry of Economic Development, with the dual objective of giving the company the possibility of obtaining loans without additional guarantees (and therefore without the costs of bonds or insurance policies) for the part guaranteed by the Fund, and the Bank the chance to mitigate the credit risk for the guaranteed exposure.

Within the context of the pandemic, in line with the provisions of the Liquidity Decree (Italian Legislative Decree 8 April 2020 n. 23) the Group took advantage of the guarantees offered by the state Guarantee Fund for the type of customers and loans provided for by the Decree, with coverage that can reach up to 100%. This guarantee allows for a reduction in RWAs relating to credit risk, in proportion to the amount of exposure covered by the Fund.

Similar criteria are followed by the Group's subsidiaries, based on the same products they trade.

The residual risk is assessed qualitatively by formulating an opinion on the adequacy of the procedures for managing CRM instruments, bearing in mind the general and specific requirements of the regulations for their recognition for prudential purposes.

The acquired NPL portfolios, albeit with a non-direct impact on CRM techniques, include positions secured by mortgages on properties that present a lower risk than the overall acquired portfolio.

The potential relevance of the residual risk at Group level is assessed as “low”.

Further information is given in § 17of this document.

1.4.2.8 Settlement and Delivery Risk

It is the risk that a counterparty will not fulfil its obligation to deliver or pay in the context of a financial instrument transaction.

Settlement and delivery risk is inherent in transactions in financial instruments, so this risk potentially affects the processes managed by the Capital Markets Department.

To evaluate the incidence of settlement and delivery risk, the bank considers the following drivers:

- the credit standing of the counterparties;
- the complexity of the financial instruments underlying the transactions;
- the percentage of significant transactions with central counterparties;
- the percentage of transactions managed through financial market infrastructures.

The potential relevance of the settlement and delivery risk at Group level is assessed as “low”.

1.4.2.9 Risk arising from Securitisation Transactions;

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

During 2020, the Group carried out a credit transfer transaction involving a portfolio of receivables deriving from loans to debtors classified as “non-performing”. This sale took place within a securitization transaction which saw the participation of a pool of assignor banks of the respective portfolios; part of the notes relating to the securitization were undersigned by the Group.

The Group also has further exposures to third-party securitisation transactions for small amounts, acquired for investment purposes in order to generate profit margins and to realise an appreciable medium-long term return on capital. These transactions may originate from the various business units of the Group, in relation to the characteristics of the underlying portfolio, both performing and non-performing, or in the context of liquidity investment activity.

For *funding* purposes (without the transfer of risks and benefits) there are securitization transactions which have as underlying some technical forms of assets (trade receivables, medium / long-term loans) as well as some self-securitization transactions on leasing and residuals on the subsidiary Farbanca.

Acquisition, monitoring and mitigation activities are carried out in compliance with credit risk policies and procedures, and in particular with the “Policy for the management of securitisation transactions”, and in compliance with the risk appetite established within the Risk Appetite Framework. The Group invests in securitisations of which it is able to evaluate, on the basis of experience gained, the underlying related assets. In particular, the proposing unit, having identified the investment opportunity, carries out the due diligence activities in order to assess the future cash flows and the fairness of the price, coordinating, for this purpose, the relevant organisational units from time to time and formalising the related outcomes for submission to the competent decision-making body. After the acquisition, the investment is subject to continuous monitoring, with reference to the performance indicators of the underlying exposures and to the adherence of cash flows with respect to the valuations carried out at the time of acquisition.

The potential relevance of the risk arising from securitisation transactions at Group level is assessed as "low".

exploitation of the expertise currently present in Banca Ifis and of the existing virtuous recovery processes in order to maximise recovery rates;

Further information is given in § 14of this document.

1.4.2.10 Investment risk

It is the risk of a loss in value of the investment (in financial and non-financial companies) held by the Group arising from the possibility of incurring capital losses, of achieving a lower yield than expected and/or of having to sustain fixed assets for periods exceeding initial expectations. This risk includes potential conflicts of interest and inadequate organisational or corporate separation between the investment activity and the remaining banking activity.

The investment risk is generated by transactions of a different nature, including:

- equity investment activities of industrial, commercial or service companies under development or maturity;
- additional equity investment positions arising from restructuring transactions of customers in temporary difficulty in the context of which the conversion of the debt into capital or similar equity instruments was requested;
- new investment opportunities expected in accordance with the strategic guidelines defined by the Board of Directors of the Parent Company;
- the subsidiary Ifis Rental Services S.r.l. excluded from the scope of the banking group and that of the prudential consolidation, as it is a non-financial company exercising an associated activity.

The monitoring activity of investment risk is exercised by the 'Corporate Finance' business unit, which is dedicated, among other activities, to the provision of investment transactions in solvent non-financial businesses or in intermediate bodies; In this context, it analyses the return prospects inherent in the investment and verifies the adequacy with respect to the overall risk profile, as well as evaluating whether it is worthwhile for the Bank to make the investment.

The Risk Management function oversees the monitoring or verification of compliance with regulatory limits in terms of holdings on equity investments.

The potential relevance of the risk from equity investments at Group level is assessed as "low".

Further information is given in § 12of this document.

1.4.3 Financial Risks Area:

1.4.3.1 Interest rate risk on the banking portfolio

It is the risk deriving from potential changes in interest rates with reference to activities other than trading. It is the risk that unexpected changes in interest rates may cause negative effects both in income terms, reducing the interest margin, and in equity terms, reducing the economic value of the Bank.

Interest rate risk management policies and objectives

The assumption of interest rate risk is a normal part of banking and can be an important source of income and asset value. However, adverse movements in market interest rates can have negative effects on both the level of profits and the value of the capital of the Bank and its subsidiaries: changes in interest rates affect in fact the current income level through variations in interest margins and at the same time also affect the value of the assets, liabilities and off-balance sheet items. Therefore, an effective risk management system that maintains exposure to interest rate risk within acceptable levels is essential for the safety and financial soundness of the Group.

The interest rate risk on the banking portfolio is a transversal risk that affects all the Group companies and whose management is centralised at the Parent Company. The assumption of significant interest rate risks is in principle unrelated to the management of the Bank and the Group.

Exposure to this risk is analysed through the sensitivity of the interest margin and the economic value to changes in interest rates. The analyses regarding the sensitivity of the interest margin are used at management level to verify the positioning of the Group in the short term, while the economic value approach is by its nature of medium to long term relevance.

Interest rate risk monitoring uses a series of risk indicators that are verified and reported quarterly in the group's periodic reporting addressed to top management. Mitigation actions are evaluated and activated where appropriate to cover the interest rate risk on exceeding the set thresholds.

The Central Capital Markets Directorate is the corporate function responsible for managing interest rate risk. In line with the established appetite for risk, it defines the actions necessary to pursue the risk. The Risk Management function is responsible for proposing the risk appetite, identifying the most appropriate risk indicators and monitoring the performance of assets and liabilities in relation to the set limits, Each year, the Top Management proposes to the Bank's Board of Directors its lending and funding policies and its interest rate risk management policies. It also suggests any appropriate action to ensure that it carries out its activities in accordance with the risk policies approved by the Bank.

The Risk Management function periodically reports to the Bank’s Board of Directors on the interest rate risk position by means of a quarterly Dashboard prepared for the Bank’s management.

For the purposes of the business assessment of capital adequacy, Class 2, banking groups, and therefore our Banca Ifis Group, are required to establish adequate measurement, control and mitigation systems to assess the interest rate risk on the banking portfolio, in terms of changes in economic value and the interest margin.

The Banking Group, for the measurement of interest rate risk relating to the 'banking portfolio' for the purposes of calculating the relevant regulatory capital requirement, has been guided by the simplified method prescribed by Circular 285/2013 - Part One - Title III 'Process of prudential control' - Chapter 1 - Annex C. (changes in economic value).

The Group procures mainly through retail funding, at a fixed rate for time deposits and at a non-indexed variable rate, unilaterally revisable by the Parent Company, for on-demand and on-call deposits. The Group's offer includes the option of tying up the sums for a maximum duration of up to five years. Other significant funding components are self-securitisation transactions at a indexed rate of trade receivables

and medium / long-term loans, collection from Eurosystem (TLTRO) and the issue of fixed-rate bonds generally reserved for qualified investors.

The Group's assets regarding loans to customers are mainly made up of variable-rate transactions, relating to trade receivables, corporate lending, leasing and medium / long-term loans. The main component of fixed-rate assets relates to the NPL segment and a significant part of the owned securities portfolio.

During 2020, the Banca Ifis Group's exposure to interest rate risk remained at low levels and in line with the defined risk appetite values.

Further information is given in § 13 of this document.

1.4.3.2 Liquidity risk

It arises when it is difficult or impossible for the company to fulfil its payment obligations in a timely manner due to its inability to raise funds on the market (funding liquidity risk) or to sell its assets (market liquidity risk).

Liquidity risk management policies and objectives

The liquidity risk refers to the possibility that the Group fails to service its debt obligations due to the inability to raise funds or sell enough assets on the market to address liquidity needs. The liquidity risk also refers to the inability to secure new adequate financial resources, in terms of amount and cost, to meet its operating needs and opportunities, hence forcing the Group to either slow down or stop its operations or incur excessive funding costs in order to service its obligations, significantly affecting its profitability.

In the course of 2020, in line with the strategy adopted, there was a reduction in the retail revenue component, in particular relating to the on demand and on call components, and a significant increase in access to the form of financing, via Eurosystem, inherent to the TLTRO III operation.

At 31 December 2020 the main funding sources were the Bank's equity, online retail funding-consisting of on-demand and term deposits— medium/long-term bonds issued as part of the EMTN programme, funding from the Eurosystem (TLTRO), medium/long-term securitisation transactions, and the Abaco channel with the Bank of Italy.

The Group's activities are made up of factoring operations, deriving mainly of trade receivables and at the Public Administration with maturities within the year, of medium-long term receivables coming from leasing, corporate banking, structured finance, customer loans granted by Farbanca, and work-out and recovery operations.

As for the Group's operations concerning the NPL Sectors and the purchases of tax receivables arising from insolvency proceedings, the characteristics of the business model imply a high level of variability concerning both the amount collected and the date of actual collection. Therefore, the timely and careful management of cash flows is particularly important. To ensure expected cash flows are correctly assessed, also with a view to correctly pricing the transactions undertaken, the Group carefully monitors the trend in collections compared to expected flows.

The high-quality liquidity reserves (mainly held with the Bank of Italy and government securities that are part of the intra-day reserve) allow the meeting of regulatory (in compliance with LCR and NSFR limits) and internal requirements concerning the prudent management of liquidity risk.

The Group is constantly engaged in the harmonious development of its financial resources, both in terms of size and costs, in order to have available liquidity reserves adequate for the current and future business volumes.

The Parent's business functions responsible for ensuring that liquidity policies are properly implemented are: the Treasury Department, which directly manages liquidity; the Risk Management function, responsible for proposing the risk appetite, selecting the most appropriate risk indicators and monitoring them with reference to pre-set limits, as well as supporting Top Management; and the Top Management, which every year, aided by ALM & Capital Management, shall make proposals to the Bank's Board of Directors regarding policies on funding and the management of liquidity risk, as well as suggest appropriate actions during the year in order to ensure that operations are conducted consistently with the risk policies approved by the Bank.

As part of the ongoing process of adapting liquidity risk procedures and policies and taking into account the evolution of the prudential supervisory provisions of reference, the Parent Company uses an internal framework for the governance, monitoring and management of liquidity risk at Group level.

In compliance with supervisory provisions, the Bank also has a Contingency Funding Plan aimed at protecting the banking Group from losses or threats arising from a potential liquidity crisis and guaranteeing business continuity even in the midst of a serious emergency arising from its own internal organisation and/or the market situation.

The Risk Management function periodically reports to the Bank's Board of Directors on the liquidity risk position by means of a Dashboard prepared for the Bank's management.

With reference to the Polish subsidiary, the treasury activity is coordinated by the Parent Company.

More detailed information of a quantitative nature is provided in section E of the notes to the consolidated financial statements of the Banca Ifis Banking Group.

The following is the value of the LCR indicator calculated in accordance with the guidelines EBA/GL/2017/01 "on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) No. 575/2013". The figures shown refer to the simple average of the last 12 monthly observations starting from the LCR recorded at the end of 2020.

Mod. EU LIQ1 - Liquidity Coverage Ratio	31/12/2020 in millions of Euros
21 - Liquidity Buffer	1.305,29
22 - Total net cash outflows	93,73
23 - Liquidity coverage ratio	1461,5%

Upon the occurrence of the Covid-19 pandemic, in relation to liquidity risk, the Group promptly established a strengthening of the internal controls both by increasing the frequency (from monthly to weekly) of calling the ALM Technical Committee, regardless of any reports situations of alert or crisis detected through the Contingency Funding Plan, as well as with a further enhancement of the tools and processes for monitoring and controlling the liquidity position.

In the period of greatest crisis, the available and readily usable liquidity reserves remained largely sufficient with respect to the Group's bonds, constantly recording, for the LCR and NSFR regulatory indicators, values significantly higher than the required thresholds. Also in terms of the survival period, which considers the occurrence of a severe combined stress scenario, values were found in line with the established risk appetite.

With regards to the evolution of the volumes of funding during 2020 attributable to the effects of the pandemic, there was a reduction in the stock of securitized deposits with trade receivables as collateral, which occurred as a result of the reduction in the amounts of underlying credits and resulting from the economic slowdown. Also in order to make up for potential further reductions in these forms of funding and, in consideration of the freezing of the wholesale funding market at the time, in June 2020 the Group

joined the new extraordinary loan operation for a significant amount (so-called TLTRO 3) promoted by the ECB, thus financing itself in the medium-long term at a competitive cost.

In February 2020 (pre-pandemic) a bond issue was carried out as required by the funding plan.

In line with the aforementioned strategy in terms of management and risk appetite, despite the exceptional nature of the pandemic event, no violations of the risk thresholds assigned internally were detected during the 2020 financial year.

During 2020, a methodological and technological improvement project was launched concerning, among other things, the measurement and control of liquidity risk, which requires for the adoption of an ALM suite by the relevant departments provided for by an external vendor.

1.4.3.3 Risk related to the amount of encumbered assets.

The risk associated with the portion of encumbered assets derives from the unavailability of assets that can be readily liquidated through sale, sale with a repurchase agreement, guarantee assignment or securitisation.

Objectives and management policies of the risk connected to the quota of encumbered assets

The risk connected to the quota of encumbered assets determines:

- the reduction in the share of assets available to creditors and unsecured depositors;
- the increase in funding and liquidity risk, as the share of assets involved reduces the possibility of obtaining new secured deposits and, in the case of high-quality assets, the amount of available liquidity reserves.

The operations for which the Group normally binds part of its financial assets fall within the following categories:

- deposit with the Bank of Italy as a minimum reserve;
- transactions in derivative contracts;
- term deposits given as a guarantee to banks in syndicated transactions (iblor deposit);
- debt securities given as a guarantee to the Bank of Italy related to intraday advances;
- debt securities given as a guarantee to the European Central Bank for TLTRO operations;
- eligible receivables for collateralisation with the Bank of Italy through the ABACO program;
- assets used for securitisation transactions.

To monitor the level of exposure to this risk the Group uses the so called “asset encumbrance ratio”.

The operational management of the risk related to the portion of encumbered assets is held by the Capital Markets Directorate.

To cover this type of risk, no internal capital is allocated; however, dedicated control activities are defined by the Bank's Risk Management function. These controls take the form of weekly stress tests on the value of the assets pledged as collateral for funding operations provided by the European Central Bank and are designed to verify the potential impact of their impairment in the context of liquidity risk.

Furthermore, within the strategic planning process and definition of the Funding Plan, the Risk Management unit measures the prospective share of encumbered assets and assesses its overall level and its sustainability with respect to the market benchmark, by subjecting them also to stress tests based on the defined scenarios.

On the basis of the final evidence, it is noted that the quota of encumbered assets remains in line with the current average values of the market.

Further information is given in § 8 of this document.

1.4.3.4 Market risk

Market risk represents the risk of loss due to adverse movements in market prices (share prices, interest rates, foreign exchange rates, commodity prices, volatility of risk factors, and so on) in connection with the trading book for Supervisory purposes (position, settlement and concentration risks) and with the Bank's entire budget (exchange rate and position risk on commodities).

In 2020, the proposed investment strategy governed by 'the Portfolio Management Policy of Banca IFIS', is consistent with the risk appetite formulated in 2020 by the Board of Directors as part of the Risk Appetite Framework process and set out in the 'Group Market Risks Management Policy' and with the system of objectives and limits.

Within this process, the overall investment strategy continued to focus on the conservative "stance", consisting mainly of a bond portfolio whose main component is made up of Italian government bonds, characterized overall by high liquidity and a strategy of constant returns in the medium term.

The related assets making up this portfolio are therefore mainly valued at amortized cost or using the FVOCI method; they fall within the perimeter of the banking portfolio and therefore do not represent market risk.

In this context, the component relating to the 'trading portfolio' from which the market risk in question originates was marginal both in absolute terms of the risk values recorded and with respect to the established limits. The trading portfolio is mainly composed of optionals and futures deriving from hedging and enhancement transactions ancillary to the investment strategy for the assets in the 'banking portfolio' and the 'Principal-discretionary trading' portfolio, which takes a short-term speculative approach. There is also a capital security for residual amounts.

Within the trading portfolio, there are also residual transactions deriving from Corporate activities in which derivative contracts were offered to customers to hedge the financial risks assumed by the latter; all outstanding transactions are hedged, for the purpose of eliminating market risk, with 'back to back' transactions, in which external market counterparties have assumed an opposite position to that sold to corporate customers.

In relation to exchange rate risk, currency transactions mainly consist of:

- transactions entered into with customers normally related to typical factoring and lending activity, for which the exchange risk is mitigated from the outset by resorting to funding with the same original currency;
- transactions that are part of the typical Treasury activity for the management of mismatching between use by customers and the related currency procurement carried out on the market.

For measuring market risks in the trading portfolio for supervisory purposes and for measuring exchange rate risk, the Bank follows the methods prescribed by Regulation (EU) no. 575/2013 of 26 June 2013 - Part Three, Title IV, and Circular 285/2013 for its application in Italy, for the calculation of the relevant regulatory capital requirement.

In particular, the standardised methodology makes it possible to calculate the total capital requirement, based on the so-called "building-block approach", according to which the overall requirement is obtained as the sum of the capital requirements against the following risks:

- **position risk** which reflects the risk that arises from fluctuations in the price of securities due to market trends and the position of the issuing company. In this context, where present, the basic risk reflects the risk of losses caused by non-aligned changes in the values of opposite positions, which are similar but not identical;
- **settlement risk** which reflects the risk of loss resulting from the failure to settle transactions in debt securities, equity securities, derivative contracts, currencies and commodities;

- **concentration risk** which represents any additional capital cover required in the event of temporarily exceeding the individual credit limit as a result of risk positions relating to the trading portfolio;
- **exchange rate risk** is the risk of incurring losses due to adverse changes in the prices of foreign currencies on the positions held, regardless of the allocation portfolio (trading portfolio for supervisory purposes and trading portfolio).

At management level, the guidelines on the assumption and monitoring of market risk are set out at Group level in the 'Group Market Risk Management Policy', in which, for the purposes of a more rigorous and detailed representation of process activities, the metrics for measuring and monitoring the risk in question have also been indicated.

The level of risk appetite is defined in the Risk Appetite Framework, expressed in the main investment and management strategies defined in the “The Proprietary Portfolio Management Policy of Banca IFIS”.

In particular, the measurement and evaluation of market risks is based on the different characteristics (in terms of time horizon, investment instruments, etc.) of the investment strategies of Banca IFIS's Proprietary Portfolio. Consistent with what is outlined in the document 'The Proprietary Portfolio Management Policy of Banca IFIS', which defines the strategies to be followed in terms of portfolio structure, instruments subject to operations and activities in detail.

In this context, the monitoring of the consistency of the risk profile of the Group's portfolios with the risk/return objectives is based on a system of limits (strategic and operational) that involves the combined use of various indicators. In particular, the following are defined:

- Maximum Acceptable Loss Limit;
- Maximum Negative Gross Financial Impact Limit
- VaR limit;
- Limits of sensitivity and Greeks;
- Any limits on the type of financial instruments admitted;
- Any composition limits.

Compliance with the limits assigned to each portfolio is monitored daily.

The summary management indicator used to assess exposure to the risks in question is the Value at Risk (VaR), which is a statistical measure that makes it possible to estimate the loss that could occur as a result of adverse movements in risk factors.

VaR is measured using a 99% confidence interval and a 1 day holding period; it represents the daily loss 'threshold' which, based on probabilistic assumptions, could be exceeded in only 1% of cases. The methodology used to calculate VaR is that of historical simulation. With this approach, the portfolio is revalued by applying all the changes in risk factors recorded in the previous year (256 observations). The values thus obtained are compared with the current value of the portfolio, determining the relative series of hypothetical losses or gains. The VaR corresponds to the ninety-ninth worst result among those obtained.

The VaR is also allocated to the portfolio's risk factors for monitoring purposes.

In addition to the risk indications deriving from VaR, Expected Shortfall (ES), which represents the average daily loss exceeding the VaR figure, is also used for monitoring purposes.

The forecasting capacity of the risk measurement model adopted is verified through a daily backtesting analysis that carries out a retrospective test, in which the VaR relating to the positions in the portfolio at time t-1 is compared with the P&L generated by these positions at time t.

The market risk positioning is periodically reported to the Board of Directors, within the quarterly Tableau de Bord prepared by Risk Management.

In light of the above, the potential relevance of market risks at Group level is considered to be “low”.

Further information is given in § 10of this document.

The effects of the Covid-19 pandemic, in relation to the market risk inherent in the items belonging to the trading portfolio, were characterized by limited impacts, in line with the margins and the size of this portfolio with respect to the overall portfolio owned by the Group, as established internally by the Risk Appetite Framework.

The emergence of the pandemic and the significant risk off that characterized the various asset classes during the first quarter did however determine, on the part of the department responsible for the management of the proprietary portfolio, a strategy characterized by a tendential reduction of the risk component, also through the gradual disposal of some previous positions.

The operation in question, on the other hand, revealed a management picture consistently characterized by accurate and stringent risk control, operationally expressed both through the careful use of derivative instruments with a view to hedging (economic, non-accounting) and economic enhancement of the banking book, both in a marginal allocation of liquidity relative to the trading portfolio and established in terms of potential investment.

In line with the aforementioned management strategy, despite the exceptional nature of the pandemic event, no violations of the risk thresholds assigned internally were detected during the 2020 financial year.

1.4.3.5 Credit valuation adjustment risk

This risks refers to an interim market valuation adjustment of the portfolio of transactions with a counterparty, referring to OTC derivatives. This adjustment reflects the current market value of the entity's counterparty risk but it does not reflect the current market value of the entity's credit risk in relation to the counterparty.

The credit valuation adjustment risk (CVA) insists on the same portfolio exposed to the previous counterparty risk analysed (see § 1.4.2.3); it reflects the current market value of the risk itself.

For the measurement of credit valuation adjustment risks and its internal capital, the Bank follows the method prescribed by Regulation (EU) no. 575/2013 of 26 June 2013 - Part Three, Title VI and Circular 285/2013 for its application in Italy, for the purposes of calculating the relevant regulatory capital requirement. In particular, for transactions involving derivatives, it adopts the “standardised method” (article 384 CRR) in order to measure the credit valuation adjustment risk.

