



Mediocredito Centrale Group

2020 Consolidated Annual Report

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Introduction

With a view to promoting the development of financial and investment activities, focusing on Southern Italy and SMEs, and in execution of the provisions of Decree Law 142/2019 on “Urgent measures for the support of the credit system in Southern Italy and for the creation of an investment bank”, converted into Law No. 5 of 7 February 2020, Mediocredito Centrale S.p.A. (below also “MCC” or the “Parent Company”) completed the acquisition of a 96.8% shareholding in the capital of Banca Popolare di Bari in special administration (below also “BPB”) on 30 June 2020.

On 15 October 2020, with the closure of the receivership, the shareholding in BPB became a controlling interest, as defined by IFRS 10, and on 12 March 2021 the Bank of Italy entered the Mediocredito Centrale Banking Group (below also the “Group”) in its register of banking groups.

For prudential consolidation purposes, the Group consists of Banca del Mezzogiorno-Mediocredito Centrale, as Parent Company, and the subsidiaries Banca Popolare di Bari and Cassa di Risparmio di Orvieto and the reporting for supervisory purposes applies with effect from 31 October 2020. For accounting purposes, these financial statements at 31 December 2020 are the first consolidated financial statements of the newly formed Mediocredito Centrale Group.



In implementation of Legislative Decree 38 of 28 February 2005 and Legislative Decree 136 of 18 August 2015, the Consolidated Financial Statements of the Mediocredito Centrale Group have been prepared in accordance with the IAS/IFRS accounting standards issued by the International Accounting Standards Board (IASB) and the related interpretation documents of the International Financial Reporting Interpretations Committee (IFRIC), endorsed by the European Commission in accordance with Community Regulation No. 1606 of 19 July 2002.

The Consolidated Financial Statements at 31 December 2020 have been prepared on the basis of the instructions in the Bank of Italy Circular No. 262 “Banks’ financial statements: schemes and compilation rules” of 22 December 2005 as amended.

The above-mentioned instructions establish the format of the financial statements and their methods of preparation, as well as the content of the notes to the financial statements.

The Consolidated Financial Statements are made up of the Balance Sheet, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Shareholders' Equity, the Statement of Cash Flows, and the Notes to the Financial Statements. They are also accompanied by a Consolidated Report on Operations examining the Bank's operating performance and financial position. No comparison with the previous year has been provided because the 2020 consolidated financial statements are the first to be published by the newly formed MCC Group.

The comments on the results for the year are supported by the presentation and examination of the Income Statements and Balance Sheets provided in the Consolidated Report on Operations.

The consolidated financial reports and the press releases published in the period are available, together with other financial documentation, on the Parent Company's website (at: www.mcc.it).

Composition of the Governing Bodies

Board of Directors

Chairperson	Massimiliano Cesare
Chief Executive Officer	Bernardo Mattarella
Director	Pasquale Ambrogio
Director	Leonarda Sansone
Director	Gabriella Forte

Board of Statutory Auditors

Chairperson	Paolo Palombelli
Regular Auditor	Carlo Ferocino
Regular Auditor	Marcella Galvani
Alternate auditor	Roberto Micolitti
Alternate auditor	Sofia Paternostro

* * *

Auditing Firm

Deloitte & Touche S.p.A. (*)

Financial Reporting Manager

Elena De Gennaro

(*) From 23 October 2020 and up to the approval of the financial statements at 31 December 2028

CONSOLIDATED REPORT ON OPERATIONS

Introduction

In compliance with IFRS 10, the Mediocredito Centrale Group has verified the existence of control over its investees and other entities that it has dealings with and has consequently determined the scope of consolidation by verifying:

- the existence of power over the relevant activities;
- the exposure to variability of returns;
- the ability to use the power held to influence the returns to it is exposed to.

The concept of “control” in the accounting standard is substantive and can differ from the civil law concept (Article 2359 of the Italian Civil Code). Specifically, even the possession of a majority of the voting rights exercisable at shareholders’ meetings is not in itself decisive, if this possession is not accompanied by substantive and exercisable rights that confer the actual ability to direct the relevant activities.

On 30 June 2020, Mediocredito Centrale acquired 15,220,776,433 ordinary shares of Banca Popolare di Bari for a carrying amount of €430 million and those shares correspond to around 96.8% of the share capital of that bank. However, at 30 June 2020, BPB continued to be under the receivership ordered by the Bank of Italy on 13 December 2019 pursuant to Articles 70 and 98 of the Consolidated Law on Banking. As envisaged by the Consolidated Law on Banking, receivers “exercise all the functions and powers vested in the bank’s management body pursuant to the Italian Civil Code, the applicable legal provisions and the Bank’s Articles of association”. In addition, although the capital increase was completed, the receivers were responsible for material actions including (i) the completion of the procedure for the compensation of the previous shareholders; (ii) the preparation and sending of the responses to the Bank of Italy’s inspection report; (iii) and the preparation of the closing financial statements. Control over BPB therefore only passed to MCC when the Bank of Italy closed the receivership on 15 October 2020.

As a result, the scope of consolidation at 15 October 2020 includes the financial statements of the Parent Company and of the following subsidiaries:

A) Part of the Banking Group:

- Banca Popolare di Bari S.p.a.
- Cassa di Risparmio di Orvieto S.p.a.

B) Not part of the Banking Group

- BPBroker S.r.l.
- 2017 Popolare Bari RMBS S.r.l.

- 2018 Popolare Bari RMBS S.r.l.
- 2019 Popolare Bari RMBS S.r.l.
- 2019 Popolare Bari SME S.r.l.
- Adriatico Finance SME S.r.l.
- MCC RMBS S.r.l.

The method of consolidation used is the line-by-line method. This method consists of acquiring the balance sheet and income statement aggregates of the subsidiaries on a line-by-line basis. After having allocated the shareholders' equity and profit and loss attributable to the non-controlling interests, in a separate item, the value of the equity investment is eliminated by offset against the remaining value of the shareholders' equity of the subsidiary. The resulting differences, when positive, are recorded under intangible assets as goodwill or as other intangible assets, after any allocations to the assets or liabilities of the subsidiary. Negative differences are recognised in the income statement. Assets, liabilities, income and expenses between consolidated enterprises are eliminated in full.

Acquisitions of companies are accounted for using the "acquisition method" envisaged by IFRS 3, according to which the identifiable assets acquired, and liabilities assumed (including contingent liabilities) must be recognised at their respective acquisition-date fair values. In addition, for each business combination, any non-controlling interest in the acquiree may be recognised at fair value or in proportion to the non-controlling interest in the identifiable net assets of the acquiree. Any surplus of the consideration transferred (represented by the fair value of the assets sold, the liabilities incurred, and the equity instruments issued) and the fair value of the non-controlling interests over the fair value of the assets and liabilities acquired is recognised as goodwill; if the price is lower, the negative difference is recognised in the income statement.

The "acquisition method" is applied from the acquisition date, i.e. from the time when control of the acquiree is actually obtained (for the MCC Group on 15 October 2020). The profits and losses of a subsidiary acquired during the reporting period are therefore included in the consolidated financial statements from its acquisition date. Similarly, the profits and losses of a subsidiary subject to disposal are included in the consolidated financial statements until the date control ceases. The difference between the proceeds from disposal and the carrying amount at the date of disposal (including exchange differences recorded in the shareholders' equity upon consolidation) is recognised in the income statement.

The process of determining the acquisition-date fair value of the identifiable assets and liabilities assumed (including contingent liabilities), known as Purchase Price Allocation (“PPA”), must be completed within one year of the date of acquisition of control (the “Measurement Period”). If the initial accounting for a business combination has not been completed by the end of the reporting period in which the combination occurs, the acquirer reports provisional amounts in its financial statements for the items for which the accounting is incomplete. These provisional amounts will be adjusted retroactively at the end of the measurement period.

With regard to these consolidated financial statements, the PPA process is still in progress and the provisional amounts available at the reporting date have therefore been recognised. Upon completion of the process, and in any event by the end of the measurement period (15 October 2021), any adjustments will be recognised retroactively (see “Part G - Business combinations involving companies or business units” of the notes to the financial statements for more details).

Where necessary – and except in immaterial cases – any financial statements of consolidated companies prepared according to different accounting standards are brought into line with the accounting standards used by the Group.

Profitability indicators

PROFITABILITY INDICATORS	31.12.2020
Cost/Income	-52.8%
Net income for the period (net of negative goodwill)/Average shareholders' equity (ROE)	7.0%
Net interest income/Net banking and insurance income	25.7%
Net fees and commissions/Net banking and insurance income	69.9%
Net income for the period (net of negative goodwill)/Total assets	0.2%

The macroeconomic scenario and the lending system

As stated by the Director-General of the World Health Organisation, T. A. Ghebreyesus, 2020 was a year of unprecedented tragedy in the modern world, marked by a death toll that is still struggling to slow down.

In January 2020, as the Chinese authorities announced the launch of an investigation into the spread of a mysterious viral pneumonia, with dozens of people affected in the central Chinese city of Wuhan, the images of faces covered by masks, public places emptied by lockdowns, and exhausted healthcare and emergency services workers dressed up as if they were facing biological warfare, still seemed remote.

These sights quickly became familiar across the planet.

Dramatic human and social repercussions, and economic consequences of a very particular crisis: the worst recession in peacetime.

The Covid 19 pandemic disrupted the global economy and the measures adopted to contain its spread triggered a recession of unprecedented depth and speed.

In the Eurozone, GDP fell by 6.6 percentage points. However, the negative economic repercussions of the pandemic were mitigated by measures taken by the EU. On 20 March, the Commission proposed the activation of the general safeguard clause of the Stability and Growth Pact, which allows Member States to take measures to respond to a crisis, diverging from the fiscal obligations that would normally apply under the European fiscal framework. The scale of the discretionary measures taken by European governments in 2020 had a budgetary impact estimated at around 4% of GDP on average in the Eurozone, compared to 1.5% at the height of the financial crisis in 2009.

The other major EU actions are summarised below in chronological order:

- On 2 April, the Commission proposed to mobilise €2.7 billion to support the health systems of the Member States in combating the pandemic. This proposal was approved by Council on 14 April;
- On 28 April, the Commission adopted a banking package to facilitate bank lending to households and enterprises across the EU. The aim of the package is to ensure that banks can continue to provide financing to support the economy and help mitigate the significant economic impact of Covid-19;
- On 27 May, the Commission presented a plan for Europe's recovery and proposed the launch of a new instrument: the **Next Generation EU**. On 21 July, EU leaders approved the recovery plan and the multiannual financial framework for 2021-2027. On 10 November, the Agreement was reached on a €1,800 billion package aimed at rebuilding a post Covid-19 Europe that is greener, more digital, more resilient and better adapted to current and future challenges;
- On 16 June, the Commission presented the EU Vaccine Strategy to accelerate the development, production and use of vaccines;
- On 24 August, the Commission presented a set of proposals to the Council for providing financial support to 15 Member States under **SURE** (Support to Mitigate Unemployment Risks in an Emergency), a temporary EU instrument to mitigate unemployment risks during the Covid-19 crisis. On 25 September, the Council approved €87.4 billion in financial support. On 21 October, the first €17 billion corporate bond was issued, made up of two bonds: a €10 billion bond maturing in October 2030 and a €7 billion bond maturing in 2040. This highly rated instrument attracted strong interest from investors: demand was 13 times higher than the offer, resulting in favourable pricing conditions for both bonds;
- On 10 September, the WHO and the Commission launched the Facilitation Council to strengthen global collaboration in order to accelerate the development and distribution of vaccines, tests, and treatments for Covid-19 and improve health systems.

In Italy, the fall in GDP of 8.9%, as reported by Prometeia, resulted from very strong fluctuations, having plummeted by 17.9% in Q2 2020 compared to Q4 2019, followed by a sharp rebound (+16%) and then the autumn "freeze" (-1.9%).

In 2020, Italy lost €150 billion of GDP and €108 billion of consumption, while jobs fell by 435 thousand, and government debt increased to €156.3 billion from the €27.9 billion it had fallen to in 2019.

The exceptional support, not only from monetary policies, but also from the public funding to households and enterprises, facing unprecedented difficulties, is perhaps the key to understanding this crisis and to identifying how to exit from it. Based on the projections for the Italian economy presented by the Bank of Italy, the country's GDP is expected to be still weak at the beginning of 2021 but growing significantly from the spring, in conjunction with the assumed improvement in the health situation (according to the forecasts presented by the government, "herd immunity" should be achieved by the summer of 2021). From the second half of 2021 and in the following two-year period, additional impetus will come from the support and recovery measures financed from the Italian national budget and the measures adopted by the European Commission. Average GDP should grow by 3.5% in 2021, 3.8% in 2022, and 2.3% in 2023, returning to pre-pandemic levels in 2023.

In the banking sector, various regulatory measures have been adopted aimed at facilitating the role that Italian banks have played as drivers of the recovery since the outset of the emergency. Numerous regulatory changes have been made in response to the health emergency, to accompany the rules already set out in the supervisory roadmap on calendar provisioning, the new definition of default, and loan origination and monitoring.

These regulatory changes also involved taxation, including the aspects related to the acquisition of tax credits envisaged by the "Rilancio" Decree (including the so-called "Superbonus"), as well as the incentive related to the sale of loans and receivables with "defaulting borrowers" carried out by 31 December 2020.

In this regard, activities aimed at adapting the banking business to the green transition of the economy are accelerating. Corporate Social Responsibility, Environmental, Social and Governance (ESG), digital finance transformation, and data quality and operational resilience are now essential areas of intervention for banks, particularly in light of the new scenarios generated by the Covid-19 emergency.

Key regulatory and supervisory interventions by institutions in response to Covid-19

The measures adopted by the ECB included the guidance on the classification and measurement of loans provided in its press release of March 20 "ECB Banking Supervision provides further flexibility to banks in reaction to coronavirus". Specifically, it explained that acceptance of moratoria is not an automatic trigger of unlikely-to-pay status, because they

are deferrals made on a legislative basis and the counting of days past due, necessary to identify past due positions, is suspended until the end of the moratoria.

In addition, although not strictly within its remit, the ECB, under its prudential mandate, also commented on forward-looking assessments in accordance with IFRS 9, recommending that banks avoid excessively pro-cyclical assumptions in their models for estimating provisions. For the determination of expected credit losses, the ECB called on credit institutions to “give greater weight to long-term macroeconomic forecasts evidenced by historical information when estimating long-term expected credit losses”.

The European Securities and Market Authority (ESMA) also commented on the subject of calculating ECLs pursuant to IFRS 9. In particular, it noted that the measures adopted in a pandemic relating to the suspension or extension of payments do not automatically entail the identification of a Significant Increase in Credit Risk (SICR) with consequent classification to Stage 2. These concepts were then further examined and detailed in the subsequent EBA communication “Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the Covid-19 crisis” of 2 April 2020.

On 18 June 2020, the European Parliament approved a measure to amend Regulations (EU) 575/2013 (CRR) and (EU) 876/2019 (CRR2) aimed at introducing adjustments to ensure continued ability of banks to provide credit to households and enterprises. The adjustments were aimed at bringing forward the entry into force of the measures of the new regulatory framework, which results in lower capital absorption, to support the financing of economies, also by means of prudential regulation.

On 27 March 2020, the IFRS Foundation published “IFRS 9 and covid-19 - Accounting for expected credit losses applying IFRS 9 Financial Instruments in the light of current uncertainty resulting from the covid-19 pandemic,” which does not amend the standard, but suggests an interpretation in the context of the pandemic. Specifically, it clarifies that banks should not continue to apply their existing ECL methodology mechanically, given the difficulty of incorporating both the effects of the pandemic and related government aid into the models, and therefore recommends post-model managerial adjustments. In terms of classification, it confirms that the extension of moratoria to customers should not automatically result in a significant increase in credit risk (SICR).

The IASB also commented on the deferral of lease payments, addressed in specific documents relating to IFRS 16. This aspect is particularly significant for lessees, whereas for lessors it falls mainly within the scope of IFRS 9.

Accordingly, for the preparation of the financial statements at 31 December 2020, banks are required to consider the impacts associated with the current economic environment characterised by the effects of the Covid-19 pandemic and the related accounting implications connected to the measurement of assets and liabilities, disclosures, and the assessment of business continuity, also taking into account the recommendations published by the industry authorities.

Main circumstances and events characterising the consolidated operations

Creation of the Southern Italy Financial District: acquisition of the Banca Popolare di Bari Group

The year 2020 was marked by the establishment of the institutional and industrial role of the Mediocredito Centrale Group, with Law No. 5/2020 converting Decree Law 142 of 16 December 2019 representing the basis for the creation of the Southern Italy Financial District for which MCC has been the designated as the activator.

The Parent Company is engaged in promoting and stimulating collaboration and synergies between banks and financial institutions in Southern Italy, to enable investment for development and connect communities in Southern Italy through public-private partnerships.

In pursuit of this objective, during the year the Parent Company acquired Banca Popolare di Bari in special administration (below “BPB”) with the aim of integrating it and relaunching it as a cutting-edge bank, targeted at the local communities of Puglia and Southern Italy and oriented towards households and small enterprises.

On 29 June 2020, the extraordinary shareholders’ meeting of BPB in special administration was held on first call, and resolved, among other things, on the:

- 1) acknowledgement of the balance sheet at 31 March 2020, the reduction to zero of the share capital due to the losses accrued at that date and the reconstitution of a positive shareholders’ equity of €10 million through the payments made by the Interbank Deposit Guarantee Fund (“IDGS”) and subject to the conversion of the company and capital increase referred to in points 2 and 3 below;
- 2) conversion into a joint-stock company and consequent adoption of a new wording of the articles of association;
- 3) the paid capital increase in one or more tranches, excluding the option rights pursuant to Article 2441, paragraphs 5 and 6, of the Italian Civil Code, for a total of €933,246,586 to be offered for subscription to the IDGS and MCC.

Again on 29 June 2020, at 10.52 p.m., the shareholders' meeting resolution was also recorded in the Company Register, thereby removing the conditions precedent contained in the agreements between the parties for the payment to be made by MCC and IDGS.

On 30 June 2020, MCC received 7,166,666,666 ordinary shares from BPB against a payment of €430 million. On the same date, MCC received 8,054,109,767 ordinary shares from the IDGS against a payment of €1.

As a result, at the end of day on 30 June 2020, MCC held 15,220,776,433 ordinary shares of BPB, with a carrying amount of €430,000,001, representing around 96.8% of BPB's share capital.

The Parent Company consequently formally held the majority of the share capital of BPB at 30 June 2020. However, at that date, BPB continued to be under the receivership ordered by the Bank of Italy on 13 December 2019 pursuant to Articles 70 and 98 of the Consolidated Law on Banking. This order had appointed the Special Receivers and the members of the Supervisory Committee, and these bodies remained in office and in full possession of their powers, because the Bank of Italy had not issued an order closing the special administration and, consequently, reconstituting the ordinary management bodies, as envisaged by Article 75 Consolidated Law on Banking. The continued presence of the special receivers deprived the shareholder of the rights attached to the possession of the majority shareholding, including the right to call the shareholders' meeting and set the agenda. Consequently, the requirements of IFRS 10 for the definition of control and IAS 28 for significant influence were not met for the purposes of the 2020 half-year financial statements. In light of this, the ownership interest at 30 June 2020 was classified and measured in accordance with IFRS 9 – Financial Instruments.

On 15 October 2020, the ordinary shareholders' meeting of BPB appointed the new Board of Directors, as nominated by the majority shareholder MCC and the management of the special administration by the receivers appointed by the Bank of Italy also ended on that date. As a result, MCC has had control of Banca Popolare di Bari and its subsidiaries, including Cassa di Risparmio di Orvieto, from that date.

Lastly, by Order of 11 March 2021, the Bank of Italy authorised the establishment of the Mediocredito Centrale Banking Group, with MCC as Parent Company.

Group companies

MEDIOCREDITO CENTRALE (Parent Company)

Mediocredito Centrale was established as a public institution in 1952 for the provision of credit and the management of public subsidies to small and medium-sized enterprises.

In 1994 it was transformed into a joint-stock company to provide lending for project & export finance and corporate finance, establishing itself as bank for investment and development through market instruments.

At the end of 1999, Mediocredito Centrale was sold (100%) by the Treasury to Banca di Roma, becoming part of the Bancaroma (later Capitalia) Group and specialising in corporate banking. From 1 October 2007, following the merger between Capitalia and UniCredit, it became part of the new Banking Group, specialising in medium-long term lending and project finance. In the following years, it focused on offering services to the public sector and, in particular, on subsidised lending and the management of public incentives for enterprises. In 2011, following the sale of 100% of the Bank's share capital by UniCredit S.p.A. to Poste Italiane S.p.A., it became a vehicle for the implementation of the government's project for the development of Italy's southern regions.

Lastly, on 7 August 2017, the Bank's share capital was acquired in full by the Agenzia nazionale per l'attrazione degli investimenti e lo sviluppo d'impresa (Invitalia) S.p.A..

The Bank implements and supplements public policies in support of the economy through the:

- financing of small and medium enterprises in Italy with a focus on Southern Italy, also through strategic partnerships;
- promotion and support of infrastructure projects;
- provision of financing accompanying public incentives for enterprises;
- management of public subsidies for enterprises.

The 2020 net income of €51.3 million, which is significantly higher than the results achieved by the Bank since it started operations in 2012, reflects MCC's operations aimed at enterprises in the context of the pandemic.

In 2020, the **Bank**:

- gave a strong boost to lending activities, also by operating as a Tier II bank, meeting the needs of SME and MID-corporate customers in particular, with a stock of loans of €2,051 million at 31 December 2020 (+31% on €1,565 million at 31 December 2019) and annual disbursements of €1,007 million (+81% on €554 million in 2019) aimed at a rapidly expanding customer base (+73% on 2019);
- achieved surprising results during the emergency period, consolidating its role of transmission of public measures in support of the economy through the extraordinary use of the Guarantee Fund, generating a commission volume of more than double the figure at 31 December 2019;
- provided good levels of coverage ratio of the loan portfolio, even with the increase in adjustments for credit risk (+72%), particularly with regard to the collective component on performing loans, to mitigate the risk relating to the current and future situation resulting from the spread of the pandemic. On a net basis, the impact of the impaired portfolio fell again from 3.7% to 1.7%, while the coverage rate rose to 65% from 60% at the end of 2019;
- maintained a low-cost income level despite an increase in administrative expenses, both for personnel costs (+14%), due to the structural and tactical strengthening of the workforce for the additional processing of applications to the Guarantee Fund, and for other administrative expenses (+36%), mainly attributable to the extraordinary transaction involving Banca Popolare di Bari;
- recognised provisions for risks and charges, linked to the adoption of redundancy incentive measures aimed at pursuing a qualitative and quantitative restructuring of the workforce, in line with the Bank's evolution into a smart bank – as envisaged in the 2021-23 Business Plan, approved last February – and the new role of Parent Company of the newly formed MCC Banking Group.

BANCA POPOLARE DI BARI

Founded in 1960 by a group of businessmen and professionals from Bari, Banca Popolare di Bari maintains strong local roots despite having become a nationwide organisation over time. The Bank of Italy, by decision of 13 December 2019, ordered the dissolution of the Bodies of BPB with management, and control functions, due to its capital losses, and placed the bank in special administration, in accordance with Articles 70 and 98 of the Consolidated

Law on Banking. On 15 October 2020, following the reconstitution of the corporate bodies by the Shareholders' Meeting and the bank's return to ordinary operations, the special administration was terminated with the approval of the financial statements of the special administration for the period from 1 January 2019 to 15 October 2020, which closed with a loss of €1,399 million and shareholders' equity of €720 million.

At 31 December 2020, BP Bari posted a net loss of €13.02 million, for an accounting period of just two and a half months, which reflected operating expenses of €54.41 million that more than offset the net financial income of €43.52 million.

CASSA DI RISPARMIO DI ORVIETO

Founded in 1852 by forty citizens of Orvieto, Cassa Di Risparmio Di Orvieto operates with branches located in a broad area covering the neighbouring provinces of Terni and Perugia (Umbria), Rome and Viterbo (Lazio), and Pistoia (Tuscany).

In 2020, the bank, which is 73.57% controlled by Banca Popolare di Bari, continued to operate in its local territory.

The bank ended the year 2020 with a net loss of €8.46 million, compared to a net loss of €7.83 million in the previous year (2019).

With net banking and insurance income down compared to the previous year (€35.91 million vs. €39.40 million in 2019), the bank recognised impairment losses on loans of €11.22 million vs. €18.35 million in the previous year, as well as higher operating expenses than in the previous year (€36.26 million vs. €32.03 million in 2019). The positive effect of taxes (€3.05 million), arising from the recognition of DTAs on the tax loss for the year, partially offsetting the gross loss (-€11.51 million), resulted in a loss after tax of €8.46 million.

BPBROKER (FORMER TERBROKER)

BPBroker S.r.l. is an insurance brokerage company founded to support and assist public bodies, enterprises and professionals in creating a suitable insurance programme of protection for operational risks, management liability and corporate and personal assets. BPBroker is registered in the Single Register of Intermediaries under No. B000122448 and holds the Quality Certification in accordance with ISO 9001:2008.