In relation to both the low level of exposure of the derivative product portfolio and the low incidence of internal capital absorbed connected to the credit valuation adjustment risk (CVA) on the total internal capital absorbed on the risks, the potential relevance of the aforementioned risk at Group level is considered to be “low”.

1.4.4 Reputational and Operational Risks

1.4.4.1 Operational risk

Operational risk is the risk of losses arising from inadequate or dysfunctional procedures, human resources, internal systems or external events. The definition includes, among other things, fraud, human errors, business interruptions, unavailability of the systems, contractual defaults, and natural disaster. Different types of risks fall within the definition of operational risk and, based on their significance for the Group, are measured separately.

Objectives and management policies of operational risk

In line with legislative provisions and the best practices in the sector, the Banca Ifis Group has already defined the overall framework for the management of operational risks. This framework consists of a set of rules, procedures, human, technological and organisational resources and control activities aimed at identifying, measuring, monitoring, preventing or mitigating, as well as communicating to the appropriate hierarchical levels, the operational risks assumed or assumable in the various organisational units. The key processes for the correct management of operational risk are also represented by loss data collection (LDC) and the forward-looking self-assessment of exposure to operational risk (Risk Self-Assessment - RSA). In addition, another fundamental item of the operational risk governance and management process is represented by the adequate training of resources. Indeed, the Banca Ifis Group is constantly committed to the professional training and growth of its human resources.

The operational risk monitoring aims at ensuring a continuous control of the exposure to this type of risk and is carried out through:

- The analysis of the evidence resulting from the Risk Self-Assessment and Loss Data Collection activities; in the event that the findings should reveal significant criticalities, the appropriate remediation actions are identified, shared and subsequently planned with the various responsible operating units that are affected;
- the definition and calculation of specific risk indicators and the periodic verification of compliance with the relative monitoring thresholds (these indicators are reported quarterly in the periodic reporting to the corporate bodies or in specific reports addressed to the structures concerned).

In particular, risk indicators are characterised by the following:

- the presence of alert/alarm thresholds;
- being comparable with historical time series.

Considering the development of the business and the internal and external operating context in which the Group operates, the indicators are subject to a periodical update/review in order to identify any changes in the risk scope.

In the first half of 2020 the periodic Risk Self Assessment campaign launched in the last quarter of 2019 was completed and included the scope in place at the end of the year with the exception of the subsidiary Ifis NPL Servicing S.p.A. (formerly Fbs S.p.A.). Following the campaign, the main operational issues were identified and consequently specific mitigation measures were defined and launched aimed at further strengthening the safeguards against operational risks.

In the same period, the Model Risk Self Assessment campaign was also completed, conducted considering the organizational units as Model Owners present at the Parent Company and at the Subsidiary Ifis NPL, as the responsibility for the development and maintenance of the models is attributed to the Parent Company's Risk Management. Following the campaign, the models most

exposed to risk were identified and reported to the Validation department for the definition of appropriate mitigation actions.

These measures are continuously monitored and disclosed in periodic reports that are shared with the competent structures and bodies: events such as the breach of certain thresholds or the emergence of anomalies trigger specific escalation processes aimed at defining and implementing appropriate mitigation actions. These indicators are continuously monitored and disclosed in periodic reports that are shared with the competent structures and bodies: events such as the breach of certain thresholds or the emergence of anomalies trigger specific escalation processes aimed at defining and implementing appropriate mitigation actions.

Moreover, in order to prevent and manage operational risk, the Parent's Risk Management, working together with other business functions, assesses the outsourcing of operational functions as well as the risks associated with the introduction of new products and services. Finally, it helps monitor IT risk as well as the effectiveness of the measures intended to protect ICT resources.

Concerning the Companies of the Banca Ifis Group, please note that currently the management of operational risks is guaranteed by the strong involvement of the Parent Company, which makes decisions in terms of strategies and risk management.

For the purposes of determining the capital requirement for operational risks, the Group has adopted the so-called Basic Method set out by prudential regulations.

The operational risk mitigation phase takes place in the form of identification and implementation measures aimed at preventing and mitigating exposure to operational risk (through corrective initiatives or adaptation of processes, systems, etc.) or risk transfer interventions (through the stipulation of insurance policies). In particular, mitigation activities are carried out for the purpose of identifying specific areas of vulnerability based on an analysis of evidence resulting from the LDC and RSA activities, or following a breach of the pre-set thresholds for risk indicators; these phases can be summarised as follows:

- review and share the proposals for corrective actions applicable to corporate processes with a significant level of operational risk;
- establish the implementation plan of the proposed interventions, identifying priorities, times and resources involved;
- rationalise and optimise the mitigation actions in terms of costs/benefits;
- verify, on an on-going basis, the progress and efficacy of the undertaken actions.

Concerning the Companies of the Banca Ifis Group, please note that currently the management of operational risks is guaranteed by the strong involvement of the Parent Company, which makes decisions in terms of strategies and risk management. and the overall management framework for operational risk has been integrated, as previously reported, in the subsidiaries. The functions which are primarily responsible for setting up adequate operational risk controls are the Organisational units, which are responsible for defining and adjusting the organisational structures and company processes over time, as well as the ICT unit, which is responsible for corrective or evolutionary interventions on the applications used. It is the responsibility of the individual operational structures to directly control operational risk (line controls); further controls are entrusted to second level control functions and in particular to the Risk Management Department which includes professionals dedicated to monitoring operational risks.

Various types of risks fall within the scope of operational risks. In this regard, the following:

- the **risk of fraud**, understood as the risk that in the performance of its activity as a financial intermediary the Business will commit unlawful acts such as alterations, counterfeiting, documentary forgery, misappropriation and/or non-delivery of goods, identity theft, carousel fraud and/or generated by collusion between parties involved in the contracts concluded for the financed products. The detection, study and analysis of the cases of fraud suffered, the evaluation of processes, the identification of weaknesses and the identification of fraud risk

mitigation measures, are ordinary and daily activities that allow the Anti-Fraud function to refine existing measures to identify the so-called 'anti-fraud red flags' (fraud risk indicators) and to create new ones if necessary. This activity is supported by the use of databases (Cerved, Crif, Assilea) and dedicated IT tools (Scipafi, fraud detection systems for payment instruments) and by the people in the teams of the functions involved (eg. Payments and E-money and Account Products, etc.) to which information is given on any cases detected. Risk mitigation is completed through the provision of specific anti-fraud training provided to the operating and non-operating structures of the group that may be involved - on a daily basis - in the fraud prevention process; particular attention is given for support in case anomalies are found that require further investigation and subsequent preventive actions, such as inclusion in the anti-fraud black list of names classified as potentially fraudulent or the blocking of the operations under evaluation.

- **IT risk**, that is the risk of current or potential loss due to the inadequacy or failure of hardware and software of technical infrastructures that could compromise the availability, integrity, accessibility and security of such infrastructures and data. IT risk analysis is a tool to ensure the effectiveness and efficiency of measures to protect ICT resources, making it possible to scale mitigation measures in the various environments according to the Group's risk profile. The model implemented provides for the use of the following components: (i) the value of the IT Service, a qualitative evaluation of the value held by an IT Service for the Group's business, calculated according to the criticality that a loss of confidentiality, integrity, availability, legality and non-repudiation assumes for that Service; (ii) susceptibility to damage, a qualitative element that represents potential exposure to threats regardless of the value of the IT Services to which they are related. With the establishment of the smart working method, following the Covid-19 pandemic, it was necessary to have greater control over this risk in order to contain potential fraudulent access to IT systems.
- the **risk of non-compliance**, that is the risk of incurring legal or administrative sanctions, significant financial losses or reputational damage as a result of violations of mandatory rules (of law or regulations) or of self-regulation. In this regard, the Group has adopted a qualitative methodology for assessing this risk, which specifically includes: i) the performance of compliance checks, according to a risk-based approach, which enables to assess the completeness and adequacy of the processes as well as the functionality and reliability of the safeguards put in place in order to guarantee the correct management of the risk of non-compliance; ii) the performance of continuous checks by which the effectiveness of the safeguards in place is tested; iii) updates to the continuous controls map, which are made in order to include additional controls aimed at examining the identified and/or requested controls as part of their own verifications. The Compliance function, in accordance with a risk-based approach, supervises the management of the risk of non-compliance with regard to the entire activity of the Group;
- the **risk of money laundering and terrorist financing**, i.e. the current or prospective risk of losses resulting from the repercussions, including reputational ones, of money laundering and terrorist financing activities. In this regard, the Group carries out a risk self-assessment exercise in line with the 15 of Legislative Decree 231/2007 and with the *'Provisions on the organisation, procedures and internal controls aimed at preventing the use of intermediaries for money laundering and terrorist financing'* issued by the Bank of Italy on 27 March 2019. This self-assessment exercise is based on a qualitative-quantitative methodology aimed at identifying the potential level of risk exposure as well as measuring the vulnerability of the existing safeguard systems. The drivers used to assess the impact of the risk of money laundering and terrorist financing belong to the following categories: customers, products and services, transactions and distribution channels. Specific risk factors are identified for each driver, individually measured in terms of frequency and impact for each operating unit of the Group. The Anti-money laundering function is responsible for managing the risk of money laundering and terrorism financing on behalf of the Group.
- the **risk of incorrect financial reporting**, understood as a voluntary or involuntary action potentially generating errors in the Group's financial statements. The internally developed assessment process is inspired by the principles and guidelines defined by the Internal Control

- Integrated Framework issued by the Committee of Sponsoring Organisations of the Treadway Commission (known as CoSO) and by the Control Objectives for Information and related Technology (known like CobiT), considered as reference models accepted internationally. The analyses carried out seek to identify and mitigate the main risks to which the company is exposed in the execution of the relevant transactions which generate the information contained in the financial statements and in general in any other information of a financial nature. The Financial Reporting and Monitoring function is responsible for the setting up and monitoring of adequate safeguards.

Risks relating to IT, non-compliance, money-laundering and terrorism financing, incorrect financial reporting, are assessed and represented separately through dedicated qualitative assessments, defined by the respective competent units. With regard to fraud risk, this is assessed within the broader operational risk management process; however, given the peculiarity of this risk as described above, dedicated prevention and detection activities are provided for within the Bank’s Risk Management function.

With reference to the measurement of capital requirements for operational risk, and having considered its own characteristics in terms of operations and size, the Banking Group adopts the “basic approach”, governed by Regulation (EU) no. 575/2013 of 26 June 2013 - Part Three, Title III and by Circular 285/2013 for its application in Italy for the purpose of calculating the regulatory capital requirement. In particular, it calculates the mandatory minimum capital requirement for operational risks by using the Basic Indicator Approach (BIA). This method quantifies capital absorption to the amount of 15% of the average of the last three financial years of 'relevant indicator' values referred to in Art. 316 Regulation (EU) no. 575/2013 of 26 June 2013, which is representative of the company operating volumes.

Further information is given in § 11of this document.

With reference to the impacts deriving from the Covid-19 emergency, the operational and reputation risk management strategies have undergone changes both as a result of specific requests by the regulator, and to recalibrate the internal control system in order to make the monitoring activities more responsive to the changed methods of carrying out some business activities following the restrictions imposed. Specifically, dedicated initiatives have been implemented to minimize the impacts on the ordinary performance of operations as well as to reduce the risk of interruption or deterioration of the quality of customer services. To this end, the methods for carrying out monitoring and reporting activities in the Loss Data Collection areas (including the impacts on the Bank's information systems) and disputes were reviewed and integrated. For both areas, the scope of the analysis was contained and the scope of application of the same was made more in-depth by taking into account and providing specific disclosure of the consequences deriving from the health emergency in terms of operational losses and complaints received.
In addition, steps were taken to significantly increase the frequency of carrying out the surveys and sharing the results. The periodical monitoring has in fact passed from quarterly to fortnightly, making it possible to intervene in a timely manner with specific mitigation actions in the presence of particular critical situations linked to the current emergency period.
With reference to the Non-Performing Loans sector, in particular the non-judicial debt collection methods, during the health emergency period the collection activities via phone collection were strengthened due to the temporary suspension of door-to-door activities of the agent network. Specific Key Risk Indicators have been defined to monitor compliance with the maximum threshold of customers / debtors entrusted for each single recovery agent. Following the pandemic, this threshold was raised in consideration of the fact that the monthly charges entrusted to the officials of the internal network were integrated with positions for which it was possible to proceed with phone collection, leaving those pending (without termination) for home collection.

1.4.4.2 Model Risk

It represents the possibility that there are economic and/or capital impacts resulting from the development and implementation of any model, proprietary or not, by the Group and by the improper or incorrect use of the results produced by the models used.

Objectives and model risk management policies

A model can be defined as 'a system, a quantitative methodology or an approach that applies statistical, economic, financial techniques or mathematical theories and assumptions in order to process input data and obtain quantitative estimates'[4].

A model consists of three components:

- starting information, which results in input data, hypotheses and assumptions;
- the process, through which the inputs are transformed into estimates;
- reporting, which converts the estimates into information useful for the business in question.

In the meaning of the Banca Ifis Group, model risk involves the use of internal models even if used exclusively for management purposes. In particular, by order of relevance, we refer to the models that can be used by the Bank and/or the Group for the valuation of balance sheet items, the calculation of capital requirements and the parameters related to the quantification of the liquidity position for strategic plans and business plans.

Model risk exposure is achieved by conducting Model Risk Self Assessment (MRSA) activities aimed to:

- identify the risk drivers, that is, the elements of the model and the operating environment that could generate model risk for the Group;
- assess the impact of these risk drivers;
- identify and evaluate safeguards to prevent the occurrence of identified threats.

To cover this type of risk, no internal capital is allocated, however dedicated controls are defined, carried out by the Validation function, for which the Chief Risk Officer is responsible.

1.4.4.3 Reputational Risk

This is the current or prospective risk of a decline in profits or capital as a result of a negative perception of the Bank's reputation by customers, counterparties, Bank shareholders, investors or Supervisory Authorities.

Objectives and reputational risk management policies

Reputational risk is a transversal risk that impacts all those entities of the Group which, due to their operations, have relations with external entities. Reputational risk is considered a second-level risk, as it is generated by the occurrence of other types of risk, such as the risk of non-compliance, strategic risk and in particular, operational risks.

To assess the incidence of reputational risk, both external and internal factors that could create reputational damage to the Group and the stakeholders impacted from time to time are considered.

[4] Cf. 'Supervisory guidance on model risk management' published in 2011 by the Board of Governors of the Federal Reserve System and by the Office of the Controller of the Currencies.

The main endogenous factors include:

- operational risk events;
- the violation of external rules (laws and regulations) and self-regulation rules (codes of conduct, codes of ethics);
- the occurrence of other risks that are not adequately managed (e.g. market, liquidity, legal, strategic risks);
- ineffective or incorrect management of internal or external communication;
- behaviour of company representatives, employees or collaborators.

External factors can refer to comments and discussions in the media and on social networks, blogs, and/or other digital communication tools concerning information or opinions detrimental to the reputation of the Group or its Companies.

Various stakeholders may be affected:

- Supervisory Authorities: decline or loss of trust in/respect for the company among Supervisory Authorities due to omissions or negligence deriving from the failure to comply with legal and regulatory obligations;
- shareholders and investors: decline or loss of trust in/respect for the company among shareholders and market participants because of, for instance, perceived inability to deliver satisfactory results, conduct inconsistent with ethical standards, perceived lack of managerial integrity, etc.;
- customers: the fiduciary component inherent in the relationship with the public due, for example, to inefficiencies in operating practices or commercial forcing is affected;
- suppliers and counterparties: decline or loss of trust in/respect for the company among suppliers and counterparties;
- employees and collaborators: decline or loss of trust in/respect for the company among employees and collaborators resulting, for example, from events relating to employment law;
- local community and society: decline or loss of trust in/respect for the company among local communities and opinion makers.

The effects of the occurrence of reputational events can be:

- staff turnover and loss of personnel with a high level of know-how
- customer dissatisfaction and reduction in number;
- complaints and disputes;
- legal disputes;
- administrative/ civil/criminal penalties;
- change in the rating given by outside agencies;
- perception of rumours about the Group;
- negative articles in local, national or international media;
- posting of negative comments on social networks.

The Group has focused its reputation risk management and monitoring activities on the areas of operations that stakeholders may perceive as negative factors for assessment; specifically:

- Development dynamics and characteristics of online collection represent a high reputational risk in terms of retail customer deposits.
- The large number of borrowers related to operations in the Distressed Retail Loans segment and the involvement of parties outside the Group for recovery activities are potentially relevant factors in terms of reputation.
- In addition, the Leasing segment uses a network of external agents for business development, which may also harm the Group's reputation.
- Finally, this risk is also of particular importance in relation to banking counterparties as sources of financing, even if effectively mitigated by the development of direct operating relations and the

professional nature of the counterparties in question, as well as by the Bank's growing diversification of sources of funding.

The Group has defined and adopted an overall framework for the governance and management of the reputational risk, divided into the following phases:

- identification of the threats to reputation which affect the operations carried out by the Group;
- assessment and monitoring of exposure to reputational risk by: (i) conducting a periodic risk self-assessment exercise; (ii) defining and calculating specific risk indicators as well as checking compliance with their monitoring thresholds; (iii) the audit, in the context of the Loss Data Collection activity of the operational risk management process, of any reputational effects resulting from operational risk events;
- reputational risk mitigation through the identification and execution of corrective interventions or adjustments aimed at preventing and mitigating exposure to reputational risk;
- implementation of periodical information flows aimed at collecting and reporting any evidence resulting from the activities provided for by the reputational risk management process.

In particular, the Risk Self-Assessment methodology in terms of reputational risk is based on the identification of the list of threats to reputation, starting from the operational risks present in the RSA; these threats are then evaluated at individual organisational unit level, in order to trace:

- the reputational impact, that is the reputational consequences that may occur;
- the frequency, intended in terms of number of probabilities that the potential threat to reputation actually occurs;
- current checks or the level of mitigation present.

The assessment process leads to a summary judgement related to reputational risk expressed on an ordinal scale. Internal capital is not allocated to cover this type of risk.

As in the case of operational risk, the Parent's Risk Management is responsible for managing reputational risk: it defines the Group's overall framework-in accordance with the relevant regulations as well as industry best practices—for the management of reputational risk, with the goal of identifying, assessing, and monitoring the reputational risks that the Group's Companies or organisational units assume or may assume. The framework involves collecting reputational risk events as they occur, conducting a forward-looking reputational Risk Self Assessment, and monitoring a set of risk measures over time.

It should be noted that during the first half of 2020 the periodic Risk Self Assessment campaign, launched in the last quarter of 2019, was completed. Following the campaign, in conjunction with what was carried out in the operational risk area, the areas most exposed to reputational risk were identified and consequently specific mitigation measures were defined and launched aimed at further strengthening the safeguards already in place.

1.4.5 Other risk areas

1.4.5.1 Strategic Risk

It is the current or future risk of a decline in profits or capital as a result of changes in the operating context or inappropriate management decisions, inadequate implementation of decisions or lack of responsiveness to changes in the competitive environment.

Objectives and strategic risk management policies

Strategic risk is of particular importance in the process of assessing the sustainability of the Group's business model; it is considered a significant risk.

As specified in the document "Group Policy for Strategic Planning", the definition of the Group's overall business model and the identification of business strategies are the responsibility of the Board of Directors and the Chief Executive Officer of the Parent Company.

Following a process of sharing with the General Manager and the Heads of the various operating units, Strategic Planning prepared the budget for 2021 containing the strategic objectives defined by the Board of Directors, and assesses the risks and sustainability in terms of capital resources. In addition, the Board of Directors assessed the implementation risk, that is the degree of vulnerability of the corporate strategy and of the Group's capital position.

Strategic risk management is therefore the responsibility of the Management and Strategic Supervisory Bodies of the Parent Company. The Strategic Supervisory Body of each individual Group company, as part of the Group's strategic planning process, having made the appropriate assessments for the best protection of the company's interests and within the scope of the prescriptions received, implements the Group Strategic Plan and the Group business model, with particular reference to the component for which it is responsible.

The Parent Company's Risk Management function supports the corporate bodies in assessing the sustainability of business strategies and the impact of strategic risk through appropriate safeguards, such as:

- monitoring the objectives set out by the strategic plan, which regularly updates the development guidelines in relation to the progress of management;
- the ongoing verification of the capital sustainability of the strategic plan, through the monitoring of strategic indicators and the related thresholds for risk appetite, risk tolerance, alert thresholds and risk capacity;
- verification of the profitability at risk of the capital invested.

The verification and the quarterly reporting of the company positioning with reference to the identified indicators is integrated in the periodic reporting system for top management (Tableau de Bord).

This type of risk is difficult to quantify and, due to its qualitative nature, is one of the non-measurable risks.

1.4.5.2 Risk of excessive leverage

Risk that a particularly high level of indebtedness in relation to the Group's capital endowment will make it vulnerable, so that it needs to adopt corrective measures to its business plan, including the sale of assets with the recording of losses that could lead to adjustments to the value of the remaining assets.

The risk of excessive leverage has a cross-cutting impact on the Group and the assessment of the impact of this risk is purely qualitative.

Excessive financial leverage risk impacts the Group across the board and the assessment of the incidence of this risk is purely qualitative. Risk is monitored quarterly by calculating the leverage ratio in line with the regulatory indicator and calculated as the ratio between Tier 1 capital and a measure of overall exposure including on-balance sheet and off-balance sheet items not deducted.

The risk of financial leverage is included in the RAF and therefore is subject to the procedures and control mechanisms included therein. The Leverage Ratio is one of the Key Risk Indicators monitored within the RAF for the year 2020; during 2020 it was approximately three times higher than the minimum EBA value of 3% coinciding with the Risk Capacity defined in the RAF.

The potential relevance of the financial leverage risk at Group level is assessed as “low”.

Further information is given in § 16of this document.

1.4.6 Monitoring and Reporting

Monitoring the risk objectives aims at identifying any criticality of the moments of corporate planning and management of the risks and is preparatory to the implementation of corrective and realignment actions, in compliance with the general principles of sound and prudent management.

This activity is managed by the Risk Management department that has the task of ensuring protection and the integrated management of risks by ensuring the development and improvement of measurement methods and models.

The Risk Management function, assisted by specialist organisational units and other organisational control units, produces periodic reports to the Bodies and business units in order to allow verification of the consistency between the implementation of the RAF, the strategic objectives and the approved thresholds (see the section on reporting flows).

Relevant update documents, among others, are drawn up annually: (i) to determine the Group's risk appetite (Risk Appetite Framework - RAF); (ii) to assess the capital adequacy (Internal Capital Adequacy Assessment Process - ICAAP) and liquidity (Internal Liquidity Adequacy Assessment Process - ILAAP); (iii) for the emergency plan to deal with contingency funding and for promptly covering liquidity shortfalls (Contingency Funding and Recovery Plan - CFRP).

The Group Recovery Plan was also drafted in 2019, a document containing the preparatory measures aimed at preventing and promptly resolving any crisis situations; it describes the ways in which the Group intends to restore a condition of capital and financial balance in when it is near to default. Upon communication from the Bank of Italy on 25 January 2021, pursuant to Articles 5 and 6 of the Bank of Italy Provision of 1 September 2020, Banca Ifis Group is required to send the regulator the update of this document in ordinary form by 30 April 2021.

In March, the Risk Management function helped with the annual update of the operational plan for the management of short, medium and long term NPLs, subsequently approved by the Board of Directors and sent to the Bank of Italy, which described the management strategies for reducing the stock of impaired loans and the actions to be taken to achieve the reduction targets set for the three years 2020-2022 for the main sectors in which the Group operates.

In addition, on a quarterly basis, the Risk Management function prepares suitable reports for the Board of Directors (Tableau de Bord), which enables monitoring not only of strategic indicators but also of management risk indicators. Lastly, a detailed periodic report is also prepared to support the Group's business structures.

1.5 Governance system (Art. 435 co.2)

The Articles of Association provide that the Company shall be administered by a Board of Directors consisting of a minimum of five to a maximum of fifteen members elected by the Shareholders' Meeting whose term of office shall not exceed three financial years, established at the time of appointment, and shall expire on the date of the Shareholders' Meeting called to approve the financial statements for the last financial year of their office. Directors are appointed based on the mechanism of voting lists by the shareholders' assembly, in compliance with the applicable legal and regulatory provisions and with the composition criteria that relate to the presence of minority and independent directors, and with respect for gender balance.

To encourage the nomination of the best candidates for the renewal of the Administrative Body, in support of members and in compliance with the Vigilance Provisions for banks in matters of Corporate Governance, the Board of Directors identifies in advance what it deems to be its optimal composition, in terms of numbers and quality, identifying and justifying the theoretical profile of candidates. The analyses carried out, reported in the document 'Optimal qualitative and quantitative composition of the Board of Directors of Banca Ifis', are published on the Bank's website.

At the Shareholders' Meeting held on 19 March 2019, the shareholders appointed the Board of Directors in office for the three years 2019-2021 electing 12 directors, respecting the qualitative-quantitative composition of the Board adequate in terms of gender diversity (the number of female directors increased from 3 to 4 compared to the previous term of office) and the role assigned to directors (the number of independent directors increased from 4 to 7); as well as adequate to the complexity and work of the Board and in line with current guidelines that prefer a excessively large composition of the Board and with a degree of diversity adequate to allow directors to make an effective contribution to the activities of the Board.

The Board, with the support of the Appointments Committee, in compliance with the Supervisory Instructions for Banks (Title II, Chapter 2, Sections I and II) on 9 May 2019, within thirty days of the appointment, verified that each of its members met the requirements of professionalism and good repute set out in articles 1, 3, 4 and 5 of Italian Legislative Decree 161/98, the non-existence of the causes of suspension referred to in art. 6 of the same Legislative Decree 161/98 as well as the absence of appointments in competing companies or groups of companies. In accordance with the provisions of the Italian Stock Exchange's Corporate Governance Code, it also carried out the necessary checks regarding the possession of independence requirements.

The Board verifies the continuation of the above requirements on an annual basis, near the start of the self-assessment process provided for by the Circular of the Bank of Italy no. 285/2013 (Title IV, Chapter 1). This process also aims to verify the correct and effective functioning of the body and its adequate composition, by identifying the main weaknesses, promoting discussion within the Body and defining corrective actions to be adopted, as well as strengthening cooperation and trust between the individual members.

Further information on the selection process of Board members, the number of directorships assigned to the members of the Management Board and further information on the *governance* is provided in the 'Report on Corporate Governance and Ownership Structure for 2020'.

In accordance with the provisions of Circular 285/2013 and the Corporate Governance Code, the Board of Directors set up its own Control and Risks Committee composed of four of the nine members of the Board of Directors chosen from among the non-executive directors, who are all independent.

In 2020, the Committee met 21 times, five of which were jointly with the Board of Statutory Auditors. From the beginning of 2020 until the date of approval of this document, the Committee met six times, two of which jointly with the Board of Statutory Auditors. The Risk Management and Internal Control Committee is responsible for supporting the Board of Directors in making assessments and decisions concerning the internal control and risk system, the approval of periodic financial and non-financial

reports and to support the Board in the analysis of the issues relevant to the generation of long-term value with a view to sustainable success. With particular reference to the tasks relating to managing and controlling risks, the Committee acts as support to the body with strategic supervisory function:

- in the definition and approval of strategic risk governance guidelines and policies. As part of the RAF, the Risk Management and Internal Control Committee carries out the evaluation and proposal activities necessary for the Board of Directors to define and approve the risk objectives and the tolerance threshold;
- in the verification of the correct implementation of strategies, risk management policies and the RAF;
- in defining the evaluation policies of business activities, including verifying that the price and terms of transactions with customers are in line with the business model and risk strategies.

The information flow on risks for the Board of Directors is identified by means of a specific internal regulation and mainly consists in documents prepared by the control functions concerning the planning of activities and the related reporting (annual reports and quarterly Tableaux de Bord, subsequently submitted to the Bank of Italy) as well as other verifications required by the legislation in force (reports on relevant risks undertaken by the Group, disclosure on checks concerning governance and management of liquidity risk, report on important operating functions outsourced, RAF, ICAAP and ILAAP reports, Recovery Plan, etc.).

In its capacity as the Parent Company, Banca Ifis is responsible for ensuring, through management and coordination activities, the overall consistency of the Group structures, and for verifying compliance by the subsidiaries with the provisions set out for the implementation of instructions of general and specific natures, issued by the Bank of Italy, in the interest of Group stability, specifically in relation to the supervisory reporting and regulation of corporate governance.

In compliance with this principle, Banca Ifis Board of Directors expresses its opinion on remuneration and on the appointment of members of the corporate bodies of the subsidiaries. Based on the principle of corporate simplification pursued by the Bank, and in consideration of the fact that these bodies are required to operate within the management and coordination of the Parent Company, most of the people present within the bodies are a direct expression of the management and business of Banca Ifis; in this way, the immediate integration into the business segments in which the Group is involved is ensured as well as compliance with management instructions for the coordination of the Parent Company.

2. Scope of application (Art. 436 CRR)

The disclosure requirements set out in this document apply to Banca Ifis S.p.A., Parent company of the Banca Ifis Banking Group, enrolled in the Register of Banking Groups

The area of consolidation for the purposes of the budget is defined on the basis of the international accounting standards (IAS/IFRS) and more in particular by the IFRS 10, while the article 19 of the CRR provides for the inclusion for the purposes of prudential strengthening of the Holding Company of the banking group that is not consolidated in net equity.

For prudential purposes, consolidation policies provided for by the Bank of Italy's Circular no. 285 of 17 December 2013 (and subsequent updates) - 'Supervisory Provisions for Banks' were adopted. In particular, the line-by-line consolidation was adopted for the banking, financial and instrumental companies belonging to the banking group.

The structure of the Banca Ifis Group as at 31 December 2020 is as follows:

Table 1 - Main information about Group companies

Company name	Sector	Location	Shareholding relationship			Voting rights
			Type of relationship (*)	Held by Share	Share %	
La Scogliera S.p.A.	Operating financial holding company	Mestre (Italy)	X	X	X	X
Banca IFIS S.p.A.	Banking activity	Mestre (Italy)	-	-	-	-
IFIS Finance Sp. Z.o.o.	Financial company	Warsaw (Poland)	1	Banca IFIS S.p.A.	100%	100%
IFIS Rental Services S.r.l.	Non-financial company	Milan (Italy)	1	Banca IFIS S.p.A.	100%	100%
Ifis NPL S.p.A. (i)	Financial company	Mestre (Italy)	1	Banca IFIS S.p.A.	100%	100%
Cap.Ital.Fin. S.p.A.	Financial company	Naples	1	Banca IFIS S.p.A.	100%	100%
Credifarma S.p.A.	Financial company	Rome	1	Banca IFIS S.p.A.	70%	70%
Ifis NPL Servicing S.p.A. (formerly Fbs S.p.A.) (ii)	Financial company	Milan (Italy)	1	Banca IFIS S.p.A.	100%	100%
Ifis Real Estate S.p.A. (formerly Fbs Real Estate S.p.A.)	Non-financial company	Milan (Italy)	1	Ifis NPL Servicing S.p.A. (formerly Fbs S.p.A.) (ii)	100%	100%
Gemini S.p.A. (iii)	Financial company	Mestre (Italy)	1	Ifis NPL S.p.A. (i)	100%	100%
Ifis Finance IFN S.A.	Financial company	Bucharest (Romania)	1	Banca IFIS S.p.A.	99.99%	99.99%
Farbanca S.p.A.	Banking activity	Bologna	1	Banca IFIS S.p.A.	70.77%	70.77%
IFIS ABCP Programme S.r.l.	Securitisation vehicle	Conegliano (Italy)	4	Other	0%	0%
Indigo Lease S.r.l.	Securitisation vehicle	Conegliano (Italy)	4	Other	0%	0%

(i) With effect from 1 January 2021, as part of the reorganization process of the NPL Sector, the company Ifis NPL S.p.A. has been renamed Ifis NPL Investing S.p.A.
(ii) With effect from 1 January 2021, as part of the reorganization process of the NPL Sector, the company Ifis NPL Servicing S.p.A. was merged by incorporation into Ifis NPL Investing S.p.A.
(iii) With effect from 1 January 2021, as part of the reorganization process of the NPL sector, the company Gemini S.p.A. has been renamed Ifis NPL Servicing S.p.A.

(*) Type of relationship:

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

2 = dominant influence in the Annual Shareholders' Meeting

3 = agreements with other shareholders

4 = other forms of control

5 = unitary management as per art. 26, paragraph 1, of "Legislative Decree 87/92"

6 = unitary management as per art. 26, paragraph 2, of "Legislative Decree 87/92"

7 = joint control

The Group as at 31 December 2020 is made up of the parent company Banca Ifis S.p.A., the wholly owned subsidiaries Ifis Finance Sp. Z o.o., Ifis Rental Services S.r.l., Ifis NPL S.p.A., Cap.Ital.Fin. S.p.A., Ifis NPL Servicing S.p.A. (formerly Fbs S.p.A.), Ifis Real Estate S.p.A. (formerly Fbs Real Estate S.p.A.) and Gemini S.p.A., by the newly formed Ifis Finance IFN S.A. 99.99% controlled, by the 70% controlled company Credifarma S.p.A and by the newly acquired 70.77% controlled Farbanca S.p.A..

In the course of 2020, in addition to the successful acquisition of 70.77% of the shares in Farbanca, the residual 0.72% of the capital of Ifis Real Estate S.p.A. was purchased (formerly Fbs Real Estate S.p.A.), the companies Gemini S.p.A. have been established, and Ifis Finance IFN S.A. and the ownership stake in the company Elipso Finance S.r.l., which was jointly controlled at 50%, was sold.

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

Please note that there are no obstacles within the Group that might hinder the quick transfer of capital resources or funds.

3. Own Funds (Articles 437 and 492 CRR)

Qualitative information

On 1 January 2014 the new harmonised regulations for banks and investment firms contained in Regulation (EU) no. 575/2013 (Capital Requirements Regulation, CRR) and Directive 2013/36/EU (Capital Requirements Directive, CRD IV) came into force. This regulatory framework, which is the only discipline that seeks to harmonise the prudential regulations of the Member States of the European Union, was transposed into Italian law with Circular no. 285 "Prudential supervisory provisions for banks" and no. 286 "Instructions for preparing the prudential reports for banks and brokerage firms".

This regulatory framework introduced important innovations especially as regards the methods to calculate capital for regulatory purposes (so-called 'Own Funds'). 'Own funds'). To increase the capital quality of banks, preference was given to ordinary shares issued by the institution and profit reserves (so-called common equity), while stricter criteria for the eligibility of other capital instruments have been provided for and the eligibility of minority interests has been limited.

The transitional period aimed at mitigating the equity impact of the introduction of the new accounting standard IFRS9 began on 1 January 2018; for specific information of a qualitative and quantitative nature, please refer to the § 18of this document.

With the same effective date, the transitional provisions ended, which were introduced by Regulation no. 575/2013 (CRR) and were aimed at progressively mitigating the deduction from CET1 of "Deferred tax assets that are based on future profitability and not derived from temporary differences" (art. 478 CRR) and the partial recognition of minority interests (art. 480 CRR).

In the context characterized by the Covid-19 pandemic, measures have been introduced to mitigate the negative effects on the banks' own funds, contained in Regulation (EU) 2020/873 of 24 June 2020. In particular:

- the amendment to article 468 allows the sterilization of unrealized profits and losses starting from 31 December 2019 on debt instruments arising from exposures to central, regional or local authorities; the Banca Ifis Group informed the Bank of Italy on 12 November 2020 about its decision to apply the new transitional provisions starting from 31 December 2020;
- the amendment to art. 473bis extends the temporary treatment resulting from the introduction of the IFRS9 accounting standard to 31 December 2024;
- the introduction of art. 518ter provides that, in exceptional circumstances that involve serious economic disturbances to the regular functioning and integrity of the financial markets, the Authorities will limit dividend distributions. On 16 December 2020, the Bank of Italy, in line with the approach adopted by the ECB for significant banks in the eurozone, recommended that less significant Italian banks, until 30 September 2021, refrain from recognizing or paying dividends or limit their amount to no more than 15% of the cumulative profits of 2019-20 or 20 base points of the CET1 ratio (in any case, the lower of the two).
- Art 36, possibility of deducting assets in the form of software from the elements of Common Equity Tier 1.

The prudential consolidation perimeter differs from the Banking Group's perimeter in that the holding company La Scogliera SpA is included, in application of Art. 19 of the CRR, with the consequent inclusion of minority interests in the consolidated equity funds; in particular, the regulations on the computability of minority interests require that the capital required to meet the minimum regulatory requirement be the lower of the subsidiary's capital (minimum requirement % for RWA of the subsidiary) and the consolidated capital (minimum requirement % for RWA of the consolidated). The surplus between the total Own Funds and the minimum requirement can be recognised for the Group's own share, attributing the remainder to minority interests.

Quantitative information

The disclosure on the Group's own funds requirements was prepared on the basis of the formats required by the Implementing Regulation (EU) 1423/2013, in accordance with the provisions of Part Eight, Title II of Regulation (EU) 575/2013.

3.1 Main characteristics of the items constituting Own Funds

Own Funds consist of Tier 1 - T1, which in turn is made up of Common Equity Tier 1 - CET1, Additional Tier 1 - ATI, and Tier 2 - T2.

Common Equity Tier 1 - CET1 mainly includes:

- fully paid instruments and premium reserve;
- other reserves including retained earnings;
- minority interests allowed in CET1,

net of items to be deducted:

- goodwill and other intangible assets;
- deferred tax assets that are based on future profitability and do not derive from temporary differences net of the related tax liabilities.

Additional Tier 1 capital (Additional Tier 1 - AT1) includes minority interests allowed in AT1.

Total Tier 2 capital (Tier 2 - T2) includes:

- fully paid-up subordinated loans that can be recognised in Tier 2 capital;
- minority interests allowed in T2.

3.2 Composition of Own Funds at 31 December 2020

Common Equity Tier 1 - CET1 includes:

- 11.1 million Euros in fully paid-up capital instruments;
- 10.9 million Euros in share premium;
- CET1 instruments held directly for 1.4 million Euros (-);
- minority interests allowed in CET1 for 803.4 million Euros.
- other cumulated income statement items, negative for 9.8 million Euros;
- minority interests allowed in CET1 for 361.7 million Euros.
- value adjustments for prudent valuation of 1 million Euros (-) (Regulation 2016/101).

The items to be deducted from CET1 include:

- 92.7 million Euros in goodwill and other intangible assets;
- deferred tax assets that are based on future profitability and do not derive from temporary differences net of the related tax liabilities, amounting to 56.2 million Euros.

The transitional provisions impacting on CET1 (+/-) include:

- positive adjustments to provisions for expected loan losses, in accordance with IFRS9, of 11.3 million Euros (+) (Regulation 2017/2395);

Additional Tier 1 capital (Additional Tier 1 - AT1) including the minority interests for 53.1 million Euros.

Total Tier 2 capital (Tier 2 - T2) includes:

- fully paid-up subordinated loans that can be recognised in Tier 2 capital for an amount of 203.3 million Euros;
- minority interests of 71.2 million Euros.

Table 2 - Quantification of Own Funds

A	Common Equity Tier 1 - CET1 prior to the application of prudential filters	1,175,825
	of which are T1 instruments subject to transitional provisions	
B	Prudential filters of the CET1 (+/-)	-954
C.	CET 1 gross of items to be deducted and the effects of the transitional regime (A+/-B)	1,174,871
D.	Deductions from CET1	148,837
E.	Transitional regime - Impact on CET 1 (+/-), including non-controlling interests subject to transitional provisions	12,681
F.	Total primary Tier 1 capital (TIER1 -CET1) (C-D +/-E)	1,038,715
G.	Additional Tier 1 capital (Additional Tier 1 - AT1) gross of the elements to be deducted and the effects of the transitional arrangements	53,142
	of which are AT 1 instruments subject to transitional provisions	
H.	Elements to be deducted from AT1	
I.	Transitional Arrangements - Impact on AT1 (+/-), including the instruments issued by subsidiaries and included in the AT1 due to transitional provisions	
L.	Total Additional Tier 1 capital (Additional TIER1 - AT1) (G-H +/- I)	53,142
M.	Tier 2 capital (Tier2 - T2) gross of the elements to be deducted and the effects of the transitional arrangements	274,564
	of which are T2 instruments subject to transitional provisions	
N.	Items to be deducted from T2	
O.	Transitional regime - Impact on T2 (+/-), including instruments issued by subsidiaries that are given recognition in T2 pursuant to transitional provisions	
P.	Total Tier 2 capital (Tier2 - T2) (M-N +/-O	274,564
Q.	**Total own funds (F + L + P) (T)**	**1,366,421**
Q.	**Total own funds (F + L + P) (T-1)**	**1,342,069**

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3.3 Balance sheet reconciliation methodology

The information required by the methodology to reconcile the balance sheet provided for by Annex I of Commission Implementing Regulation (EU) no. 1423/2013 dated 20 December 2013 is provided below.

Table 3 - Balance Sheet Reconciliation

ASSET ITEMS	Consolidated accounting perimeter	Regulatory Perimeter	Amounts relevant to the Own Funds	Ref. Table 'Transitional model for the publication of information on own funds'
100. Intangible assets of which:	60.970	96,526	-92,672	8
Goodwill	38,798	74,427	-74,427	8
Other intangible assets	22,172	22,099	-18,245	8
110. Tax assets	381,431	387,524	-56,165	
a) current	74,255	73,741	0	
b) deferred	307,176	313,783	-56,165	10

LIABILITIES AND EQUITY AMOUNTS AT CHANGE	Consolidated accounting perimeter	Regulatory Perimeter	Amounts relevant to the Own Funds	Ref. Table "Transitional model for the publication of information on Own Funds
10. Financial liabilities measured at amortized cost - Issued securities	2,069,083	2,069,083	203,326	46
120. Valuation reserves, of which:	-19,337	-9,812	-9,812	3-9-26°
- foreign exchange differences	-8,175	-4.146	-4.146	3
- impact on overall profitability fair value measurement	-10,733	-5,456	-5,456	3-26°
- TFR discounting effect	-429	-210	-210	3-9
150. Reserves	1,320,871	789,535	801,263	2-3
160. Issue surcharges	102,491	10,894	10,894	1
170. Capital	53,811	11,085	11,085	1
180. Treasury shares (-)	-2,948	-1,437	-1,437	16
190. Equity attributable to non-controlling interests	26,270	775,447	486,059	5-34-48
220. Profit for the period	68,804	24,380	13,880	5°
TOTAL TRANSITIONAL OWN FUNDS			**1,366,421**	

3.4 Capital instruments' main features template

The information required by the capital instruments' main features template provided for by Annex II of the Commission Implementing Regulation (EU) no. 1423/2013 dated 20 December 2013 is provided below.

The capital instruments reported are all of the CET1 type, the unique identification code is not available as the shares of La Scogliera S.p.A. have no ISIN, the amount recognised in the regulatory capital and the par value of the instrument do not consider the share premium.

Table 4 - Capital instruments' main features template

1	Issuer:	LA SCOGLIERA SPA
2	Unique identification code	
3	Law applicable to the instrument	Entire instrument - Italian Law
	Regulatory treatment	
4	CRR transitional provisions	Common Equity Tier 1
5	CRR post-transitional provisions	Common Equity Tier 1
6	Admissible at the level of the individual entity /(sub-)consolidation/of the individual entity and (sub-)consolidation	Individual entity and consolidated
7	Type of instrument	Ordinary shares
8	Amount recognised in the regulatory capital (millions of Euro)	9.64812
9	Par value of the instrument (millions of Euro)	9.64812
9a	Issue price	5
9b	Redemption price	N/A
10	Accounting classification	Shareholders' Equity
11	Original issue date	N/A
12	Non-redeemable or at maturity	N/A
13	Original maturity date	N/A
14	Early redemption at the issuer's discretion subject to prior approval of the supervisory authority	N/A
15	Date of optional early redemption, date of possible early redemption and redemption amount	N/A
16	Subsequent dates for early redemption, if applicable	N/A
	Coupons and dividends	
17	Fixed or variable dividends/coupons	N/A
18	Coupon rate and any related index	N/A
19	Presence of a dividend stopper mechanism	N/A
20a	Fully discretionary, partially discretionary or mandatory (in terms of time)	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Presence of 'step up' or other repayment incentive	N/A
22	Non-cumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, event(s) that determines/determine the conversion	N/A
25	If convertible, in whole or in part	N/A
26	If convertible, conversion rate	N/A
27	If convertible, compulsory or optional conversion	N/A
28	If convertible, specify the type of instrument in which the conversion is possible	N/A
29	If convertible, specify the issuer of the instrument in which it is converted	N/A
30	Write-down mechanisms	N/A
31	In case of a write-down mechanism, event(s) that determines/determine it	N/A
32	In the event of write-down, total or partial write-down	N/A
33	In the event of write-down, permanent or temporary write-down	N/A
34	In case of temporary write-down, a description of the revaluation mechanism	N/A
35	Position in the hierarchy of subordination in the event of liquidation (specify the type of instrument ranking immediately above (senior))	N/A
36	Non-compliant characteristics of the instruments that benefit from the transitional provisions	N/A
37	If so, specify the non-compliant characteristics	N/A

3.5 Own funds disclosure template

General own funds disclosure template provided for by Annex V of the Commission Implementing Regulation (EU) no. 1423/2013 dated 20 December 2013 is provided below.