On instructions from the receivers during the special administration imposed on the parent company, this insurance brokerage company, wholly owned by Banca Popolare di Bari, changed its organisational model in 2020 in order to streamline its governance, moving the management from a Board of Directors to a Sole Director, in accordance with the resolution of the Extraordinary Shareholders' Meeting of 12 March 2020 (approval of the new articles of association and appointment of the Sole Director). The new structure had a positive effect of €640 thousand on the costs for the year, which fell by 19% compared to 2019. Total earnings for the year 2020 consisted of revenues of €1,028 thousand, with a gross operating profit of €389 thousand and a net profit of €277 thousand (net income of €208 thousand in 2019). This resulted in a profit for the year, continuing the trend under the new corporate approach (started in 2016), with growth of 33% compared to 2019.

MCC RMBS S.R.L.

This company is registered under No. 35300.3 in the List of securitisation special purpose vehicles, established with the Bank of Italy, and was incorporated on 11 July 2016 pursuant to Law No. 130 of 30 April 1999 (Securitisation Law). On 24 October 2016, the company's Board of Directors approved the implementation of a securitisation involving a portfolio of mortgage residential real estate loans originally provided by Banca del Mezzogiorno – Mediocredito Centrale. The total purchase price was €419 million, which was paid by the company to the selling bank on the date of issuance of two classes of asset-backed securities fully subscribed by MCC. Notice of the above sale was given by publication of the notice of sale of loans in the Official Gazette of the Republic of Italy on 27 October 2016. On 7 November 2016, securities were issued for a total value of €427 million, whose coupons are paid on 29 January, 29 April, 29 July and 29 October of each year. This transaction does not entail derecognition and the loan portfolio therefore remains on the Parent Company's balance sheet. The cash flow for the year 2020 related to collections on the securitised loans amounted to €26 million in principal and €6 million in interest. The cash flow the receivables are able to generate is used exclusively, together with the collateral backing the transaction, to repay the securities issued, pay the agreed interest and pay transaction costs.

The financial statements of the vehicle at 31 December 2020 show a breakeven position as a result of the charge back of operating expenses to the segregated assets.

ADRIATICO FINANCE SME S.R.L.

This company is registered under No. 33397.1 in the List of securitisation special purpose vehicles, established with the Bank of Italy, and was incorporated on 20 March 2008 pursuant to Law No. 130 of 30 April 1999 (Securitisation Law). In 2008, a securitisation was carried out on lease loans not originated by Banca Tercas but by Terleasing Spa (now Terfinance Spa), which was not part of the Tercas Group at the time, using Adriatico Finance SME Srl as a special purpose vehicle in pursuant to Law 130/99. Specifically, the loans (leases) sold to the special purpose vehicle amounted to €118 million. In respect of the loans sold, the SPV financed the transaction by issuing senior, mezzanine and junior class ABS securities that were fully subscribed by Banca Tercas for a nominal value of €119 million. Following the merger of the former Banca Tercas into Banca Popolare di Bari in 2016, the latter acquired ownership of these ABS securities. Following the securitisation, the former Banca Tercas effectively assumed all the risks and rewards of the loan portfolio sold and the assets and liabilities relating to the segregated assets of the special purpose vehicle have therefore been consolidated on a line-by-line basis. As a result, these consolidated financial statements include the lease receivables recognised at the year-end by the special purpose vehicle.

The financial statements of the vehicle at 31 December 2020 show a breakeven position as a result of the charge back of operating expenses to the segregated assets.

2017 POPOLARE BARI RMBS S.R.L. – 2018 POPOLARE BARI RMBS S.R.L. – 2019 POPOLARE BARI RMBS S.R.L. – 2019 POPOLARE BARI SME S.R.L

These companies are registered under numbers 35362.3, 35457.1, 35200.5 and 35199.9 in the list of securitisation special purpose vehicles, established at the Bank of Italy, and were incorporated in accordance with Law No. 130 of 30 April 1999 (Securitisation Law). These are securitisations of rated performing loans both to SME customers and in the form of RMBSs (loans granted to private individuals for the purchase of residential property). These transactions do not entail derecognition and the loan portfolio therefore remains on the balance sheet of the subsidiary Banca Popolare di Bari.

The financial statements of the vehicles at 31 December 2020 show a breakeven position as a result of the charge back of operating expenses to the segregated assets.

Results for the year

Economic results

The consolidated net income for 2020, amounting to 192.6 million, of which 194.9 million pertaining to the Group, reflects the operating profit of €51.3 million of the Parent Company MCC achieved in 2020, partially offset by the losses accrued from 15 October 2020 (date of acquisition of control) by Banca Popolare di Bari (-€13 million) and Cassa di Risparmio di Orvieto (-€6.9 million), in addition to the provisional negative goodwill of €160 million (after tax) resulting from the purchase price allocation.

In particular, this result reflects:

- a) net banking and insurance income of €204 million, consisting of €52 million from net interest income, €142 million from net fees and commissions, reflecting the extraordinary operations of the SME Guarantee Fund, managed by the Parent Company, and €9 million from other financial income, in particular the capital gains realised on the sale of securities classified at fair value through other comprehensive income (€8.8 million);
- b) net value adjustments for credit risk totalling €28.5 million, aimed at ensuring adequate levels of coverage of the loan portfolio, to mitigate the risk in relation to the current and future situation deriving from the spread of the pandemic;
- c) administrative expenses totalling €104 million, of which €64 million relating to personnel expenses, and €40 million to other administrative expenses. Overall, beyond the ordinary component, these reflected the costs incurred by the Group in the process of restructuring and relaunching BPB and CRO;
- d) other operating income of €163 million, which included the recognition of the residual provisional negative goodwill, resulting from the difference between the fair value of the net assets of BPB and the other subsidiaries acquired by MCC, and the price paid for the acquisition. The capitalisation of the provisional negative goodwill, which will take place with the allocation of the 2020 profit or loss, will enable the capital strengthening of the Group necessary to support the re-launch of Banca Popolare di Bari and Cassa di Risparmio di Orvieto.

Below is the reclassified income statement.

RECLASSIFIED INCOME STATEMENT	31.12.2020
<i>figures in €/millions</i>	
Net interest income	52.3
<i>of which: Interest income</i>	83.4
<i>of which: Interest expense</i>	(31.1)
Net fees and commissions	142.2
Dividends	0.8
Gains (losses) on trading, hedging, disposal and repurchase of financial assets	8.3
NET BANKING AND INSURANCE INCOME	203.6
Personnel expenses	(64.0)
Other administrative expenses	(40.5)
Expense recoveries	5.4
Net value adjustments of PPE, intangible assets and third-party assets	(8.4)
OPERATING EXPENSES	(107.4)
OPERATING PROFIT/(LOSS)	96.1
Net adjustments for credit risk on financial assets and contractual changes	(28.4)
NET OPERATING PROFIT/(LOSS)	67.7
Provisions for risks and charges, charges for transactions	(23.3)
Negative goodwill	160.0
Gains (losses) from equity investments and sale of investments	(0.3)
GROSS PROFIT ON CONTINUING OPERATIONS	204.1
Income taxes for the period	(11.6)
NET INCOME FOR THE PERIOD	192.6
Non-controlling interests	(2.4)
PARENT COMPANY NET INCOME FOR THE PERIOD	194.9

Net banking and insurance income

NET BANKING AND INSURANCE INCOME	31.12.2020
<i>figures in €/millions</i>	
Net interest income	52.3
<i>of which: Interest income</i>	83.4
<i>of which: Interest expense</i>	(31.1)
Net fees and commissions	142.2
Dividends	0.8
Gains (losses) on trading, hedging, disposal and repurchase of financial assets	8.3
Total	203.6

Net banking and insurance income consisted of:

- net interest income of 52.3 million, of which €24.6 million attributable to the Parent Company MCC, €21.5 million to BPB and €5.3 million to CRO. Interest income, amounting to €83.4 million, was made up of €3.2 million from securities, €66.7 million from loans and €8.7 million from other transactions, while interest expense, totalling €31.1 million, consisted of €11 million from payables and €18 million from securities;
- net fees and commissions of €142.2 million, most of which relating to the Parent Company (€121.3 million) due to the extraordinary operations of the Guarantee Fund during the pandemic. In particular, the Fund generated fees and commissions of €107.6 million (€51.4 million at 31 December 2019). Requests received totalled 1,621,015 (+1,190.2% on 2019) and transactions receiving guarantees totalled 1,585,344 (+1,168.7% on 2019) for a loan volume of around €124.4 billion (+543.8% on 2019) and an amount guaranteed of €105.9 billion (696% on 2019). The remaining components consisted of €16.9 million attributable to BPB, €3.5 million to CRO and €0.5 million to BP Broker.

OPERATING EXPENSES	31.12.2020
<i>figures in €/millions</i>	
Personnel expenses	(64.0)
Other administrative expenses	(40.5)
Expense recoveries	5.4
Net value adjustments of PPE, intangible assets and third-party assets	(8.4)
Total	(107.4)

Personnel expenses totalled €64.0 million, of which €28.7 million related to the Parent Company, €30.4 million to BPB and €4.8 million to CRO, in relation to a total workforce of 3,146 employees (including 6 seconded from MCC to Invitalia), made up as follows:

- 28 executives;
- 1,113 middle managers;
- 2,005 non-managerial personnel.

In addition to 2 people seconded by the ultimate parent Invitalia SpA¹.

Other administrative expenses, which reflected the costs incurred for the acquisition of BPB and for the establishment and deployment of the Group, amounted to €40.5 million (of which €16 million for MCC, €20.8 million for BPB and €4 million for CRO).

The cost income ratio was 53.1%.

NET GAINS/(LOSSES)	31.12.2020
<i>figures in €/millions</i>	
OPERATING PROFIT/(LOSS)	96.1
Net adjustments for credit risk on financial assets and contractual changes	(28.4)
NET OPERATING PROFIT/(LOSS)	67.7
Provisions for risks and charges, charges for transactions	(23.3)
Negative goodwill	160.0
Gains (losses) from equity investments and sale of investments	-0.3
GROSS PROFIT ON CONTINUING OPERATIONS	204.1
Income taxes for the period	(11.6)
NET INCOME FOR THE PERIOD	192.6
Non-controlling interests	(2.4)
PARENT COMPANY NET INCOME FOR THE PERIOD	194.9

Net value adjustments for credit risk, totalling €28.4 million, were mainly attributable to the Parent Company (€27.5 million), due to the small contribution from the subsidiaries, and included net adjustments to loans to customers of €27 million and to securities measured at fair value through other comprehensive income of €0.5 million.

During the year, the Parent Company recognised impairment on loans of €30 million, of which €13.2 million relating to impaired positions, €15.5 to performing loans and €1.3 to

¹ Including the Chief Executive Officer of MCC

trade receivables. Impairment reversals of €3 million were also recognised on financial receivables, of which €2.4 million on impaired loans and €0.6 on performing loans.

Net provisions for risks and charges, totalling €23.3 million, were also primarily attributable to the Parent Company (€15.5 million) and included:

- a) net impairment of €2.2 million relating to valuation of commitments to disburse loans;
- b) provisions of around €13.3 million attributable to the adoption of redundancy incentive measures aimed at the qualitative and quantitative restructuring of the Bank's workforce.

Provisions made by the other Group companies amounted to €3.8 million for BPB and €4 million for CRO.

The net income for the year reflected the recognition of around €160 million in the consolidated income statement for the provisional negative difference (negative goodwill) between the price paid by the Parent Company for the acquisition of BPB and its subsidiaries and the fair value of the net assets acquired at 15 October 2020, net of the amount attributable to non-controlling interests (see Part G of the Notes to the consolidated financial statements for more details). This value may therefore change upon completion of the final PPA, which, as required by IFRS 3, will take place within 12 months from the date of acquisition of control and therefore by 15 October 2021. The consolidated net income for the year 2020 will enable the Group to strengthen its capital base to support the restructuring and relaunch of Banca Popolare di Bari and Cassa di Risparmio di Orvieto.

Financial aggregates

ASSETS

BALANCE SHEET - ASSETS	31.12.2020
<i>figures in €/millions</i>	
Cash and cash equivalents	108.2
Financial assets measured at fair value through profit and loss	105.2
Financial assets measured at fair value through other comprehensive income	1,052.8
Financial assets measured at amortised cost	12,664.8
<i>To banks</i>	<i>2,488.1</i>
<i>To customers</i>	<i>10,176.6</i>
Hedging derivatives	90.2
Equity investments	0.6
Property, plant and equipment and intangible assets	197.1
Tax assets	467.8
Other assets	141.5
TOTAL ASSETS	14,828.2

The Group's cash and cash equivalents amounted to 108 million and mainly related to BPB (€100 million) and CRO (€8.2 million).

Financial assets measured at fair value through profit and loss, totalling €105 million, were exclusively attributable to the BPB portfolio.

Financial assets recognised through other comprehensive income, amounting to €1,052.8 million, consisted of €949.7 million attributable to the Parent Company (of which €938.2 million of Italian government securities and €11.5 million of equities), €97 million to BPB (of which €23.3 million of government securities and €73.7 million of equities) and €6 million to CRO (mainly shares in the capital of the Bank of Italy).

Amounts due from banks, net of intercompany eliminations, totalled €2,488 million and included €2,346.6 million in amounts due from central banks for required reserves and €141.5 million in amounts due from banks. The latter amount included €9.3 million for the portion subscribed by the Parent Company of the Tier II subordinated bond issued by Banca Carige S.p.A..

Amounts due from customers totalled €10,176.6 million, consisting of €7,960 million in loans and €2,217 million in debt securities. Net performing assets (Stage 1 and Stage 2) totalled €9,938.9 million (97.7% of the item) and net impaired assets (Stage 3) totalled €237.7 million (2.3% of the item). Around 63% of the impaired assets (150.4 million) consisted of impaired assets purchased in the business combination.

Credit Quality²

Description	31/12/20
Gross bad loans	180
Provision	145
Net bad loans	35
Coverage of bad loans	80.5%
Gross unlikely to pay loans	323
Provision	162
Net unlikely to pay loans	161
Coverage of unlikely to pay loans	50.1%
Past due	53
Provision	11
Net past due loans	42
Coverage of past due loans	21%
Gross impaired loans	556
Provision	318
Net impaired loans	238
Coverage of impaired loans	57.2%
Performing loans - Stage 1	6,633
Standard provision - Stage 1	35
Net performing loans - Stage 1	6,597
Coverage of performing loans - Stage 1	0.5%
Performing loans - Stage 2	1,285
Standard provision - Stage 2	47
Net performing loans - Stage 2	1,238
Coverage of performing loans - Stage 2	3.6%
Performing loans - Total	7,918
Standard provision - Total	82
Net performing loans - Total	7,835
Coverage of performing loans - Total	1.0%

The item hedging derivatives at 31 December 2020, amounting to €90.2 million, consisted of the fair value of derivatives taken out by the Parent Company MCC to hedge against interest rate risk on its bond issues.

² Excluding performing HTC securities of BPB and CRO totalling €2,103.6 million

The item equity investments also included the 558,140 shares, with a value of €0.6 million, of the Istituto della Enciclopedia Italiana fondata da Giovanni Treccani, corresponding to 0.73% of the Institute's share capital.

Property, plant and equipment and intangible assets totalled €197 million, of which €19 million relating to the Parent Company, €168 million to BPB and €10 million to CRO.

Tax assets consisted of €165 million in current tax assets and €303 million in deferred tax assets. The deferred tax assets were composed of €98 million of "qualified" DTAs in accordance with Law No. 214/2011, €54 million of DTAs recognised against tax losses and €151 million of other DTAs linked to temporary differences.

Other assets primarily included transitory items (€53 million) to be settled in the initial days of the following year, tax credits (€57 million) and other assets amounting to 31.4 million.

LIABILITIES

BALANCE SHEET - LIABILITIES	31.12.2020
<i>figures in €/millions</i>	
Financial liabilities measured at amortised cost	13,193.7
<i>Due to banks</i>	3,394.5
<i>Due to customers</i>	8,700.0
<i>Securities issued</i>	1,099.2
Financial liabilities held for trading	29.9
Value adjustments of financial liabilities with macro-hedging	0.0
Tax liabilities	22.6
Other liabilities	282.9
Provision for employee severance pay	41.9
Provisions for risks and charges	305.4
Reserves	524.4
Share capital	204.5
Treasury shares (-)	0.0
Minority interests	27.9
Net income for the period	194.9
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	14,828.2

Funding

Amounts due to banks amounted to €3,394.5 million, consisting of €3,219.2 million in amounts due to central banks and €175.3 million in other forms of funding from banking counterparties.

Amounts due to customers, amounting to €8,700 million, primarily included traditional forms of customer deposits, such as current accounts and demand deposits (€7,116 million) and time deposits (€1,323 million).

Securities issued included €549 million of bonds issued by the Parent Company, €276 million of securities issued by BPB, including €228 million of Tier II subordinated loans, and €5.7 million of securities issued by CRO.

Other liability items

Financial liabilities held for trading amounted to €29.9 million and included the negative fair value of derivative financial instruments used by BPB for hedging purposes. For the purposes of these consolidated financial statements, the hedge accounting relationships

existing at BPB were discontinued at the date of acquisition of control and will be redesignated, in the event of a positive outcome of the effectiveness tests, in 2021.

Tax liabilities, amounting to €22.6 million, consisted of €6.8 million in liabilities for current taxes and €15.8 million in deferred tax liabilities arising from temporary differences.

Other liabilities primarily included transitory items (€143 million), amounts due to suppliers (€43 million), sums to be paid to the tax authorities (€27 million), amounts due to Invitalia for the tax consolidation scheme adopted by the Parent Company MCC (€16 million) and other items.

The employee severance benefits amounted to €41.9 million, of which 2.8 million for MCC, €37 million for BPB and €1.8 million for CRO.

Provisions for risks and charges, totalling €305.4 million, included €23.3 million for MCC, €273.9 million for BPB (including PPA adjustments of €16.5 million) and €8.2 million for CRO.

Shareholders' equity

The shareholders' equity at 31 December 2020 was made up of the share capital – composed of 40,901,738 ordinary shares with a par value of €5 each, for a total amount of €204.5 million – the legal reserve and other reserves totalling €523.7 million, valuation reserves of €0.7 million, non-controlling interests of €27.9 million and the net income for the period attributable to the Parent Company of €194.9 million.

The consolidated shareholders' equity at 31 December 2020 including the net income for the year, amounted to 951.8 million.

At 31 December 2020, consolidated own funds, determined on the basis of the current rules issued by the Bank of Italy, amounted to €736.9 million.

The capital absorptions and the resulting capital requirements are determined using the following approaches:

- Credit Risk: Standardised Approach;

- Counterparty Risk: Standardised Approach applied to exposures calculated using the Current Value Method;
- Operational Risk: Basic Indicator Approach;
- Credit Valuation Adjustment Risk: Standardised Approach
- Market Risk: Standardised Approach

The overall total of risk-weighted assets was €5,429 million.

The CET 1 and Tier 1 ratios were 13% and the Total Capital ratio was 13.6%.

The total prudential requirements, calculated using the Basel III methods, amounted to €434.3 million.

Reconciliation of shareholders' equity and net income of the Parent Company and consolidated shareholders' equity and net income attributable to the Group

The reconciliation of shareholders' equity and net income of the Parent Company with the consolidated figures is provided below.

(€ millions)	MCC	BPB	CRO	PPA	Consolidation effects	MCC Group
Valuation reserves	(0.1)	33.3	(0.2)	-	(32.2)	0.8
Reserves	523.9	(233.5)	(5.5)	-	263.7	548.7
Share premium reserve	-	-	26.0	-	(26.0)	-
Share capital	204.5	943.2	45.6	-	(988.9)	204.5
Treasury shares (-)	-	(25.0)	-	-	-	(25.0)
Non-controlling interests (+/-)	-	-	-	-	27.9	27.9
Net income (loss) for the period (+/-)	51.3	(13.0)	(6.9)	160.0	3.5	194.9
Total shareholders' equity	779.7	705.0	59.1	160.0	(752.0)	951.8

The business

Mediocredito Centrale

Banking operations

In 2020, the Parent Company's lending operations grew, also as a result of the emergency "Covid" measures established first by the "Cura Italia" Decree Law and later by the "Liquidità" Decree Law, with an increase of +68.6% in terms of number of transactions accepted compared to 2019 and +87.8% in terms of amount financed compared to 2019.

Specifically, operations with SMEs grew by +232.5% in terms of number of transactions accepted and +258.3% in terms of amount financed and were also supported by the subscription of minibonds, particularly in the regions of Southern Italy, in addition to factoring operations.

Commercial operations focused on small and medium-sized enterprises, in line with the MCC's Tier II bank model, through the provisions of credit facilities, also implemented in synergy with other operators, to support businesses affected by the Covid-19 emergency.

Specific initiatives were implemented in synergy with and alongside public interventions to support enterprises, including:

- the #CuraItalia campaign in synergy with the Sole Shareholder, through the release of a product complementary to Invitalia's offering, to support projects for the production of personal protective equipment;
- signing up to the ABI (Italian Banking Association) – SACE (Italian Export Credit Agency) agreement for the distribution of loans supported by the SACE Italy Guarantee;
- creating a new product dedicated to SMEs in accordance with letter M, Article 13, Decree Law 23, converted into Law 40 of 5 June 2020, distributed by the Poste Italiane network;
- the Innovative Machinery campaign, another initiative in synergy with the Shareholder and accompanying the public interventions in support of enterprises;
- signing of a specific mandate with CDP to take part in the intervention by the Fund for Sustainable Growth for research and development projects under the "Circular Economy" tender, activated by the Decree of 11 June 2020, managed by Invitalia on behalf of the Ministry of Economic Development.

In line with the objectives of the business plan, commercial actions were implemented in support of Italian enterprises, through the use of basket bonds. Specifically, the subscription was completed for:

- five ABS slots on minibond issues under the Campania Bond Guarantee initiative, totalling €48.725 million, equal to 50% of the total amount issued;
- two ABS slots on minibond issues under the Puglia Basket Bond initiative, totalling €24.625 million, equal to 50% of the second issue, net of the Unicredit S.p.A.'s retention share (€49.250 million);

Overall, during the year Mediocredito Centrale, as an investor in basket bonds, disbursed €73.35 million in favour of 71 SMEs in Southern Italy.

In the "Basket Bond for Campania SMEs" initiative, MCC also supported SMEs in the structuring process, acting as arranger in a temporary joint venture with Banca Finint S.p.A.

Guarantee instruments and subsidies

The Parent Company manages a series of public subsidy instruments, the main one of which is the **SME Guarantee Fund** (below the "Fund").

In 2020, the Fund grew dramatically due to the entry into force of the measures to address the emergency situation. Applications received totalled 1,621,015 (+1,190.2% compared to

2019), while the transactions admitted to the Fund's guarantee totalled 1,585,344 (+1,168.7% compared to 2019), for a volume of financing of around €124.4 billion (+543.8% compared to 2019) and an amount guaranteed of €105.9 billion (+696.0% compared to 2019).

In 2020, resources totalling €7,614.3 million were paid from to the Fund, of which:

- €1,430 million related to Decree Law No. 18 of 18 March 2020 ("Cura Italia" Decree) published in the Official Gazette No. 110 on 29 April 2020;
- €1,729 million related to Decree Law No. 23 of 8 April 2020 ("Liquidità" Decree) published in the Official Gazette No. 94 on 8 April 2020;
- €3,950 million related to Decree Law No. 34 of 19 May 2020 ("Rilancio" Decree) published in the Official Gazette No. 128 on 19 April 2020;

In accordance with the provisions of paragraph 2, Article 31 of Decree Law No. 34 of 19 May 2020 ("Rilancio" Decree Law), coordinated by Conversion Law No. 77 of 17 July 2020 – which, in order to ensure greater efficiency in the management of the Fund's resources, establishes that the amounts available must be aligned to the time profile of the expected losses and that commitments may also be made on multi-year expenditure authorisations in the Government budget – €11,835.0 million were allocated as envisaged by:

- paragraph 1, Article 64 of Legislative Decree No. 104 of 14 August 2020 ("August" Decree Law) which ordered an allocation of €7,335.0 million, of which €3,100 million for 2023, €2,635 million for 2024 and €1,600 million for 2025;
- paragraph 246, Article 1 of Law No. 178 of 30 December 2020 "Government budget for the year 2021" which ordered an allocation of €4,500.0 million, of which €500.0 million for 2022, €1,000 million for 2023, €1,500 million for 2024, €1,000 million for 2025 and €500 million for 2026.

Additionally, management of various incentives and subsidised financial instruments continued on behalf of the government and several Regional Authorities. The main instrument is the **Sustainable Growth Fund** (FCS) managed by MCC on behalf of the Ministry of Economic Development, as the lead bank of a temporary joint venture consisting of 7 banks and the National Research Council. The Fund supports investments in R&D and provides cofinancing with PON I&C 2014/2020 funds.

In 2020, MCC continued the assessment by the temporary joint venture and the approval by the Ministry of Economic Development of the projects presented in the various calls for proposals launched by the government since 2014: Digital Agenda and Sustainable Industry (FRI), Horizon 2020 PON, Innovation Agreements and Framework Agreements, PON Large

Projects, Agrifood Desk, and Smart Factory. With regard to the last of these calls, the Ministry of Economic Development, by Decree of 20/12/2019, published in Official Gazette No. 55 of 4/3/2020, allocated additional resources of €102.7 million, bringing the financial allocation for the implementation of the facilitation instrument envisaged in Chapter III of the Ministerial Decree of 5/3/2018, to a total of €514.4 million. As a result, the General Directorate for Incentives to Enterprises of the Ministry of Economic Development notified the temporary joint venture on 26/2/2020 of the full shift in the related rankings.