Table5 - Own funds disclosure template

	Common Equity Tier 1 capital: instruments and reserves	
1	Capital instruments and the related share premium accounts	21,979
	of which are: *ordinary shares*	21,979
2	Retained earnings	719,094
3	Accumulated other comprehensive income (and other reserves)	73,310
5	Minority interests (amounts allowed in consolidated CET1)	361,680
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	13,880
6	**Common Equity Tier 1 (CET1) before regulatory adjustments**	**1,189,943**
	Common equity Tier 1 Capital (CET1): Regulatory adjustments	
7	Additional value adjustments (negative amount)	- 954
8	Intangible assets (net of related tax liabilities) (negative amount)	- 92,672
9	empty Set in EU	
10	Deferred tax assets dependent on future profitability, excluding those arising from temporary differences (net of related tax liabilities for which the conditions of Article 38,3) are met) (negative amount)	- 56,165
12	Negative amounts resulting from the calculation of expected loss amounts	
16	Common Equity Tier 1 instruments held directly or indirectly by the entity (negative amount)	- 1,437
28	**Total regulatory adjustments to the Common Equity Tier 1 (CET1)**	**- 151,228**
29	**Common equity Tier 1 Capital (CET1)**	**1,038,715**
	Additional Tier 1 (AT1) instruments	
34	Eligible Tier 1 included in the consolidated additional Tier 1 (including minority interests not included in line 5) issued by subsidiaries and held by third parties	53,142
35	of which are: instruments issued by subsidiaries subject to progressive derecognition	-
36	**Additional Tier 1 (AT1) net of regulatory adjustments**	**53,142**
	Additional Tier 1 (AT1): regulatory adjustments	
43	**Total regulatory adjustments to Additional Tier 1 (AT1)**	
44	**Additional Tier 1 capital (AT1)**	**53,142**
45	**Tier 1 capital (T1= = CET1 + AT1)**	**1,091,857**
	Tier 2 (T2): instruments and provisions	
46	Capital instruments and the related share premium accounts	203,326
48	Eligible own funds instruments included in consolidated Tier 2 (including minority interests and additional Tier 1 instruments not included in line 5 or line 34) issued by subsidiaries and held by third parties	71,237
51	**Tier 2 (T2) capital before regulatory adjustments**	**274,563**
	Tier 2 (T2): regulatory adjustments	
57	**Total regulatory adjustments to Tier 2 capital (T2)**	
58	**Tier 2 Capital (T2)**	**274,563**
59	**Total capital1 (TC = T1 + T2)**	**1,366,421**
60	**Total risk-weighted assets**	**9,203,971**
	Ratios and capital buffers	
61	Common Equity Tier 1 (as a percentage of the total risk exposure amount)[1]	11.29%

62	Tier 1 capital (as a percentage of the total risk exposure amount)[1]	11.86%
63	Total capital (as a percentage of the total risk exposure amount)[1]	14.85%
64	Requirement of the institution's specific capital buffer (requirement for the Common Equity Tier 1 in accordance with article 92 (1) (a), requirements of capital conservation buffer, countercyclical capital buffer, systemic risk capital buffer and systemic entities capital buffer (as a percentage of the risk exposure amount)	644,278
65	of which are: requirement of capital conservation buffer	230,099
68	Common Equity Tier 1 capital available for buffers (as a percentage of the risk exposure amount) (L)	4.29%
	Amounts below the deduction thresholds (before risk-weighting)	
72	Capital of financial sector entities held directly or indirectly, when the institution does not have a significant investment in those entities (amounts below the threshold of 10% and net of eligible short positions)	8
73	Capital of financial sector entities held directly or indirectly, when the institution has a significant investment in those entities (amounts below the threshold of 10% and net of eligible short positions)	7,271
75	Deferred tax assets arising from temporary differences (amount below the 10% threshold, net of the related tax liabilities where the conditions in Article 38, paragraph 3 are met)	-

3.6 Evolution of Own Funds

Below is the information relating to the evolution of Own Funds from the beginning of the period (01.01.2020) to the end of the period (31.12.2020) through the changes that occurred in the aforementioned analysis period.

The 24.3 million Euro increase in Own Funds compared to 31 December 2019 was largely attributable to:

- the inclusion of the profit for the year ended 31 December 2020 attributable to the Group calculated for regulatory purposes, net of the estimated dividend, for a total of 13.9 million Euros;
- the deduction from CET1 of 100% 'Deferred tax assets that are based on future profitability and do not derive from temporary differences', for an amount of 56.2 million Euros compared to 103.8 million Euros deducted at 31 December 2019. In this regard it should be noted that this deduction will however be progressively absorbed by the future use of these deferred tax assets;
- the remainder referred to the positive change in reserves, including changes in shareholders' equity generated by the Companies not included in the Banking Group's scope and attributable to the Group;
- the lower deduction of the negative components relating to investments in software, deriving from the application of the prudential amortization instead of the accounting one, as granted by the EU Regulation 2176/2020, which the Banca Ifis Group has decided to use;
- the positive change in Own Funds was, however, partially offset by the lower computability of minority shareholdings (art. 84 CRR), for an amount of € 52.2 million, based on the decline in risk-weighted assets and the related excess capital.

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Table 6 - Evolution of Own Funds	01/01/2020 31/12/2020
Common Equity Tier 1	
Beginning of the period	
Instruments and reserves (A)	
1. Equity (B)	-
2. Own emission reserves and surcharges	34,102
3. Accumulated other comprehensive income, of which: (C)	- 8,274
3.1. Revaluation reserves of net actuarial losses and exchange differences on goodwill	- 150
3.2 CRR: reserves of cash flow hedges, foreign exchange differences, unrealised profits/losses; etc.	- 8,124
4. Profit for the period (net of minority interests, charitable sums and Group foreseeable dividends) (D)	- 12,257
5. Eligible minority interests (E)	- 46,389
Regulatory adjustments	
11. Capital instruments held directly or indirectly, of which:	
12. Goodwill	744
13. Other intangible assets	3,043
14. CRR: deferred tax assets based on future profitability excluding those arising from temporary differences	47,649
20. Other transitional adjustments, of which:	11,232
20.1 Transitional adjustment associated with IAS 19 (I)	
20.2 CRR: Regulatory adjustments relating to unrealized profits and losses (J)	
20.3 CRR: Transitional adjustment related to deferred tax assets based on future profitability, excluding those arising from temporary differences	
End of the period	
Additional Tier 1	
Beginning of the period	
Instruments	
22. Recognisable instruments, including instruments issued by subsidiaries (L)	- 2,517
Regulatory adjustments	
End of the period	
Tier 2 capital	
Beginning of the period	
25. Recognisable subordinated instruments and loans (M)	- 2,981
29.2 CRR: Transitional adjustment relating to unrealized profits on AFS securities subject to additional national filter (R)	
End of the period	
Total Own Funds at the end of the period	
Own funds 31/12/2019	1,342,069
Variations	24,352
Total	1,366,421
Own funds 31/12/2020	1,366,421

4. Capital requirements (Art. 438 CRR)

Through the "Supervisory provisions for banks" (Circular no. 285/13), the Supervisory Authority governs the self-assessment process on capital adequacy carried out by the banks (ICAAP - Internal Capital Adequacy Assessment Process). In particular, Pillar 2 governs the prudential control process, organizing it into two integrated phases.

With the first phase intermediaries are required to carry out an independent assessment of their capital adequacy, current and future, in relation to the risks to which they are exposed and their own strategic choices.

The second phase (SREP - Supervisory Review and Evaluation Process), carried out by the Supervisory Board, requires a review of this self-assessment process and the provision of an overall judgement on the intermediaries.

Please note that the Bank of Italy, following the Supervisory Review and Evaluation Process (SREP) concerning the capitalisation targets of the system's largest intermediaries, required the Banca Ifis Group to meet the following consolidated capital requirements in 2020 including a 2.5% capital conservation buffer:

- CET 1 capital ratio of 8.12% and binding to the extent of 5.62%
- tier 1 capital ratio of 10.0% and binding to the extent of 7.5%
- total capital ratio of 12.5%, binding to the extent of 10%.

In compliance with the principle of proportionality, and in consideration of the consolidated asset, the Group is in the category of Class 2 intermediaries. By virtue of the above and in line with its operational characteristics, the Banca Ifis Group determines the overall internal capital by adopting simplified methods on the quantification of the requirement for the risks of Pillar I and II and subsequent aggregation of the same (building block approach). Internal capital adequacy means the internal capital referred to all the relevant risks assumed and which the intermediary considers necessary to cover the losses exceeding an expected given level, including the possible requirements of internal capital due to considerations of a strategic nature.

Below is a summary table showing the methodology used to measure internal capital given the individual quantifiable Pillar I and Pillar II risks.

Table 7 - Methods used to measure internal capital

CATEGORY	TYPE OF RISK	METHODOLOGY
FIRST PILLAR RISKS	**Credit risk**	Standardised Approach
	Counterparty Risk	Mark to Market Method
	Market Risk	Standardised Approach
	Operational Risk	Basic Method (BIA)
SECOND PILLAR RISKS	**Concentration risk**	GA - Granularity Adjustment approach (Annex B, Title III, Circ. 285/13) ABI method to estimate the Geo-sector Concentration Risk
	Interest Rate Risk	Simplified Method (Annex C, Title III, Circ. 285/13)

With regard to unquantifiable risks, on the other hand, the Banca Ifis Group has implemented appropriate internal control and mitigation measures, in compliance with the guidelines provided for by

Bank of Italy in the above-mentioned legislation. As part of the measurement activities, stress tests are also defined and performed in terms of simplified sensitivity analysis on the main risks taken.

In the context of a progressive adaptation to international standards for liquidity risk measuring and monitoring (Basel 3), the short term indicator, the Liquidity Coverage Ratio (LCR), and the structural indicator, the Net Stable Funding Ratio (NSFR), were measured.

The prospective level is determined on an annual basis - during preparation of the ICAAP report - with reference to the end of the current period, taking into account the foreseeable development of the scope of application, the risks of the Group and operations. Any further assessments of the overall internal capital are also performed during the period in relation to any new or extraordinary events.

In order to prospectively assess the level of internal capital adequacy, the Banca Ifis Group:

- uses the industrial Plan, adequately detailing it with respect to the need for assessment of the risks;
- identifies the parameters that affect the incidence of risk, also anticipating its future evolution also in view of the expected trends of the relevant market;
- defines the estimates of evolution of the risk factors consistent with their economic and strategic scenarios;
- verifies the forecasts on the basis of multi-annual planning;
- carries out an estimate of the evolution of the accounting items that constitute the identified capital base;
- also considers any needs of a strategic nature.

To cover the current and prospective total internal capital, the Banca Ifis Group uses a definition of total capital that coincides with that of regulatory own funds, assessed prospectively as part of the Group's strategic planning.

A brief overview of the measurements developed during the quantification of the internal capital absorbed by Pillar I follows.

Internal capital against credit risk at 31/12/2020 amounted to 660,985 thousand Euros, while internal capital against counterparty risk was 800 thousand Euros.

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Table 8 - Credit and counterparty risk: capital requirement for each of the regulatory classes

Regulatory classes	CREDIT RISK		COUNTERPARTY RISK	
	Risk Weighted assets (*RWA*)	Capital requirement	Risk Weighted assets (*RWA*)	Capital requirement
Exposures to central governments or central banks	237,462	18,997		
Exposures to regional governments or local authorities	8,267	661		
Exposures to public sector bodies	197,458	15,797		
Exposures to institutions	122,221	9,778	2,885	231
Exposures to corporations	3,529,686	282,375	7,076	565
Retail exposures	1,016,827	81,346		
Exposures secured by mortgages on immovable property	77,903	6,232		
Exposures in default	2,210,687	176,855	45	4
Exposures associated with particularly high risk	134,510	10,761		
Exposures in the form of units or shares in UCIs	54,845	4,387		
Exposures in equity	231,134	18,491		
Other items	362,246	28,980		
Securitisation programmes	79,061	6,325		
High risk	-	-		
CAPITAL REQUIREMENT IN RELATION TO CREDIT AND COUNTERPARTY RISK (T)	**8,262,307**	**660,985**	**10,006**	**800**
CAPITAL REQUIREMENT IN RELATION TO CREDIT AND COUNTERPARTY RISK (T-1)	**8,202,293**	**656,183**	**18,266**	**1,461**

Internal capital against market risk as at 31/12/2020 is € 4,606 thousand.

Table 9 - Market risk: capital requirement for assets included in the trading book for supervisory purposes and for the entire financial statements

Risk type	Risk-weighted asset (RWA)	Capital requirement
Position risk (Trading Book)	5,381	431
Settlement risk (Trading Book)		
Commodities risk		
Currency risk	52,191	4,175
CAPITAL REQUIREMENT IN RELATION TO MARKET RISK	**57,572**	**4,606**
CAPITAL REQUIREMENT IN RELATION TO MARKET RISK (T-1)	**86,085**	**6,887**

The internal capital in relation to the credit valuation adjustment risk at 31/12/2020 amounted to 351 thousand Euro.

Table 10 - Capital requirement in relation to the credit valuation adjustment risk (CVA)

Risk type	*Risk-weighted asset (RWA)*	*Capital requirement*
CVA risk	*4,386*	*351*
CAPITAL REQUIREMENT IN RELATION TO CVA RISK (T)	**4,386**	**351**
CAPITAL REQUIREMENT IN RELATION TO CVA RISK (T-1)	**10,194**	**816**

Internal capital for operational risk as at 31/12/2020 is 69,576 thousand euros.

Table 11 - Capital requirement in relation to operational risk

Relevant Indicator December -2	459,937
Relevant Indicator December -1	475,702
Relevant Indicator December	455,877
Average relevant indicator of the last 3 years	463,839
OPERATIONAL RISK CAPITAL REQUIREMENT (T)	**69,576**
OPERATIONAL RISK CAPITAL REQUIREMENT (T-1)	71,145

The following table shows the capital ratios at 31 December 2020 in comparison with those at 31 December 2019.

Table 12 - Capital ratios	31/12/2020	31/12/2019
Common Equity Tier 1 (CET1)	1,038,715	1,008,865
Tier 1 capital	1,091,857	1,064,524
Total Equity Funds	1,366,421	1,342,069
Total risk-weighted assets	9,203,971	9,206,155
Common Equity Tier 1 Ratio	**11.29%**	**10.96%**
CET1 minimum requirement	8.12%	8.12%
CET1 minimum requirement surplus	291,353	261,325
RWA surplus	2,581,652	2,384,660
Tier 1 Capital Ratio	**11.86%**	**11.56%**
Minimum requirement T1	10.00%	10.00%
T1 minimum requirement surplus	171,460	143,909
RWA surplus	1,445,347	1,244,541
Total Own Funds Capital Ratio	**14.85%**	**14.58%**
Own Funds minimum requirement	12.50%	12.50%
Own Funds minimum requirement surplus	215.925	191,300
RWA surplus	1,454,430	1,312,253

As previously reported, the Bank of Italy requested the Banking Group to meet the following consolidated capital requirements in 2020, including a 2.5% capital conservation buffer:

- CET 1 capital ratio of 8.12% and binding to the extent of 5.62%
- tier 1 capital ratio of 10.0% and binding to the extent of 7.5%
- total capital ratio of 12,5%, binding at 10%.

At 31 December 2020 the Banca Ifis Banking Group meets the aforementioned prudential requirements; the capital base is adequate regarding overall exposure to risks.

5. Counterparty risk exposure (Art. 439 CRR)

Qualitative disclosure

The counterparty risk is the risk that the counterparty to a transaction involving financial instruments defaults before the final settlement of the transaction cash flows.

Counterparty risk currently relates to derivative products generated by Proprietary Finance, an Area belonging to the Capital Markets Department and responsible for identifying, implementing and creating investment strategies for the Banca Ifis Ownership Portfolio; there is also a residual portfolio of derivative products, mainly on interest rates, deriving from Corporate activities in which derivative contracts were offered to customers to cover the financial risks assumed by the latter; all outstanding transactions are covered, for the purpose of cancelling market risk, with back-to-back transactions, in which external market counterparties have assumed an opposite position to that sold to corporate customers.

Prospectively speaking, the impact on this risk is not expected to be significant in relation to the type of transactions, the nature of the counterparties and the margining systems envisaged.

With regard to counterparty risk connected to repos, its monitoring consists in a precise and constant verification of the structure and quality of the securities portfolio as the underlying risk is directly connected to the creditworthiness of the counterparties with which the collateralised financing operations are carried out (generally central counterparties such as Cassa di Compensazione e Garanzia and the European Central Bank) and is proportional to the price volatility of portfolio securities provided as a guarantee. There is only one repo transaction with central counterparty at the end of the fiscal year.

For further information on the management processes carried out by the Group, please refer to that shown in § 1.4.2.3 of this document.

Quantitative information

Table 13 - Counterparty risk - mark to market method

Regulatory asset classes	Exposure value	Value weighted	Capital requirement
Exposures to institutions	13,930	2,885	231
Exposures to companies and other subjects	7,076	7,076	565
Exposures in default	45	45	4
Total	**21,051**	**10,006**	**800**

Table 14 - Financial derivatives

Type of underlying asset	Notional value	Positive gross fair value gross of compensation agreements	Positive fair value net of compensation agreements	Real guarantees received	Positive fair value net of compensation and guarantee agreements	Method market value Future exposure	Method market value EAD
Trading portfolio for supervisory purposes	**172,665**	**19,250**	**19,250**	**-**	**19,250**	**1,801**	**21,051**
- Derivative contracts on debt securities and interest rates	152,435	18,193	18,193	-	18,193	502	18,695
- Derivative contracts on equity instruments and equity indices	20,230	-	-	-	-	1,299	1,299
- Derivative contracts on exchange rates and gold		1,057	1,057	-	1,057		1,057
- Derivative contracts on other values	-	-	-	-	-	-	-
Banking portfolio - Hedging derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Derivative contracts on debt securities and interest rates	-	-	-	-	-	-	-
- Derivative contracts on equity instruments and equity indices	-	-	-	-	-	-	-
- Derivative contracts on exchange rates and gold	-	-	-	-	-	-	-
- Derivative contracts on other values	-	-	-	-	-	-	-
Banking portfolio - Other derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Derivative contracts on debt securities and interest rates	-	-	-	-	-	-	-
- Derivative contracts on equity instruments and equity indices	-	-	-	-	-	-	-
- Derivative contracts on exchange rates and gold	-	-	-	-	-	-	-
- Derivative contracts on other values	-	-	-	-	-	-	-
Total	**172,665**	**19,250**	**19,250**	**-**	**19,250**	**1,801**	**21,051**

6. Capital reserves (Art. 440 CRR)

Qualitative disclosure

As of January 1, 2016, banks are required to hold a countercyclical capital buffer (CCyB) in accordance with the provisions of art. 136 of Directive 2013/36/EU (CRD IV), in order to accumulate, during credit growth periods, Common Equity Tier 1 to be used in market stress situations.

Unlike the capital conservation buffer, the countercyclical capital buffer is only imposed during periods of credit growth and is calculated according to the provisions of the CRD IV by the competent national authorities.

Quantitative information

As stipulated by article 140, paragraph 1 of EU directive 2013/36, the specific CCyB rate of the institution consists of the weighted average of the CCyB rates that are applied in the countries where the institution's significant credit exposures are located. The rate is subject to a quarterly review.

The European legislation was implemented in Italy with Circular no. 285 of the Bank of Italy which contains specific rules on CCyB. Based on the analysis of the reference indicators, the Bank of Italy decided to keep the countercyclical ratio (relating to exposures to Italian counterparties) at zero per cent for the whole of 2020 For other credit exposures, the Group uses the values of the CCyB rate established by the competent authorities of the counterparty State, in accordance with applicable regulations.

In this regard, the Banca Ifis Group, with reference to the date of 31 December 2020, in the absence of significant risk exposures to countries to which a specific non-zero CCyB rate is attributed, is not required to allocate provisions to this type of capital buffer.

The following is the information on the obligation to hold a countercyclical capital buffer pursuant to Article 440 of Regulation (EU) no. 575/2013, drafted according to the implementing technical standards contained in EU Regulation no. 2015/1555. The information shown below, referring to 31/12/2020, is at a consolidated level.

Table 15 - Geographical distribution of credit exposures relevant to the calculation of the countercyclical capital buffer

Row	Breakdown by country	General credit exposures		Exposure in the trading portfolio		Exposure to securitisation		Own funds requirements				Weighting factors for own funds requirements	Ccyb rate
		Exposure value for the SA method	Exposure value for IRB method	Sum of long and short positions in the trading portfolio	Value of exposure in the trading portfolio for internal models	Exposure value for the SA method	Exposure value for IRB method	Of which: general credit exposures	Of which: exposures in the trading portfolio	Of which: securitisation exposures	Total		
		010	*020*	*030*	*040*	*050*	*060*	*070*	*080*	*090*	*100*	*110*	*120*
010	Italy	*8,559,342*		57,572		*79,062*		684,747	4,606	6,325	**695,678**	94.46%	0.00%
	Poland	*103,541*						8,283			**8,283**	1.12%	0.00%
	France	*87,090*						6,967			**6,967**	0.95%	0.00%
	United States of America	*66,210*						5,297			**5,297**	0.72%	0.00%
	Switzerland	*65,492*						5,239			**5,239**	0.71%	0.00%
	Ireland	*18,381*						1,470			**1,470**	0.20%	0.00%
	Saudi Arabia	*17,716*						1,417			**1,417**	0.19%	0.00%
	Germany FRG	*16,686*						1,335			**1,335**	0.18%	0.00%
	United Kingdom	*16,240*						1,299			**1,299**	0.18%	0.00%
	Romania	*15,778*						1,262			**1,262**	0.17%	0.00%
	Turkey	*12,312*						985			**985**	0.13%	0.00%
	Panama	*11,476*						918			**918**	0.12%	0.00%
	Spain	*10,992*						879			**879**	0.12%	0.00%
	Luxembourg	*9,667*						773			**773**	0.11%	0.25%
	Dubai	*8,734*						699			**699**	0.09%	0.00%
	Netherlands	*7,031*						562			**562**	0.08%	0.00%
	Portugal	*6,094*						4887			**4887**	0.07%	0.00%
	Czech Republic	*5,590*						447			**447**	0.06%	0.00%
	Lithuania	*4,883*						391			**391**	0.05%	0.00%
	Israel	*3,780*						302			**302**	0.04%	0.00%
	Mexico	*3,368*						269			**269**	0.04%	0.00%
	Singapore	*2,880*						230			**230**	0.03%	0.00%
	India	*1,913*						153			**153**	0.02%	0.00%
	South Korea	*1,711*						137			**137**	0.02%	0.00%
	Egypt	*1,373*						110			**110**	0.01%	0.00%
	Australia	*1,359*						109			**109**	0.01%	0.00%
	Finland	*991*						79			**79**	0.01%	0.00%
	Canada	*826*						66			**66**	0.01%	0.00%
	San Marino	*771*						62			**62**	0.01%	0.00%
	Russia	*692*						55			**55**	0.01%	0.00%
	Vietnam	*595*						48			**48**	0.01%	0.00%
	Sweden	*536*						43			**43**	0.01%	0.00%
	Belgium	*532*						43			**43**	0.01%	0.50%

	Slovak Republic	*520*						42			**42**	0.01%	0.00%
	Greece	*372*						30			**30**	0.00%	0.00%
	Bosnia	*348*						28			**28**	0.00%	0.00%
	Belarus	*292*						23			**23**	0.00%	0.00%
	Croatia	*258*						21			**21**	0.00%	0.00%
	Hungary	*258*						21			**21**	0.00%	0.00%
	Tunisia	*182*						15			**15**	0.00%	0.00%
	Austria	*172*						14			**14**	0.00%	0.00%
	Bulgaria	*84*						7			**7**	0.00%	0.00%
	Japan	*81*						7			**7**	0.00%	0.00%
	Chile	*63*						5			**5**	0.00%	0.00%
	Albania	*62*						5			**5**	0.00%	0.00%
	Denmark	*57*						5			**5**	0.00%	0.00%
	Slovenia	*3*						0			**0**	0.00%	0.00%
	Brazil	*2*						0			**0**	0.00%	0.00%
	Malta	*1*						0			**0**	0.00%	0.00%
	Peoples' Rep. Of China	-						-			-	0.00%	0.00%
	Colombia	-						-			-	0.00%	0.00%
	Thailand	-						-			-	0.00%	0.00%
	French Polynesia	-						-			-	0.00%	0.00%
	Norway	-						-			-	0.00%	1.00%
	Cyprus	-						-			-	0.00%	0.00%
	Rep. of South Africa	-						-			-	0.00%	0.00%
	Taiwan	-						-			-	0.00%	0.00%
	Costa Rica	-						-			-	0.00%	0.00%
	Cuba	-						-			-	0.00%	0.00%
	Afghanistan	-						-			-	0.00%	0.00%
	Bolivia	-						-			-	0.00%	0.00%
	Ecuador	-						-			-	0.00%	0.00%
	Jamaica	-						-			-	0.00%	0.00%
	Gibraltar	-						-			-	0.00%	0.00%
	Guernsey	-						-			-	0.00%	0.00%
	Hong Kong	-						-			-	0.00%	1.00%
	Libya	-						-			-	0.00%	0.00%
	Morocco	-						-			-	0.00%	0.00%
	Nigeria	-						-			-	0.00%	0.00%
	Senegal	-						-			-	0.00%	0.00%
	Serbia	-						-			-	0.00%	0.00%
020	**Total countries**	**9,067,337**	**-**	**57,572**	**-**	**79,062**	**-**	**725,387**	**4,606**	**6,325**	**736,318**	**100.00%**	

Table16 - Amount of the institution's specific countercyclical capital buffer

Row		Column
		010
010	Total as a percentage of the total risk exposure amount	9,203,971
020	Institution's specific CCyB rate	0.00%
030	**Institution's specific countercyclical capital buffer requirement**	**-**

7. Credit risk adjustments (Art. 442 CRR)

Qualitative disclosure

Definition of impaired loans used for accounting purposes.

The definition of "impaired" loans adopted by the Banca Ifis Group for accounting purposes is the same as the one used for supervisory purposes. In particular, Circular no. 272 of 30 July 2008 as subsequently amended, "Matrix of accounts", within the context of the definition of parameters relating to credit quality, establishes:

"Non-performing credit exposures are defined as cash credit exposures (loans and debt securities) and" off balance sheet "(guarantees given, irrevocable and revocable commitments to disburse funds, etc.) to debtors who fall into the" Non-performing" category pursuant to Regulation 630/2019 which amends Regulation (EU) no. 575/2013 and EU Implementing Regulation no. 680/2014 of the Commission, and subsequent amendments and additions (Implementing Technical Standards; hereinafter, ITS). For the purposes of supervisory statistical reporting, non-performing credit exposures are divided into the categories of non-performing, unlikely to pay, past due and / or overdue non-performing exposures. The classification of exposures into the three categories must be unambiguous among the subjects included in the scope of supervisory reports on a consolidated basis, based on a shared assessment of the deterioration status of the customer (including insolvency) which takes into account all the elements information available to the group ".

Methodologies used to determine impairment losses

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

The quantification of Expected Credit Losses (ECL) is determined on the basis of whether or not there is a significant increase in the credit risk of the financial instrument with respect to that determined upon initial recognition.

The general impairment model requires allocating the financial instruments within the scope of IFRS 9 The three stages reflect the deteriorating credit quality model:

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

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

- The only quantitative transfer criteria is Significant Deterioration which is to identify the significant increase in credit risk on exposures within rated portfolios (Italian companies), the Group used

an approach backed by quantitative analyses, under which the exposure is allocated to stage 2 if the change in the one-year PD between the origination and the measurement date exceeds a given threshold.

- Qualitative transfer criteria
  Rebuttable presumption - 30 days past due The Standard establishes that, regardless of how the entity assesses significant increases in credit risk, there is a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. The entity can rebut this presumption if it has reasonable and supportable information that demonstrates that the credit risk has not increased significant since initial recognition even though the contractual payments are more than 30 days past due. However, the Banca Ifis Group has not pursued this option;
  "Forbearance": according to this criterion, a financial instrument is allocated to stage 2 when the Group classifies the exposure as forborne;
  Watchlist: this requires identifying qualitative deterioration criteria defined by the Group as part of the process for defining especially risky positions during credit monitoring.

According to IFRS 9, an entity may assume that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date, that is:

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

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

- losses expected at 12 months for relationships that have not suffered a significant deterioration in creditworthiness (so-called Stage 1); in this case, it estimates the cash shortfalls resulting from default events that are possible within the next 12 months, weighted by the probability of that default occurring;
- losses expected at "Lifetime" for relationships that have suffered a significant deterioration in creditworthiness (so-called Stage 2); in this case, it estimates the cash shortfalls resulting from default events that are possible over the expected life of the financial instrument, weighted by the probability of that default occurring and discounted at the measurement date (ECL).

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

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

As for the securities portfolio, considering the methodological complexity associated with developing a dedicated model, the Group decided to use the IFRS 9 impairment calculation process made available

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

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

A multi-period approach to risk parameters has been developed exclusively for PD; the other credit risk parameters (LCD and CCF) are applied on a constant basis until maturity. The Group estimates LGD based on historical proprietary evidence, except in the case of Banks, Central Governments, and Local Administrations (excluding municipalities) and operations where an adequately deep database is not available for estimating recoveries on non-performing positions for which, in the absence of objective historical data, an industry LGD equal to the regulatory floor was used.

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

The satellite models respond to the need to identify the existence of a significant relationship between the general economic conditions (i.e. macro-economic and financial variables) and a proxy variable of the risk factor (i.e. target variable); for example the creditworthiness of the counterparties (which represents the respective probability of insolvency summarizing the PD factor) as well as the recovery rates themselves (summarizing the LGD factor for bad loans).

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

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

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

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

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

Quantitative information

Table 17 - Net credit exposure by type of exposure and counterparty (Art. 442 c)

Portfolio/quality	Bad loans	Unlikely to pay	Non-performing past due exposures	Performing past due exposures	Performing exposures	Total
1. financial assets measured at amortised cost	1,099,967	458,639	33,249	309,260	8,317,568	**10,218,683**
2. financial assets at fair value through other comprehensive income	-	-	-	-	721,216	**721,216**
3. Financial assets designated as at fair value	-	-	-	-	-	**-**
4. Other financial assets mandatorily measured at fair value	3,809	20,596	-	4,114	6,297	**34,816**
5. Financial assets under disposal	-	-	-	-	-	**-**
Total	**1,103,776**	**479,235**	**33,249**	**313,374**	**9,045,081**	**10,974,715**

The table does not show the average values as it is believed that the period-end figure represents the risk exposure during the year.

Table 18 - Geographical distribution of cash and "off-balance sheet" exposures to customers (art. 442d)

Exposures/ Geographic areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Overall impairment losses/ reversals	Net expos-ure	Overall impairment losses/ reversals	Net expos-ure	Overall impairment losses/ reversals	Net expos-ure	Overall impairment losses/ reversals	Net expos-ure	Overall impairment losses/ reversals
A. On-balance-sheet exposures										
A.1 Bad loans	1,099,213	117,396	596	88	13	-	1	1	8	-
A.2 Unlikely to pay	457,659	103,742	872	1,766	3	-	-	-	4	-
A.3 Non-performing past due exposures	32,127	2,792	501	29	-	-	-	-	-	-
A.4 Performing exposures	7,014,614	58,570	258,430	8,404	81,964	1,171	36,255	176	2,707	13
Total A	**8,603,613**	**282,500**	**260,399**	**10,287**	81,980	**1,171**	**36,256**	**177**	**2,719**	**13**
B. Off-balance-sheet exposures										
B.1 Non-performing exposures	56,926	7,750	1,820	-	-	-	-	-	-	-
B.2 Performing exposures	1,319,989	3,047	67,832	191	-	-	1,661	-	416	-
Total B	**1,376,915**	**10,797**	**69,652**	**191**	**-**	**-**	**1,661**	**-**	**416**	**-**
Total A+B	**9,980,528**	**293,297**	**330,051**	**10,478**	**81,980**	**1,171**	**37,917**	**177**	**3,135**	**13**

Table 19 - Geographical distribution of cash and 'off-balance sheet' exposures towards banks (Art. 442d)

Exposures/ Geographic areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Overall impairment losses/ reversals	Net exposure	Overall impairment losses/ reversals	Net expos-ure	Overall impairment losses/ reversals	Net expos-ure	Overall impairment losses/ reversals	Net expos-ure	Overall impairment losses/ reversals
A. On-balance-sheet exposures										
A.1 Bad loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Non-performing past due exposures	-	-		-	-	-	-	-	-	-
A.4 Performing exposures	1,049,473	1,234	15,197	40	9,465	35	-	-	-	-
Total A	**1,049,473**	**1,234**	**15,197**	**40**	**9,465**	**35**	**-**	**-**	**-**	**-**
B. Off-balance-sheet exposures										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.3 Performing exposures	81,769	-	1,206	-	11,225	-	-	-	-	-
Total B	**81,769**	**-**	**1,206**	**-**	**11,225**	**-**	**-**	**-**	**-**	**-**
Total A+B	**1,131,242**	**1,234**	**16,403**	**40**	**20,690**	**35**	**-**	**-**	**-**	**-**

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Table 20 - Sector distribution of cash and "off-balance sheet" exposures towards customers (art. 442 e)

Exposures/ Counterparties	Public Administrations		Finance companies		Other financial companies (of which: insurance companies)		Non-financial institutions		Families	
	Net exposure	Overall impairment losses/ reversals	Net exposure	Overall impairment losses/ reversals	Net expos-ure	Overall impairment losses/ reversals	Net expos-ure	Overall impairment losses/ reversals	Net expos-ure	Overall impairment losses/ reversals
A. On-balance-sheet exposures										
A.1 Bad loans	3,489	8,291	1,239	106	-	-	187,200	100,504	907,903	8,584
- of which forborne exposures	-	-	9	-	-	-	3,822	3,120	113,318	416
A.2 Unlikely to pay	806	131	1,656	2,124	11	3	147,197	95,010	308,879	8,243
- of which forborne exposures	-	-	9	5	-	-	12,968	6,768	62,214	2,781
A.3 Non-performing past due exposures	9,974	279	22	4	-	-	17,831	1,638	4,801	900
- of which forborne exposures	-	-	-	-	-	-	771	70	1793	433
A.4 Performing exposures	2,439,898	1,299	333,822	3,377	315	6	3,900,497	54,391	719,753	9,267
- of which forborne exposures	1,220	25	4,543	-	-	-	18,392	472	14,243	734
Total A	**2,454,167**	**10,000**	**336,739**	**5,611**	**326**	**9**	**4,252,725**	**251.543**	**1,941,336**	**26,994**
B. Off-balance-sheet exposures										
B.1 Non-performing exposures	-	-	-	-	-	-	43,650	7548	15,096	202
B.2 Performing exposures	-	-	131,806	843	-	-	927,912	2307	330,180	88
Total B	**-**	**-**	**131,806**	**843**	**-**	**-**	**971,562**	**9,855**	**345,276**	**290**
Total (A+B)	**2,454,167**	**10,000**	**468,545**	**6,454**	**326**	**9**	**5,224,287**	**261,398**	**2,286,612**	**27,284**

Table 21 shows the breakdown over time by residual contract duration of on and off-balance sheet transactions.

Table 21 - Breakdown over time by the residual contract duration of financial assets (Art 442 f)

Items/Time periods	On demand	From 1 to 7 days	From 7 to 15 days	over 15 days to 1 month	From 1 to 3 months	over 3 months to 6 months	over 6 months to 1 year	over 1 year to 5 years	Over 5 years	Undetermined	Total
On-balance-sheet assets											
Government securities	376	-	380	-	1,029	190,910	6,581	1,122,500	470,000	-	**1,791,776**
Other debt securities	23,463	-	-	110	218	4,620	4,675	99,146	141,790	-	**274,022**
OICR units	96,762	61,584	25,688	11,259	71,945	5,177	4,353	12,391	-	-	**289,159**
Loans	1,325,528	85,884	172,117	343,937	1,202,546	473,950	716,236	2,745,831	967,535	714,975	**8,748,539**
- banks	198,717	31,967	25,689	18,538	132,948	5,276	4,551	12,661	-	690,570	**1,120,917**
- customers	1,124,858	37,267	172,116	336,658	1,141,543	473,851	716,038	2,745,561	967,535	24,405	**7,739,832**
Off-balance sheet transactions											
Financial derivatives with exchange of underlying assets											
- long positions	-	-	-	-	-	-	82	-	-	-	**82**
- short positions	-	-	-	-	232	-	-	-	-	-	**232**
Financial derivatives without exchange of underlying assets											
- long positions	19,236	-	-	-	-	-	-	-	-	-	**19,236**
- short positions	18,551	-	-	-	-	-	-	-	-	-	**18,551**
Deposits and loans to be received											
- long positions	-	-	-	-	-	-	-	-	-	-	**-**
- short positions	-	-	-	-	-	-	-	-	-	-	**-**
Irrevocable commitments to grant funds											
- long positions	18,113	-	6,600	186	1,673	3,596	13,000	54,687	36,430	-	**134,285**
- short positions	74,064	-	3,200	-	182	265	1,000	35,212	20,192	-	**134,115**
Financial guarantees granted	-	-	-	-	-	-	-	-	-	-	**-**

With regard to the description of the process of determination of the impairment losses or reversals, reference should be made to the qualitative section of this document.

Table 22 - On balance sheet exposures to customers: total value adjustment trend (Art. 442 i)

Type/Categories	Bad loans	Unlikely to pay	Past due loans	Total
A. Total initial adjustments	**167,004**	**120,312**	**6,477**	**293,793**
- of which: transferred and not derecognised	-	1,680	-	**1,680**
B. Variations on the rise	**52,408**	**64,428**	**4,355**	**121,191**
B.1 impairment losses from purchased or originated credit impaired financial assets	-	-	-	**-**
B.2. other value adjustments	36,785	62,556	3,833	**103,174**
B.3 Losses on disposal	9,688	-	-	**9,688**
B.4 transfers from other nonperforming exposure categories	4,959	1,706	329	**6,994**
B.5 contractual modifications without derecognition	-	-	-	**-**
B.6 other increases	976	166	193	**1,335**
C. Decreasing changes	**101,927**	**79,232**	**8,011**	**189,170**
C.1 impairment reversals from measurement	13,239	23,779	6,256	**43,274**
C.2 impairment reversals from collection	13,414	32,824	59	**46,297**
C.3 gains on disposal	124	-	-	**124**
C.4 write-offs	74,663	17,016	4	**91,683**
C.5 transfers to other non-performing loan categories	7	5,463	1,524	**6,994**
C.6 contractual modifications without derecognition	-	-	-	**-**
C.7 other decreases	480	150	168	**798**
D. Total final adjustments	**117,485**	**105,508**	**2,821**	**225,814**

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8. Unencumbered assets (Art. 443 CRR)

Qualitative disclosure

This chapter, in accordance with Article 443 of the (EU) regulation no. 575/2013 (CRR), includes unencumbered assets well as foreclosed assets.

Encumbered asset means every asset that has been pledged or that is the subject of an agreement to provide guarantees (securities or collaterals) or credit support to on- or off- balance sheet operations from which the asset cannot be freely withdrawn.

The pledged assets whose withdrawal is subject to any type of restriction, such as a prior approval before being withdrawn or replaced by other assets, are deemed to be encumbered.

The operations for which the Group normally binds part of its financial assets fall within the following categories:

- deposit with the Bank of Italy as a minimum reserve;
- transactions in derivative contracts;
- term deposits given as a guarantee to banks in syndicated transactions (iblor deposit);
- debt securities given as a guarantee to the Bank of Italy related to intraday advances;
- debt securities given as a guarantee to the European Central Bank for TLTRO operations;
- eligible receivables for collateralisation with the Bank of Italy through the ABACO program;
- assets used for securitisation transactions.

For further information on the management processes carried out by the Group, please refer to that shown in § 1.4.3.3 of this document.

Quantitative information

The disclosure relating to the encumbered and unencumbered assets of the Group was prepared on the basis of the EBA/GL/2014/03 guidelines and the format required by the Implementing Regulation (EU) 2015/79, in accordance with the provisions of Part Eight, Title II of Regulation (EU) 575/2013.

The table below shows the amount of the quarterly medians recorded in 2020 of the encumbered and unencumbered assets by type of activity.

Table 23 - Quantitative information on unencumbered assets (Art. 443 and EBA / GL / 2014/03)

ASSETS	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets of the reporting institution	**2,905,932**		**8,742,418**	**650,038**
Loans on demand			884,671	
Equity securities			138,933	127,219
Debt securities	1,604,277	1,628,485	537,996	540,595
- of which: issued by general governments	1,564,078	1,586,191	375,725	378,051
- of which: issued by financial intermediaries	23,344	24,354	115,204	114,606
Loans other than on demand	1,301,654		6,015,323	
Other assets			1,136,451	

Table 24 - Quantitative information on unencumbered assets (Art. 443 and EBA / GL / 2014/03)

ENCUMBERED ASSETS AND ASSOCIATED LIABILITIES	Financial liabilities, contingent liabilities and securities lending	Assets, guarantees received and its issued debt securities foreclosed other than bank bonds guaranteed and ABS
Carrying amount of financial liabilities	**2,911,314**	**2,816,466**
Derivatives		2,062
Deposits		
Repurchase agreements	52,556	52,555
of which: with central banks		
Collateralised deposits other than repurchase agreements	2,886,900	2,797,897
of which: with central banks	2,057,128	1,983,429
Other		66,169

9. Use of the ECAI (Art. 444 CRR)

Qualitative disclosure

The Banca Ifis Group, for the purpose of calculating the capital requirement against credit and counterparty risk, avails itself of the services provided by external credit assessment institution (ECAI) “Fitch Ratings” for the positions included in the class “Exposures to central governments and central banks”; for the other asset classes, no external ratings are used.

The assessments of the ECAI selected apply to the following classes of activity:

Table 25 - Portfolios and official ratings

Regulatory classes	***ECA/ECAI***	***Rating characteristics***
Exposures towards central governments and central banks	Fitch Ratings	Solicited/Unsolicited
Exposures to regional governments or local authorities	-	-
Exposures to public sector bodies	-	-
Exposures to institutions	-	-
Exposures to corporations	-	-
Retail exposures	-	-
Exposures in default	-	-
Exposures associated with particularly high risk	-	-
Exposures in equity	-	-

The following table shows the mapping published by the Bank of Italy of long-term ratings issued by “Fitch Ratings”.

Classes of creditworthiness	Risk weighting coefficients				ECAI
	Central governments and central banks	Supervised intermediaries, public sector bodies, local and regional authorities*.	Multilateral development banks	Companies and other bodies	Fitch Ratings
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 Supervision Provisions for Banks' for these categories, reference must be made to the class of merit in which exposures to the central government in which these entities have their head office are classified.

Quantitative information

The following table shows the breakdown of exposures subject to credit risk on the basis of weighting factors (classes of creditworthiness).

Table 26 - Exposures by asset regulatory class and by class of creditworthiness/weighting (in thousands of Euros)

Asset regulatory class/weighting	*0%*	*20%*	*35%*	*50%*	*75%*	*100%*	*150%*	*200%*	*250%*	*1250%*	*Others*	*Deductions from Own Funds*	*Total*
Exposures to central governments or central banks	3,327,066					219,374			7,235			56,165	**3,609,840**
Exposures to institutions	3,393	311,947				62,716							**378,056**
Exposures to regional governments or local authorities		41,336											**41,336**
Exposures to public sector bodies		354,577				126,543							**481,120**
Multilateral development banks													**0**
International Organisations													**0**
Companies and other subjects						3,741,905	1,032						**3,742,937**
Retail exposures			28,880		1,698,731								**1,727,611**
Short-term exposures to companies													**0**
Exposures to OICR.						42,352	8,329						**50,681**
Exposures guaranteed by real estate			150,387	71,524									**221,911**
Exposures in default						553,959	1,104,515						**1,658,474**
Exposures associated with particularly high risk							89,673						**89,673**
Securitisation programmes											78,975		**78,975**
Exposures in equity						212,955			7,272				**220,227**
Other items	5,796	29,550				356,336							**391,682**
Total credit risk	**3,336,255**	**737,410**	**179,267**	**71,524**	**1,698,731**	**5,316,140**	**1,203,549**	**0**	**14,507**	**0**	**78,975**	**56,165**	**12,692,523**

10. Market risk exposure (Art. 445 CRR)

Quantitative information

Exposure to market risk - as reported in § 1.4.3.4 for regulatory purposes, is calculated using the 'standardised method'.

The following table details the regulatory requirements measured on 31 December 2020 for the Banking Group. The overall exposure refers to positions included in the trading portfolio for supervisory purposes of the Bank; the Banking Group, in reference to the contained positions included in the trading portfolio for supervisory purposes, essentially measured the position risk.

The capital requirement for own funds required for exchange rate risk amounts to 4,175 thousand Euros as the Banking Group, at the reference date, recorded a 'total net open position in exchange rates' which exceeded 2% of the total of 'Own funds' for consolidated use.

Table 9 - Market risk: capital requirement for assets included in the trading book for supervisory purposes and for the entire financial statements

Risk type	Risk-weighted asset (RWA)	Capital requirement
Position risk (Trading Book)	5,381	431
Settlement risk (Trading Book)		
Commodities risk		
Currency risk	52,191	4,175
CAPITAL REQUIREMENT IN RELATION TO MARKET RISK	**57,572**	**4,606**
CAPITAL REQUIREMENT IN RELATION TO MARKET RISK (T-1)	**86,085**	**6,887**

11. Operational risk (Art. 446 CRR)

Qualitative disclosure

With reference to the measurement of capital requirements for operational risk, and having considered its own characteristics in terms of operations and size, the Banking Group adopts the "basic approach", governed by Regulation (EU) no. 575/2013 of 26 June 2013 - Part Three, Title III and by Circular 285/2013 for its application in Italy for the purpose of calculating the regulatory capital requirement. In particular, it calculates the mandatory minimum capital requirement for operational risks by using the Basic Indicator Approach (BIA). This method quantifies capital absorption to the amount of 15% of the average of the last three financial years of 'relevant indicator' values referred to in Art. 316 Regulation (EU) no. 575/2013 of 26 June 2013, which is representative of the company operating volumes.

For regulatory purposes, operational risk is measured through IT procedures dedicated to the periodic production of statistical reports and consolidated prudential supervision.

At management level, reference is made to the management processes described in § 1.4.4.1 of this document for the measurement of operational risk.

The Banca Ifis Group has for some time now defined - in line with the appropriate regulatory requirements and best practices in the sector - the overall framework for the management of operational risk, represented by a set of rules, procedures, resources (human, technological and organisational) and control activities aimed at identifying, assessing, monitoring, preventing or mitigating and communicating to the appropriate hierarchical levels all the operational risks assumed or that can be assumed in the various organisational units. The key processes for correct management of operational risk are also represented by the collection of operational loss data (Loss Data Collection - LDC) and the prospective self-assessment of the exposure to operational risk (Risk Self Assessment - RSA) and the self-assessment of the degree of exposure to model risk, i.e. the risk of incurring financial losses or incorrect strategic decisions deriving from improper or incorrect use of the results and reports produced by the models used (Model Risk Self Assessment). In addition, another fundamental item of the operational risk governance and management process is represented by the adequate training of resources. Indeed, the Banca Ifis Group is constantly committed to the professional training and growth of its human resources.