With regard to the above-mentioned calls, in 2020 concession decrees were issued for 250 projects, for investments totalling €1,081,495 million and subsidies granted of €562,209 million.

The preliminary assessment of project proposals continued in 2020, relating to the calls for the Innovation Agreements for research and development projects (Ministerial Decree 24/5/2017, Ministerial Decree 5/3/2018 – Capo II, Ministerial Decree 2/8/2019 and Ministerial Decree 2/3/2018).

Disbursement activities were fully operational for the following calls, issued by the government: Horizon 2020, Digital Agenda and Sustainable Industry, Horizon 2020 PON, Large Projects PON, Framework Agreements, Innovation Agreements, Digital Agenda and Sustainable Industry (FRI), Euro Trans Bio Calls and the Call under Ministerial Decree 5/3/2018 (Agrifood and Smart Factory). Disbursements carried out during 2020 involved 707 projects for a total of over €232.9 million of loans and grants disbursed.

With regard to the **Fare Lazio** regional facility, 41,997 applications were received for the extraordinary activation by the Lazio Regional Authority of a new Section of the Small Credit Revolving Fund called “Covid-19 Emergency – Liquidity Financing for MSMEs”, aimed at providing zero-interest loans to enterprises harmed by the Covid-19 epidemic to help cover liquidity needs.

Banca Popolare di Bari

The Bank ensured the highest level of security for its customers, reducing disruption as much as possible by scheduling access to branches (also with notices placed at the branch entrances) and focusing on an interaction model based on strengthening remote channels for operations and assistance and for the management of requests and contracts. Particular attention was given to simplifying customer operations by raising awareness of the use of online transactions and digital banking.

Banca Popolare di Bari also continued to implement the initiatives, started during the receivership, envisaged by the decrees laws that have been issued since the beginning of the pandemic, aligning itself over time to the subsequent modifications and updates in response to the continuation of the emergency, which is still ongoing.

These were accompanied by financing measures ranging from advances on the redundancy fund to new concessions or renegotiations of past debts backed by the Central Guarantee Fund in the various percentages envisaged by the above-mentioned legislative provisions, in addition to dedicated regional measures (e.g. the “Titolo II Circolante” facility in the Puglia region).

Initiatives were also carried out with major partners in relation to both asset management (with discussions held with fund managers in “virtual” mode) and electronic money (with specific promotions for enterprises and merchants regarding acceptance of card payments, in light of the Italian government’s state cashback initiative).

The particular urgency of the support measures also led to increasing growth in operations aimed at improving efforts, also by setting up task forces to support the dedicated structures, in order to meet the numerous needs of “private” and “enterprise” customers.

Marketing and sales also continued, in response to customer needs, based on the current catalogue of banking products and services and the catalogue established under the existing business partnership agreements (in the areas of asset management, insurance investment products, non-life policies, e-money, personal loans and specialty finance for enterprises), laying the foundations for the analysis of new developments starting from 2021.

With regard to customer profiling and contractual updating, the Bank continued to collect MiFID questionnaires from customers not yet profiled and update expired questionnaires, particularly in the latter part of 2020.

Lastly, the “Rilancio” Decree introduced a measure to support the revival of the construction sector aimed at upgrading the building stock in terms of energy efficiency and earthquake resistance. This legislation raises the tax deduction to 110% for expenses incurred for specific interventions from 1 July 2020 to 31 December 2021 (unless further extended), with the possibility for the contractor of the works to immediately recover the tax bonus through:

- invoice discount on the amount due, with the transfer of the tax credit to the company carrying out the work, which may in turn use it for offsetting or transfer it to other parties, including banks;
- transfer of the tax credit to other parties, including banks.

In this regard, towards the end of 2020 the Bank started a project for the development of dedicated solutions, also through external partnerships in relation to the tax and technical aspects, which were then put into operation from March 2021.

New business structure

Towards the end of the year, a strategic project was launched to identify a new path for the reorganisation of the business structure, including the overall streamlining of the distribution network (also by reducing the number of branches), with the aim of supporting business results by means of the following organisational “drivers”:

- new segmentation model based on the application of new thresholds/variables for identifying different customer segments;
- new structure of the Chief Business Officer (CBO) area, in line with the structural need for organisational simplification at central level;
- a new commercial structure at local network level, per segment, able to better serve customer needs;
- evolution of the service model, with the introduction of specific professional roles and branch structures in line with the new customer segmentation.

In this context, a new initiative has already been managed in favour of customers affected by branch closures, partly in December 2020 and partly planned during 2021.

Alongside this strategic initiative, a programme of actions has been defined with the Parent Company MCC, aimed at relaunching the company (some of which already launched in the first three months of 2021), consisting of:

- drawing up a manifesto of behavioural and founding values for the Bank’s new approach, based on a customer-centric vision and conducting operations with a view to ensuring professionalism, inclusion, respect and sustainability;
- the strategic repositioning of the Bank, with a focus on several strategic pillars (focus on households and SMEs, wealth management, increasing focus on the SME segment in Southern Italy, access to subsidised instruments, and open banking);
- the evolution of the offer based on the Bank’s new role within MCC’s corporate structure.

Cassa di Risparmio di Orvieto

The Bank’s operations – aside from the impacts of the pandemic – were affected by the receivership of its direct parent company Banca Popolare di Bari, with the involvement of

the shareholder customers and impacts on business. In any event, from a commercial perspective, measures were taken to maintain effective coverage of the market served, while trying to contain the effects of the particularly complex situation.

In the management of the core business, the company operations focused in particular on maintaining the stability of the financial structure.

Specifically, the Bank oversaw the:

- market presence in the local areas historically covered;
- commercial push in geographical areas with high growth potential;
- continuous optimisation of the network to increase its overall efficiency;
- maintenance of commercial performance levels on products and services;
- offering of products and services to customers made available by the direct parent company BP Bari also through specific marketing initiatives;
- implementation, in agreement with the parent company, of all the measures established by the government and other institutions to deal with the economic effects of the pandemic and support individuals and businesses;
- provision of online training on new products and new procedures released;
- continuous monitoring of the lending process and the related qualitative and rating components;
- monitoring of pricing to safeguard the overall profitability of the assets managed, while containing the cost of funding and maintaining an appropriate risk/return ratio on loans to customers.

The management of aggregates involved continuously seeking the appropriate sizing of direct deposits and loans, taking into account market scenarios for pricing policies and pursuing the Bank's "self-sufficiency" and diversification of funding and lending relationships.

In the early months of the year, the events involving the parent company BP Bari, commented on extensively and daily by all the national media and magnified, at local level, by the news regarding the possible sale of the majority shareholding in the Bank's capital, had a significant negative effect on the overall direct funding aggregate.

Subsequently, thanks to the receivership of the parent company and MCC's decisive intervention in the recapitalisation of BP Bari with the support of the Italian Deposit Guarantee Fund ("IDGS"), together with the compensation measures adopted in favour of the Bank's Shareholders, the media attention changed tack contributing to a strong recovery and an increase in the Bank's managed assets.

In the loans to customers segment, rigorous and selective action was taken in the granting phase, and the “performing” aggregate, particularly concentrated in the area of medium/long-term loans to businesses, was substantially stable compared to 2019. The Bank continued to operate with counterparties with proven creditworthiness, mitigating the assumption of risks by acquiring guarantees issued by the Central SME Guarantee Fund pursuant to Law 662/96, managed by MCC. The measures adopted to deal with the effects of the pandemic also led to a partial recomposition of the loan aggregates, with a significant fall in the item “current accounts” in favour of “other non-overdraft lending”.

In addition, the Bank carefully monitored positions with performance concerns that arose before the pandemic, which were closely linked to the ongoing difficulties in the real economy and had already been subject to the allocation of provisions.

In terms of commercial performance, revenues generated by the network were affected by the internal and external situation. Despite this, overall revenues (net fees and commissions) held up well and were not far from the planned annual targets.

With regard to commercial and lending activities, in 2020 the Bank was mainly engaged in offering its customers products and services designed to counter the effects of the Covid-19 pandemic, in implementation of the measures adopted by the Government.

Overall, in 2020 the Bank granted more than 1,800 moratoria connected to the Government’s measures, for a total of around €200 million, in addition to granting:

- around 1,500 loans up to a maximum of €30 thousand with a 100% guarantee from MCC, for a total of over €28 million;
- around 300 loans for debt rescheduling with additional liquidity or with a 90% guarantee from the SME Guarantee Fund (pursuant to Article 13, paragraph 1, letter c) of the “Liquidità” Decree), for a total of over €56 million.

In this context, in addition to the above-mentioned “Covid” products, the Addendum to the Agreement with the Fidimpresa Viterbo Guarantee Consortium was signed, aimed at regulating the issue of First Demand guarantees, counter-guaranteed by MCC, on loans granted by the Bank.

The operational structure

Human Resources

At 31 December 2020, Bank staff was made up of 3,146 employees (including 6 seconded to Invitalia by MCC), of which 28 executives, 1,113 middle managers and 2,005 non-managerial personnel.

In addition to 2 people seconded by the ultimate parent Invitalia SpA.

For more information on relations with human resources, equal opportunities, conventions and initiatives for employees, their engagement and events dedicated to them, see the section on the Consolidated Non-Financial Statement, prepared in accordance with Legislative Decree 254/2016, contained in this Consolidated Report on Operations.

Group organisational solutions and operating projects implemented

As a result of the change in the corporate setup, work was initiated on defining the organisational structure of the new created banking group and the related coordination and control mechanisms, based on a decentralised governance model in which the Parent Company will manage and coordinate the subsidiaries by:

- issuing directions to the members of the banking group for the implementation of general and specific instructions issued by the Bank of Italy aimed at ensuring the Group's stability;
- supervising the activities assigned to the Parent Company by the external regulations as a result of the role that the Bank will perform;
- carrying out planning and control at the consolidated level;
- implementing coordination mechanisms for specific areas.

The related changes to the Parent Company's organisational structure, which will be implemented in 2021, have been assessed based on this model.

Corporate Governance

This section also constitutes the **Report on Corporate Governance and Ownership Structures**, which describes the main features of the risk management and internal audit system connected to the financial reporting process (Article 123-bis, paragraph 2, letter b) of the Consolidated Law on Finance).

The governance model adopted by the Parent Company is the “traditional” model, consisting of the classic two-tier system of the Board of Directors and the Board of Statutory Auditors, while the independent audit of the accounts is assigned to an auditing firm.

Shareholders’ Meetings are held periodically to decide on the matters reserved to the shareholders by law and the supervisory regulations.

Specifically, the Ordinary Shareholders’ Meeting approves the financial statements and the allocation of profits, appoints the Directors and the Statutory Auditors and also revokes their appointment. In addition, on proposal from the Board of Statutory Auditors it awards and revokes the engagement of the Auditing Firm, approves the remuneration policies, decides on the responsibilities of the Directors and the Statutory Auditors, and resolves on all other matters reserved to it by law or the articles of association.

The Extraordinary Shareholders’ Meeting passes resolutions on amendments to the articles of association (except those necessary for adapting the articles to provisions of law, and those concerning mergers in the cases contemplated by Articles 2505 and 2505-bis of the Italian Civil Code and the reduction of share capital in the event of withdrawal for the shareholder), on the appointment and replacement of liquidators and the powers vested on the same and on every other matter attributed to its competence by law.

Given the administration and control system adopted by the Bank, the Board of Directors has responsibility for strategic supervision.

The Board of Directors, made up of 5 members (of which at least one fourth³ meeting the requirements of independence set by the applicable regulations), is vested with all powers for the ordinary and extraordinary administration to achieve the company purpose, except for matters that are reserved to the Shareholders’ Meeting by law or the supervisory regulations. It is also the body primarily responsible for ensuring that the shareholders’ meeting resolutions are correctly and promptly executed.

The Board of Directors met 19 times during the year.

³ Circular 285/2013 specifies that if this fraction is not a whole number, it is rounded down to the next whole number if the first decimal point of the fraction is equal to or less than five, otherwise it is rounded up to the next whole number.

The Board of Directors elects a Chairperson from among its members, unless already appointed by the Shareholders' Meeting, and it may appoint a Deputy Chairperson solely to act in lieu of the Chairperson in the case of his/her temporary absence or impediment. Should the Deputy Chairperson also be absent or unable to fulfil his/her duties, he/she shall be replaced by the most senior member of the Board of Directors or, in the event of equal length of service, by the eldest member. At present, no Deputy Chairperson has been appointed.

The Chairperson legally represents the Bank and takes the chair at the Shareholders' Meeting, and convenes and chairs Board of Directors' meetings, during which he/she guides, coordinates and moderates the discussions.

The Board of Directors appoints a Chief Executive Officer and may appoint a General Manager, both of whom must meet the requirements established by the applicable regulations.

The Board of Directors may delegate powers to the Chief Executive Officer and, upon proposal from the latter, to the General Manager (where appointed), setting the limits of the delegation, the powers and rights considered necessary, within the limits set by law and the articles of association.

In any event, the Chief Executive Officer has the power to submit loan proposals which must be approved by a Board of Directors' resolution.

The Board of Directors may confer special delegated powers on the granting of loans and on current operations to Management Committees, executives, officers and other employees, setting the limits, terms and conditions. The decisions taken by the recipients of delegated powers must be brought to the attention of the Board in the manner and with the frequency, at least quarterly, determined by the Board.

The Chief Executive Officer is the person responsible for managing the Bank and ensures that the management is performed in accordance with the regulations, the articles of association and the guidelines approved by the Board of Directors.

In accordance with the organisational framework approved by the Board of Directors, the Chief Executive Officer sets out the Bank's Organisational Structure defining the tasks and responsibilities of the individual Organisational Units and the related interconnections. The Chief Executive Officer is vested with the power to sign on behalf of the company.

The Board of Statutory Auditors, appointed by the Shareholders' Meeting, is composed of 3 regular auditors, from whom the Shareholders' Meeting elects the Chairperson, and 2 alternate auditors.

In view of the administration and control system adopted, the Board of Statutory Auditors serves as the Bank's control body. The Board of Statutory Auditors, in particular, presides over compliance with the law, regulations and provisions of the articles of association and the adequacy of the Bank's management and accounting procedures, the risk management and control system and the functionality of the system of internal controls as a whole, promoting actions to correct the shortcomings and irregularities found. In order to properly fulfil its duties, the Board of Statutory Auditors is granted the widest powers allowed under the regulatory provisions and regulations in effect and makes use of the internal audit structures and functions, from which it receives appropriate periodic reports, to carry out and guide its audits and required investigations.

In addition, the Board of Statutory Auditors performs its activity coordinating its work with the Auditing Firm appointed for independent auditing of the accounts. In this regard, the Board of Statutory Auditors, after informing the Board of Directors, proposes to the Shareholders' Meeting to confer the independent auditing appointment, assessing the independence of the Firm proposed and supervising over time the activities performed by the latter. Despite the attribution of the appointment to an auditing firm, the Board of Statutory Auditors conserves the tasks connected with assessing the adequacy and functioning of the accounting system.

The Board of Statutory Auditors met 21 times during the financial year.

Under the terms of the articles of association, the independent auditing of the Bank's accounts must be carried out by an Auditing Firm listed on the specific register, appointed by the Shareholders' Meeting.

On 23 October 2020, the Shareholders' Meeting approved the consensual termination of the existing audit engagement with PricewaterhouseCoopers S.p.A. and, upon reasoned proposal from the Board of Statutory Auditors, the award of the audit engagement for the financial years 2020-2028 to the Auditing Firm Deloitte & Touche S.p.A., following the engagement of that Auditing Firm as independent auditor for the Group by the Ultimate Parent Invitalia S.p.A., in agreement with the boards of statutory auditors of its subsidiaries. In order to favour and improve the functioning of the organisational processes aimed at delegation, coordination of the functions, integration and shared decision-making, the following Management Committees operate within the Bank. The main responsibilities of each of these are listed below:

- Steering Committee: supports the Chief Executive Officer in implementing the resolutions of the Governing Bodies and in the management of the Bank, particularly

in relation to monitoring the progress of business development; approving and monitoring initiatives to implement the Business Plan; and assessing proposals for partnerships/agreements.

- Credit Committee: supervises the loan granting and management process. It exercises the delegated powers assigned by the Board of Directors in relation to the granting of credit, bad loans, and unlikely to pay and past due exposures within the limits established by the Board of Directors. It examines the results of loan analysis and monitoring prepared and submitted to the Committee by the Bank's competent functions, for subsequent submission by the Chief Executive Officer to the Board of Directors;
- Commercial Committee⁴: exercises the delegated powers granted by the Board of Directors with regard to the granting of credit, for the business segments and within limits established by the Board of Directors. It supervises the credit granting process in compliance with the criteria defined by the competent internal functions, in order to achieve the volume, profit and risk containment objectives;
- Pricing Committee: exercises the delegated powers granted to it by the Board of Directors regarding the setting of prices (spread and conditions) applied to lending products;
- Internal Control and Risk Committee: performs an advisory and proposal-making role. It assists the Chief Executive Officer and the other corporate bodies in the integrated management of the overall risks the Bank is exposed to, and of the overall internal control system.

There are also Subsidy Committees for managing public interventions and funds, in order to ensure segregation between management of public initiatives and funds and other banking activities, also on the basis of the provisions of the agreements signed by the Bank. The members of these Committees – who cannot be Bank employees – are chosen on the basis of the specifications contained in the individual agreements and, unless otherwise envisaged by law or by the related agreements, are appointed by the Chief Executive Officer based on proposals made by the structures responsible for managing Public Funds (and where applicable, designated by the customer public administrations).

⁴ The Commercial Committee was dissolved at January 2021.

The Subsidy Committees – whose functions are established in the related regulations and Agreements – resolve on proposals to admit/reject individual transactions, on revocations, renunciations, settlements and anything else necessary for the implementation or termination of a subsidy agreement, as well as on the filing of lawsuits. In accordance with the frequency envisaged, they approve reports and accounts for the available funds, commitments, insolvencies and disputes, information prospectuses and the report on the amount of commissions and reimbursements due to the Manager. They set guidelines and operating methods for the subsidies, also with regard to the relations between the Bank as manager, the intermediaries and beneficiary enterprises.

Internal control system

“Internal Control System” means the set of rules, functions, structures, resources, processes and procedures aimed at ensuring the achievement of the following objectives, in accordance with the principles of sound and prudent management:

1. verifying the implementation of corporate strategies and policies;
2. containing risk within the limits set out in the Bank’s risk appetite framework;
3. safeguarding the value of assets and protecting against losses;
4. effectiveness and efficiency of corporate processes;
5. reliability and security of company information and IT procedures;
6. preventing the risk that the company will be involved, even involuntarily, in illegal activities;
7. compliance of operations with the provisions of laws and regulations, including supervisory rules, and with internal policies, regulations and procedures.

The Internal Control System plays a central role in the corporate organisation and is strategically significant because it:

- represents a fundamental element of knowledge for the Governing Bodies, so as to ensure full awareness of the situation and effective monitoring of company risks and their interactions;
- orients the changes of the strategic approaches and corporate policies and makes it possible to adapt the organisational context in a coherent manner;
- oversees the functions of the management systems and observance of the prudential supervisory requirements;

- favours the diffusion of a proper culture in terms of risks, legality and corporate values.

The Internal Control System must:

- ensure the completeness, adequacy, functioning (in terms of efficiency and effectiveness) and reliability of the risk-management process, and its consistency with the Risk Appetite Framework (RAF);
- establish controls covering every operating segment and hierarchical level;
- guarantee that the anomalies encountered are promptly brought to the attention of the appropriate organisational levels of the Bank (to the Governing Bodies, if significant) capable of quickly activating the necessary corrective actions.

The Board of Directors, in exercising its duty of strategic supervision, defines the architecture of the Internal Control System in terms, for example, of principles and guidelines, organisational oversight, tasks and responsibilities, resources and powers, information flows and integration of risk management and conflict of interest processes, in compliance with the laws and supervisory regulations and the articles of association.

Annually the Board of Directors, also taking into account the results of the work of the Board of Statutory Auditors and supported by the internal audit function, assesses the completeness, adequacy, functioning and reliability of the Internal Control System.

The control activities in the Bank are carried out at all hierarchical and functional levels of the organisational structure. All company structures are involved, each for their specific level of responsibility and assigned duties, in controlling the processes and operating activities they are responsible for. The results of the controls then flow into a comprehensive system of reporting and information flows, whose final destination is the Supervisory Authority and the governance, management and control bodies, according to the frequency and the contents established by external and internal regulations and the responsibilities of each body.

In application of the principle of proportionality, the Bank has structured its Internal Control System based on its size and the complexity of its operations, the nature of its activities and the associated risks to which the Bank is exposed. The Bank's Internal Control System includes the following levels:

- First level: these include all control activities which the individual business/operating units carry out on their own processes to identify, assess, manage and monitor their associated risks, in relation to which they identify and implement specific actions aimed at ensuring the processes are properly completed. They are carried out by the

same business/operating functions (e.g. hierarchical, systematic and sample controls), or to the extent possible, are incorporated in IT procedures and are considered an integral part of every company process.

- Second level: these are performed by the risk control function (which includes both the risk control and validation functions) and by the compliance and anti-money laundering function, with the aim of monitoring company risks to ensure the prudential conduct of the business, reliability of information and compliance with the law and internal procedures;
- Third level: assigned to the internal audit function, which ensures constant, independent and objective assessment of the functioning of the overall Internal Control System.

The Chief Compliance Officer performs the compliance and anti-money laundering function and his/her responsibilities are based on specific provisions contained in the legal and supervisory regulations and are implemented through internal regulation documents, approved by the Board of Directors.

The Head of the function is appointed head of the compliance function and reports to the Chief Executive Officer. The head of the AML unit, reporting directly to the Chief Compliance Officer, is appointed as the company AML officer. In any event, both have direct access to the Board of Directors and the Board of Statutory Auditors and communicate with them without restrictions or intermediation.

The Compliance model adopted by the Bank assigns the Compliance function the task of directly monitoring compliance risk with reference to the regulations governing bank and brokering activities, management of conflicts of interest, transparency with customers and, more generally, consumer protection regulations. It is also responsible for identifying specialist units within the Bank the management of compliance risk for the applicable regulatory areas (e.g. workplace safety, tax and privacy). In any event, the Compliance function continues to be responsible, for these areas as well, for at least the definition of methods used to assess compliance risks, to identify the related procedures and to verify the adequacy of those procedures in preventing compliance risks, as well as assessing the adequacy of the safeguards in managing the overall compliance risks.

The Chief Risk Officer performs the role of risk control function – as defined by the current regulatory rules – and performs the tasks assigned to that function in the guidance

documents, and in the policies and guidelines approved by the Board of Directors, in particular with reference to the Rules for the Risk Control Department.

The Head of the function is also the Head of the risk control function and reports to the Chief Executive Officer. In any event, he/she has direct access to the Board of Directors and the Board of Statutory Auditors and can communicate with them without restrictions or intermediaries.

The Internal Audit function performs the role of internal audit function, as defined by the existing regulations and performs the tasks assigned to this function in the guidance documents, in the policies and guidelines approved by the Board of Directors, in particular with reference to the Rules of the internal audit function.

The Head of the function is appointed Head of the internal audit function.

The Head of the internal audit function reports to the Board of Directors and has direct access to the Board of Statutory Auditors, communicating with it without restrictions or intermediation. The liaison between the head of the internal audit function and the Chief Executive Officer is in any case ensured through adequate information flows and participation, as a member, in any management committees in the area of internal controls and risks.

The heads of the control functions meet the requirements of adequate professional expertise, are appointed and revoked by the Board of Directors, after consultation with the Board of Statutory Auditors, and do not have direct responsibility for operating areas subject to audit.

The Bank's Internal Control System also includes the Board of Auditors, the Oversight Committee pursuant to Legislative Decree 231/2001 (below also "231 OC") and the independent auditing firm.

The main objective of the 231 OC is to prevent the offences contemplated by Legislative Decree 231/2001 by verifying the adequacy and effectiveness of the Organisational and Management Model adopted by the Bank pursuant to the Decree.

The Committee operates according to its rules and has a budget for expenses and wide powers of control and inspection at all levels.

The 231 OC, a specifically established collegial body, currently consists of the Chairperson, an independent external professional, and two other members, consisting of the Head of the Bank's Internal Audit function and Deputy Chief Risk Officer (who do not have any operational tasks within the company, ensuring complete independence). The OC will remain in office until the meeting to approve the 2020 financial statements.

Alternatively, as established in applicable regulations, the Bank's 231 OC functions may be performed by the Board of Statutory Auditors.

The Auditing Firm, for the duties assigned to it by law, liaises – for the purpose of exchanging information and/or data – with the Board of Directors, the Board of Auditors, the Internal Audit Function and the other corporate control bodies and/or functions.