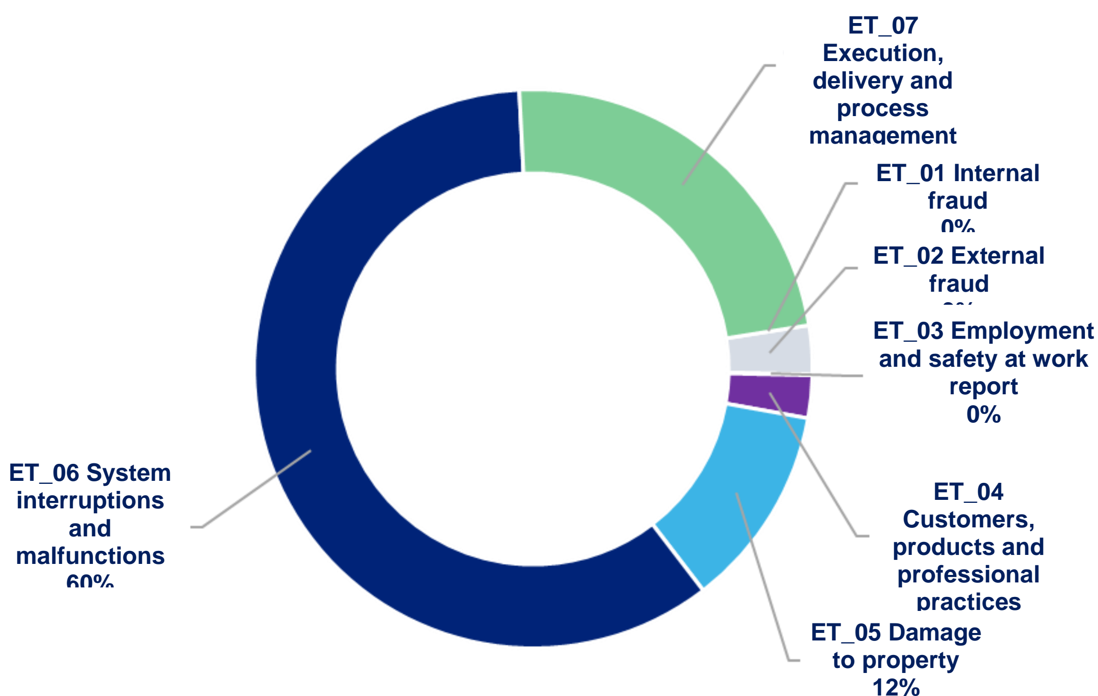
With regard to the Loss Data Collection process in use, operating losses are classified according to the risk categories defined by the Supervisory regulations and listed below:

(a) internal fraud: losses due to unauthorised activity, fraud, embezzlement or violation of laws, regulations or company directives that involve at least one internal intermediary resource;
(b) external fraud: losses due to fraud, embezzlement, or violation of laws by subjects external to the intermediary;
(c) employment relationship and occupational safety: losses due to acts that are in noncompliance with the laws or agreements on employment, health and safety at work, the payment of compensation for personal injury or incidents of discrimination or diversity;
(d) customers, products and operating practices: losses resulting from non-fulfilment of professional obligations towards customers or from the nature or characteristics of the product or service provided;
(e) damage to tangible assets: losses resulting from external events, such as natural disasters, vandalism, terrorism, etc.;
(f) interruptions to operations and system malfunctions: losses due to interruptions to operations, malfunctions or unavailability of systems;

(g) execution, delivery and management of processes: losses due to shortcomings in the completion of transactions or in the management of processes, as well as losses due to relations with commercial counterparties, vendors, suppliers.

The results of the operational losses data collection of the Banking Group in 2020 are shown in the graph below, which shows the percentage distribution of the number of registered events divided into the risk classes listed above:

2020 - Number of operational risk events subdivided by 1st level ET



For completeness, the graph below shows the percentage distribution of the actual loss of the operational risk events recorded divided into the 7 regulatory risk classes.

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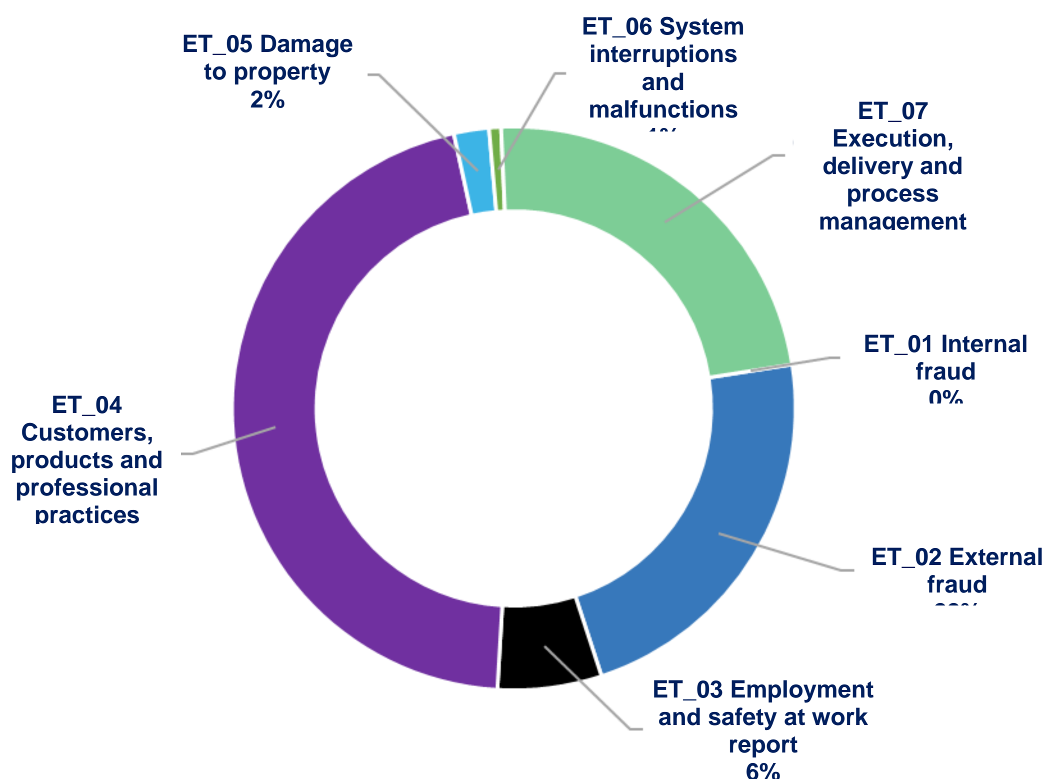
2020 - Effective loss of operational risk events subdivided by 1st level ET



For completeness, it should be noted that the Risk Control Self-Assessment process carried out in 2019 highlighted the potential risks to which the Banking Group is exposed on a prospective basis based on the self-assessments carried out by the main company process owners. Appropriate information on the identified areas for improvement and on the actions agreed for mitigation of potential risks is provided to the competent corporate bodies.

Quantitative information

The adoption of the 'basic method' by the Bank resulted in a consolidated capital requirement on 31 December 2020 of approximately 69,576 million Euros, which was considered capable of coping with the unexpected financial impacts of potential risky events that could occur during 2020.

Table 11 - Capital requirement in relation to operational risk

Relevant Indicator December -2	459,937
Relevant Indicator December -1	475,702
Relevant Indicator December	455,877
Average relevant indicator of the last 3 years	463,839
OPERATIONAL RISK CAPITAL REQUIREMENT (T)	**69,576**
OPERATIONAL RISK CAPITAL REQUIREMENT (T-1)	71,145

12. Exposures in equity not included in the trading portfolio (Art. 447 CRR)

Qualitative information

As already reported in the § 1.4.2.10 of this document in relation to participation risk, on 31 December 2020, the Group holds equity investment assets in its portfolio attributable to minority equity interests which are classified either among 'Financial assets at fair value with impact on the overall profitability' or among 'Financial assets mandatorily at fair value with impact on the income statement'.

In particular, the Group classifies among the “Financial assets at fair value with impact on overall profitability”, equity instruments not held for trading purposes, for which the option to designate at fair value is exercised at the time of initial recognition with impact on overall profitability (so called “OCI Option”). On the other hand, the equity instruments for which the Group does not apply this option are classified under “Financial assets mandatorily at fair value with impact on the income statement”.

Recognition criteria

financial assets at fair value through other comprehensive income

The initial recognition of financial assets takes place on the settlement date. These assets are initially recognised at fair value, including transaction costs directly attributable to the instruments, if any.

Financial assets mandatory measured at fair value through profit or loss

The initial recognition of financial assets takes place on the settlement date. At initial recognition, financial assets held for trading are measured at cost, that is the instrument's fair value, excluding the expenses and income directly attributable to the instrument, which are recognised in profit or loss.

Measurement criteria

financial assets at fair value through other comprehensive income

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

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

Financial assets mandatory measured at fair value through profit or loss

Even after initial recognition, financial assets are measured at fair value, and the impact of the application of this method is recognised through profit or loss. Fair value is determined on the basis of the criteria already illustrated for the financial assets measured at fair value with impact on overall profitability.

Quantitative information

Table 27 - Exposures in equity - Banking Portfolio

	Carrying amount			Fair Value			Market Value	Profit/losses in the period	Plus/Minus suspended in equity	Plus/Minus suspended in shareholders' equity and booked to Own Funds
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1			
Equity securities										
Financial assets measured at fair value	-	-	20,683	-	-	20,683		(117)	-	-
financial assets at fair value through other comprehensive income	28,106	-	25,233	28,106	-	25,233		(3,655)	(12,524)	(6,366)
Total	**28,106**	**-**	**45,916**	**28,106**	**-**	**45,916**	**-**	**(3,772)**	**(12,524)**	**(6,366)**

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13. Exposure to interest rate risk on positions not included in the trading portfolio (Art. 448 CRR)

Qualitative information

As a general principle, the Group does not assume significant interest rate risks. In terms of composition of the balance sheet with reference to the type of risk in question, in relation to the liability component, the main source of funding continues to be the “Rendimax” online deposit account, customer deposits at a fixed rate for the binding component, and at a non-indexed floating rate, which can be reviewed unilaterally by the Bank in compliance with regulations and contracts, for free demand and demand deposits. The other main funding components concern mainly fixed rate bond deposits, a variable rate self-securitisation transactions and loans with the Eurosystem (the so-called TLTRO).

As for the assets, loans to customers still largely have floating rates as far as both trade receivables and corporate financing are concerned.

Within the sphere of non-performing loan transactions (carried out by the subsidiaries Ifis NPL S.p.A. and Ifis NPL Servicing S.p.A.), characterised by a business model focused on the purchase of receivables at lower values than the nominal value, there is a potential interest rate risk connected also to the uncertainty over collection times.

At 31 December 2020, the total bond portfolio consisted mainly of government bonds, for a percentage of approximately 85%; the overall average modified duration is approximately 2.6 years.

The Central Capital Markets Directorate is the corporate function responsible for managing interest rate risk. In line with the established appetite for risk, it defines the actions necessary to pursue the risk. The Risk Management function is responsible for proposing the risk appetite, identifying the most appropriate risk indicators and monitoring the performance of assets and liabilities in relation to the set limits, Each year, the Top Management proposes to the Bank's Board of Directors its lending and funding policies and its interest rate risk management policies. It also suggests any appropriate action to ensure that it carries out its activities in accordance with the risk policies approved by the Bank.

The Risk Management department periodically reports to the Bank’s Board of Directors on the interest rate risk position as part of the specific monthly reports prepared by the Risk Management department for top management.

The interest rate risk is placed among the second pillar risks; the guidelines on the assumption and monitoring of market risk are set out at Group level in the current 'Group Policy for the management of the interest rate risk on the banking book”', in which, for the purposes of a more rigorous and detailed representation of process activities, the metrics for measuring and monitoring the risk in question have also been indicated. Monitoring is performed the consolidated level.

Considering the extent of the risk assumed, the Banca Ifis Group does not usually hedge specific interest rate risk.

For further information on the management processes carried out by the Group, please refer to that shown in § 1.4.3.1 of this document.

Quantitative information

For the measurement of interest rate risk related to the 'banking portfolio', the Banking Group followed the simplified method prescribed by the Circular 285/2013 - Part One - Title III 'Prudential Control Process' - Chapter 1 - Annexes C and C bis.

Interest rate risk interest rate risk on the banking portfolio in terms of changes in economic value

The simplified methodology, set out in Annex C of Circular 285/2013, recently amended by the Bank of Italy in transposition of the EBA/GL/2018/02, guidelines, provides that all assets and liabilities are classified in 19 time bands based on their residual life if they are placed at a fixed rate and on the repricing date if they are placed at a floating rate. Within each time range, the net exposure, obtained from offsetting assets and liabilities, is calculated. The net exposures of each time range are then multiplied by the weighting factors obtained from the product, between the chosen hypothetical rate variation and the approximation of the modified duration related to each range. The weighted exposures of the different bands are added together. The net weighted exposure obtained approximates the change in the present value of balance sheet items in the event of the assumed rate shock.

A brief overview of the measurements developed during the quantification of the internal capital absorbed by interest rate risk, in terms of changes in economic value, at 31 December 2020, is shown in the table below. The capital requirement on own funds required for interest rate risk on the banking portfolio at the reporting date was 29,255 thousand Euros.

Table 28a - Interest rate risk on the banking portfolio in terms of changes in Economic Value

	ASSETS	LIABILITIES	Net Position	Weighting Factor	Weighted Exposure
On demand or revocation	1,334,103	-501,940	832,163	0.00%	-
Up to 1 month	2,968,218	-1,559,085	1,409,132	-0.01%	- 177
from over 1 month up to 3 months	1,786,638	-635,678	1,150,959	-0.05%	- 610
from over 3 months up to 6 months	1,124,257	-430,981	693,276	-0.13%	- 898
from over 6 months up to 9 months	174,309	-438,270	-263,961	-0.24%	625
from over 9 months up to 1 year	137,118	-318,173	-181,055	-0.36%	648
from over 1 year up to 1.5 years	828,016	-506,357	321,659	-0.43%	- 1,387
from over 1.5 years up to 2 years	298,918	-853,681	-554,762	-0.67%	3,739
from over 2 years up to 3 years	406,945	-2,848,599	-2,441,654	-1.17%	28,516
from over 3 years up to 4 years	497,424	-1,150,201	-652,777	-1.54%	10,055
from over 4 years up to 5 years	323,343	-626,154	-302,812	-1.83%	5,530
from over 5 years up to 6 years	278,002	-34,129	243,872	-2.04%	- 4,980
from over 6 years up to 7 years	230,630	-4,283	226,347	-2.14%	- 4,835
from over 7 years up to 8 years	59,849	-462	59,387	-2.18%	- 1,292
from over 8 years to 9 years	106,279	-462	105,817	-2.12%	- 2,243
from over 9 years up to 10 years	125,772	-462	125,310	-2.06%	- 2,582
from over 10 years up to 15 years	115,072	-327	114,745	-0.71%	- 818
from over 15 years up to 20 years	12,773	0	12,773	-0.07%	- 9
over 20 years	6,675	0	6,675	-0.42%	- 28

Change in company economic value	29,255
Own funds	1,366,421
Risk profile indicator (warning threshold 20%)	2.14%

Interest rate risk on the banking portfolio in terms of changes in interest margin or expected profits

The simplified methodology, set out in Annex C of Circular 285/2013, recently amended by the Bank of Italy in transposition of the EBA/GL/2018/02 guidelines, provides that all assets and liabilities are classified in 9 time bands based on their residual life if they are placed at a fixed rate and on the repricing date if they are placed at a floating rate. Within each time range, the net exposure, obtained from offsetting assets and liabilities, is calculated. The net exposures of each time range are then multiplied by the weighting factors specified by the Regulator over a three-year time horizon. The overall exposure is determined by the sum of exposures by band. The value thus obtained represents the change in net interest income against the assumed interest rate scenario.

A summary of the measurements developed in terms of changes in net interest income at 31 December 2020 is given in the table below. At present, this measurement does not imply any obligation for the intermediary.

Banca Ifis is implementing a new interest rate risk management monitoring system in line with market best practices.

Table 28b -Interest rate risk on the banking portfolio in terms of changes in interest margin

	ASSETS	LIABILITIES	Net Position	Temporal weight	Positive shock	Negative shock	Upward shock	Downward shock
On demand or revocation	1,334,103	-501,940	832,163	3.00	2.00%	-2.00%	49,930	-49,930
Up to 1 month	2,968,218	-1,559,085	1,409,132	2.96	2.00%	-2.00%	83,421	-83,421
from over 1 month up to 3 months	1,786,638	-635,678	1,150,959	2.83	2.00%	-2.00%	65,144	-65,144
from over 3 months up to 6 months	1,124,257	-430,981	693,276	2.62	2.00%	-2.00%	36,328	-36,328
from over 6 months up to 9 months	174,309	-438,270	-263,961	2.37	2.00%	-2.00%	-12,512	12,512
from over 9 months up to 1 year	137,118	-318,173	-181,055	2.12	2.00%	-2.00%	-7,677	7,677
from over 1 year up to 1.5 years	828,016	-506,357	321,659	1.75	2.00%	-2.00%	11,258	-11,258
from over 1.5 years up to 2 years	298,918	-853,681	-554,762	1.25	2.00%	-2.00%	-13,869	13,869
from over 2 years up to 3 years	406,945	-2,848,599	-2,441,654	0.50	2.00%	-2.00%	-24,417	24,417
Change in the Interest Margin							187,606	-187,606

14. Exposure to securitisation positions (Art. 449 CRR)

Qualitative information

This section provides an illustration of the Group's exposures to securitisation transactions; in these operations the Group plays the role of originator, sponsor or investor, depending on the case.

The Bank has adopted a "Policy for the management of securitisation transactions" with which it governs the process for managing securitisation transactions in the event that it intervenes in the role of "investor" (i.e. subscriber of securities) or of "sponsor" (i.e. that is, subject that structures the operation). For each potential case, the policy sets out the responsibilities of the organisational units and bodies with reference to both the due diligence process and the ongoing monitoring of the transaction.

IFIS ABCP Programme securitisation

On 7 October 2016, Banca Ifis launched a three-year revolving securitisation of trade receivables due from account debtors. Against the initial transfer of the loans by Banca Ifis (originator) for an amount of 1,254.3 million Euros, the vehicle called IFIS ABCP Programme Srl issued senior securities, subscribed by investment vehicles which refer to the co-arranger banks of the transaction, for an amount of 850 million Euros, increasing to 1,000 million Euros during the second quarter of 2018, together with the two-year extension of the revolving period. An additional tranche of senior notes, with a maximum par value of 150 million Euros-of which investors initially subscribed for 19.2 million Euros, and that was subsequently adjusted based on the composition of the assigned portfolio-was subscribed for by Banca IFIS. During the first half of 2019, this portion was initially partially repaid by the vehicle, then subsequently sold to a third-party bank for the overall residual value of 98.9 million euros. The difference between the value of the receivables portfolio and the senior securities issued represents the credit support for the holders of the same securities, which takes the form of a deferred purchase price.

The servicing activity is carried out by Banca Ifis itself which, with its own structure, is responsible for:

- following collection operations and monitoring cash flows on a daily basis;
- reconciling the closing balance at every cut off date;
- verifying, completing and submitting the service report with the information on the securitised portfolio requested by the vehicle and the banks at every cut off date.

As part of the securitisation programme, the Bank sends the amount it collects to the vehicle on a daily basis, while the new portfolio is assigned approximately six times each month; this ensures a short time lapse between the outflows from the Bank and the inflows associated with the payment of the new assignments.

Only part of the securitised receivables due from account debtors are recognised as assets— especially for the portion that the Bank has purchased outright, resulting in the transfer of all risks and rewards to the buyer. Therefore, the tables in the quantitative disclosure show only this portion of the portfolio.

In compliance with IASs/IFRSs, currently the securitisation process does not involve the substantial transfer of all risks and rewards, as it does not meet derecognition requirements. In addition, the vehicles were consolidated in order to provide a comprehensive view of the transaction.

The maximum theoretical loss for Banca Ifis is represented by the losses that could potentially arise within the portfolio of assigned receivables, and the impact would be the same as if the securitisation programme did not exist; therefore, the securitisation has been accounted for as follows:

- non-recourse securitised receivables are recorded, as part of "receivables due from customers", under the sub-item "factoring";
- the financing obtained through the issue of senior securities subscribed by third parties was recorded under "outstanding securities";
- interest income on receivables are recorded in the financial statements under the same item, "interest income on receivables due from customers";
- interest expenses matured on securities are recorded under "interest expenses and similar charges" in the sub-item "outstanding securities";
- the arrangement fees were fully recognised in profit or loss in the year in which the programme was launched.

At 31 December 2020, the interest on the senior notes recognised in profit or loss amounted to 7.0 million Euros.

Securitization transactions acquired through Farbanca

At the reference date of the Financial Statements as at 31 December 2020, there are two securitization transactions called Ambra and Emma respectively, prepared by Farbanca and entered into the Banca Ifis Group as a result of the acquisition of 70.77% of this company during 2020.

As regards Ambra, it was completed on 1 January 2017 pursuant to Law 130/1999 and constitutes a multi-originator securitization transaction which involved, in addition to Farbanca, two other companies belonging to the former Banca Popolare di Vicenza Group. The operation involved a portfolio of non-performing loans (Loan, unsecured and mortgage contracts, credit lines and other contractual relationships of a different nature) for a total nominal value of 4.3 billion euros sold at a price of 1.7 billion euros. All the ABS securities issued in three tranches (senior, mezzanine and junior) by the vehicle company Ambra S.r.l. were undersigned "pro rata" by the three originators in relation to the transferred portfolio (a so-called self-securitization transaction). Specifically, Farbanca underwrote 0.8 million euros of senior tranche (out of 250 million euros in total), 2.0 million euros in mezzanine tranche (out of 656 million euros overall) and 2.6 million euros of junior securities (compared to a total of 780 million euros). For this transaction, Farbanca signed a specific servicing contract with the vehicle company for the coordination and supervision of the management, administration and collection of the securitized loans, as well as for the recovery activity in the event of default by the debtors.

In March 2018, the securitization of receivables called Emma was completed independently by Farbanca for a total nominal value of approximately 460 million euros. The portfolio of receivables being sold involved performing loans relating to land, mortgage and unsecured loan agreements, characterized by an average seasoning of 7 years. The transaction, structured by Banca IMI (Intesa Sanpaolo Group), was finalized with the acquisition of receivables by the special purpose vehicle Law no. 130/1999 Emma S.P.V. S.r.l.. The securities were issued in three classes: a senior class for an amount of € 322 million, fully underwritten by institutional investors through private placement; a mezzanine class of € 46 million and a junior class of € 96 million, both fully underwritten by Farbanca.

The aforementioned Emma and Ambra securitization transactions do not meet the requirements for derecognition pursuant to IFRS 9, as they do not constitute a substantial transfer of all related risks and benefits. Therefore, the assets sold and not derecognized referring to receivables subject to such securitisations, not having the requisites envisaged for derecognition, have been "included" in the financial statements.

Third-party securitisation transactions

At 31 December 2020 the Group held 121.0 million euros in notes deriving from third-party securitisation transactions: specifically, it held 117.5 million euros worth of senior notes, a total of 2.8 million Euros for mezzanine and junior securities, and “mono-tranches” for 0.8 million euros. The value of the portfolio recorded a significant increase compared to the figure of 62.9 million euros at 31 December 2019, mainly due to the effect of the new underwriting of securities made by the Group during 2020, as detailed in the next paragraph.