Lastly, with regard to the coordination and operational management of the internal control model required by Law 262/05 on Investor Protection (Article 154-bis of the Consolidated Law on Finance), the Head of the Chief Financial Officer function, acting as the Financial Reporting Manager, must prepare – and effectively put into practice – adequate administrative and accounting procedures for preparing the Company's financial statements as well as all other communications of a financial nature made available to the market.

The Bank's Financial Reporting Manager – jointly with the Chief Executive Officer – must also certify the following, in a specific report on the Company's consolidated annual and interim half-yearly financial statements:

- the adequacy and effective application of the administrative and accounting procedures;
- compliance with the applicable international accounting standards recognised in the European Community pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
- correspondence with the entries in the accounting ledgers and documents;
- the ability to provide true and fair view of the financial position, financial performance, and cash flows of the Bank and the Group;
- the inclusion in the report on operations of a reliable analysis of the progress and results of operations, together with a description of the main risks and uncertainties that the Bank and the Group are exposed to.

In order to comply with the provisions of law, the Bank has adopted an Internal Control System which involves the application of a common methodological framework based on:

- use of a uniform model based on internationally recognised methodological standards (CoSo);
- constant updating of the Model, with attribution of specific responsibilities to the subjects involved;
- generalised communication of the model through training programmes.

Specifically for the model adopted:

- documentation must be validated and the execution of the controls on the part of the respective competent managers must be confirmed;
- every administrative/accounting procedure and every control must be documented, assessed, tested and validated and a single manager appointed as responsible for executing the activities contemplated therein;
- an internal confirmation flow (to the Parent Company's Financial Reporting Manager) has been set up as well as an external confirmation flow (to the Ultimate Parent's Financial Reporting Manager and to the market) in relation to the Internal Control System for financial reporting.

The Bank adopts a Regulation for the Financial Reporting Manager in which – in line with the provisions of Article 154-bis of the Consolidated Law on Finance and in accordance with Article 24 of the articles of association – the following are defined:

- appointment procedures, requisites, duties, powers and resources of the Financial Reporting Manager;
- relations with the Bank's governing bodies and control bodies;
- the information flows from and to the other control structures and the Financial Reporting Manager of the Parent Company, within the scope of the information required for preparing the consolidated financial statements.

In addition, the Guidelines – Internal Control System over Financial Reporting (below "ICSFR") have been approved, which, in compliance with the provisions of Article 154-bis of the Consolidated Law on Finance, govern the criteria and methods and identify the roles and responsibilities for:

- establishing and maintaining over time the Bank's Internal Control System over Financial Reporting;
- assessing its adequacy and effective operation.

The provisions of the ICSFR are part of the Bank's overall internal control system and are in keeping with the current legislative prescriptions. Additionally, the "Procedure for compliance 262/05" governs the operating activities and the methodological instruments used to set up and maintain the Bank's Internal Control System over Financial Reporting (ICSFR) over the time, and for assessing its adequacy and operational effectiveness, in accordance with the roles and responsibilities defined in the ICSFR.

On the basis of the internal regulations, during the year the planned updating of the administrative procedures was carried out, to comply with Law 262/05. The roles involved, the activities and responsibilities relating to the steps of the macro processes were also identified.

In 2020, the Financial Reporting Manager issued the attestations and declarations required and, in carrying out her work, she maintained all the contacts and relations with the other external and internal control bodies, namely the Board of Statutory Auditors, the Auditing Firm, the Oversight Committee, the Internal Controls and Risks Committee, the internal audit, compliance and money-laundering functions, and the Financial Reporting Manager of the Ultimate Parent.

On the occasion of the presentation of the Company's consolidated annual financial statements and the condensed half-year consolidated financial statements, the Financial Reporting Manager submits a report on the Internal Control System over Financial Reporting to the Board of Directors, together with the wording of the attestation to the Market, to be signed jointly with the Chief Executive Officer to ensure compliance with the regulatory requirements.

The newly formed Group is developing a new corporate and strategic governance model able to ensure guidance and coordination and the sharing of best practices within the Group. The governance model will be implemented mainly through strategic direction and control performed by the Parent Company, with selected areas of centralisation of organisational divisions at the Parent Company MCC. The main policy guidelines are:

- a) overall strengthening of the control model, with progressive integration at group level;
- b) strategic management of the subsidiaries by overseeing the key strategic planning and operational processes and events, setting the risk appetite and capital allocation, and overseeing the accounting and reporting processes, as well as the other processes/events that the Parent Company is required to oversee by law;
- c) operational autonomy over the business of the subsidiaries in order to ensure maximum agility/speed in achieving the relaunch of earnings on a primarily stand-alone basis;
- d) consequent clarity of responsibility and accountability
- e) progressive centralisation of selected areas in 2021 capable of generating synergies of scale and scope.

Other information

This Consolidated Report on Operations mainly examines the aspects regarding the performance of the Group's business, the performance indicators and the disclosure required on the Group's Governance, also in relation to financial reporting (pursuant to Article 123-bis, Section two, letter b, of the Consolidated Law on Finance) and the system of internal controls, including the requirements of Law 262/05 on investor protection, in accordance with the provisions of Article 154-bis of the Consolidated Law on Finance.

All the other information required can be found in the Notes to the Financial Statements. In particular, the information on risks and uncertainties is provided in the Notes to the Financial Statements, specifically in part A where the information is provided on the going concern assumption and the risks and uncertainties related to the use of estimates, in part B (Section 10.6 Provisions for Risks and Charges), and in part E which details the information on financial and operational risks also in relation to the existing assets on derivatives.

More details regarding transactions with the Ultimate Parent of the Parent Company and Group companies are provided in Part H - Transactions with related parties.

The subsidiary Banca Popolare di Bari holds €25 million of treasury shares. None of the other companies in the scope of consolidation have treasury shares.

Significant subsequent events

New Tender Call for the management of the Guarantee Fund

On 19 January 2021, the Ministry for Economic Development published the Tender Call for the service of management of the SME Guarantee Fund, pursuant to Article 2, paragraph 100, letter A, of Law No. 662 of 23 December 1996, with a duration of nine years, starting from the date of signature of the contract. MCC took part in the tender as leader of a temporary joint venture comprising MPS Capital Services S.p.A., Intesa Sanpaolo S.p.A., BFF Bank S.p.A., Artigiancassa S.p.A. and Unicredit S.p.A..

On 26 March 2021, the Ministry of Economic Development announced that:

- by the deadline of the Tender Call, only one offer had been submitted by the above-mentioned temporary joint venture;
- the Awarding Commission proposed that the tender be awarded to said temporary joint venture;
- it was not possible to award the tender in progress and subsequently enter into a new Agreement before the expiry date (28 March 2021) of the current Agreement signed on 28 March 2012;

and it had consequently decided to extend the Agreement signed on 28 March 2012 – with the same terms, clauses and conditions contained in the that Agreement and in the subsequent amending documents, including the methods of payment of the consideration to be taken from the Fund's resources – until the date of signing the new Agreement, and in any event no later than 28 September 2021.

Establishment of the MCC Banking Group

Following notifications sent by MCC on the existence of the new Mediocredito Centrale Banking Group and the project to amend the company's articles of association, on 10 March 2021 the Bank of Italy sent the Order for the registration in the Register of Banking Groups, with effect from 15 October 2020, of Mediocredito Centrale Banking Group, composed of Banca del Mezzogiorno-Mediocredito Centrale, as Parent Company, and its subsidiaries Banca Popolare di Bari and Cassa di Risparmio di Orvieto.

As a result, the Banca Popolare di Bari Credit Group was removed from the Register of Banking Groups.

Shareholding in Cedacri

In a price-sensitive press release dated 5 March 2021, BPB, together with the other shareholder banks, announced that they had signed a binding agreement to sell their respective shareholdings in Cedacri, Italy's leading player in the IT services outsourcing market for banks and financial institutions, to ION Investment Group Limited. The enterprise value of the company offered totalled €1.5 billion and included a net financial position and other liabilities of around €320 million. Completion of the transaction is subject to the satisfaction of certain conditions precedent, in accordance with standard practice, and is expected by the third quarter of 2021.

Tercas Ruling

On 27 April 2021, the Board of Directors of the subsidiary Banca Popolare di Bari resolved to instruct its lawyers to initiate a claim for compensation against the European Commission for damages caused by the decision of 23 December 2015, the so-called Tercas ruling, later annulled by the General Court of the European Union on 19 March 2019 (through a ruling confirmed by the Court of Justice on 2 March 2021). In said decision, the EU ruled that the financing provided through the Deposit Guarantee Scheme constituted state aid, ordering the repayment of almost €300 million. After having completed the investigations carried out, also with the aid of independent experts, concerning the potential liability of the European Commission, BPB took the necessary steps to claim compensation for the above-mentioned damages.

CRO Capital Preservation Plan

At 31 December 2020, Cassa di Risparmio di Orvieto had a Total Capital Ratio (9.60%) below the minimum regulatory capital requirement of 10.5% (including the Capital Conservation Buffer of 2.50%).

However, in the current emergency linked to the Covid-19 pandemic, the Bank is subject to the recent provisions issued by the Bank of Italy in its communications of 24 March and 28 July 2020, which, in addition to certain extensions of deadlines related to supervisory requirements, allow less significant banks (including the Bank) the possibility of continuing to operate temporarily below the Capital Conservation Buffer (CCB) until the end of 2022.

That said, as required by the applicable regulations, a Capital Conservation Plan (the "CCP") has been prepared, to be submitted to the Supervisory Authority, containing at least: i) a projected balance sheet of the Bank including cost and revenue estimates; ii) the measures

to be taken to increase the levels of self-financing; and iii) the measures necessary to meet the combined capital buffer requirement, together with the timing of their implementation.

The CCP provides a disclosure aimed at illustrating, on the one hand, the reasons why the Bank's levels of capital are below the minimum regulatory requirements including the Capital Conservation Buffer at 31 December 2020, and, on the other hand, how it will achieve the progressive realignment to the regulatory threshold. Specifically, details are provided in the CCP of the earnings and financial projections for the period 2021-2024, the progress of the initiatives to be implemented aimed at capital strengthening, as well as their consequent effects on the Bank's capital ratios.

Based on the new earnings and financial projections for 2021-2024, and also considering appropriate stress scenarios to take account of the uncertainties linked to the current pandemic situation, the CCP identifies a minimum capital requirement of around €27 million to ensure a Total Capital Ratio above 10.50% over the plan period.

As regards the feasibility of the capital strengthening, the Capital Conservation Plan has been submitted in advance for approval by the controlling company Banca Popolare di Bari, as well as the Parent Company MCC, in the performance of its functions of management and coordination of the Bank.

Business outlook

In 2020, the new Covid-19 virus progressively spread to many countries around the world and was identified as a pandemic by the WHO. The resulting health emergency had far-reaching negative repercussions for the Italian and world economy.

On 30 January 2020, following China's report of a cluster of pneumonia cases of unknown aetiology (later identified as a novel Sars CoV 2 coronavirus in the city of Wuhan, the World Health Organization declared the coronavirus outbreak in China a public health emergency of international concern.

On 31 January, the Italian government, following the initial precautionary measures adopted from 22 January, and in light of the rapid spread of the epidemic, announced a state of emergency and implemented the first measures to contain the disease throughout the country.

MCC promptly initiated a number of initiatives and extraordinary measures to support enterprises and households in the context of the health emergency, including:

- the suspension of the repayments of loans granted to SMEs, in accordance with Decree Law No. 18 of 17 March 2020, converted into Law No. 27 of 2020, and the subsequent extension to 31 January 2021 in accordance with Article 65 of Decree Law No. 104 (“August Decree”);
- suspension of first home mortgage instalments for private individuals, in accordance with Decree Law No. 18 of 17 March 2020 “Cura Italia” Decree, through the contribution of the First Home Loans Solidarity Fund;
- participation, as manager of the Guarantee Fund, in the **task force** set up on 29 March 2020 with the Ministry of Economy and Finance, Ministry of Economic Development, Bank of Italy, Italian Banking Association and SACE (Italian Export Credit Agency) to ensure the efficient and rapid use of the liquidity support measures adopted by the Government through Decree Law 18/2020 and extended through Decree Law 23/2020. On 23 April 2020, the initiatives of the task force were presented by the Chairperson and the Chief Executive Officer of MCC at a hearing before the Parliamentary Inquiry Committee on the banking and financial system. These included the implementation of a dedicated access procedure and the IT enhancements to the Guarantee Fund Portal, enabling the system to process all the applications, while also making banks aware of the use of bulk transmission systems that considerably speed up the uploading of applications, including through the night.

The Guarantee Fund, in particular, has been a key instrument in the implementation of the support measures adopted by the Government. At 31 December 2020, applications for guarantees accepted pursuant to Article 13, letter m) of the “Liquidità” Decree totalled 1,040,982 (67.5% of the total), while applications for transactions pursuant to Article 56 of the “Cura Italia” Decree totalled 196,775 (12.4% of the total).

For more details of the impacts of the Covid-19 pandemic on the business, see the “Economic results” and “The business” sections of this report.

In February 2021, the Board of Directors of MCC approved the 2021–2023 Business Plan, which, taking into account the scenario reflecting the foreseeable effects of the pandemic, sets out and guides the strategic mission assigned to the Mediocredito Centrale Banking Group and its positioning in the competitive scenario in line with its founding objectives,

identifies the business model to be implemented and details the process of evolution of the product range and possible new synergies, necessary to achieve the strategic priorities and meet the needs of stakeholders and the market.

The merger of Banca Popolare di Bari and its subsidiary Cassa di Risparmio di Orvieto into the new Mediocredito Centrale Banking Group will take up a significant part of the Bank's managerial efforts in implementing a complex plan to relaunch and refocus the subsidiaries on their core business serving their target communities.

Decree 142/2019 converted into Law No. 5/2020 opens up a new institutional and industrial role for MCC and provides the basis for the creation of the Southern Italy Financial District. The first collaborations and actions involving financial entities in Southern Italy have been initiated in specialty finance projects.

In terms of growth strategy, the new Business Plan envisages further specialisation of the Parent Company in support of Southern Italy and enterprises, with an increasing focus on the SME segment, also as part of the development of the new role as an interface for the projects envisaged in the National Recovery and Resilience Plan (NRRP).

MCC's medium-term vision is to create a smart bank with a digital heart, oriented towards the development of community economies and the growth of Southern Italy through lending, guarantees, services and finance.

Consolidated non-financial statement of the Mediocredito Centrale Group pursuant to Legislative Decree 254/2016

Letter to Stakeholders

Mediocredito Centrale has always place significant importance on non-financial issues over the years and since 2013 it has included information relating to social responsibility in its financial statements.

In 2019, this was accompanied by the issuance of a social bond, the proceeds of which will be used for the financing and/or refinancing of loans granted to enterprises that contribute to the economic development of depressed areas, particularly in Southern Italy, wholly in line with the Bank's mission.

Mediocredito Centrale is now presenting its first Non-Financial Statement (NFS), prepared on a consolidated basis to include the subsidiaries Banca Popolare di Bari and Cassa di Risparmio di Orvieto, starting from the creation of the MCC Group (15 October 2020).

The MCC Group's NFS at 31 December 2020 reports on an unusual and extraordinary year.

The Covid-19 pandemic has had a profound impact not only on the national economic landscape, but also on people's lives, changing their behaviour, habits, priorities and expectations for the future.

In such a dramatic scenario, our focus was primarily on our employees, who were guaranteed the possibility of working completely remotely during the most acute phase of the emergency, thanks to major and rapid adaptations of infrastructure and technological equipment. The company premises were sanitised and the necessary health and hygiene measures were adopted to enable the gradual resumption of in-office work when permitted by the pandemic, while maintaining and consolidating the use of remote working also in the post-emergency phase.

Indeed, it was our people and our technological solutions that enabled MCC to play a key role during the pandemic, both as manager of the SME Guarantee Fund and as a bank for enterprises, in helping deliver government measures in support of the economy, assisting customers and the country as a whole at an extremely difficult time.

Of note was the completion of the acquisition of Banca Popolare di Bari, which is wholly in line with MCC's mission to increase the Italy's competitiveness, particularly in Southern Italy.

Once we have completed the process, the acquisition of the largest bank in Southern Italy will allow us to expand the boundaries of our operations, increasing and redefining the notion of "value creation", i.e. how we measure our contribution to the economic development of Southern Italy and the enterprises operating there.

All this, in the knowledge of the growing responsibility for our actions with respect to our stakeholders: customers, employees, shareholders, suppliers, communities and institutions.

Massimiliano Cesare

Chairperson of the Board of Directors

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1 Methodological note

The 2020 Consolidated Non-Financial Statement (below also “Statement” or “NFS”) of the Mediocredito Centrale Group (below also “GMCC” or “Group”) has been prepared in accordance with the provisions of Legislative Decree 254/2016 (below also “Decree” or “Legislative Decree 254/2016”), which implements Directive 2014/95/EU on disclosure of non-financial information. As envisaged by Article 5 of Legislative Decree 254/2016, this document is contained in the Report on Operations and constitutes a specific section of the report identified accordingly. The Report on Operations is in turn contained in the Group’s Annual Consolidated Financial Report.

This document reports on the material topics pursuant to Articles 3 and 4 of the Decree, to the extent necessary to ensure an understanding of the Group’s (in the document “MCC Group” or “Group”) business operations, their progress, results and impact, and includes data from the parent (in the document “Parent Company” or “MCC”) and its fully consolidated subsidiaries.

The contents reported, which refer to the 2020 financial year (1 January - 31 December for the parent company; 16 October - 31 December for the subsidiaries, unless otherwise specified), have been identified through a materiality analysis, which is described in section “5.2 Materiality analysis” of this document. Although the Banking Group was created on 15 October 2020, the data is reported from 16 October 2020 (inclusive) to 31 December 2020.

The **scope** of the social data and information consists of the companies consolidated on a line-by-line basis within the Annual Consolidated Financial Report at 31 December 2020, which are significant for the reporting of the topics identified in Article 3 of Legislative Decree 254/2016. The following are not included in the scope of this statement:

- MCC RMBS S.R.L.;
- AD.FI. SME S.R.L.;
- 2017 POPOLARE BARI RMBS S.R.L.;
- 2018 POPOLARE BARI RMBS S.R.L.;
- 2019 POPOLARE BARI SME S.R.L.;
- 2019 POPOLARE BARI RMBS S.R.L.

because they are securitisation special purpose vehicles.

Any further scope delineations are duly noted in the text of this document. Please also note that the 2019 comparison data only pertains to the Parent Company MCC.

The qualitative and quantitative information comes from the Group's business information systems and from a non-financial reporting system specifically implemented to meet the requirements of the Decree. The data have been produced through precise calculations and, where specifically indicated, through estimates duly identified in the text. The frequency of the NFS has been set as yearly.

The qualitative and quantitative information comes from the Group's business information systems and from a non-financial reporting system specifically implemented to meet the requirements of the Decree. The data have been produced through precise calculations and, where specifically indicated, through estimates duly identified in the text. The Consolidated Non-Financial Statement has been prepared in accordance with the GRI Sustainability Reporting Standards published by the Global Reporting Initiative (GRI) under the "in accordance - Core" option. Paragraph 6 of this document contains the GRI Content Index, which provides full details of the coverage of the GRI indicators associated with the material topics.

For the reporting period following the period under review, the Group aims to initiate the improvement of the non-financial reporting process to better comply with the requirements of the Decree and the GRI Sustainability Reporting Standards and to formalise the policies implemented (social and staff-related, respect for human rights and the continuous commitment to combatting bribery and corruption) to better represent the Group's commitment to its sustainability strategy. The process will also enable greater integration of sustainability issues into our risk management model.

The 2020 Consolidated Non-Financial Statement was approved by the Board of Directors of Mediocredito Centrale S.p.A. on 1 June 2021. It has also been subject to a limited assurance engagement according to the criteria set out in ISAE 3000 Revised by Deloitte & Touche S.p.A., which, upon completion of its work, issued a report on the compliance of the information provided in the consolidated non-financial statement with the requirements of the Decree and the GRI Standards used.

1.1 STAKEHOLDERS

For the Mediocredito Centrale Group it is important to pursue the objective of increasing its ESG performance. To this end, the correct identification of the main stakeholders and the

establishment of ongoing dialogue with each of them are the foundations for achieving this objective.

The following criteria are used to identify stakeholders: responsibility, dependency, relevance, influence, and level of interest/impact/knowledge.

The specific analysis conducted have led to the identification of the categories listed below:

- Customers (enterprise and retail)
- Shareholders
- Suppliers
- Community
- Staff
- Institutions

1.2 MATERIALITY ANALYSIS

Materiality is a fundamental principle of the Global Reporting Initiative - GRI standards and is also embodied in the European Union guidelines on non-financial reporting and CONSOB Resolution No. 20267 of 18 January 2018.

The concept of materiality refers to the identification of topics that:

- reflect the organisation's significant economic, environmental, and social impacts; and/or
- substantially influence stakeholder judgements and decisions.

This identification was conducted according to the principles that define the content and quality of sustainability reporting, such as stakeholder inclusiveness, completeness of information, sustainability context, balance, comparability, clarity, timeliness, reliability and accuracy.

In 2020, the Group prepared its first materiality analysis. The process consisted of three main stages: (i) preliminary analysis; (ii) benchmarking; and (iii) definition of the materiality matrix.

In the first preliminary phase, a list of topics considered relevant to the sector was identified through an assessment of public and non-public, internal and external information sources. The main sources considered in this preliminary phase can be divided into industry sector

documentation and the main competitors. The following are the public institutions from which the industry sector documentation was analysed:

- Sustainability Accounting Standards Board (**SASB**)
- Organisation for Economic Co-operation and Development (**OECD**)
- Global Reporting Initiative (**GRI**)
- Sustainable Development Goals (**SDGs**)

In addition, we also note in particular the industry sector documentation from European institutions, which is increasingly focusing on numerous topics of interest. The following are the European institutions from which the industry sector documentation was analysed:

- European Central Bank (**ECB**)
- European Investment Bank (**EIB**)
- European Securities and Markets Authority (**ESMA**)

Lastly, the analysis carried out was also based on the principles and material topics of the ultimate parent Invitalia, which can be identified as the main internal source considered.

In the second phase, a benchmark analysis was conducted that resulted in the:

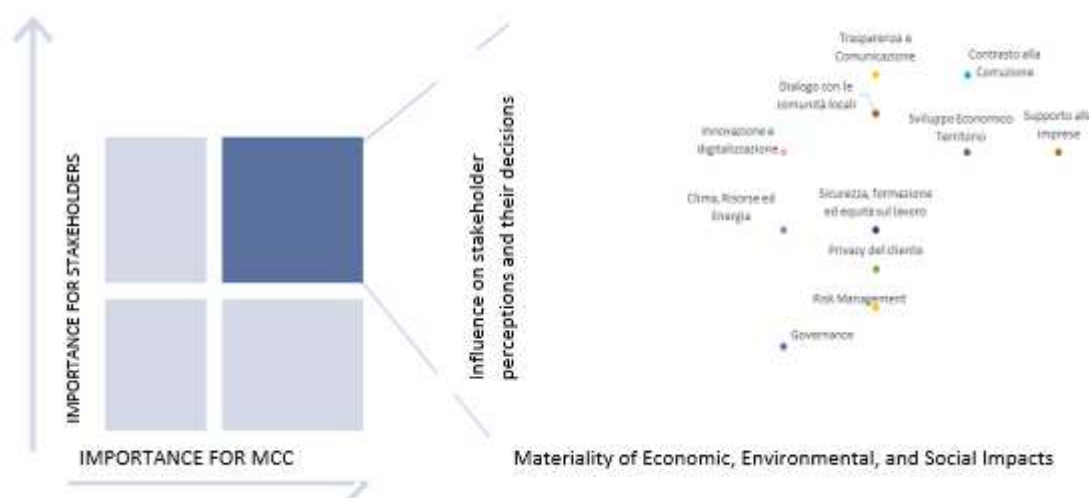
- Identification of comparable banks/companies based on the business conducted;
- Analysis of the material topics for the selected sample of comparables and allocation of a score (based on how many times the topic has appeared in the documents analysed and on qualitative assessments).

The final stage involved the definition of the materiality matrix and the material topics.

The materiality matrix was therefore constructed considering both the weight of industry sector documentation and the weight of material topics for the Mediocredito Centrale Group. The materiality matrix is shown below:

Mediocredito Centrale Materiality Matrix

Material topics in the Materiality Matrix



The next chapter presents the result of the analysis carried out, i.e. the materiality analysis of the MCC Group and the connection between the material topics, the GRI Standard indicators associated with them and the Legislative Decree 254/16 areas.

1.3 Relationship between Decree 254/2016, material topics for the Mediocredito Centrale Group and the GRI

The table below has been prepared to show the relationship between the information required by Legislative Decree 254/2016 and the related reporting standards and the material topics, and scope and type of impact for the Group, which are part of the Non-Financial Statement.

Leg. Dec. 254/16 Area	Material topics	Scope of impact	Type of impact	GRI Indicator
Combating corruption and bribery	Anti-corruption	Group	Direct – caused by the Group	205-3: Confirmed incidents of corruption and actions taken
Social	Transparency and Communications	Group	Direct – caused by the Group	201-1: Direct economic value generated and distributed
	Local economic development	Group Community	Direct – caused by the Group Indirect – related to the Group's activities	n.a. [Material topic not covered by GRI Topic-specific Disclosure]
	Dialogue with local communities	Group Community	Direct – caused by the Group Indirect – related to the Group's activities	n.a. [Material topic not covered by GRI Topic-specific Disclosure]
	Customer privacy	Group Customers	Direct – caused by the Group	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data
	Support to enterprises	Group Customers	Direct – caused by the Group Indirect – related to the Group's activities	n.a. [Material topic not covered by GRI Topic-specific Disclosure]
Environmental	Climate, Resources and Energy	Group	Direct – caused by the Group	302-1: Energy consumed within the organisation
				305-1 Direct GHG emissions
				305-2: Energy indirect GHG emissions
Staff related	Safety, training and fairness in the workplace	Group Staff	Direct – caused by the Group	102-8: Information on employees and other workers
				403-9: Work-related injuries
				405-1: Diversity of governance bodies and employees
				401-1: New employee hires and employee turnover
				404-1: Average hours of training per year per employee

Human Rights	-	Group	Direct – caused by the Group	n.a. [Material topic not covered by GRI Topic-specific Disclosure]
n/a	Innovation and digitisation	Group	Direct – caused by the Group	n.a. [Material topic not covered by GRI Topic-specific Disclosure]
	Governance	Group	Direct – caused by the Group	n.a. [Material topic not covered by GRI Topic-specific Disclosure]
	Risk Management	Group	Direct – caused by the Group	n.a. [Material topic not covered by GRI Topic-specific Disclosure]

2 Responsible Governance

Governments, enterprises, other institutions, civil society and all individuals are called upon to contribute to the achievement of the 17 global goals (Sustainable Development Goals or SDGs) to be achieved by the year 2030 to ensure sustainable development of the planet, by joining forces within a global partnership supported by policies and concrete actions. Banks also therefore need to play an active role, because their resources and expertise can have a decisive impact on the achievement of the SDGs. Indeed, in offering financing in numerous sectors of activity, a banking intermediary is one of the few economic players with the capacity to contribute to all the goals of the 2030 Agenda.

The Mediocredito Centrale Group intends to actively contribute to the generation of positive change at global level, conscious of the link between several of the Sustainable Development Goals (SDGs), as defined by the United Nations, and its business.

2.1 The Group's profile and identity

"The birth of the Banking Group comes at the end of a very complex journey... It is another fundamental step in the consolidation of our work in support of households and enterprises, with an even stronger focus on SMEs in Southern Italy. The new Group will enable us to enhance the roles and capabilities of the actors involved and is geared towards the development of community economies and the growth of Southern Italy"

*Bernardo Mattarella, CEO of Mediocredito Centrale
Group*

"Thanks to the new chain of control, the Bank will finally be able to act as a driver of new local development, capable of harnessing its resources and playing an active role for progress... Our aim is not only to revitalise the Bank, but also Italy's economic and social fabric"

Giampiero Bergami, CEO of Banca Popolare di Bari

The Mediocredito Centrale Group mainly operates in the supply of credit and the management of public subsidies in support of households and enterprises, with a particular focus on SMEs in southern Italy. It aims to establish a financial district serving the local areas targeted, oriented towards the development of community economies and the growth of Southern Italy through credit management, guarantees, services and finance.

With Decree 142/2019 converted into Law No. 5/2020, the Parent Company Mediocredito Centrale (below also “MCC”) was assigned an institutional and industrial role for the creation of the Southern Italy Financial District and the first collaborations and actions involving financial entities in Southern Italy have been initiated to that end.

The Parent Company is 100% owned by Invitalia S.p.A. – which is in turn fully owned by the Ministry of Economy and Finance.

The range of services offered comprises loans and subsidies, including the management of the SME Guarantee Fund and “Fare Lazio”, the web platform dedicated to subsidies provided by the Lazio Regional Authority. These two services have taken on a key role in the Covid-19 crisis and in the public intervention to support the economy and their use increased exponentially in 2020. The offering of services is being strengthened with a view to smart lending and expansion of the services offered to SMEs, also through partnerships with Fintech operators.

Birth of the Group

In June 2020, Mediocredito Centrale completed the purchase of 96.8% of the share capital of Banca Popolare di Bari (hereinafter “BPB”) and acquired control on 15 October 2020 at the end of the receivership. MCC has therefore assumed the status of an entity exercising management and coordination over BPB and its subsidiaries, namely: Cassa di Risparmio di Orvieto (below “CRO”), BPBroker, and other special purpose vehicles set up to carry out securitisations. On 12 March 2021, the Bank of Italy registered the Mediocredito Centrale Banking Group (below also the “Group”) in its register of banking groups.

The acquisition of BPB is the first step in the creation of the Southern Italy Financial District, identified as one of the main focuses of the Parent Company’s 2021-2023 Business Plan. The aim of creating this district is to:

- Promote collaboration and cost synergies among banks and financial institutions in Southern Italy;
- Enable investment for development;
- Connect communities in Southern Italy through non-profit public-private partnerships in the financial ecosystem.

The Group implements and supplements public policies to support the economy through:

- financing of small and medium enterprises in Italy with a focus on Southern Italy, also through strategic partnerships;
- promotion and support of infrastructure projects;
- provision of financing accompanying public incentives for enterprises;
- management of public subsidies for enterprises.

Organisational solutions and operating projects implemented

A number of measures were implemented in 2020 involving the Parent Company's organisational structure, aimed at:

- establishing a structure based on the principles of effectiveness and efficiency while respecting regulatory constraints;
- ensuring integrated oversight of the two business lines – lending and guarantees/facilities – based on the segregation of roles;
- expanding the commercial offering for small and medium-sized enterprises, with a refocusing of the direct channel;
- centralising activities supporting the business.

In line with the changes to the organisational structure, several decision-making mandates have been remodelled in relation to the corporate structure, lending and spending, and the internal organisation and specific responsibilities of all the Organisational Units have been defined.

Following the changes in the corporate setup of the Parent Company in 2020, work began on defining the organisational structure of the newly created banking group and the related coordination and control mechanisms, based on a decentralised governance model in which the Parent Company will exercise management and coordination of the subsidiaries by:

- issuing directions to the members of the future banking group for the implementation of general and specific instructions issued by the Bank of Italy in the interest of the Group's stability;
- supervising the activities assigned to the Parent Company by the external regulations as a result of the role that the Bank will perform;
- carrying out planning and control at the consolidated level;
- implementing coordination mechanisms for specific areas.

The related changes to MCC's organisational structure, which will be implemented in 2021, have been assessed on the basis of this model.

The Group provided for emergency remote working from the outset of the most acute phase of the Covid-19 epidemic. As a result, all work processes, relating to both business and support/staff activities, were also carried out using this method, while monitoring the levels of effectiveness and efficiency for both external and internal customers.

In light of the sudden increase in the volume of activities relating to the management of the Guarantee Fund and the "Fare Lazio" subsidies, due to the strengthening of these instruments by the Government and the Public Authorities during the Covid-19 emergency, targeted measures have been implemented to strengthen the staffing for these operations, also by setting up internal task forces.

The Parent Company has introduced specific solutions in its range of financing products aimed at fulfilling the purposes of the "Liquidità" Decree (as converted by Law No. 40 of 5 June 2020). In particular:

- the offer was launched of loans of up to €30,000 for enterprise current account holders of Poste Italiane that meet the requirements of the Decree, establishing a specific and faster disbursement procedure for these loans;

- an agreement was signed with SACE (Italian Credit Export Agency) aimed at accessing the guarantee provided by SACE for loans with the characteristics envisaged by the Decree.

In addition, the following was carried out to enable efficient management of applications submitted by customers in relation to the measures provided for in the government decrees aimed at facilitating lending to Italian businesses following the Covid-19 emergency:

- specific approval powers were established for the granting of loans with the purposes and characteristics envisaged by the above-mentioned government decrees;
- a simplified process was established for the authorisation of applications for moratoria submitted by customers.

A number of measures have also been taken to improve the efficiency of the web-based loan disbursement process, including the updating of assessment models to support the processing of loan applications.

The “Provisions for the storage and transmission of documents, data and information to combat money laundering and the financing of terrorism” issued by the Bank of Italy have been implemented by updating the related internal procedures.

2.2 Governance and Risk Management

The Parent Company adopts a traditional governance system, consisting of a Board of Directors and a Board of Statutory Auditors, both appointed by the Shareholders’ Meeting. The Parent Company acts as the representative towards the Bank of Italy for the purposes of consolidated supervision and exercises management and coordination of its subsidiaries.

The risks the Group is exposed to are detailed in Part E of the Notes to the Consolidated Financial Statements and are summarised below:

- credit risk;
- market risk;
- liquidity risk;

- operational risk.

The Group is aware of the importance of identifying, assessing, preventing and reducing potential **environmental risk** and climate change-related risk, namely risks related to direct impacts such as the use of energy resources (renewable and non-renewable sources), greenhouse gas emissions, waste production and disposal, consumption of raw materials used in the Group's business (paper and toner), and violation of environmental and industry regulations. At European level, the Action Plan for Financing Sustainable Growth places particular emphasis on the systemic importance of the banking/finance sector in enabling the transition to a low-carbon system and a climate-resilient economy. The banking sector is involved in potential indirect climate risks to the degree that its financing and investments are directed towards economic activities that contribute to climate change (e.g. in terms of greenhouse gas emissions). The banking sector as a whole can take a proactive role in promoting the transition to a low-carbon and climate-resilient economy by raising awareness of its role in the transition and by integrating an assessment of the potential climate change impact of its lending and investment policies.

In view of the nature of the Group's activities, the main **social risks** are:

- Risks arising from the IT system, i.e. the risk of suffering losses caused by vulnerabilities in management operational processes and in the architecture of the IT system, whether used by the company or by customers. With regard to IT risk in particular, the Parent Company's Board of Directors has approved the following:

- General IT Security Policy;
- Cyber Risk Analysis and Management Policy.

The first sets out the general principles of IT security for the use of the information system and the second identifies the guidelines underlying the organisational, methodological and procedural framework of the IT risk analysis process.

- Risk of failure to protect personal data and privacy, i.e. the risk of incurring losses as a result of failure to comply with data protection regulations. To mitigate this risk, the Group adopts various policies relating to data protection and security through which it seeks to protect and prevent the loss and unlawful or incorrect use of data. Specifically, the Group uses two procedures:

- Information to customers on the processing of personal data;

- Reporting in accordance with the Code of Conduct for information systems operated by private entities in relation to consumer credit, reliability and promptness of payments.

The MCC Group is committed to the **protection of human rights** in line with the values expressed in the Parent Company's Code of Ethics, because the activities of a financial institution directly or indirectly have an impact on human rights. Given the nature and geographical location of the Group's activities, there are no significant risks of violation of human rights, as defined in the 1948 UN Universal Declaration of Human Rights. However, other risks, associated with a broader concept of human rights and normally inherent in the business activities (managed in accordance with regulatory provisions or dedicated initiatives), may concern discrimination in the workplace and violation of workers' rights to privacy and safety. To address this risk, the Group promotes the values of the Code of Ethics adopted in all its management phases, both internally with staff and externally with suppliers and business partners.

The MCC Group has implemented the measures required by the specific regulations and seeks to focus on prevention, through the assessment of **staff-related risks**, to identify appropriate preventive measures that can eliminate or reduce hazards and potential adverse effects. The MCC Group therefore complies with the health and safety regulations, ensuring full compliance with the provisions of Legislative Decree 81/08.

All the Group's employees are covered by a National Collective Bargaining Agreement (NCBA) and the associated remuneration is at the level set by the NCBA adopted.

Specifically, this year, from the very beginning of the health emergency connected to the spread of the SARS-CoV-2 virus, the Parent Company took action to protect the health of its staff, adopting as many containment measures as possible to limit the spread of the virus, in line with the orders issued by the competent Authorities through Law Decrees, Prime Ministerial Decrees, Regional Ordinances, Italian Banking Association Protocols and trade unions.

Staff were kept constantly informed of all the measures taken through communications highlighting the need to strictly comply with the hygiene and sanitation requirements set out in the emergency regulations.

Among the important measures taken during the year:

- MCC enabled remote working from home, in line with the work tasks performed, to the extent possible with the available technical resources.
- Staff were provided the hygiene and sanitary protections envisaged by the regulations (masks, disinfectant gel, gloves).

From the outset of the pandemic, the subsidiary Banca Popolare di Bari also promptly implemented a series of measures to protect the health and safety of its employees.

Above all, the bank decided that equal treatment of all workers needed to be ensured in addressing the health crisis. On 25 February 2020, a permanent emergency management workgroup was set up consisting of the main functions involved in ensuring staff safety and business continuity, later joined by the company worker safety representative, which then converged into specific committees with the participation of company representatives.

The level of hygiene and sanitisation and protection of company premises was also raised, by intensifying the cleaning of workplaces, making available materials to combat infection (including thermal scanners and remote detection thermometers) and personal protective equipment (PPE), accompanied by extraordinary sanitisation sessions where necessary (in accordance with circular No. 5442 of 22 February 2020 issued by the Ministry of Health) on all operational facilities of the network and the Head Office affected by cases of infection from Covid-19.

BPB also made systematic use of remote working, with significant investments in portable personal computers to enable greater use of smart working.

Where requests for remote working work could not be implemented, the use of holidays and leave provided for by law and the collective bargaining agreements was encouraged and incentivised.

Also in light of the appeals made to customers by the Italian Banking Association and the trade unions, in compliance with the protocols agreed between the Prime Minister's Office and the employer and worker organisations on 14 March 2020 and 24 April 2020 and between the Italian Banking Association and the employer and worker organisations on 16 March 2020, supplemented 24 March 2020, customers were urged to:

- conduct all possible transactions through remote channels;
- limit physical access to the bank solely to necessary and unavoidable transactions that could only be carried out at its branches.

Significant measures were also adopted at organisational level, including:

- additions to the company Risk Assessment Document (RAD), updated to reflect the current emergency, and adoption of an anti-contamination protocol agreed with the company worker safety and trade union representatives, in accordance with the protocol agreed between the government and the employer and worker organisations on 24 April 2020, as amended;
- an initial reduction in the opening hours of all branches, limiting the opening of cashier counters to the public to the early morning. This variation was then revised several times based on the ongoing emergency situation;
- notices to customers and staff and specific work orders to staff signed by the employer pursuant to Legislative Decree 81/08 aimed at ensuring compliance with the rules of conduct to be adopted to combat the epidemic. The measures taken have always enabled a lower number of employees than the standard staffing levels at all the operating points, in addition to maintaining the required safety distances. The decision of the company to reduce and/or suspend staff working activities (and, therefore, to limit their movements) was solely due to the need to deal with exceptional events, due to force majeure, not attributable to the employees (but also certainly not to the company), clearly attributable to the Covid-19 health emergency;
- special attention to the process of informing staff in accordance with Article 36 of Legislative Decree 81/08, considered essential for the protection of individuals. Through the electronic tool “Intranet Notice Board”, workers were able to find out about regulatory developments and best practices in relation to prevention and health, issued by the main national and international authorities;
- the provision of specific information boards on combatting the pandemic in all working environments, in accordance with the emergency government regulations;
- a specific guide on combating the pandemic, explaining the conduct to be adopted by workers, customers and third parties for the emergency.

Lastly, BPB has taken out an insurance policy to protect all employees against the risks arising from the coronavirus providing several different types of cover.

The subsidiary Cassa di Risparmio di Orvieto has adopted the Anti-Infection Protocol. The procedures for access and management of activities in the company are regulated and

classified by type of individual (worker/customer/third party) within the Guide to Combatting the Pandemic. Spaces have been reorganised as necessary, with a ban on workstations, following a joint assessment by the Safety and Prevention Department and Real Asset Management Office through specific inspections and/or floor plan assessments. Crowding has been prevented through specific guidance on how to behave in particular situations (lunch breaks, break areas, etc.). Contracts with cleaning companies have been brought up to the standards required by the pandemic situation. Sanitisation sessions have been implemented on preventive basis and following confirmed cases of Covid-19 to avoid possible infections.

According to the Organisation, Management and Control Model pursuant to Legislative Decree 231/2001 of Mediocredito Centrale S.p.A., **combating bribery and corruption** forms part of the Bank's broader corporate policy, consisting of actions and initiatives aimed at raising awareness among all staff (from management to employees), as well as all external collaborators and business partners, of the need for transparent and proper management of the Bank and for compliance with the applicable legal regulations and the principles of business ethics in the pursuit of the company mission. Specifically, through the adoption of the Model, the Board of Directors pursues the following goals:

- improving the corporate governance system;
- setting up a structured and organic system of prevention and control to reduce the risk of committing offences related to the company's activities, with particular regard to reducing any illegal behaviour;
- ensuring conditions of fairness and transparency in the conduct of business and company activities;
- informing all the Bank's staff and all those who collaborate with the Bank or have business dealings with it, that the Bank absolutely condemns any conduct contrary to laws, regulations, supervisory rules or in any case in breach of internal regulations and the principles of sound and transparent management;
- informing staff, collaborators and external partners of the severe administrative penalties that can be imposed on the Bank in the event of the commission of offences;

- ensuring the prevention of the commission of offences, including criminal offences, through the continuous monitoring of all the areas of activity at risk and by training staff on the correct performance of their duties;
- effectively punishing conduct in breach of the Model by imposing disciplinary sanctions and/or contractual measures.

Specifically, all MCC Group companies must be free of any conflicts of interest between personal and family economic activities and the duties performed within the Group. The following are examples of conflicts of interest:

- people using their position in the company or information acquired in the course of their work in a manner that favours their personal interests;
- acceptance of money, favours or benefits from people or companies that have or intend to have a business relationship with the Group;
- purchase or sale of shares/other financial instruments of the Parent Company or of the Group Companies when, in connection with the functions performed, a person is aware of material information not in the public domain.

The subsidiaries BPB and CRO have an Internal Control System aligned to the Group's strategies and policies on controls and any regulations applicable on an individual basis. They are fully responsible for the governance of their own organisation and take measures to meet specific risk control needs. They also both have an Organisation, Management and Control Model pursuant to Legislative Decree No. 231 of 8 June 2001, as a component of the broader Internal Control System. The purpose of that document, in line with the applicable regulations, is to govern the principles and guidelines of the subsidiaries concerning the corporate liability of Entities for the prevention of the offences envisaged by Legislative Decree No. 231/2001, with particular regard to the preparation, adoption and management of Models by the companies belonging to the Group, also defining the information flows between the various Bodies, Structures and corporate control functions within the Group for the purposes of the Decree.

Inclusiveness in the governing bodies

The Board of Directors of the Parent Company consists of 40% women (2 out of 5) and 60% men (3 out of 5).

The average age on the Board of Directors is 54.2 years and the age groups represented are:

- aged under 30: n.a.
- aged between 30 and 50: 1 out of 5 (20%)
- aged over 50: 4 out of 5 (80%)

2.3 Ethics and Integrity

All areas of the Group's activities are underpinned by full compliance with the national and supranational legal and regulatory framework. As a result, the ethical principles contained in the Code of Ethics adopted by the Parent Company are recognised externally as a foundation of its reputation.

Code of Ethics

The Parent Company promotes the respect and appreciation of individuals, social cohesion and environmental integrity and seeks, through the Code of Ethics, to establish and adopt principles and rules of conduct aimed at protecting the Bank's credibility and reputation in carrying out its business and in its dealings with public and private counterparties.

All areas of the Banks's activities are underpinned by full compliance with the national and supranational legal and regulatory framework. In light of this, the General Ethical Principles are listed below (for more details see the Code of Ethics Banca del Mezzogiorno – Mediocredito Centrale S.p.A. approved by the Board of Directors on 20 December 2016):

- Sustainability - Dignity - Dedication - Cooperation - Excellence	- Professionalism - Integrity - Transparency - Competition - Priorities

The Group's assets are: staff, reputation and capital. Reputation depends mainly on the personal and professional attributes of the staff. The Group's objective is to create value in

a sustainable and responsible way for shareholders, customers (both private and public), employees and the community as a whole. The Group promotes equal social dignity without discrimination on grounds of nationality, language, gender, race, religious belief, political and trade union membership, and physical and mental condition. The success of the Bank is founded on the dedication of its staff, their intense and constant commitment to their work, and their ability to manage change. The Group relies on teamwork, sharing information and knowledge to produce value and strengthen the spirit of loyalty among all staff. It promotes individual capabilities and initiative aimed towards cooperative effort. The Group pursues excellence in the delivery of the services it provides. Professionalism and a sense of responsibility are essential to ensuring an excellent service that reflects the knowledge and skills needed to perform the tasks assigned. Integrity means pursuing objectives with honesty, fairness and propriety, in full and substantive compliance with the company rules and professional ethics that guide the daily conduct of the Bank's staff, based on mutual respect. The Group adopts high standards of transparency in its internal and external communications. The Group strives to be a fair and honest competitor in an increasingly competitive market.

As part of the process of developing an increasingly structured and comprehensive system of responsible management within its organisation, the Parent Company has drawn up the Code of Conduct for Suppliers and Partners, which expands on the Bank's Code of Ethics, of which it is an integral part, specifying the principles that must underpin successful relations with suppliers and contractual partners.

231 Organisational Model

Mediocredito Centrale S.p.A. is a company subject to the management and control by the sole shareholder Agenzia nazionale per l'attrazione degli investimenti e lo sviluppo d'impresa S.p.A. (below "Invitalia").

According to its articles of association, the Bank's purpose is to carry out banking activities, as well as any other financial activities within the limits allowed by the applicable regulations, with the primary aim of pursuing the objectives set out in Article 2, paragraph 162 of Law No. 191 of 23 December 2009 and, in particular to: (i) increase the supply capacity of the banking and financial system in Southern Italy; (ii) support the entrepreneurial initiatives most deserving of credit, by reducing the costs of supplying the financial resources needed

for investments; and (iii) channel savings towards economic initiatives that create jobs in Southern Italy.

In accordance with Legislative Decree No. 231 of 8 June 2001, the Board of Directors of the Parent Company seeks to pursue the following aims:

- improving the corporate governance system
- setting up a structured and organic system of prevention and control aimed at reducing the risk of commission of offences related to the company operations, with particular regard to the reduction of any illegal behaviour
- ensuring conditions of correctness and transparency in the conduct of business and company operations
- informing all the Bank's staff and all those who collaborate with the Bank or have business dealings with it, that the Bank absolutely condemns any conduct contrary to laws, regulations, supervisory rules or in any case in breach of internal regulations and the principles of sound and transparent management;
- informing staff, collaborators and external partners of the severe administrative penalties that can be imposed on the Bank in the event of the commission of offences;
- ensuring the prevention of the commission of offences, including criminal offences, through the continuous monitoring of all the areas of activity at risk and by training staff on the correct performance of their duties;
- effectively punishing conduct in breach of the Model by imposing disciplinary sanctions and/or contractual measures.

Combating corruption

The Parent Company faces the issue of combating corruption involving the Public Administration and corruption between private individuals as “predicate offences” pursuant to Legislative Decree 231/01.

Accordingly, the Model adopted by Mediocredito Centrale identifies the activities at risk of offence and adopts appropriate operating protocols identifying the conduct that must be observed when carrying out those activities, in order to ensure a system of internal controls capable of preventing the commission of the related offences.

These Protocols are subject to the system of internal control and supervision by the Oversight Committee with regard to the 231 Model as a whole.

The Operational Protocols contain organisational and control measures aimed at mitigating the risks of bribery and corruption. In 2020, the mapping of offences was updated to include the new criminal offences recently included among the predicate offences (such as unlawful influence peddling and tax offences), and the offence risk assessment was reviewed. At the request of the Oversight Committee, the update of the Organisational Model has been started and is currently being completed. This will be followed by the revision of the operational protocols to bring them into line with new regulations and further strengthen the controls for mitigating the risk of corruption.

Since 2017, Mediocredito Centrale has adopted an internal whistleblowing system as a means of preventing and rectifying acts or circumstances that may constitute a violation of the laws governing its activities. The whistleblowing system aims to encourage and protect employees who become aware of alleged unlawful or illegal conduct by another person in the same organisation and decide to report those acts or events to the designated bodies. To this end, the whistleblowing system has specific people and bodies responsible for the internal reporting system, namely the Head of the Compliance function and, alternatively, the Head of the Internal Audit function, as well as decision-making bodies – the Chief Executive Officer in ordinary circumstances and the Board of Directors in escalation, and autonomous and independent channels that differ from the Bank's ordinary reporting lines, designed to ensure the confidentiality of the whistleblower's details and the dignity and reputation of the person reported. The internal whistleblowing system is an integral part of the Organisational, Control and Management Model adopted pursuant to Legislative Decree No. 231/2001 for the prevention and detection of unlawful conduct ascribable to the Bank.

Reports must relate to any act or circumstance that may constitute unlawful conduct, either as a violation of the Organisation, Management and Control Model or a violation of the rules governing banking and management of public services. No reports have been received since its implementation up to the end of 2020.

With regard to training on whistleblowing, a course has been included in the compulsory training for all new hires (18 employees were trained during the year). The compulsory training for new hires also includes training on the Organisational, Management and Control Model pursuant to Legislative Decree 231/01 – General Section, which includes anti-corruption offences.