Here below are the main characteristics of the transactions outstanding at the reporting date:

- “Five V” securitisation: the transaction, started at the end of November 2017, consists of a securitisation through the vehicle Ballade SPV S.r.l. having only an underlying mortgage loan classified as non-performing, with a nominal value of € 20 million and a maturity in October 2020 in which the Parent Company participates, also in this case, as Senior Noteholder and Sponsor, becoming the holder of 100% of senior securities for € 2.1 million and 5% of junior securities; the transaction is substantially closed following the sale of the underlying asset to the mortgage credit;
- “Elite Basket Bond (EBB)” Securitisation: the special purpose vehicle EBB S.r.l. issued Asset Backed Securities (ABS) at a price equal to the par value, amounting to 122 million Euro, in a single tranche with maturity in December 2027 and a Basket of minibonds issued by n. 11 Italian listed companies. The peculiarity of this operation consists in the fact that these securities are senior unsecured bonds but they benefit from a mutual Credit Enhancement equal to 15% of the total amount of the transaction (€ 24 million), to be used in the event of delays and/or insolvencies on the part of the issuing companies for the payment of interest and/or capital on the minibonds. The Parent participates in this transaction only as underwriter, subscribing for 5.6 million Euro worth of notes of the above tranche.
- “FINO 1” securitisation: this consists of an investment as a Senior Noteholder in a securitisation transaction whose issued tranches are backed by the “GACS” State guarantee (Non-performing Securitisation Guarantee) and with underlying non-performing positions with an original total nominal value of approximately € 5.4 billion. The tranche to be subscribed for originally € 92.5 million by Banca Ifis (on a total nominal value of € 650 million) is the Class A Senior Note, characterised by maturity in October 2045. Net of the repayments made from the initial subscription, at 31 December 2020 the carrying amount of the portion underwritten was 35.7 million Euro (at 31 December 2019 it was 54.2 million euros);
- “Elipso Finance” securitization: this is an investment as a Mezzanine and Junior Noteholder in a securitization transaction with underlying non-performing positions having an original total nominal value of approximately 2.6 billion euros. The tranches originally subscribed for 74 million Euros by the company now controlled by Ifis NPL Servicing (out of a total nominal value of 470 million Euros) are the Mezzanine Note Class B and the Junior Note Class C, maturing in January 2025. There were no capital repayments during the year and, at 31 December 2020 the subscribed portion of tranches had a book value of 2.7 million Euros;
- “Auxilio” securitization: this is an investment made in October 2020 for an initial nominal value of € 1.9 million, relating to the purchase by Banca Ifis of a portion of senior bonds, with legal maturity date in September 2035, issued by the securitization vehicle Auxilio SPV S.r.l., with underlying receivables deriving from loans backed by the guarantee of the Central Guarantee Fund. The transaction is characterized by a ramp-up period during which the issuer will be able to purchase additional credits from the proceeds deriving from the payment of further tranches of the subscription price of the securities; as a result of the payments made between the purchase date and the end of the financial year, the nominal value of the senior tranche held is equal to 4.5 million euros. There were no capital repayments in the months between the investment date and the end of 2020 and at 2020 December 31 the share subscribed had a book value of 4.5 million Euros;
- “Dyret II” securitization: the involvement of the Banca Ifis Group is limited to the purchase in November 2020 by the Parent Company of senior tranches of securities issued by the securitization

vehicle Dyret SPV Srl, and having collateral credits deriving from salary, pension or payment loans or from salary deductions, for a nominal value of € 14.9 million at the date of purchase. The securities provide for periodic repayment of the capital from the flows deriving from the securitized portfolio, and have a legal maturity date in December 2035. As of 31 December 2020, the residual nominal value is equal to € 14.4 million due to the repayments occurring between the date of purchase of the securities and the end of the year, while the book value of the tranches subscribed is equal to 14.3 million euros;

- "Futura 2019" securitization: In 2020 Banca Ifis underwrote, for a nominal value of 2.7 million euro, senior class securities maturing in July 2044 issued by the vehicle company Futura 2019 S.r.l.. There have been no repayments on these securities since their subscription, and as of 31 December 2020 they have a net book value of 2.7 million euros;
- Securitization "BCC NPLs 2020": this transaction was carried out in November 2020 on an underlying of NPLs for a total of 2.4 billion euros, divided into more than 9,600 debtors and 17,000 positions. This operation, conducted through the SPV BCC NPLs 2020 S.r.l., is assisted by the "Stato GACS" guarantee scheme and involved the issuing of senior, mezzanine and junior class securities with maturity for January 2045. The Parent Company Banca Ifis was involved in relation to the subscription of a portion of securities for each tranche, for a total of € 55.5 million at nominal value. In December, no repayments were recorded on these securities and the book value of the subscribed securities at 31 December 2020 was equal to € 54.7 million for the senior tranches (valued at amortized cost), while the value attributed to the mezzanine and junior shares (measured at fair value with impact on the income statement) is substantially null;
- "Bluwater" securitization: this is an operation carried out in December 2020 with Banco BPM as originator and Pillarstone Italy SPV S.r.l. as the vehicle company and which consisted in the issue of a single tranche of securities (so-called "monotranche" securities) maturing in October 2030. Banca Ifis subscribed a portion of these securities for 3.7 million of nominal value, which at 31 December 2020 has a book value of 0.8 million euro (securities measured at fair value with impact on the income statement).

For the sake of completeness, it should be noted that the Group holds, through the broader intervention carried out in 2017 by the Voluntary Scheme of the Interbank Deposit Protection Fund, shares of mezzanine and junior notes of the "Berenice" securitisation for a total of € 0.1 million.

Self-securitisation transactions

In December 2016, the Banca Ifis Group, through the now-merged entity ex-Ifis Leasing S.p.A. (originator), finalised a securitisation that involved selling a portfolio of performing loans totalling 489 million Euro to the special purpose vehicle Indigo Lease S.r.l..

The transaction was assigned a rating by Moody's and by DBRS. The same agencies will look after the annual monitoring for the entire duration of the operation.

The spot price of the loan portfolio sold, amounting to € 489 million, was paid by the vehicle to the merged company Ifis Leasing S.p.A. using the funds arising from the issue of senior securities for the amount of € 366 million, which was assigned a rating of Aa3 (sf) (Moody's) and AA (sf) (DBRS), whose repayment is linked to collections made on the loan portfolio. In addition, the vehicle issued 138 million Euro in junior notes that were acquired by the purchased by Ifis Leasing S.p.A. itself. and did not receive a rating. In addition, the latter received a specific servicing mandate to collect and manage the receivables.

During 2017, following the restructuring of the operation, a revolving system was launched which provides for monthly recoveries of new receivables to the vehicle until July 2021. At the same time, the maximum par value of senior and junior notes was increased to 609.5 and 169.7 million Euros respectively. During the same period, Banca Ifis SpA had subscribed for all the notes issued by the vehicle. Following the merger of Ifis Leasing S.p.A. in May 2018, Banca Ifis also became a subscriber for junior notes.

Therefore, at 31 December 2020 the Bank had subscribed for all the notes issued by the Banca Ifis Group.

It should be noted that, pursuant to the terms and conditions of the operation, there is no substantial transfer of all the risks and rewards relating to the transferred assets (receivables).

Quantitative information

Please refer to the tables in section E of the Notes to the Consolidated Financial Statements of the Banca Ifis Group 2020.

15. Remuneration policy (Art. 450 CRR)

The Report on remuneration policy and remuneration paid has been prepared for the Banca Ifis Group in accordance with the provisions of the Bank's remuneration policy:

- Article 123 ter of the TUF, rubric 'Report on remuneration policy and remuneration paid';
- Article 114-bis of CFA/TUF, entitled "Disclosure of information to the market on awards of financial instruments to corporate officers, employees or contractors";
- of Consob Regulation no. 11971/1999 updated with the changes made to resolution no. 21623 of 10 December 2020 (so-called (Issuer Regulations), with particular reference to Articles 84 quater, entitled 'Remuneration Report', and 3bis, entitled 'Information on awards of financial instruments to corporate officers, employees or contractors', as well as to Appendix 3A, Template no. 7 bis "Remuneration report", of the Issuers' Regulation and Scheme no. 7 "Information document which is the subject of an explanatory report of the administrative body for the meeting called to approve plans for compensation based on financial instruments";
- the provisions relating to 'Remuneration and incentive policies and practices' issued by the Bank of Italy and contained in Circular no. 285 of 17 December 2013, in implementation of the Community Directive 2013/36 / EU (cd. CRD IV).

The Report also takes into account the relevant European legislation in particular:

- the Delegated Regulation (EU)) no. 604 of 4 March 2014, n. 604, that establishes the regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on the risk profile of an institution's risk profile (Key Personnel or Risk Takers);
- the Regulation (EU) of 26 June 2013, n. 575, with reference to the provisions concerning the remuneration policy pursuant to art. 450;
- Directive 2013/36/EU of 26 June 2013 (CRD IV), on remuneration and incentive policies and practices in banks and banking groups.

The provisions of the "Corporate Governance Code" and the format of Borsa Italiana S.p.A. were also considered for the Report on Corporate Governance and Shareholding Structure in accordance with art. 123 123 bis of the TUF.

Information on the Remuneration Policy is provided in the 'Report on Remuneration Policy and Remuneration Paid' to which express reference is made.

The Report is available on the bank's website at: www.bancaIfis.it.

16. Financial leverage (Art. 451 CRR)

Qualitative disclosure

As part of the Basel 3 regulatory framework, the leverage ratio was introduced, starting from 1 January 2015, as an additional requirement with respect to the risk-based capital requirements.

The inclusion of the leverage index in the regulatory framework meets the following objectives:

- restricting the expansion of overall exposures to the availability of an adequate capital base and containing, in the expansive phases of the economic cycle, the level of bank indebtedness, thus helping to reduce the risk of deleveraging processes in crisis situations;
- introducing an additional safeguard against model risk - through a simple non risk-based measure - with a backstop function for the risk-based capital requirement.

For the measurement of the leverage ratio, the Bank follows the method prescribed by the CRR Regulation - Part Seven and Circular no. 285/2013. for its application in Italy by Circular no. 285/2013. Briefly, the indicator derives from the ratio of own funds for the component represented by the elements and instruments of Tier 1 capital and the size of the assets at risk of the Banking Group, on and off balance sheet, appropriately calibrated in application of specific conversion factors. For regulatory purposes, the measurement of the leverage ratio is carried out using IT procedures dedicated to the periodic production of statistical reports and consolidated prudential supervision. The leverage ratio is produced on a quarterly basis. The indicator is subject to monitoring both at individual and Banking Group level.

At regulatory level, the risk of financial leverage does not contribute to the definition of the total internal capital adequacy assessment process (ICAAP) performed annually by the Banking Group.

The risk of financial leverage is included in the RAF and therefore is subject to the procedures and control mechanisms included therein. During 2020 it was approximately three times higher than the minimum EBA value of 3% coinciding with the Risk Capacity defined in the RAF.

For further information on the management processes carried out by the Group, please refer to that shown in § 1.4.5.2 of this document.

Quantitative information

The leverage ratio is calculated according to the rules established by the “Commission Delegated Regulation (EU) 2015/62 of 10 October 2014 amending Regulation (EU) no. 575/2013 of the European Parliament and of the Council with regard to the leverage ratio”.

This disclosure is also made in accordance with the provisions of the Commission Implementing Regulation (EU) 2016/200 of 15 February 2016 which establishes technical implementation rules regarding disclosure on the leverage ratio of entities pursuant to Regulation (EU) no. 575/2013 of the European Parliament and of the Council”.

In the context of the Covid-19 pandemic crisis, Regulation 2020/873 introduced changes regarding the determination of the leverage ratio. Article 500ter allows exclusion, until June 27, 2021, from the overall exposure measure the exposures to the central bank represented by: a) coins and banknotes that constitute the legal currency in the country of the central bank; and (b) assets representing claims on the central bank, including reserves held with the central bank. On 10 November 2020, the Bank of Italy publicly declared the existence of exceptional circumstances that justify the application of this article.

The tables below show the financial leverage indicator at 31 December 2020 and the opening of the total exposure in the main categories, according to the provisions of articles 451(1)(a), 451(1) (b) and

451(1)(c) of the CRR. The amounts shown are related to the calculation of the leverage ratio in accordance with the current provisions for reporting purposes.

The LRCom template below provides the opening of the exposures for the various reporting aggregates, the measurement of the Tier 1 Capital and the percentage value of the leverage ratio.

Table 29 - LRCom Template - Harmonised disclosure on the leverage ratio

		Leverage ratio exposure (CRR)
	On-balance sheet exposures (excluding derivatives and SFTs)	
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral guarantees)	12,013,831
2	(Asset amounts deducted in determining Tier 1 capital)	-151,228
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2) 16/2/2016 L 39/9 Official Journal of the European Union IT**	**11,862,603**
	Exposures on derivatives	
4	Replacement cost associated with all derivatives transactions (net of eligible cash variation margin)	19,249
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	1,802
EU-5a	Exposure calculated under Original Exposure Method	
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	
8	(Exempted CCP leg of trading exposures cleared on behalf of the client)	
9	Adjusted effective notional amount of written credit derivatives	
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	
11	**Total derivatives exposures (sum of lines 4 to 10)**	**21,051**
	Securities financing transaction exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	
14	Counterparty credit risk exposure for SFT assets	
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of EU Regulation no. 575/2013	
15	Exposures on operations carried out as an agent	
EU -15a	Exempted CCP leg of SFT exposures cleared on behalf of the client)	
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**0**
	Other off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount 16/2/2016 L 39/10 Official Journal of the European Union IT	1,412,167
18	(Adjustments for conversion to credit equivalent amounts)	-796,639
19	**Total other off-balance sheet exposures (sum of lines 17 and 18)**	**615,528**
	(Exposures exempted in accordance with Article 429 paragraphs 7 and 14 of Regulation (EU) No. 575/2013 (on and off balance sheet))	
EU-19a	(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No. 575/2013 (on and off balance sheet))	
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No. 575/2013 (on and off balance sheet))	-664,880
	Capital and total exposure measure	
20	**Tier 1 capital**	**1,091,857**
21	**Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**11,834,302**
	Leverage ratio	
22	**Leverage ratio**	**9.23%**
EU -22a	Leverage ratio (excluding the impact of any applicable temporary exemption of exposures to central banks)	**8.74%**
	Choice on transitional arrangements and amount of derecognised fiduciary items	
EU -23	Choice on transitional arrangements for the definition of the capital measure	
EU -24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No. 575/2013	

The LRSum template below provides a reconciliation of the total exposure (indicator denominator) and the financial statements values.

Table 30 - LRSum template - Summary of reconciliation of accounting assets and leverage ratio exposures

		Applicable amounts
1	Total assets as per published financial statements	12,026,196
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	34,087
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429, paragraph 13, of Regulation (EU) no. 575/2013)	
4	Adjustments for derivative financial instruments	1,802
5	Adjustment for securities financing transactions (SFTs)	
6	Adjustment for off-balance sheet items (conversion to credit equivalent amounts of off-balance sheet exposures)	615,528
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429, paragraph 7, of Regulation (EU) no. 575/2013)	
EU-6b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429, paragraph 14, of Regulation (EU) no. 575/2013)	
7	Other adjustments	-843,311
8	**Measurement of the total exposure of the leverage ratio**	**11,834,302**

The LRSpl templates provides the breakdown of exposures other than derivatives and SFTs by counterparty.

Table 31 LRSpl template - Split-up of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

		Leverage ratio exposure (CRR)
UE-1	Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures), of which:	11,348,950
EU -2	Exposure in the trading portfolio	2804
EU-3	Banking book exposures, of which:	
EU-4	Covered bonds	
EU-5	Exposures treated as sovereigns	2,360,238
EU-6	Exposures to regional governments, multilateral development banks, international organisations and public sector bodies not treated as sovereign issuers	41,336
EU-7	Entities	388.917
EU-8	secured by mortgages on immovable property	222,028
EU-9	Retail exposures	1,868,984
EU-10	Enterprises	3,477,941
EU-11	Exposures in default	1,614,204
EU-12	other exposures (e.g. in equity instruments, securitisations and other non-credit assets)	891,379

17. Use of credit risk mitigation techniques (Art. 453 CRR)

Qualitative information

The strategies pursued by the Banking Group require credit lines to be preferably backed by suitable guarantees and risk mitigation instruments.

The guarantees for their ability to split the credit risk, if managed in an integrated manner with the knowledge of the customer, become the main and most effective instrument for the effective mitigation of the risk.

The Banca Ifis Group has implemented the requirements of Regulation (EU) 575/2013 for the purpose of recognising the effects of credit risk mitigation produced by the presence of collateral and personal guarantees for the protection of credit.

The process of controlling the acquisition of guarantees and the use of credit risk mitigation techniques focuses on the definition of suitable controls, instruments and processes aimed at guaranteeing firstly the verification of alignment with Supervisory requirements, distinguishing between:

- "general requirements", such as legal certainty, the speed of implementation and organisational requirements;
- "specific requirements", with particular attention to the revaluation and monitoring of the value of the guarantees and the verification of the absence of a significant correlation between the debtor's ability to repay/creditworthiness and the guarantee.

The Bank's Risk Management function constantly monitors the quality and adequacy of the procedures for assessing collateral to provide central oversight over the assessment and monitoring of collateral for the Banca Ifis Group's loan portfolio.

For further information on the management processes carried out by the Group, please refer to that shown in § 1.4.2.7 of this document.

Compensation policies and processes

The Bank does not apply processes for offsetting credit risk exposures with counter entries in the balance sheet or "off-balance sheet".

Main types of guarantors and counterparties in credit derivative transactions and their creditworthiness

The Banking Group has no credit derivative transactions.

Information on concentrations of market or credit risk within the credit risk mitigation instruments adopted

There are no concentration levels of significant risks within the credit risk mitigation instruments adopted.

Quantitative information

In this Section the guaranteed exposure amounts are shown according to the provisions of articles 453(f) and 453(g) of the CRR, with reference to the situation as of 31 December 2020.

Table 32 - Breakdown of exposures by regulatory class

Portfolios	Collateral guarantees	Personal guarantees	Total
Central governments and central banks		359,733	359,733
Regional governments or local authorities			-
Public sector bodies			-
Supervised intermediaries		7	7
Companies and other bodies	4,306	3	4,309
Retail exposures	1,594		1,594
Exposures guaranteed by real estate	121		121
Exposures in default			-
Exposures to collective saving investment entities (O.I.C.R.)			-
Exposures in equity			-
Other exposures			-
Total	**6,021**	**359,743**	**365,764**

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18. Disclosure on IFRS9 adjustments (Art. 473 bis CRR) and temporary treatment for OCI reserve (Art. 468 CRR)

Qualitative information

Starting from 1 January 2018 the Group has adopted the new accounting standard 'IFRS 9 Financial Instruments' (so-called IFRS 9).

With reference to the introduction of IFRS 9, on 12 December 2017, the European Parliament issued Regulation (EU) 2017/2395, which updates the CRR, inserting the new article 473 bis, “Introduction of IFRS 9”, which offers the option for banks to mitigate the impacts on own funds resulting from the introduction of the new accounting standard; in particular, the transitional provisions define the option for institutions of including in their Tier 1 capital a portion of the accrued provisions for expected credit losses, in application of IFRS 9 and up to the end of the extended transitional period by the Regulation (EU) 2020/873 January 31 until 31 December 2024.

In this regard, Banca Ifis had already informed the Bank of Italy of their decision to apply the transitional provisions for the entire period. In addition, Regulation (EU) 2020/873 which makes changes to Article 473bis, introduces a second adjustment factor to be applied to the provisions to be included in CET1 for the increases in adjustments made from 1 January 2020 until 31 December 2024. The adjustment factors to be considered are as follows:

IFRS 9 TEMPORARY TREATMENT 2018/2019	IFRS 9 2020/2024 TEMPORARY TREATMENT
0.70 from 1 January 2020 to 31 December 2020;	1.00 from 1 January 2020 to 31 December 2020;
0.50 from 1 January 2021 to 31 December 2021;	1.00 from 1 January 2021 to 31 December 2021;
0.25 from 1 January 2022 to 31 December 2022	0.75 from 1 January 2022 to 31 December 2022
0.00 from 1 January 2023 to 31 December 2023	0.50 from 1 January 2023 to 31 December 2023
0.00 from 1 January 2024 to 31 December 2024	0.25 from 1 January 2024 to 31 December 2024

Again with reference to the regulatory changes introduced by EU Regulation 873/2020 with a potential impact on CET1, we point out the temporary treatment of unrealized profits and losses due to changes in the FV of debt instruments issued by central, regional and local administrations; Banca Ifis informed the Bank of Italy of its decision to apply the new transitional provisions starting from 31 December 2020.

Inclusion in CET1 will take place gradually by applying the following factors.

TEMPORARY TREATMENT FOR OCI RESERVE
1.00 from 1st January 2020 to 31st December 2020
0.7 from 1 January 2021 to 31 December 2021
0.4 from 1 January 2022 to 31 December 2022

Regulation (EU) 2017/2395 also governs the disclosure obligations that institutions are required to publish, providing to the EBA the issuance of specific guidelines on the subject. Upon implementation of the regulations, the EBA/GL/2018/01 regulation and the related amendments made through the EBA/GL/2020/12 guidelines, the regulator issued specific guidelines which stipulate that banks that adopt a transitional treatment with reference to the IFRS9 impact are required to provide a comparison of own funds and capital and leverage ratios with and without the application of the related transitional provisions.

Quantitative information

At 31 September 2020, the adoption of IFRS 9 caused the expected credit loss provisions to rise by 22.3 thousand Euros, net of the tax effect. Therefore, in application of the transitional provisions - "dynamic approach" - the sum of € 11.3 million euros - attributable to the Group - was recognised in the Tier 1 capital (CET1).

At 31 December 2020, the OCI negative reserves on debt instruments issued by central, regional and local administrations, net of the tax effect, amounted to 2.7 million euros.

Therefore, in application of the temporary treatment, the negative amount of 1.4 million euros was sterilized from the primary class 1 capital - CET1 - pertaining to the Group.

Pursuant to the temporary treatments aimed at mitigating the impact of the introduction of IFRS 9 and of the OCI reserves on Government bonds on own funds, the Banca Ifis Banking Group is required during the transitional period to publish the amounts of own funds and related capital and leverage ratios that it would have, had it not applied these transitional provisions. The application of the transitional regime has an impact on total own funds equal to 24 bps.