In addition, in 2020 an e-learning training update on the Corporate Responsibility of Entities pursuant to Legislative Decree 231/01 was also organised for all staff and 96% of employees (353 people) attended the training.

During the year, the ultimate parent did not take any disciplinary measures against employees in connection with bribery or corruption.

For Banca Popolare di Bari, four incidents of corruption were identified (specifically, one case of fraud and three cases of improper transactions with a customer)⁵. All four cases led to the dismissal of the employees involved. No incidents of corruption were identified for CRO.

Prevention of corruption

Mediocredito Centrale's Operational Protocols contain organisational and control measures aimed at mitigating the risks of bribery and corruption and identify 19 processes that have activities that are sensitive and/or conducive to the commission of corruption offences. In 2020, at the request of the Oversight Committee, the update of the Organisational Model was initiated and is currently being completed. This will be followed by the revision of the operational protocols to bring them into line with new regulations and the changes in the organisational structure. The Organisational Model and the Operational Protocols are available on the company intranet and employees are notified by email whenever they are amended (or a new protocol is added).

⁵ The definition of corruption does not refer to the Italian Civil Code, but to the GRI Standards, which define "corruption" as "the abuse of power for private or personal gain, and therefore also includes instances of abuse of office, bribery, fraud, extortion, collusion and money laundering, the offering or acceptance of any gift, loan, commission, reward or other benefit to or from any person as an inducement to engage in unlawful or illegal action or breach of trust in the conduct of company business".

2.4 Added Value created by the Mediocredito Centrale Group

Items (amounts in € thousands)		31/12/2020
10.	Interest and similar income	83,403
20.	Interest and similar expenses	(31,137)
40.	Fee and commission income	145,645
50.	Fee and commission expense (net of expenses for external networks)	(3,401)
70.	Dividends and similar income	769
80.	Net gains/(losses) on trading activities	(66)
90.	Net gains/(losses) on hedging activities	26
100.	Gains/(losses) on disposal or repurchase of:	8,517
	a) financial assets measured at amortised cost	(434)
	b) financial assets at fair value through other comprehensive income	8,789
	c) financial liabilities	162
110.	Net gains/(losses) of other financial assets and liabilities measured at fair value through profit and loss	(166)
	a) financial assets and liabilities measured at fair value	0
	b) other financial assets mandatorily measured at fair value	(166)
130.	Net value adjustments for credit risk:	(28,540)
	a) financial assets measured at amortised cost	(28,072)
	b) financial assets at fair value through other comprehensive income	(468)
140.	Gains/losses from contractual changes without derecognition	119
160.	Net insurance premiums	0
170.	Other income/expenses of insurance operations	0
230.	Other operating income/expenses (net of donations for public benefit)	163,439
250.	Gains (losses) from equity investments (for the part of gains/losses from disposals)	(36)
280.	Gains/(losses) on disposal of investments	(224)
320.	Gain/(loss) after tax from disposal groups held for sale	0
A. TOTAL ADDED VALUE GENERATED		338,349
	b) other administrative expenses (after indirect taxes and donations/gifts)	30,907
ECONOMIC VALUE DISTRIBUTED TO SUPPLIERS		30,907
	a) personnel expenses (including expenses for external networks)	64,019
ECONOMIC VALUE DISTRIBUTED TO EMPLOYEES AND COLLABORATORS		64,019
330.	Non-controlling interests	(2,378)
ECONOMIC VALUE DISTRIBUTED TO THIRD PARTIES		(2,378)
	Net income distributed to shareholders	0
ECONOMIC VALUE DISTRIBUTED TO SHAREHOLDERS		0
	b) other administrative expenses: indirect taxes and duties, contributions to the Resolution Fund for the banking sector (BRRD) and the Deposit Guarantee Scheme (DGS)	9,521
	Income taxes for the period (portion relating to current taxes, tax changes and tax reductions)	21,723
ECONOMIC VALUE DISTR. TO CENTRAL AND LOCAL GOVERNMENT		31,244
	b) other administrative expenses: donations and gifts	34
	Other operating income/expenses: donations for public benefit	0
	Profit allocated to the charity fund	0
ECONOMIC VALUE DISTR. TO COMMUNITY AND ENVIRONMENT		34
B. TOTAL ECONOMIC VALUE DISTRIBUTED		123,826
200.	Net provisions for risks and charges	23,305
210.	Net value adjustments on property, plant and equipment	5,200
220.	Net value adjustments on intangible assets	1,184
	Gains (losses) on equity investments (share of write-downs/reversals, adjustments/reversals, other charges/income)	(36)
260.	Change in fair value of property, plant and equipment and intangible assets	0
270.	Impairment losses on goodwill	0
	Income taxes for the period (amount for change in deferred tax assets and liabilities)	(10,135)
	Net income allocated to reserves	194,935
C. TOTAL ECONOMIC VALUE RETAINED		214,453

3 Southern Italy Financial District

3.1 Local economic development

The objective underlying the establishment of the Mediocredito Centrale Group is the economic development of Southern Italy through the creation of the Southern Italy Financial District.

At consolidated level, the Group's exposure to private individuals and enterprises in Southern Italy amounts to **62%** of the gross portfolio of loans to customers.

Specifically, in implementation of the provisions of the Parent Company's articles of association, within the scope of its activities MCC acts **primarily** to pursue the objectives of supporting the Southern Italian economy, as established by Article 2, paragraphs 162 and following of Law No. 191/2009.

In order to measure and monitor its ability to achieve its mission, the MCC has identified a panel of qualitative and quantitative indicators.

These indicators are divided into two categories:

- **Lending Business indicators**, which measure MCC's support for the Southern Italian economy through its lending business;
- **Development Action Indicators**, which measure MCC's ability to support the Southern Italian economy, also through non-proprietary financial resources, or through studies, promotion and social support.

The indicators included in **Lending Business** are:

- **Loans to Southern Italy** out of total Loans (amount): This is the percentage ratio of outstanding loans classified as "Loans to Southern Italy" to total outstanding loans to customers (enterprises, households, Public Administrations). In 2020 the percentage of Loans to Southern Italy with respect to total loans to customers was 54.8% (a total of €1,121.3 million), of which 81.2% relating to parties resident in or with their registered office in Southern Italy (equal to €910.6 million).

- **Enterprises based in Southern Italy** out of total enterprises (number): This is the percentage ratio between the number of customer enterprises with their registered office in Southern Italy and the total number of customer enterprises. It monitors the level of the number of customer enterprises with registered offices in Southern Italy. In 2020, the percentage of the Parent Company's customer enterprises with registered offices in Southern Italy, at the reporting date, was **61.1%**.
- **Offices in Southern Italy:** This is the percentage ratio between the offices in Southern Italy and total offices and monitors the consistency of the MCC's commercial policy with the mission identified in articles of association. In 2020, the Parent Company had offices in Naples, Bari, Catania, Milan and Pescara, which contribute to supporting its presence in these areas, in line with the mission identified in articles of association. The ratio between offices open Southern Italy and total existing offices is **80.0%**.
- **Enterprise loan applications Southern Italy:** This is the percentage ratio between loan applications classifiable as "Loans to Southern Italy" received during the reporting period from enterprises and total applications received from enterprises during that period. This indicator, whose absolute number reflects the Parent Company's current organisational structure and commercial and lending policies, measures the capacity to handle applications for loans that can be classified as "Loans to Southern Italy" and highlights the operational effort dedicated to the collection and subsequent assessment and processing of loan applications. In 2020, the percentage of the total loan applications received that could be classified as Loans to Southern Italy was **59.8%**.

The indicators included in the **Development Action indicators** category are:

- **Loans and grants to Southern Italy**
These are loans and grants to Southern Italy connected with the activity of Manager on behalf of the Public Administrations. This indicator measures the loans and grants aimed at Southern Italian enterprises connected with the Parent Company's activity as Manager on behalf of the Public Administrations responsible for the related subsidies. In this context, while always acting in accordance with public law and with

the instructions of the responsible Bodies, MCC makes a substantial contribution to the development of Southern Italy, also through the management of public subsidies. The figure takes into account the subsidies managed and represents: (i) for the SME Guarantee Fund, the bank loans granted; (ii) for the Sustainable Growth Fund, the value of subsidised loans and grants from the resources allocated for Southern Italy and the applications for subsidies managed by the temporary joint venture whose base for the implementation of the project is exclusively or predominantly in Southern Italy. **At 31 December 2020**, loans and grants to Southern Italy connected with the activity of Manager on behalf of the Public Administrations amounted to:

- **€37.4 billion** in outstanding bank loans granted thanks to guarantees provided through the SME Guarantee Fund (at the date of disbursement);
- **€1.5 billion** in subsidised loans and grants for investments in Southern Italy (over €2.5 billion) through the Sustainable Growth Fund;
- **€1.55 billion** of managed subsidised loans and grants through other National and Regional Funds.

- **Initiatives for mobilising and disbursing new resources to Southern Italy:**

This measures (i) the resources assigned to Southern Italian enterprises by third parties (e.g. the Regional Authorities, basket bonds, EIF, CDP, other banks, etc.) in co-lending agreements with MCC; and (ii) initiatives to channel and disburse new resources to enterprises and public administrations in Southern Italy (e.g. Plans for Southern Italy, regional financial instruments for 2014-2020 programming in bank co-lending, FEI counter-guarantee on COSME program resources, Juncker Platform - CDP/Ministry of Economy and Finance/EIF - and national and regional structural funds for the Guarantee Fund, agreements with other intermediaries, etc.).

At 31 December 2020, the initiatives aimed at channelling and disbursing new resources in Southern Italy amounted to **€223.73 million** of the funds assigned to Southern Italian enterprises by third parties (e.g. Regions, basket bonds, EIF, IEB, Ministry of Education, CDP, other banks, etc.) in co-lending agreements with the Bank.

From the SME Guarantee Fund, **€1.1 billion** and **€2.1 billion** are under management as part of the 2007-2013 and 2014-2020 programming (European funds established

with National Reserves and Regional Sections). These include the initiative promoted by the Campania Regional Authority, “Campania Bond Guarantee”, relative to which the Bank, through a temporary joint venture with FISG, was awarded the tender issued by Sviluppo Campania to identify the arranger of the operation. For the basket bond, the guarantee funds allocated by the Regional Authority totalled €37 million. MCC is also involved in the transaction as subscriber of the notes, on a Chinese Wall basis, together with and with an equal share to CDP. At 31 December 2020, the first five issuance slots of minibonds and notes had been completed for a total value of €97.5 million (CDP share 50%).

- **Study, promotion and social support initiatives:**

This measures the resources directed by the Parent Company to support (i) new young and women’s business initiatives, increases in size and internationalisation, research and innovation and cultural and economic progress; (ii) social initiatives in Southern Italy; and (iii) the performance of studies aimed at supporting economic, social and employment growth in the South and their diffusion to enterprises and Public Administrations and (iv) study activities and implementation of subsidy actions in favour of the South in support of Public Administrations. In 2020 various initiatives were carried out for the purposes of research, promotion and social support. In particular:

- participation in webinars designed to illustrate the operation of the SME Guarantee Fund, as amended by the “Cura Italia” Decree Law and the subsequent “Liquidità” Decree Law, to meet the immediate liquidity needs of enterprises and professionals, also in Southern Italy, that are dealing the consequences of the Covid-19 epidemic, at events organised by the main trade associations including Confindustria and ANCE;
- the restructuring of the website dedicated to the “Campania Bond Guarantee” facility with particular emphasis on the stories of enterprises that have benefited from the incentive;
- participation in a series of informational days known as “Remain in the South Days”, organised by Invitalia, to present the Bank’s loans associated with the Remain in the South subsidy;
- the interview with the Chief Executive Officer given on June 17 to Radio Radicale on the financial instruments supporting cultural enterprises, particularly in Southern Italy.

3.2 Support to enterprises

The numerous subsidies made available by the Parent Company include:

Guarantee Fund

In the Covid 19 emergency, Mediocredito Centrale handled the management of the SME Guarantee Fund on behalf of the Ministry of Economic Development, assisting in the liquidity support for enterprises, start-ups and professionals.

The Fund guarantees all financing transactions granted by lenders directly aimed at business activities and the guarantee covers up to a maximum of 80% of the amount of the financing and up to a maximum guaranteed amount per beneficiary of €2.5 million.

The Fund can intervene:

- by directly guaranteeing the financing transaction (Direct Guarantee) or
- counter guaranteeing/reinsuring a guarantor (credit guarantee consortium or other financial intermediary) that guarantees the transaction in the first instance (Counter-guarantee/Reinsurance).

Fare Lazio

Like the Guarantee Fund, this is an initiative to support micro, small and medium-sized enterprises, consortia and business networks, and professionals in the Lazio Region. The instruments made available by the “*Fare Lazio*” Fund are:

- **Small Credit Revolving Fund:** Unsecured interest-free loans of €10 thousand to €50 thousand
- **Reinsurance Fund:** Reinsurance to credit guarantee consortia providing credit guarantees for loans to enterprises
- **Guarantee Voucher:** Contribution to reduce the cost of the guarantee obtained from a credit guarantee consortium in order to support access to credit

- **Equity Guarantee:** Free guarantee on capital increases to strengthen the capital structure of SMEs

3.3 Dialogue with local communities

The Group is committed to supporting communities through a variety of community outreach activities. The most recent are:

- Collaboration Agreements in 2019 with Banca Monte dei Paschi di Siena and MPS Capital Services aimed at developing synergies to jointly facilitate access to credit for enterprises in Southern Italy. The main objectives are “to support access to credit for enterprises in Southern Italy, by promoting synergies between lending policies and development initiatives”, and “to enhance the strengths of the Southern Italian economy, with the primary aim of facilitating and supporting new business initiatives”. The financing transactions that will be structured, either in the form of project finance, acquisition finance, structured finance or ordinary financing, will be implemented on a risk-sharing basis and may therefore take the form of club deals or syndicated loans, with the possibility of supporting public guarantees and subsidies.
- Roadshow on credit access opportunities for Sicilian enterprises organised by Irfis-FinSicilia in collaboration with Mediocredito Centrale and Invitalia. “Doing business in Sicily” was the title of the series of events in June 2019 to introduce the island’s entrepreneurs to Chirofast, ChiroPMI, Chiro Resto al Sud, three lines of financing aimed at micro, small and medium enterprises and young entrepreneurs.
- Collaboration Agreement in 2019 between Confindustria Chieti Pescara and the ultimate parent of the MCC Group. The aim of the agreement signed is to strengthen the entrepreneurial system in Abruzzo.
- in March 2020, the Parent Company participated as a donor in “L’Italia Chiamò” (Italy Called), a charity marathon broadcast in streaming launched by the Ministry for Cultural Heritage and Activities and Tourism to support with fundraising, while also telling the story of how Italy has reacted the Coronavirus emergency;

- on 30 June 2020, the Parent Company and Invitalia held the first online educational day on the “Resto Qui Days” subsidies, aimed at those wanting to start a business in the Marche Regional Authority;
- on 10 September 2020, the SME Guarantee Fund guaranteed 90% of a loan of €400 thousand to the Mestieri Puglia Consortium, an agency that aims to promote the creation of new jobs and social inclusion by providing services of guidance, staff selection and support for professional outplacement (target of 200 job coachings per year from 2021, at least 20 of which must be for beneficiaries from disadvantaged categories or in a situation of social vulnerability);
- on 11 November 2020, the latest issue of Plus!, the multimedia magazine of the Ministry of Economic Development, in collaboration with Mediocredito Centrale, was published online. The magazine focuses on innovation as the driving force for competitiveness, an increasingly digital public administration serving citizens and enterprises, strategies for the green transition, and measures for enterprises to relaunch the country. The article by Mediocredito Centrale analyses the applications received for one of the most important measures introduced by the “Liquidità” Decree Law to deal with the Covid-19 emergency;
- on 20 January 2021, the Parent Company and Italian National Association of the Automotive Industry signed a partnership agreement to facilitate access to credit and encourage the use of innovative finance instruments for its over 350 member enterprises, starting with those in Southern Italy;
- on 23 February 2021, the Parent Company participated in the online presentation of the 7th Italian Report on Minibonds produced by the Minibond Observatory, speaking at the discussion table: “Minibonds and public guarantees: virtue or necessity?”.

4 Focus on people and the environment

4.1 Safety, training and fairness in the workplace

Human Resources

At 31 December 2020, the Group's workforce consisted of 3,146 employees (including: 6 seconded from MCC to Invitalia), of which 28 executives, 1,113 middle managers and 2,005 non-managerial personnel.

The tables below provide a breakdown of the Group's staff by gender and classification, geographical area and age group. The 2019/2020 comparison data is for the MCC Parent Company only.

GRI 405-1 (employee category and gender)

Employees per category by gender	2019			2020		
	MCC			MCC		
	men	women	total	men	women	total
Executives	9	1	10	13	1	14
Middle managers	99	73	172	103	73	176
Office workers	47	65	112	53	73	126
Total	155	139	294	169	147	316

Employees per category by gender	2020											
	MCC			BPB			CRO			GROUP		
	men	women	Total	men	women	Total	men	women	Total	men	women	Total
Executives	13	1	14	13	0	13	1	0	1	27	1	28
Middle managers	103	73	176	625	223	848	58	31	89	786	327	1113
Office workers	53	73	126	882	807	1689	78	112	190	1013	992	2005
Total	169	147	316	1520	1030	2550	137	143	280	1826	1320	3146

The company staff is fairly balanced in terms of gender, with 58% men and 42% women. The Group is conscious that the gender ratio is balanced for office workers but unbalanced for middle managers and executives. Unlike in 2019, the total number of employees in 2020 does not take into account the person seconded by Invitalia (i.e. the 249 employees in 2019 of MCC S.p.A. include the seconded person, whereas the 316 employees in 2020 do not include that person).

GRI 102-8b - Information on employees and other workers

A total of 90% of the MCC Group's employees are resident in the regions of Southern Italy.

Employees by region	2019					2020				
	MCC					MCC				
	NORTH	CENTRE	SOUTH	OUTSIDE ITALY	total	NORTH	CENTRE	SOUTH	OUTSIDE ITALY	total
Employees by region	8	213	68	5	294	14	215	80	7	316

Employees by geographical area	2020																			
	MCC					BPB					CRO					GROUP				
	NORTH	CENTRE	SOUTH	OUTSIDE ITALY	Total	NORTH	CENTRE	SOUTH	OUTSIDE ITALY	Total	NORTH	CENTRE	SOUTH	OUTSIDE ITALY	Total	NORTH	CENTRE	SOUTH	OUTSIDE ITALY	Total
Employees by geographical area	14	215	80	7	316	44	103	2403	-	2550	0	280	0	0	280	58	598	2483	7	3146

GRI 405-1 Employee category and age group

Employees per category by age group	2019				2020			
	MCC				MCC			
	<30	30-50	>50	total	<30	30-50	>50	total
Executives	-	2	8	10	-	3	11	14
Middle managers	-	72	100	172	-	81	95	176
Office workers	6	80	26	112	18	80	28	126
Total	6	154	134	294	18	164	134	316

Employees per category by age group	2020															
	MCC				BPB				CRO				GROUP			
	<30	30-50	>50	Total	<30	30-50	>50	Total	<30	30-50	>50	Total	<30	30-50	>50	Total
Executives	-	3	11	14	-	5	8	13	-	1	-	1	-	9	19	28
Middle managers	-	81	95	176	-	276	572	848	-	25	64	89	-	382	731	1113
Office workers	18	80	28	126	39	1005	645	1689	4	125	61	190	61	1210	734	2005
Total	18	164	134	316	39	1286	1225	2550	4	151	125	280	61	1601	1484	3146

The largest age group in the Group is between 30 and 50 years old.

GRI 102-8 – Information on employees and other workers

Employees by contract	2019			2020		
	MCC			MCC		
	men	women	total	men	women	total
Temporary contract	153	139	292	160	141	301
Permanent contract	2	-	2	9	6	15
Professional apprenticeship	-	-	-	-	-	-
Total	155	139	294	169	147	316

Employees by contract	2020											
	MCC			BPB			CRO			GROUP		
	men	women	Total	men	women	Total	men	women	Total	men	women	Total
Temporary contract	160	141	301	1519	1026	2545	137	143	280	1816	1310	3126
Permanent contract	9	6	15	-	-	-	-	-	0	9	6	15
Professional apprenticeship	-	-	-	1	4	5	-	-	-	1	4	5
Total	169	147	316	1520	1030	2550	137	143	280	1826	1320	3146

Employees by type	2019			2020		
	MCC			MCC		
	men	women	total	men	women	total
Full-time	154	113	267	168	122	290
Part-time	1	26	27	1	25	26
Total	155	139	294	169	147	316

Employees by type	2020											
	MCC			BPB			CRO			GROUP		
	men	women	Total	men	women	Total	men	women	Total	men	women	Total
Full-time	168	122	290	1508	894	2402	137	125	262	1813	1141	2954
Part-time	1	25	26	12	136	148	-	18	18	13	179	192
Total	169	147	316	1520	1030	2550	137	143	280	1826	1320	3146

The high proportion of permanent contracts reflects the Group's desire to create stable employment.

During 2020, there were 97 hires and 112 departures. The flow figures shown in the table refer to the entire year 2020 for the Parent Company and to the period from 16 October 2020 to 31 December 2020 for the Group companies BPB, CRO and BPBROKER. As a result, the high number of hirings mainly involved the Parent Company and related, in particular, to the significant growth in the volume of activities connected with the management of the subsidy measures (Guarantee Fund and "Fare Lazio"), reinforced by the Government during the Covid-19 emergency period.

The selection process is targeted first at existing company staff, through internal job postings published on the company intranet that employees can apply for. This favours internal staff and recognises interested and motivated employees, creating opportunities for growth and responding to each of their professional development aspirations, in addition to valuing their skills.

For searches on the labour market, the Parent Company uses the main online recruitment channels as well as a dedicated section on the company's website, "work with us", where open positions are published, and unsolicited applications are received.

MCC also works with the most important Italian universities in order to select young talent and offer the opportunity for training to interns, introducing them to the world of work.

The tables below relate to hires from the labour market and provide an overview of hires and departures by gender, geographical area and age group.

GRI 401-1 – New employee hires and employee turnover

Employees hired (by gender)	2019			2020		
	MCC			MCC		
	men	women	total	men	women	total
Employees hired	24	16	40	54	32	86
Total	24	16	40	54	32	86

Employees hired (by gender)	2020											
	MCC			BPB			CRO			GROUP		
	men	women	Total	men	women	Total	men	women	Total	men	women	Total
Employees hired	54	32	86	3	8	11	0	0	0	57	40	97
Total	54	32	86	3	8	11	0	0	0	57	40	97

Outgoing employees (by gender)	2019			2020		
	MCC			MCC		
	men	women	total	men	women	total
Outgoing employees (by gender)	16	10	26	39	24	63
Total	16	10	26	39	24	63

Outgoing employees (by gender)	2020											
	MCC			BPB			CRO			GROUP		
	men	women	Total	men	women	Total	men	women	Total	men	women	Total
Outgoing employees	39	24	63	31	11	42	0	1	1	70	36	106
Total	39	24	63	31	11	42	0	1	1	70	36	106

The Group's new hires are made up of 62.9% men (against 66.1% of departing male staff) and 37.1% women (against 33.9% of departing female staff).

Employees hired	2019 MCC					2020 MCC				
	NORTH	CENTRE	SOUTH	OUTSIDE ITALY	total	NORTH	CENTRE	SOUTH	OUTSIDE ITALY	total
Employees hired by region	2	14	23	1	40	8	40	34	4	86
Outgoing employees	2019 MCC					2020 MCC				
	NORTH	CENTRE	SOUTH	OUTSIDE ITALY	total	NORTH	CENTRE	SOUTH	OUTSIDE ITALY	total
Outgoing employees by region	1	10	16	1	28	2	37	22	2	63

Employees hired	2020																			
	MCC					BPB					CRO					GROUP				
	NORTH	CENTRE	SOUTH	OUTSID E ITALY	Total	NORTH	CENTRE	SOUTH	OUTSID E ITALY	Total	NORTH	CENTRE	SOUTH	OUTSID E ITALY	Total	NORTH	CENTRE	SOUTH	OUTSID E ITALY	Total
Employees hired by geographical area	8	40	34	4	86	-	-	11	-	11	-	-	-	-	-	8	40	45	4	97
Outgoing employees	2020																			
	MCC					BPB					CRO					GROUP				
	NORTH	CENTRE	SOUTH	OUTSIDE ITALY	Total	NORTH	CENTRE	SOUTH	OUTSIDE ITALY	Total	NORTH	CENTRE	SOUTH	OUTSIDE ITALY	Total	NORTH	CENTRE	SOUTH	OUTSIDE ITALY	Total
Outgoing employees by geographical area	2	37	22	2	63	2	3	37	-	42	0	1	0	0	1	4	41	59	2	106

Employees hired by age group	2019				2020			
	MCC				MCC			
	<30	30-50	>50	total	<30	30-50	>50	total
Employees hired	4	33	3	40	58	22	6	86
Total	4	33	3	40	58	22	6	86

Outgoing employees by age group	2019				2020			
	MCC				MCC			
	<30	30-50	>50	total	<30	30-50	>50	total
Outgoing employees	1	26	1	28	44	8	11	63
Total	1	26	1	28	44	8	11	63

Employees hired by age group	2020															
	MCC				BPB				CRO				GROUP			
	<30	30-50	>50	Total	<30	30-50	>50	Total	<30	30-50	>50	Total	<30	30-50	>50	Total
Employees hired	58	22	6	86	3	8	0	11	-	-	-	-	61	30	6	97
Total	58	22	6	86	3	8	0	11	-	-	-	-	61	30	6	97
Outgoing employees by age group	2020															
	MCC				BPB				CRO				GROUP			
	<30	30-50	>50	Total	<30	30-50	>50	Total	<30	30-50	>50	Total	<30	30-50	>50	Total
Outgoing employees	44	8	11	63	2	11	29	42	-	-	1	1	46	19	41	106
Total	44	8	11	63	2	11	29	42	-	-	1	1	46	19	41	106

Valuing human capital

People and their talents are at the core of the Group's strategies and are fundamental in addressing continuous challenges and achieving strategic objectives. Accordingly, all staff are offered the opportunity for personal and professional development.