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Table 33 - Comparison of own funds, capital ratios and leverage with and without the application of transitional provisions for IFRS 9 or similar expected credit losses, with and without the application of the temporary treatment in accordance with art. 468 of the CRR. (EBA GL/2020/12)

	Available capital (amounts)	
1	Common equity Tier 1 Capital (CET1)	1,038,715
2	Common Equity Tier 1 capital (CET1) as if the transitional provisions regarding IFRS9 or similar expected credit losses had not been applied	1,020,044
2°	Common Equity Tier 1 (CET1) as if the temporary treatment provided for in Article 468 of the CRR for unrealized profits and losses, measured at fair value recognized in the other components of the comprehensive income statement, were not applied	1,037,346
3	Tier 1 capital	1,091,857
4	Tier 1 capital (CET1) as if the transitional provisions regarding IFRS9 or similar expected credit losses had not been applied	1,073,187
4°	Tier 1 capital 1as if the temporary treatment provided for in Article 468 of the CRR for unrealized profits and losses, measured at fair value recognized in the other components of the comprehensive income statement, were not applied	1,090,488
5	Total capital	1,366,421
6	Total capital as if the transitional provisions regarding IFRS9 or similar expected credit losses had not been applied	1,347,750
6°	Total capital 1as if the temporary treatment provided for in Article 468 of the CRR for unrealized profits and losses, measured at fair value recognized in the other components of the comprehensive income statement, were not applied	1,365,052
	Risk-weighted assets (amounts)	
7	Total risk-weighted assets	9,203,971
8	Total risk-weighted assets as if the transitional provisions regarding IFRS9 or similar expected credit losses had not been applied	9,189,248
	Capital ratios	
9	Common Equity Tier 1 capital (as a percentage of the risk exposure amount)	11.29%
10	Common Equity Tier 1 capital (as a percentage of the risk exposure amount) as if the transitional provisions regarding IFRS9 or similar expected credit losses had not been applied	11.10%
10a	Common Equity Tier 1 (as a percentage of the risk exposure amount) as if the temporary treatment provided for in Article 468 of the CRR for unrealized profits and losses, measured at fair value recognized in the other components of the comprehensive income statement, were not applied	11.27%
11	Tier 1 capital (as a percentage of the risk exposure amount)	11.86%
12	Tier 1 capital (as a percentage of the risk exposure amount) as if the transitional provisions regarding IFRS9 or similar expected credit losses had not been applied	11.68%
12a	Common Equity Tier 1 (as a percentage of the risk exposure amount) as if the temporary treatment provided for in Article 468 of the CRR for unrealized profits and losses, measured at fair value recognized in the other components of the comprehensive income statement, were not applied	11.85%
13	Total capital (as a percentage of the risk exposure amount)	14.85%
14	Total capital (as a percentage of the risk exposure amount) as if the transitional provisions regarding IFRS9 or similar expected credit losses had not been applied	14.67%
14a	Total capital (as a percentage of the risk exposure amount) as if the temporary treatment provided for in Article 468 of the CRR for unrealized profits and losses, measured at fair value recognized in the other components of the comprehensive income statement, were not applied	14.83%
	Leverage ratio	
15	Measurement of the total exposure of the leverage ratio	11,834,302
16	Leverage ratio	9.23%
17	Leverage ratio as if the transitional provisions regarding IFRS9 or similar expected credit losses had not been applied	9.07%
17a	Leverage ratio as if the temporary treatment provided for in Article 468 of the CRR for unrealized profits and losses, measured at fair value recognized in the other components of the comprehensive income statement were not applied	9.21%

19. Disclosure on non-performing and forborne exposures (EBA / 2018/10 guidelines)

Qualitative disclosure

This section contains the information on non-performing and forborne exposures provided for by the EBA / GL / 2018/10 guidelines.

In 2017, the European Council approved an Action Plan aimed at limiting the level of non-performing loans, proposing an approach that provides for the complementary interaction of various policies, both national and European, which intervene on these aspects:

- banking supervision;
- reform of insolvency and debt recovery frameworks;
- development of secondary markets for impaired loans ("non-performing assets");
- restructuring of the banking sector.

Within this context, to promote greater transparency on the market of the quality of assets held by banks and reduce information asymmetry between market operators, the EBA intervened by issuing the 2018/10 guidelines, "Guidelines on disclosure of non-performing and forborne exposures ", specifying the information content that credit institutions are required to use for the information concerning non-performing exposures subject to forbearance measures and foreclosed assets, according to a principle of proportionality.

Quantitative disclosure

The tables required by the Guidelines envisaged for all credit institutions are provided below according to a harmonized frequency.

Tab. 34 - Credit quality of exposures subject to forbearance measures

		a	b	c	d	e	f	g	h
		Gross carrying amount/exposures subject to forbearance measures				Cumulative value adjustments, cumulative negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on exposures subject to forbearance measures	
		Performing exposures subject to forbearance measures	Non-performing exposures subject to forbearance measures			On exposures subject to performing forbearance measures	On exposures subject to non-performing forbearance measures		Of which are collateral and financial guarantees received on non-performing exposures subject to forbearance measures
				Of which are in a state of default	Of which are impaired				
1	Loans and advances	**39,629**	**208,495**	**208,495**	**208,495**	**- 1,230**	**- 13,594**	**42,812**	**20,737**
2	*Central banks*	-	-	-	-	-	-	-	-
3	*Public Administrations*	1,244	-	-	-	-25	-	-	-
4	*Credit institutions*	-	-	-	-	-	-	-	-
5	*Other financial companies*	4,543	22	22	22	-	- 5	16	-
6	*Non-financial institutions*	18,696	27,518	27,518	27,518	- 470	-9,958	20,239	11,065
7	*Families*	15,146	180,955	180,955	180,955	- 735	3,631	22,557	9,673
8	Debt securities	-	-	-	-	-	-	-	-
9	Commitments to the provision of loans	29	-	-	-	-	-	-	-
10	***Total***	**39,658**	**208,495**	**208,495**	**208,495**	**- 1,230**	**- 13,594**	**42,812**	**20,737**

Tab. 35 - Credit quality of performing and non-performing exposures for days past due

		a	b	c	d	E	f
		Gross carrying amount / nominal amount					
		Performing exposures			Non-performing exposures		
			Not overdue or overdue for ≤ 30 days	Past due > 30 days and ≤ 90 days		Probable defaults that have not matured or have matured for ≤ 90 days	Past due > 90 days and ≤ 180 days
1	Loans and advances	**6,246,346**	**5,862,732**	**383.614**	**1,841,214**	**235,370**	**54,561**
2	*Central banks*	-	-	-	-	-	-
3	*Public Administrations*	632,698	349,376	283,322	22,966	1,279	792
4	*Credit institutions*	44,060	44,060	-	-	-	-
5	*Other financial companies*	185,456	184,970	486	5,136	233	225
6	*Non-financial institutions*	4,655,096	4,581,435	73,661	549,344	100,734	33,600
7	*Of which are SMEs*	2,250,393	2,210,765	39,628	127,803	30,485	5,573
8	*Families*	729,036	702,891	26,145	1,263,769	133,124	19,944
9	Debt security	**2,048,647**	**2,048,647**	**-**	**1**	**1**	**-**
10	*Central banks*	-	-	-	-	-	-
11	*Public Administrations*	1,808,490	1,808,490	-	-	-	-
12	*Credit institutions*	56,786	56,786	-	-	-	-
13	*Other financial companies*	153,188	153,188	-	-	-	-
14	*Non-financial institutions*	30,183	30,183	-	1	1	-
15	Off-balance-sheet exposures	**1,368,395**			**66,593**		
16	*Central banks*	-			-		
17	*Public Administrations*	-			-		
18	*Credit institutions*	-			-		
19	*Other financial companies*	114,727			-		
20	*Non-financial institutions*	923,401			51,265		
21	*Families*	330,267			15,328		
22	***Total***	**9,663,387**	**7,911,378**	**383.614**	**1,907,809**	**235,371**	**54,561**

		g	h	i	j	K	l
		Gross carrying amount / nominal amount					
		Non-performing exposures					
		Past due > 180 days and ≤ 1 year	Past due > 1 year and ≤ 2 years	Past due > 2 years and ≤ 5 years	Past due > 5 years and ≤ 7 years	Past due > 7 years	Of which are in default
1	Loans and advances	**136,823**	**278,716**	**730,966**	**292,161**	**112,619**	**1,839,986**
2	*Central banks*	-	-	-	-	-	-
3	*Public Administrations*	490	2,753	13,849	3,280	523	22,966
4	*Credit institutions*	-	-	-	-	-	-
5	*Other financial companies*	14	809	3,775	38	43	5,136
6	*Non-financial institutions*	52,902	97,972	209,768	14,412	39,956	548,941
7	*Of which are SMEs*	14,849	46,500	21,520	1,923	6,955	127,400
8	*Families*	83,417	177,181	503,573	274,431	72,098	1,262,943
9	Debt security	**-**	**-**	**-**	**-**	**-**	**1**
10	*Central banks*	-	-	-	-	-	-
11	*Public Administrations*	-	-	-	-	-	-
12	*Credit institutions*	-	-	-	-	-	-
13	*Other financial companies*	-	-	-	-	-	-
14	*Non-financial institutions*	-	-	-	-	-	1
15	Off-balance-sheet exposures						**64,515**
16	*Central banks*						-
17	*Public Administrations*						-
18	*Credit institutions*						-
19	*Other financial companies*						-
20	*Non-financial institutions*						50,735
21	*Families*						13,780
22	***Total***	**136,823**	**278,716**	**730,966**	**292,161**	**112,619**	**1,904,502**

Tab. 36 - Performing and non-performing exposures and related adjustments and provisions

		a	b	c	d	E	f
		Gross carrying amount / nominal value					
		Performing exposures			Non-performing exposures		
			Of which are stage 1	Of which are stage 2		Of which are stage 2	Of which are stage 3
1	Loans and advances	**6,246,346**	**5,848,073**	**391,384**	**1,841,214**	**-**	**1,816,810**
2	*Central banks*	-	-	-	-	-	-
3	*Public Administrations*	632,698	412,975	219,723	22,966	-	22,966
4	*Credit institutions*	44,060	44,050	-	-	-	-
5	*Other financial companies*	185,456	177,909	5,022	5,136	-	5,136
6	*Non-financial institutions*	4,655,096	4,530,560	120,301	549,344	-	524,939
7	*Of which are SMEs*	2,250,393	2,175,438	74,870	127,803	-	127,803
8	*Families*	729,036	682,578	46,338	1,263,769	-	1,263,769
9	Debt security	**2,048,647**	**2,045,115**	-	**1**	**-**	**1**
10	*Central banks*	-	-	-	-	-	-
11	*Public Administrations*	1,808,490	1,808,490	-	-	-	-
12	*Credit institutions*	56,786	56,786	-	-	-	-
13	*Other financial companies*	153,188	149,656	-	-	-	-
14	*Non-financial institutions*	30,183	30,183	-	1	-	1
15	Off-balance-sheet exposures	***1,368,395***	***1,327,915***	***2,670***	***66,593***	**-**	***66,582***
16	*Central banks*	-	-	-	-	-	-
17	*Public Administrations*	-	-	-	-	-	-
18	*Credit institutions*	-	-	-	-	-	-
19	*Other financial companies*	*114,727*	*82,379*	-	-	-	-
20	*Non-financial institutions*	*923,401*	*916,168*	*1,770*	*51,265*	-	*51,254*
21	*Families*	*330,267*	*329,368*	*899*	*15,328*	-	*15,328*
22	***Total***	***9,663,387***	***9,221,103***	***394,054***	***1,907,809***	**-**	***1,883,393***

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		g	h	i	j	K	l
		Cumulative value adjustments, cumulative negative changes in fair value due to credit risk and provisions					
		Performing exposures - cumulative value adjustments and provisions			Non-performing exposures - cumulative value adjustments, cumulative negative changes in fair value due to credit risk and provisions		
			Of which are stage 1	Of which are stage 2		Of which are stage 2	Of which are stage 3
1	Loans and advances	**-67,603**	**-61,969**	**-5,635**	**-225,813**	**-**	**-225,813**
2	*Central banks*	-	-	-	-	-	-
3	*Public Administrations*	-796	-478	-318	-8,698	0	-8,698
4	*Credit institutions*	-235	-235	-	-	-	-
5	*Other financial companies*	-2,851	-2,848	-3	-2,232	-	-2,232
6	*Non-financial institutions*	-54,453	-50,795	-3,659	-197,115	-	-197,115
7	*Of which are SMEs*	-23,923	-21,289	-2,634	-56,711	-	-56,711
8	*Families*	-9,267	-7,612	-1,655	-17,769	-	-17,769
9	Debt security	**-1,237**	**-1,237**	**-**	**-**	**-**	**-**
10	*Central banks*	-	-	-	-	-	-
11	*Public Administrations*	-502	-502	-	-	-	-
12	*Credit institutions*	-53	-53	-	-	-	-
13	*Other financial companies*	-527	-527	-	-	-	-
14	*Non-financial institutions*	-155	-155	-	-	-	-
15	Off-balance-sheet exposures	***3,236***	***3,234***	**2**	***7,751***	**-**	***7,751***
16	*Central banks*	-	-	-	**-**	-	
17	*Public Administrations*	-	-	-	**-**	-	
18	*Credit institutions*	-	-	-	**-**	-	
19	*Other financial companies*	*844*	*844*	-	**-**	-	
20	*Non-financial institutions*	*2,305*	*2,305*	-	*7,549*	-	
21	*Families*	*87*	*85*	*2*	*202*	-	
22	***Total***	***- 65,604***	***- 59,972***	***- 5,632***	***- 218,062***	**-**	***- 218,062***

m	n	o

		Net partial cancellations	Collateral and financial guarantees received	
			On performing exposures	On non-performing exposures
1	Loans and advances	**-45,931**	**1,931,798**	**169,765**
2	*Central banks*	-	-	-
3	*Public Administrations*	-38,374	357	-
4	*Credit institutions*	-	781	-
5	*Other financial companies*	-	37,225	1,500
6	*Non-financial institutions*	-1,762	1,422,821	86,651
7	*Of which are SMEs*	-490	799,736	19,282
8	*Families*	-5,794	470,614	81,614
9	Debt security	**-**	**-**	**-**
10	*Central banks*	-	-	-
11	*Public Administrations*	-	-	-
12	*Credit institutions*	-	-	-
13	*Other financial companies*	-	-	-
14	*Non-financial institutions*	-	-	-
15	Off-balance-sheet exposures		***8,297***	**-**
16	*Central banks*		-	-
17	*Public Administrations*		-	-
18	*Credit institutions*		-	-
19	*Other financial companies*		*2,624*	-
20	*Non-financial institutions*		*5,125*	-
21	*Families*		*549*	-
22	***Total***	***- 45,931***	***1,940,095***	***169,765***

20. Disclosure on exposures subject to measures applied in response to the Covid-19 crisis (EBA Guidelines GL / 2020/07)

Quantitative disclosure

With a communication dated 30 June 2020, the Bank of Italy implemented the EBA Guidelines relating to the reporting and disclosure obligations to the public on the exposures subject to measures applied in the light of the Covid-19 crisis (EBA / GL / 2020/07). The objective of the guidelines is to monitor, at a European level and in a harmonized way, the moratoriums granted to support customers in response to the crisis triggered by Covid-19 as well as to provide an adequate and appropriate understanding of the risk profile of supervised entities, in consistency with the information relating to the consolidated Finrep report. To this end, institutions are required to publish information on:

- exposures subject to legislative and non-legislative moratoriums applied in light of the Covid-19 crisis (EBA / GL / 2020/02);
- exposures subject to forbearance measures applied following the Covid-19 crisis;
- new exposures subject to public guarantee schemes introduced in the Member States.

Quantitative disclosure

Below are the three new tables provided for in Annex 3 EBA / GL / 2020/07).

Tab.37: Information on loans and advances subject to legislative and non-legislative moratoriums

		A	b	c	d	e	f	g
		Gross book value						
			In bonis			Non-performing		
				Of which are: exposures subject to forbearance measures	Of which are: instruments with a significant increase in credit risk after initial recognition but which are not non-performing (Phase 2)		Of which are: exposures subject to forbearance measures	Of which are: probable defaults that have not expired or which have not been past due for more than 90 days
1	Loans and advances subject to a moratorium	**657,390**	**652,188**	**8,387**	**22,693**	**5,203**	**348**	**2,782**
2	of which are: to families	**93,285**	**92,641**	**807**	**1,464**	**644**	**173**	**595**
3	*of which are: secured by residential real estate as collateral*	10,303	10,147	144	245	157	98	157
4	of which are: to non-financial companies	**555,906**	**551,348**	**3,054**	**16,370**	**4,558**	**174**	**2,186**
5	*of which are: to small and medium-sized enterprises*	419,356	416,101	2,108	11,965	3,255	52	1,940
6	*of which are: secured by non-residential real estate as collateral*	63,573	62,911	-	11,965	662	-	-

		h	i	j	k	l	m	n	o
		Accumulated impairment, accumulated negative changes in fair value due to credit risk							Gross book value
			In bonis			Non-performing			
				Of which are: exposures subject to forbearance measures	Of which are: instruments with a significant increase in credit risk after initial recognition but which are not non-performing (Phase 2)		Of which are: exposures subject to forbearance measures	Of which are: probable defaults that have not expired or which have not been past due for more than 90 days	Inflows in the non-performing exposures
1	Loans and advances subject to a moratorium	-11,436	-9,729	-123	-635	-1,706	-42	-750	1,462
2	of which are: to families	-2,082	-1,806	-30	-48	-276	-16	-259	-
3	*of which are: secured by residential real estate as collateral*	-119	-79	-10	-10	-40	-15	-40	-
4	of which are: to non-financial companies	**-9,270**	**-7,839**	**-93**	**-587**	**-1,431**	**-27**	**-491**	**1,462**
5	*of which are: to small and medium-sized enterprises*	**-6,112**	**-5,444**	**-66**	**-330**	**-667**	**-6**	**-408**	**661**
6	*of which are: secured by non-residential real estate as collateral*	**-1,006**	**-684**	**-**	**-133**	**-322**	**-**	**-**	**662**

Tab.38: Breakdown of advance loans subject to legislative and non-legislative moratoriums by residual duration of the moratoriums

		a	b	c	d	e	f	G	h	I
		Number of debtors	Gross book value							
				Of which are: legislative moratoriums	Of which are: expired	Remaining duration of the moratoriums				
						<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
1	Loans and advances for which a moratorium has been offered	**10,206**	**710,782**							
2	Loans and advances subject to a moratorium (granted)	**10,198**	**706,745**	**630,569**	**49,355**	**643,635**	**2,010**	**56**	**4,856**	**6,344**
3	of which are: to families		100,685	92,730	7,400	92,665	323	56	-	-
4	*of which are: secured by residential real estate as collateral*		12,171	12,171	1,868	9,996	90	56	-	-
5	of which are: to non-financial companies		597,712	534,653	41,806	547,627	1,687	-	-	6,344
6	*of which are: to small and medium-sized enterprises*		450,713	406,798	31,358	417,879	1,228	-	-	-
7	*of which are: secured by non-residential real estate as collateral*		66,064	62,448	2,491	63,573	-	-	-	-

Tab.39: Information on new loans and advances subject to newly applied public guarantee schemes introduced in response to the Covid-19 crisis

		a	b	C	d
		Gross book value		Maximum amount of the guarantee that can be considered	Gross book value
			of which: subject to forbearance measures	Public guarantees received	Inflows in the non-performing exposures
1	**New loans and advances subject to public guarantee schemes**	**214,600**		**190,456**	
2	of which are: to families	2,735			
3	of which are: secured by residential real estate as collateral	-			
4	of which are: to non-financial companies	211,865		187,918	
5	of which are: to small and medium-sized enterprises	178,555			
6	of which are: secured by non-residential real estate as collateral	-			

21. Adequacy of risk management measures and reconciliation between overall risk profile and corporate strategy (art. 435 e) and f))

With reference to the requirements of article 435 - paragraph 1, letters e) and f) of Regulation (EU) no. 575/2013, a summary disclosure on the adequacy of the risk management measures and the reconciliation between the overall risk profile and the corporate strategy is provided below. Please refer to paragraphs 1.3 'Risk profile and risk management and measurement systems' and 1.4 'Strategies and processes for risk management' for more detailed discussion.

Risk management measures adequacy

The Banca Ifis Group carries out continuous updating activities in relation to the systems and processes used in order to improve its risk management system.

The Risk Management function has the task of ensuring protection and the integrated management of risks by ensuring the development and improvement of measurement methods and models.

For appropriate risk management, the Group's internal control system plays a key role to ensure proper disclosure and suitable audit coverage of all activities and, in particular, in the areas featuring greater corporate risk. Audits involve, with different roles, the Corporate Bodies of the Group companies, the Parent Company's Management and the Group's personnel. One of the main players of the internal control system is the Control and Risks Committee whose task is to support the assessments and decisions taken by the Board of Directors.

Reconciliation between the overall risk profile and the corporate strategy

The Group ensures full compliance with and a precise reconciliation among: the business model, the strategic plan, the Risk Appetite Framework (RAF), the capital adequacy assessment process (ICAAP), the liquidity management process (ILAAP), the Recovery Plan, the company's organisation and the internal control system. The RAF is the reference framework governing the risk appetite, the tolerances thresholds and the risk limits, in line with the business model and the strategic plan.

The processes of RAF definition and strategic planning are highly interrelated, since both are based on assumptions of correct profitability for risk, capital strength and solidity in terms of liquidity.

The RAF definition criteria take account of the business model and reference markets in which the Group operates, the strategic objectives, and an integrated view of the risks measured in accordance with the procedure adopted for ICAAP and ILAAP purposes.

Risk appetite is measured at Group level and is expressed through indicators representing the strategic and financial objectives of the Group and the regulatory constraints consistently with verification of the adequacy of capital and liquidity with the risk management processes. Such indicators are defined based on specific significant risks for the bank and specific business units and are mainly attributable to the capital amount and adequacy, liquidity, profitability and asset quality. These indicators are regularly monitored by the Risk Management function and the relevant disclosure is provided to the bodies

responsible for management and strategic supervision. Due to the specific business model adopted, the main risk to which the Group is exposed is credit risk.

Operational risk, being a cross-sectional risk that can potentially involve all structures and business of the Bank, is considered as a significant risk for the Group.

The model risk is also of importance, due to the significant incidence and number of valuation models operating in the non-performing loans segment acquired from third parties (Ifis NPL and FBS subsidiaries). Model risk is also of the same importance, due to the significant incidence and number of valuation models operating in the sector of non-performing loans acquired from third parties (subsidiary Ifis NPL).

As regards liquidity risk, this potentially affects most of the banking group's operating units and is important for all credit institutions and the supervisory authority. To ensure proper management of liquidity risk, a set of indicators such as LCR, NSFR, Maturity Ladder and the business units that can generate inflows and outflows and the duration of assets and liabilities are regularly monitored.

The types of risks of medium significance, which relate to the Banking Group, refer to concentration risk, reputational risk, the risk associated with the portion of encumbered assets, strategic risk and interest rate risk.

Other types of risk are also marginal, such as market risk, counterparty and credit valuation adjustment risk, country and transfer risk, Italy sovereign risk, residual risk, settlement and delivery risk, risk arising from securitisation transactions, risk arising from investments and excessive leverage risk.

22. CEO's declaration pursuant to Art. 435, letters e) and f) of EU regulation 575/2013

The Chief Executive Officer, Luciano Colombini, acting on behalf of the Board of Directors, declares, pursuant to Art. 435 paragraph 1, letters e) and f) of Regulation 575/2013 (CRR) which:

- the risk management systems implemented by the Banca Ifis Group and described in the document 'Public Disclosure at 31 December 2020 - Pillar 3', are in line with the Group's profile and strategy;
- the above-mentioned document, approved by the Board of Directors of the Parent Company, represents the Group's overall risk profiles and is consistent with and linked to the corporate strategy.

Venice, March 11, 2021

The Chief Executive Officer

Luciano Colombini

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23. Declaration by the Manager charged with preparing the Company's financial reports

Pursuant to Article 154 bis, Paragraph 2 of Italy’s 'Consolidated Law on Financial Intermediation', the Corporate Chief Financial Officer of Banca Ifis S.p.A., Mariacristina Taormina, declares that the accounting information contained in this 'Public Disclosure at 31 December 2020 - Pillar 3' corresponds to the company’s accounting records, books and entries.

Venice, March 11, 2021

The Corporate Chief Financial Officer

Mariacristina Taormina