Meetings with Unions with regard to various company projects continued, aimed as identifying shared solutions that meet the different needs of the parties. At Parent Company level, several agreements have been signed aimed at introducing innovative tools and encouraging the development of an effective corporate welfare system and a better work-life balance, with the aim of improving employee well-being. These include:

- Organisational and solidarity-based smart working: experimentation with smart working continued, gradually extending its scope of application.
- Covid-19 emergency smart working: extraordinary measure adopted during the management of the emergency, related to the spread of the virus, aimed at containing infections and protecting worker health and safety.
- Smart working: the option of smart working has been extended to all workers who carry out activities that can be remotely organised and who have reached a level of professional maturity in their roles compatible with the need to monitor productivity, always with the aim of promoting worker wellbeing.
- healthcare: the healthcare policy has been renewed and the rules adopted for Non-Managerial Personnel and Middle Managers are set to be harmonised.

Close attention is given to training programmes implemented using methods and criteria aimed at ensuring fairness and recognising merit and the characteristics of each individual. In 2020, despite the circumstances dictated by the management of the Covid-19 emergency, the Group continued to provide training courses, switching entirely to distance learning (virtual classroom, self-training, e-learning courses). Training initiatives, which were also carried out using the incentives provided by the joint funds (in particular the Banking and Insurance Fund) for the financing of company and/or individual training plans, focused above all on the development of technical and specialist skills and on training for new recruits.

As established in the Code of Ethics, all employees undertake to develop their own skills, and to accept responsibility for their own growth projects in order to contribute to the improved performance of the organisation.

In this regard, the Parent Company continues to involve the entire workforce in identifying training needs, to help in drawing up the annual plan. The training plan is the result of a process of identifying training needs that involves both managers (top-down approach), through performance appraisals, and all staff, through focus groups consisting of a representative sample of workers (bottom-up approach). In addition, in 2020, again with a view to developing individual skills and enabling personal growth, MCC set up an enrolment procedure on the company intranet to allow staff to proactively choose to take part in the courses offered, informing their manager of this.

The new procedure accompanies the usual referral by the heads of structure and compulsory training, for which the participants are identified in advance within the structures concerned.

The table below shows the MCC Group's training hours broken down by employee category and gender (GRI 404-1). These hours are for the full year 2020 for MCC and for the period 16 October 2020 to 31 December 2020 for the consolidated companies BPB, CRO and BPBROKER.

GRI 404-1 – Average hours of training per year per employee

Average hours of training by professional category	2019		Average hours of training by professional category	2020			
	MCC			MCC	BPB	CRO	GROUP
	Hours of training			Hours of training	Hours of training	Hours of training	Hours of training
Executives	20		Executives	8	1	6	4.52
Middle managers	29		Middle managers	14	7	14	8.99
Office workers	34		Office workers	24	8	13	9.38

The assessment system adopted by the Parent Company involves comparing the contribution provided by every worker within their role against the Bank's expectations, including assessment of their skills and actions within the company. The assessment forms contain qualitative and quantitative performance indicators, representing work performance. The process ends with the assessment by the manager and a meeting with the worker, with the aim of agreeing on the assessment as well as professional development objectives. The meeting is an additional opportunity for interaction between managers and employees.

To maximise the effectiveness of the assessment systems, also with a view to managerial self-development, the performance management portal "Up2You" has been developed and introduced, which allows staff to "build" their own assessment model, according to whether they want to receive only the qualitative-quantitative assessment from their manager (compulsory for everyone), the behavioural assessment from their team – i.e. colleagues in their own Organisational Unit – and/or the behavioural assessment from peers – i.e. colleagues in other Organisational Units.

In its internal communications the Bank is careful to develop a shared culture based on corporate values and to support a sense of belonging for its employees. The Bank has strengthened or set up company instruments such as the Intranet and the social network Yammer, the Teams company chat channel and Sharepoint, which allow staff to openly communicate and interact, and share and collect ideas, facilitating the circulation of information at all levels of the organisation.

During the lockdown, the “company counselling” desk was set up, providing psychological support to those who voluntarily decided to use it.

Structured listening accompanies these tools, which support the management and company structures with regard to any issue or specific requirement. To this end, the related initiatives (feedback and focus grouped) were increased during the year.

Staff restructuring policy

As stated in the 2021-2023 Business Plan, approved last 11 February by the Board of Directors, the Mediocredito Centrale Group envisages several key areas of focus in the medium term, including:

- smart bank for development;
- leadership of the new Group in the subsidies segment;
- protagonist of the relaunch of BPB;
- activator of the Southern Italy Financial District.

As part of the smart bank approach, a qualitative-quantitative restructuring of the workforce has been carried out, taking advantage of leaving incentives, with the Parent Company Mediocredito Centrale S.p.A. having allocated provisions for risks and charges relating to the adoption of incentive measures.

With regard to the leaving incentives, the subsidiary Banca Popolare di Bari S.p.A., under the Trade Union Agreement of 10 June 2020, envisages a reduction in personnel costs of €67 million, as well as corresponding staff departures to be achieved using the “Quota 100” early retirement scheme, the “Opzione Donna” early retirement scheme for women, access to the extraordinary benefits of the Solidarity Fund and redundancy incentives.

BPB will adopt a redundancy incentive policy, also aimed at restructuring its workforce.

Health and Safety

At Parent Company level, the consultation between the management team and the worker safety representatives on the Work-Related Stress assessment document was completed in 2020. This document has been included as an attachment to MCC's Risk Assessment Document (RAD).

The following measures were adopted in response to the Covid-19 emergency:

- all employees were offered the possibility of adopting smart working (with a maximum take-up rate of 99% in 2020), providing everyone with the latest generation IT tools to avoid compromising quality of performance;
- thermal scanners for detecting body temperature and special dispensers for sanitising products were installed at various points of access to the premises;
- all cleaning services were stepped up with additional shifts and the use of highly disinfectant cleaning agents;
- special precautionary procedures were adopted regarding the access of guests with prior authorisation and the signing of a self-declaration of the absence of symptoms;
- premises were thoroughly sanitised using ozone generation techniques;
- a specific appendix was added to the RAD;
- staff were kept up to date on all the related conduct guidelines and the various decrees issued by the Chairperson of the Board of Directors during the year.

With regard to the subsidiaries Banca Popolare di Bari and Cassa di Risparmio di Orvieto, they implement the Occupational Health and Safety Management System in accordance with the 2001 UNI-INAIL Guidelines pursuant to Article 30 of Legislative Decree 81/08. The scope of the Occupational Health and Safety Management System (OHSMS) extends to all work environments, for specific cross-cutting procedures that have an impact on occupational health and safety. A periodic risk assessment is conducted consisting of:

- periodic inspections of working environments;

- measurements specific to the risk examined;
- monitoring processes through the OHSMS.

Workers have access to a help desk by opening a ticket to report any problems encountered, and they can also make a direct report to the statutory bodies (Supervisor, Worker Safety Representative, Prevention and Protection Officer, Employer).

The interruption of work activities to avoid work situations that are considered capable of causing injury or occupational diseases is declared by the supervisor and/or other staff members in the event of a serious and imminent danger to worker health and safety, by triggering emergency procedures based on the scenario that has arisen, which are included in the emergency and evacuation plans of the individual operating sites.

GRI 403-9 - Occupational Health and Safety

	2019	2020
Employee work-related injuries	MCC	MCC
Total hours worked by employees	425,531.91	474,600.00
Total number of fatalities as a result of work-related injury	0	0
Total number of high-consequence work-related injuries (excluding fatalities)	0	0
Total number of recordable work-related injuries	1	3
Rate of fatalities as a result of work-related injury	-	-
Rate of high-consequence work-related injuries (excluding fatalities)	-	-
Rate of recordable work-related injuries (*1,000,000) ¹	2.35	6.32

¹ A multiplier of 1,000,000 has been used.

	2020			
Employee work-related injuries	MCC	BPB	CRO	GROUP
Total hours worked by employees	474,600.00	573,494.46	88,833.25	1,136,927.71
Total number of fatalities as a result of work-related injury	0	0	0	0
Total number of high-consequence work-related injuries (excluding fatalities)	0	0	0	0
Total number of recordable work-related injuries	3	4	0	7
Rate of fatalities as a result of work-related injury	-			
Rate of high-consequence work-related injuries (excluding fatalities)	-			
Rate of recordable work-related injuries (*1,000,000) ¹	6.32	6.97	0.00	6.16

¹ A multiplier of 1,000,000 has been used.

4.2 Protection of customer privacy

The Mediocredito Centrale Group did not receive any complaints regarding breaches/losses of customer data during the reporting period.

The year 2020 was characterised by the management of the health emergency caused by Covid-19. Specifically, this involved setting up projects to enable the entire workforce to work quickly and safely in smart working mode.

Anti-contagion protocols also had to be put in place for the MCC Group, in accordance with the guidelines and measures issued by the Italian Data Protection Authority.

The resulting effects of the pandemic on working arrangements included:

- a review of the plan of actions envisaged for 2020, which were rescheduled;
- an increased focus on support to the Delegated Data Processors and authorised persons;
- management of the monitoring of data processing to ensure its effectiveness also in smart working conditions, using the collaboration tools made available by the Bank;

- the design and implementation of training courses that could be used independently and remotely by the MCC Group's staff, while also enabling participation by the entire workforce.

At Parent Company level, implementation continued of the Data Protection Management System. Specifically, the following cyclical and event-driven activities were carried out in 2020.

Cyclical activities:

- Monitoring continued of the Data Protection Management System envisaged in the Plan approved by the Board of Directors and covering the three-year period 2019-2021, although with a different timeframe as a result of the pandemic. This monitoring was conducted both through follow-ups of the controls carried out in previous years and on the controls on data processing carried out in 2020. The monitoring of data processing included checks on the protection measures adopted by MCC to protect the confidentiality, availability and integrity of the personal data handled in the processes monitored and, consequently, in the supporting applications. The monitoring involved the representatives of the various Structures, and the results of the checks were shared with the Delegated Data Processors concerned, who identified the remediation plans for the areas of concern identified, agreeing them with the Data Protection Officer (DPO), where necessary;
- Monitoring was conducted on the status of the appointments of Data Controllers in accordance with Article 28 of EU Regulation 2016/679 (GDPR) by suppliers;
- A training initiative was implemented for all MCC staff, aimed at raising awareness and providing training on issues relating to the processing of personal data. Despite the continuation of the Covid-19 health emergency, which did not allow for the use of face-to-face classroom training, it was decided to carry out the activities for this training initiative in three phases:
 - production of digital mini-guides, aimed at all staff, focusing on the main procedures/processing carried out by MCC. The Mini-Guides are a means for reminding and making staff aware of the need to adopt the proper conduct in day-to-day activities related to the specific procedure/processing. They have

been designed to provide easily accessible operational messages and encourage conduct aimed at ensuring the security of personal data;

- staff engagement and awareness-raising through a survey, using IT tools already adopted in the company. The survey was designed and implemented to analyse and assess the staff's level of "awareness" on the issues examined. The aim was to verify and raise the level of knowledge of internal regulations (Framework Regulation, procedures) and external regulations (GDPR, Data Protection Code), bringing them into the context of MCC. The survey consisted of 20 multiple-choice questions with different levels of difficulty;
- publication on the company channels (Intranet) of the results of the survey, with accompanying commentary and aimed at raising awareness of all employees on specific topics.

The rate of staff participation was 95%. The results were assessed by dividing the participants into 5 clusters according to their scores from their responses. A total of 60% of staff scored well, indicating sensitivity to data protection and an awareness of the topics covered;

- In 2020, the periodic review of all processing registers was carried out to verify the completeness and adequacy of all the information contained in the record cards in MCC's processing register. This review, together with the ongoing discussions during the year, in particular between the DPO and the Delegated Data Processors, allows the Data Processor and the Data Protection Authority, upon request, to obtain an overall and updated picture of the personal data processing carried out by MCC.

Event-based activities:

- The disclosures issued pursuant to Articles 13 and 14 of the GDPR have been updated, also on the basis of specific requirements expressed by the functions concerned;
- During the reporting period, assistance was provided concerning aspects relating to the processing of personal data. In particular, the DPO was requested to issue opinions on activities related to participation in new company initiatives and/or projects involving the processing of personal data and to provide a detailed analysis of data protection issues on request from the Delegated Data Processors;
- Assistance and feedback were provided in response to the requests received in 2020 and the register of requests was updated accordingly;

- The Security Incident Management procedure was updated to optimise the management of security incidents and data breaches. In addition, support was provided in the analysis of incidents and the Data Breach Register was updated, as well as the template for the Register, establishing automatic mechanisms for the compilation of notifications to the Data Protection Authority;
- Data Protection Impact Assessments (DPIAs) were performed for the new processing initiated in 2020.

Finally, with regard to the need to delete data that are no longer necessary to achieve the purposes for which they were collected, in 2020 work continued on defining the operational procedures for the deletion.

In this regard, the personal data retention needs were identified across MCC's various areas of operation, Data Retention Guidelines were adopted, and the matrix of retention times required by regulations applicable to MCC was validated.

4.3 Environmental Protection

The Parent Company's premises do not have a gas supply contract and therefore no LPG, Diesel or Natural Gas consumption was recorded for 2019 and 2020. Indeed, MCC only uses an electric heating system. The annual water and electricity consumption for 2019 and 2020 are detailed below.

Internal energy consumption of the organisation									
	Unit of measurement	2020				2019			
		BPB	CRO	MCC	Total	BPB	CRO	MCC	Total
Electricity purchased ¹	kWh	2,200,589.00	351,116.00	603,012.80	3,154,717.80	-	-	669,376.00	669,376.00
Natural gas ²	Smc	103,829.09	19,094.19	-	122,923.27	-	-	-	-
Diesel fuel (for company cars)	l	816.00	144.00	-	960.00	-	-	-	-
LPG	l	21,749.00	1,210.00	-	22,959.00	-	-	-	-

¹ All electricity purchased comes from non-renewable sources

² Mediocredito Centrale's premises do not have a gas supply contract

Internal energy consumption (GJ) ¹									
	Unit of measurement	2020				2019			
		BPB	CRO	MCC	Total	BPB	CRO	MCC	Total
Electricity purchased	GJ	7,922.12	1,264.02	2,170.85	11,357	-	-	2,409.75	2,409.75
Natural Gas	GJ	3,663.19	673.66	-	4,337	-	-	-	-
Diesel fuel (for company cars)	GJ	29.39	5.19	-	35	-	-	-	-
LPG	GJ	561.97	31.27	-	593	-	-	-	-
Total	GJ	12,176.68	1,974.13	2,170.85	16,321.65	-	-	2,409.75	2,409.75

1 The following sources were used to calculate energy consumption in GJ: UNFCC and FIRE National Inventory. Specifically, the 35.281 GJ/1000 Smc coefficient for 2020 (Ministry of the Environment, 2020). For the conversion of Diesel fuel (l) values to GJ, the PCI of 42,877 GJ/t and the Diesel fuel density of 0.84 kg/litre were used (FIRE: Energy Manager Guidelines 2018). For the conversion of LPG values (l) to GJ, the PCI of 42,877 GJ/t and the Diesel fuel density of 0.56 kg/litre were used (FIRE: Energy Manager Guidelines 2018)

Emissions (Scope 1) ¹									
Direct greenhouse gas (GHG) emissions – Scope 1									
	Unit of measurement	2020				2019			
		BPB	CRO	MCC	Total	BPB	CRO	MCC	Total
Natural Gas ²	tCO ₂ eq	205.99	37.88	0.00	243.87	0	0	-	-
Diesel ³	tCO ₂ eq	2.16	0.38	0.00	2.54	0	0	-	-
LPG ⁴	tCO ₂ eq	36.85	2.05	0.00	38.91	0	0	-	-
Total Scope 1	tCO₂eq	245.00	40.31	0.00	285.32	0	0	-	-

1 Scope 1: This category includes emissions from sources that are owned or controlled by the organisation.

Scope 1 emissions are expressed in tons of CO₂ equivalent, however, the percentage of methane (CH₄) and nitrous oxide (N₂O) has a negligible effect on total GHG emissions as can be determined from the related technical literature."

2 The following sources were used to calculate the emissions: UNFCC National Inventory. Specifically, for natural gas, the 56.231 tCO₂/TJ coefficients for 2020 were used (source: Ministry of the Environment and Protection of Land and Sea, Table of National Standard Parameters, 2020).

3 The following sources were used to calculate the emissions: UNFCC and FIRE National Inventory. Specifically, for diesel fuel, the 0.84 l/kg conversion coefficients were used (FIRE: Energy Manager Guidelines 2018) and the 3.155 tCO₂/t emission coefficient for calculating 2020 emissions (source: Ministry of the Environment and Protection of Land and Sea, Table of National Standard Parameters, 2020).

4 The following sources were used to calculate the emissions: UNFCCC and FIRE National Inventory. Specifically, the 0.56 kg/litre conversion coefficients were used for LPG (FIRE: Energy Manager Guidelines 2018) and the 3.026 tCO₂/t emission coefficient for calculating emissions at 2020 (source: Ministry of the Environment and Protection of Land and Sea, Table of National Standard Parameters, 2020).

Emissions (Scope 2) ¹									
Type of consumption	Unit of measurement	2020				2019			
		BPB	CRO	MCC	Total	BPB	CRO	MCC	Total
Scope 2 Location-Based	tCO ₂ eq	610.88	97.47	167.40	876	-	-	198.47	198
Scope 2 Market-Based	tCO ₂ eq	1,025.47	163.62	281.00	1,470	-	-	323.31	323

1 Scope 2: This category includes emissions from electricity consumption.

The location-based approach involves using average emission factors for specific national power generation energy mixes. The market-based approach involves using emission factors defined on a contractual basis with the electricity supplier. In the absence of specific contractual agreements between the Group and the electricity supplier (e.g. purchase of Guarantees of Origin), the emission factor relating to the domestic residual mix was used for the market-based approach.

Scope 2 emissions are expressed in tons of CO₂ equivalent, however, the percentage of methane (CH₄) and nitrous oxide (N₂O) has a negligible effect on total GHG emissions as can be determined from the related technical literature.

The following sources were used to calculate the emissions:

Location-Based

- ISPRA (Istituto Superiore per la Protezione e la Ricerca Ambientale) for Italy. Specifically, the coefficients 277.6 gCO₂/kWh for 2020 and 296.5 gCO₂/kWh for 2019 were used.

Market-Based

- AIB European Residual Mixes. Specifically, the coefficients 466 gCO₂/kWh for 2020 and 483 gCO₂/kWh for 2019 were used.

At MCC, the pool of multifunctional machines used, for internal professional printing services, consists of the latest generation models that enable considerable energy savings and a reduction in ozone emissions. The paper material, used for printing, consists of recycled paper purchased from ISO 9001 and 14001 certified suppliers.

In 2020, the internal communication campaign dedicated to environmental issues, energy savings and sustainable mobility continued through specific projects, with the belief that environmental sustainability is not just a value to be defended but a practice to be promoted.

Activities in this area included:

- the promotion of the use of public transport through an increase in the contribution from the Bank for the purchase of public transport passes;
- a binding definition of the criteria for selecting the company fleet in favour of electric or hybrid vehicles;
- the Bank's continuous commitment to digitalising documents, with consequent use of alternative storage

Implementation also continued of the "Beyond" project, highly appreciated by staff, through which the Bank carries out various initiatives aimed mainly at 3 aspects: paperless, plastic free and water saving.

With regard to the subsidiary Banca Popolare di Bari, as part of the reorganisation of the commercial network in line with the Business Plan, the bank continued its policy of closing numerous branches with a view to increasing efficiency and containing costs. This led to a significant reduction in the consumption of electricity and methane gas, with a consequent reduction in emissions of atmospheric pollutants.

The work started in previous years on the installation of an LED lighting system continued, enabling energy savings compared to previous lighting sources for the same amount of light emitted.

The bank also has a photovoltaic system with a nominal production of 12,000 kWh with net metering. It was not possible to monitor the data for 2020.

5. Development and Innovation

5.1 Innovation and Digitisation Process

In 2020, the interventions concerning technological innovation mainly involved the following areas:

- Guarantee Fund;
- Credit Portal and BFM;
- Technology Infrastructure.

With regard to the **Guarantee Fund**, the interventions, largely driven by the pandemic emergency and the role assumed by the Fund in transmitting government support measures, were based on the following approaches:

- Architectural scalability, with an increase in the number of machines and expansion of the capacity of the document system;
- Support to counterparties, with operational optimisation of bulk processing features and related increase in the ability to guide external applicants;
- Efficiency and reduction of operational risks, with expansion of bulk processing capabilities to handle increasing volumes of operations, replacement of data acquired from applicants and beneficiaries with data acquisition from providers and activation of bulk control capabilities.

For the **Credit Portal**, work was carried out to:

- Strengthen the effectiveness of the origination channels;
- Serve the small business market with specific offerings;
- Strengthen operational effectiveness and infrastructure scalability.

Lastly, the **technology infrastructure** was developed based on the following objectives:

- Developing a scalable and flexible architecture;

- Enable advanced multicloud and multi-outsourcer service models;
- Strengthen the operational effectiveness of users, in order to increase their productivity in using IT resources and ensure the effectiveness of remote workstations, facilitating the development of smart operations.

In addition, at Parent Company level, the Business Plan for the three-year period 2021-2023 envisages a series of initiatives involving the following areas:

**Digital
onboarding**

Contact with customers: through the credit portal, either directly (B2C) or through an intermediary (B2B), through automatic procedures for acquiring the information necessary for pre-screening.

CRIF Scoring: for B2C requests submitted by enterprises and startups with more than 3 financial statements and first actionable outcome, the credit portal queries the CRIF info provider.

Credit portal

Expansion of capabilities: to manage firms benefiting from subsidies provided for the purchase and production of “Innovative Machinery” and the “110% Superbonus” for building renovation.

Update of the customer journey: development of a more attractive and user-friendly user interface for direct users at the origination stage.

Diversification

Business Financial Management: creation of a digital platform for small businesses that aggregates company account data, calculates cash flows in real time, and provides a reconciliation with revenues, in addition to budgeting and liquidity monitoring functions.

Basket Bond Campania: an initiative promoted by the Campania Regional Authority “Garanzia Campania Bond” already in 2019, in which MCC acts as arranger, aimed at the issuance of minibonds by SMEs operating in Campania, backed by a public guarantee in the form of cash collateral.

The Parent Company’s 2021-2023 Business Plan also identifies that to promote local economic development it is fundamental to focus on the concept of smart bank and the implementation of the strategic development guidelines:

- 1 Further strengthening the model of specialising in the SME segment and Southern Italy, also by leveraging the Bank’s existing commercial assets: current partnerships and local network;
- 2 Evolving the range of smart lending services, also by leveraging existing partnerships;
- 3 Major development of factoring by extending the offering to PA factoring;
- 4 Expanding services offered to SMEs also through partnerships with Fintech operators;
- 5 Further re-engineering operational processes with a view to simplification and automation;
- 6 Upgrading the IT architecture with a view to effectiveness and operational efficiency;
- 7 Aligning the operational structure and internal expertise to the evolution towards a smart bank and a parent company.

The strategic policies pursued by Mediocredito Centrale are “*smart lending*”, “*upgrading the IT architecture*” and “*aligning the operational structure and internal expertise to creating a smart bank*”

A smart lending model is expected to be implemented by using the credit portal and leveraging financial partnerships, in addition to developing other partnerships with other specialised operators.

The main enablers are:

- IT and Credit Portal Implementation;
- Web Advertising to publicise the initiative;

- Direct Marketing on profiled customers in compliance with GDPR;
- Review of credit processes and policies in accordance with automated approval and decision-making formats;
- Strengthening of the Bank's existing agreements to develop B2B smart lending.

With regard to the “*Upgrading the IT architecture*”, the main areas Mediocredito Centrale Group will work on are:

- Architectural evolution towards APIs and open banking;
- Assessment of infrastructure services also with a view to cloud services;
- New application solutions to support the activities of parent company (management control, consolidated financial reporting, purchasing);
- Adaptation of the platforms supporting credit to SMEs and the subsidiaries segment to the new qualitative requirements and the expected growth in volumes;
- Evolution of digital channels to support the evolution of business.

Lastly, with regard to “aligning the operational structure with a view to smart banking” Mediocredito Centrale will invest in the following over the period of the business plan (2021-2023), in line with the growth in volumes of banking activity, but also with the assumption of the role of Parent Company:

- Upgrading the IT structure;
- Increase in database-related expenditure (general and operating expenditure) in line with the growth of the business and in particular due to the increase in loans to SMEs.

With regard to support for technological and digital innovation and the transition to a circular economy, the Parent Company Mediocredito Centrale provided loans to enterprises in the regions of Basilicata, Calabria, Campania, Puglia and Sicily that applied for subsidies under the “Nuovo Bando Macchinari Innovativi” (New Tender for Innovative Machinery), launched by the Ministry of Economic Development and managed by Invitalia.

Summary of actions involving the subsidiaries

With regard to the development and management of information systems, project initiatives were carried out in the following areas, in addition to normal operating activities:

- Multichannel services, with the strengthening of the sales portal, improving the customer experience and introducing new features including the administration of MiFID questionnaires in line with the ESMA guidelines. Web collaboration for fund

advisory offerings was also launched, enabling customers to accept offerings directly from their home banking accounts through digital signatures.

- Credit and Finance, with significant interventions to bring credit procedures into line with lending policies for counterparties identified as high risk. In addition, in line with the requirements of the Covid-19 emergency decrees, data acquisition tools and forms have been developed for customers to regulate access to subsidies. Work has also begun on the Superbonus and Sismabonus subsidies for energy efficiency and earthquake resilience building refurbishments, which will be completed with the launch of customer initiatives during 2021.
- Governance and reporting tools, through the consolidation and extension of the company's data warehouse, which forms the basis of reporting, monitoring and control tools. A number of micro web-based applications have also been developed internally to respond to requests received from all the company functions.
- Technological infrastructure and security, particularly service security and resilience. In 2020, a number of initiatives were launched to identify possible architectural simplifications aimed at cutting costs.

6 GRI Content Index

Below is the GRI table referring to the “core” option, as set out in the “GRI Sustainability Reporting Standards” published by the Global Reporting Initiative (GRI). The references listed relate to the 2020 Annual Consolidated Financial Report or to legally required documents such as the Code of Ethics.

<u>Disclosure</u>		<u>Note or limitation</u>	<u>Pages/Notes</u>
102-1	Name of the organisation	Mediocredito Centrale – Banca del Mezzogiorno S.p.A.	
102-2	Activities, brands, products and services		34-41
102-3	Location of headquarters	The registered office of Mediocredito Centrale – Banca del Mezzogiorno S.p.A. is in Viale America, 351, 00144 Rome (RM), Italy	
102-4	Location of operations		34-41
102-5	Ownership structure		43-54
102-6	Markets served		34-41;
102-7	Scale of the organisation		23-24; 42; 64
102-8	Information on employees and other workers		42; 95-101
102-9	Description of the supply chain		34-41
102-10	Significant changes to the organisation and its supply chain		56-58
102-11	Precautionary principle or approach		64-65
102-12	External initiatives		34-41
102-13	Membership of associations		34-41

102-14	Statement from senior decision maker		61-62

102-16	Values, principles, standards, and norms of behaviour		23-24; 42; 82-86
102-18	Government structure		34-41

102-40	List of stakeholder groups		65-66
102-41	Collective bargaining agreements		95-101
102-42	Identifying and selecting stakeholders		65-66
102-43	Approach to stakeholder engagement		65-66
102-44	Key topics and concerns raised		64-65
102-45	Entities included in the consolidated financial statements		64
102-46	Defining report content and boundaries		61-62
102-47	List of material topics		66-68
102-48	Restatements of information	Any restatements or adjustments to information and data are noted on each occasion within the document.	
102-49	Changes in reporting		63-64
102-50	Reporting period		63-64
102-51	Date of most recent report	In 2020 MCC published the non-financial statement for the first time	
102-52	Reporting cycle	Annual	

102-53	Contact point for questions regarding the report	investor.relations@mgcc.it	
102-54	Claims of reporting in accordance with the GRI Standards		61-62
102-55	GRI Content Index		118
102-56	External assurance		460

Transparency and Communications			
103-1	Explanation of the material topic and its boundary		66-70
103-2	The management approach and its components		64-65
103-3	Evaluation of the management approach		64-65
201-1	Direct economic value generated and distributed		87

Anti-corruption			
103-1	Explanation of the material topic and its boundary		66-70
103-2	The management approach and its components		83-86
103-3	Evaluation of the management approach		83-86
205-3	Confirmed incidents of corruption and actions taken		86

Climate, Resources and Energy			
103-1	Explanation of the material topic and its boundary		66-70
103-2	The management		110-113

	approach and its components		
103-3	Evaluation of the management approach		110-113
302-1	Energy consumed within the organisation		110-111

103-1	Explanation of the material topic and its boundary		66-70
103-2	The management approach and its components		110-113
103-3	Evaluation of the management approach		110-113
305-1	Direct (Scope 1) GHG emissions		110-111
305-2	Energy indirect (Scope 2) GHG emissions		111-112

Safety, training and fairness in the workplace			
103-1	Explanation of the material topic and its boundary		66-70
103-2	The management approach and its components		95-98
103-3	Evaluation of the management approach		95-98
401-1	New employee hires and employee turnover		99-101

103-1	Explanation of the material topic and its boundary		66-70
103-2	The management approach and its components		105-106

103-3	Evaluation of the management approach		105-106
403-1	Occupational health and safety management system		105-107
403-2	Hazard identification, risk assessment, and incident investigation		105-107
403-3	Occupational health services		105-107
403-4	Worker participation and consultation and communication on occupational health and safety		105-107
403-5	Worker training on occupational health and safety		105-107
403-6	Promotion of worker health		105-107
403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships		105-107
403-9	Work-related injuries		106-107
103-1	Explanation of the material topic and its boundary		66-70
103-2	The management approach and its components		101-104
103-3	Evaluation of the management approach		101-104
404-1	Average hours of training per year per employee		103
103-1	Explanation of the material topic and its boundary		66-70
103-2	The management approach and its components		95-98

103-3	Evaluation of the management approach		95-98
405-1	Diversity of governance bodies and employees		95-98

Customer privacy			
103-1	Explanation of the material topic and its boundary		66-70
103-2	The management approach and its components		107-110
103-3	Evaluation of the management approach		107-110
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data		107-110

Innovation and Digitisation			
103-1	Explanation of the material topic and its boundary		66-70
103-2	The management approach and its components		113-117
103-3	Evaluation of the management approach		113-117

Governance			
103-1	Explanation of the		66-70

	material topic and its boundary		
103-2;	The management approach and its components		43-54
103-3	Evaluation of the management approach		43-54

Dialogue with local communities

103-1	Explanation of the material topic and its boundary		66-70
103-2	The management approach and its components		93-94
103-3	Evaluation of the management approach		93-94

Support to enterprises

103-1	Explanation of the material topic and its boundary		68-70
103-2	The management approach and its components		92-93
103-3	Evaluation of the management approach		92-93

Local economic development

103-1	Explanation of the material topic and its boundary		66-70
103-2	The management approach and its components		88-91
103-3	Evaluation of the management approach		88-91

Risk management

103-1	Explanation of the material topic and its boundary		66-70
103-2	The management approach and its components		75-82
103-3	Evaluation of the management approach		75-82

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

Assets		31/12/2020
10.	Cash and cash equivalents	108,240
20.	Financial assets measured at fair value through profit and loss	105,186
	a) financial assets held for trading	4,182
	b) financial assets designated at fair value	-
	c) other financial assets mandatorily measured at fair value	101,004
30.	Financial assets measured at fair value through other comprehensive income	1,052,790
40.	Financial assets measured at amortised cost	12,664,763
	a) to banks	2,488,124
	b) to customers	10,176,638
50.	Hedging derivatives	90,202
60.	Value adjustments of financial liabilities with macro-hedging (+/-)	-
70.	Equity investments	564
80.	Technical reserves of reinsurers	-
90.	Property, plant and equipment	193,649
100.	Intangible assets	3,439
	of which:	
	- goodwill	-
110.	Tax assets	467,801
	a) current	165,198
	b) deferred	302,603
120.	Non-current assets and disposal groups held for sale	-
130.	Other assets	141,548
	Total assets	14,828,182

Liabilities and shareholders' equity	31/12/2020
10. Financial liabilities measured at amortised cost	13,193,728
a) due to banks	3,394,460
b) due to customers	8,700,045
c) securities issued	1,099,224
20. Financial liabilities held for trading	29,944
30. Financial liabilities designated at fair value	-
40. Hedging derivatives	-
50. Value adjustments of financial liabilities with macro-hedging (+/-)	-
60. Tax liabilities	22,598
a) current	6,797
b) deferred	15,801
70. Liabilities associated with assets held for sale	-
80. Other liabilities	282,917
90. Provision for employee severance pay	41,850
100. Provisions for risks and charges	305,356
a) commitments and guarantees given	12,725
b) pensions and similar obligations	6,483
c) other provisions for risks and charges	286,148
110. Technical provisions	-
120. Valuation reserves	766
121 of which: relating to discontinued operations	-
130. Redeemable shares	-
140. Equity instruments	-
150. Reserves	523,668
155 of which: interim dividends	-
160. Share premium reserve	-
170. Share capital	204,509
180. Treasury shares (-)	-
190. Minority Interests (+/-)	27,911
200. Profit (Loss) for the year (+/-)	194,935
Total liabilities and shareholders' equity	14,828,182

CONSOLIDATED INCOME STATEMENT

Item	31/12/2020
10. Interest and similar income	83,403
20. Interest and similar expenses	(31,137)
30. Net interest income	52,267
40. Fee and commission income	145,645
50. Fee and commission expense	(3,424)
60. Net fees and commissions	142,221
70. Dividends and similar income	769
80. Net gains/(losses) on trading activities	(66)
90. Net gains/(losses) on hedging activities	26
100. Gains/(losses) on disposal or repurchase of:	8,517
a) financial assets measured at amortised cost	(434)
b) financial assets measured at fair value through other comprehensive income	8,789
c) financial liabilities	162
110. Net gains/(losses) on other financial assets and liabilities measured at fair value through profit and loss	(166)
a) financial assets and liabilities measured at fair value	-
b) other financial assets mandatorily measured at fair value	(166)
120. Net banking and insurance income	203,568
130. Net value adjustments for credit risk for:	(28,540)
a) financial assets measured at amortised cost	(28,072)
b) financial assets measured at fair value through other comprehensive income	(468)
140. Gains/losses from contractual changes without derecognition	119
150. Net gains/(losses) on financial operations	175,147
160. Net insurance premiums	-
170. Other income/expenses of insurance operations	-
180. Net gains/(losses) on financial and insurance operations	175,147
190. Administrative expenses:	(104,458)
a) personnel expenses	(63,996)
b) other administrative expenses	(40,462)
200. Net provisions for risks and charges	(23,305)
a) commitments and guarantees given	(1,534)
b) net other provisions	(21,771)
210. Net value adjustments on property, plant and equipment	(5,200)
220. Net value adjustments on intangible assets	(1,184)
230. Other operating income/expenses	163,405
240. Operating expenses	29,258
250. Gains (losses) on equity investments	(36)
260. Change in fair value of property, plant and equipment and intangible assets	-

270. Impairment losses on goodwill	-
280. Gains/(losses) on disposal of investments	(224)
290. Profit (Loss) from continuing operations before tax	204,145
300. Income taxes for the period on continuing operations	(11,589)
310. Profit (Loss) from continuing operations after tax	192,557
320. Profit (loss) on discontinued operations after tax	-
330. Profit (Loss) for the year	192,557
340. Minority interests	(2,378)
350. Profit (loss) for the year attributable to the parent company	194,935

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Item		31/12/2020
10.	Profit (Loss) for the year	192,557
	Other comprehensive income after tax without reversal to the income statement	1,210
20.	Equity securities at fair value through other comprehensive income	1,108
30.	Financial liabilities designated at fair value through profit and loss (changes in own credit standing)	-
40.	Hedging of equity securities at fair value through other comprehensive income	-
50.	Property, plant and equipment	-
60.	Intangible assets	-
70.	Defined-benefit plans	102
80.	Non-current assets and disposal groups held for sale	-
90.	Portion of reserves from valuation of equity investments carried at equity	-
	Other income components after tax with reversal to income statement	3,451
100.	Hedging of foreign investments	-
110.	Exchange differences	-
120.	Cash flow hedges	-
130.	Hedging instruments (non-designated elements)	-
140.	Financial assets (other than equity securities) measured at fair value through other comprehensive income	3,451
150.	Non-current assets and disposal groups held for sale	-
160.	Portion of reserves from valuation of equity investments carried at equity	-
170.	Total other comprehensive income after tax	4,661
180.	Comprehensive income (Item 10+170)	197,218
190.	Minority interests	(2,360)
200.	Consolidated comprehensive income attributable to the parent company	199,578

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

		Allocation of prior period net income		Changes during the period									
					Shareholders' equity transactions								
	Balance at 01.01.20	Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity investments	Comprehensive income 31.2.2020	Shareholders' equity at 31.12.2020
Share capital:	204,509	-	-	-	-	-	-	-	-	-	43,182	-	204,509
a) ordinary shares	204,509	-	-	-	-	-	-	-	-	-	43,182	-	204,509
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium reserve	-	-	-	-	-	-	-	-	-	-	7,483	-	-
Reserves:	71,390	22,519	-	429,888	-	-	-	-	-	-	(21,487)	-	504,910
a) of profits	71,390	22,519	-	(112)	-	-	-	-	-	-	(21,487)	-	-
b) other	-	-	-	430,000	-	-	-	-	-	-	-	-	426,397
Valuation reserves	(3,875)	-	-	-	-	-	-	-	-	-	962	4,661	-
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit (loss) for the period	22,519	(22,519)	-	-	-	-	-	-	-	-	-	192,557	192,557
Total shareholders' equity	294,543	-	-	429,888	-	-	-	-	-	-	30,140	197,218	921,749
Group shareholders' equity	294,543	-	-	429,892	-	-	-	-	-	-	(152)	199,596	921,749
Minority shareholders' equity	-	-	-	(4)	-	-	-	-	-	-	30,292	(2,378)	-

CONSOLIDATED STATEMENT OF CASH FLOWS – (Indirect method)

A. OPERATING ACTIVITIES	Amount
	31/12/2020
1. Operations	96,056
- profit (loss) for the year (+/-)	192,557
- capital gains/losses on financial assets held for trading and on other assets/liabilities measured at fair value through profit and loss (+/-)	177
- capital gains/(losses) on hedging activities (-/+)	(232)
- net value adjustments for credit risk (+/-)	28,540
- net value adjustments of PPE and intangible assets (+/-)	6,383
- net provisions for risks and charges and other costs/revenues (+/-)	23,305
- net premiums not received (-)	-
- other insurance income/expenses not received (-/+)	-
- taxes, duties and tax credits not paid (+/-)	11,190
- net value adjustments on discontinued operations net of tax effect (+/-)	-
- other adjustments (+/-)	(165,864)
2. Liquidity generated\absorbed by financial assets	(1,361,696)
- financial assets held for trading	(45)
- financial assets designated at fair value	-
- other assets mandatorily measured at fair value	1,879
- financial assets measured at fair value through other comprehensive income	(197,763)
- financial assets measured at amortised cost	(1,303,751)
- other assets	137,984
3. Liquidity generated\absorbed by financial liabilities	1,375,287
- financial liabilities measured at amortised cost	1,393,436
- financial liabilities held for trading	(56)
- financial liabilities designated at fair value	-
- other liabilities	(18,093)
Net liquidity generated/absorbed by operating activities	109,647
B. INVESTING ACTIVITIES	
1. Liquidity generated by	-
- sales of equity investments	-
- dividends from equity investments	-
- sales of property, plant and equipment	-
- sales of intangible assets	-
- sales of business units	-
2. Liquidity absorbed by	(432,462)
- purchases of equity investments	(430,000)
- purchases of property, plant and equipment	(1,373)

- purchases of intangible assets	(1,089)
- acquisitions of subsidiaries and business units	-
Net liquidity generated/absorbed by investment activities	(432,462)
C. FUNDING ACTIVITIES	
- issue/purchase of treasury shares	-
- issue/purchase of equity instruments	430,000
- distribution of dividends and other purposes	-
- sale/acquisition of non-controlling interests	-
Net liquidity generated/absorbed by funding activities	430,000
NET LIQUIDITY GENERATED/ABSORBED DURING THE YEAR	107,185

Balance sheet item	Amount
	31/12/2020
Cash and cash equivalents at start of year	1,055
Total net cash generated/used in the year	107,185
Cash and cash equivalents: effect of currency fluctuation	-
Cash and cash equivalents at end of year	108,240

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Part A – Accounting policies

A1. GENERAL INFORMATION

Section 1 - Declaration of compliance with International Financial Reporting Standards

The consolidated financial statements of the Mediocredito Centrale Group for year 2020, independently audited by the company Deloitte & Touche S.p.A., in accordance with Legislative Decree 38 of 28 February 2005, have been prepared according to the IAS/IFRS accounting standards issued by the International Accounting Standards Board (IASB) endorsed by the European Commission, as envisaged by European Union Regulation No. 1606 of 19 July 2002 and in force up to the date of approval of the Draft Financial Statements by the Board of Directors, including the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC).

The consolidated financial statements at 31 December 2020 have been prepared on the basis of the instructions for preparing Financial Statements issued by the Bank of Italy, exercising the powers established by Article 9 of Legislative Decree 38/2005 and Article 43 of Legislative Decree No. 136/2015, with the Provision of 22 December 2005, with which Circular No. 262/05 was issued, as well as the subsequent amendments, the most recent on 30 November 2018. These instructions establish the format of the Financial Statements and the related preparation methods, as well as the content of the Notes to the Financial Statements. The above-mentioned Circular was most recently supplemented by the Communication of 15 December 2020 “Additions to the provisions of Circular No. 262 “Banks' financial statements: schemes and compilation rules” concerning the impact of Covid-19 and measures to support the economy and amendments to IAS/IFRS”.

Section 2 - Basis of preparation

These Consolidated Financial Statements are made up of the Balance Sheet, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Shareholders' Equity, the Statement of Cash Flows (prepared using the

“indirect method”) and the Notes to the Financial Statements, and they are accompanied by a Report on Operations, on the economic results achieved and on the Group’s financial situation.

No exceptions were made to application of the IAS/IFRS accounting standards.

The accounts in the Consolidated Financial Statements correspond to the accounting records of the companies included in the consolidation, which in turn reflect the administrative events that took place during the financial year.

The Financial Statements have been prepared to present a true and fair view of the Group’s financial situation, results of operations in the period and cash flows. The Financial Statements have been prepared with a going concern assumption because there is a reasonable expectation that the Group Companies will continue with their operating activity in the foreseeable future (IAS 1 para. 23), in observance of the accruals concept (IAS 1 para. 25 and 26) and of consistent presentation and classification of the accounting items (IAS 1 para. 27). Assets and liabilities, and revenues and costs have not been offset unless offsetting is required or permitted by a standard or an interpretation (IAS 1, para. 32).

No comparative figures have been presented because these are the first consolidated financial statements prepared by MCC, following the acquisition of control of Banca Popolare di Bari and its subsidiaries on 15 October 2020.

The Financial Statements and the Notes to the Financial Statements are expressed in thousands of euro (unless otherwise specified) and those in the Report on Operations in millions of euro.

The Financial Statements at 31 December 2020 have been prepared taking into consideration the impacts associated with the current economic environment characterised by the effects of the Covid-19 pandemic and the related accounting implications connected to measurement, disclosures, and the assessment of business continuity, also taking into account the recommendations published by the industry authorities:

- ESMA 32-63-951 - Accounting implications of the Covid-19 outbreak on the calculation of expected credit losses in accordance with IFRS 9 - 25 March 2020;

- ESMA 31-67-742 - Actions to mitigate the impact of Covid-19 on the EU financial markets regarding publication deadlines under the Transparency Directive - 27 March 2020;
- Consob Notice No. 6/20 dated 9 April 2020 - Covid-19 - Notice on financial disclosure;
- Consob Notice No. 8/20 dated 16 July 2020 - Covid-19 - Notice on financial disclosure;
- ESMA 32-51-370 - Questions and answers - ESMA Guidelines on Alternative Performance Measures (APMs) - 17 April 2020;
- ESMA 32-63-972 - Implications of the Covid-19 outbreak on the half-yearly financial reports - 20 May 2020;
- ESMA 32-63-1041 - European common enforcement priorities for 2020 annual financial reports - 28 October 2020;
- Bank of Italy - Provisions on the financial statements of banks and other supervised financial intermediaries concerning: 1) The impacts of Covid-19 and support measures taken to deal with the pandemic; 2) Amendments to IAS/IFRS – October 2020;
- Commission Regulation (EU) 2020/1434 of 9 October 2020 (IFRS 16).
- Consob Notice No. 1/21 dated 16 February 2021 “Covid-19 – measures to support the economy – notice on disclosures to be provided”.

Section 3 – Scope and methods of consolidation

At 31 December 2020, the Group’s scope of consolidation included Mediocredito Centrale in its role as Parent Company and the companies of the former Banca Popolare di Bari Group for which the requirements of effective control had been met, irrespective of the existence of an equity interest. On 15 October 2020, MCC’s equity interest in BPB became a controlling interest as defined by IFRS 10 with the closure of the receivership by the Bank of Italy.

The table below lists the companies included in the scope of consolidation at 31 December 2020.

Name of Group Company	Investing company	Stake held (%)	Type of consolidation
1. MCC RMBS	MedioCredito Centrale S.p.A.	0	Line-by-line
2. BPB	MedioCredito Centrale S.p.A.	96.82	Line-by-line
3. CRO	Banca Popolare di Bari	71.23	Line-by-line
4. BP BROKER	Banca Popolare di Bari	96.82	Line-by-line
5. AD.FI. SME SRL	Banca Popolare di Bari	0	Line-by-line
6. 2017 POPOLARE BARI RMBS S.R.L.	Banca Popolare di Bari	0	Line-by-line
7. 2018 POPOLARE BARI RMBS S.R.L.	Banca Popolare di Bari	0	Line-by-line
8. 2019 POPOLARE BARI SME S.R.L.	Banca Popolare di Bari	0	Line-by-line
9. 2019 POPOLARE BARI RMBS S.R.L.	Banca Popolare di Bari	0	Line-by-line

1. Equity investments in companies subject to exclusive control

Name of Group Company	Operating office	Registered office	Type of Relationship (1)	Shareholding Relationship		Available Votes % (2)
				Investing company	Stake %	
1. MCC RMBS	ROME	ROME	4	MCC	0	0
2. BPB	BARI	BARI	1	MCC	96.82	96.82
3. CRO	ORVIETO	ORVIETO	1	BPB	71.23	71.23
4. BP BROKER	BARI	BARI	1	BPB	96.82	96.82
5. AD.FI. SME SRL	MILAN	MILAN	4	BPB	0	0
6. 2017 POPOLARE BARI RMBS S.R.L.	CONEGLIANO	CONEGLIANO	4	BPB	0	0
7. 2018 POPOLARE BARI RMBS S.R.L.	CONEGLIANO	CONEGLIANO	4	BPB	0	0
8. 2019 POPOLARE BARI SME S.R.L.	CONEGLIANO	CONEGLIANO	4	BPB	0	0
9. 2019 POPOLARE BARI RMBS S.R.L.	CONEGLIANO	CONEGLIANO	4	BPB	0	0

Key

(1) Type of Relationship:

1 = majority of voting rights in ordinary shareholders' meetings

2 = dominant influence in ordinary shareholders' meetings

3 = agreements with other shareholders

4 = other forms of control

2. Significant judgements and assumptions used to determine the scope of consolidation

IFRS 10 governs the consolidated financial statements and sets the criteria for identifying the scope of consolidation. According to this standard, control of a company can only exist when the following elements are present:

- Power to direct the relevant activities of the investee;
- Exposure, or rights, to variable returns from the involvement with the investee;
- Ability to use the power over the investee to affect the amount of the investor's returns.

The three elements described above must all be present together in order to identify a situation of control.

Significant (or considerable) influence exists when the Parent Company, directly or indirectly, holds at least 20% of the voting rights (including "potential" voting rights) or – with a lower proportion of voting rights – has the power to participate in determining the financial and management policies of the investee by virtue of specific legal relationships such as participation in shareholders' agreements.

Joint control also occurs when control is contractually shared between the Parent Company – directly or indirectly through other Group companies – and one or more other parties, or when the unanimous consent of all the parties sharing control is required for decisions concerning the relevant activities.

A company is a subsidiary when the Parent Company (directly or indirectly) is exposed to variable returns, or holds rights to those returns, arising from its relationship with the company and also has the ability to affect those returns by exercising its power over that entity.

An investor, regardless of the nature of its involvement with an entity (the investee), shall determine whether it is a parent company by assessing whether it controls the investee.

The provisions contained in IFRS 10 therefore apply to assessing situations of control for all types of equity investments (limited liability companies, special purpose vehicles, investment funds/UCITs, etc.).

Inclusion in the Mediocredito Centrale Group's scope of consolidation is determined, in particular, by the following:

- the presence of the majority of voting rights at ordinary shareholders' meetings of the investee company (legal control);
- other factors relating to structured entities, other than voting or other similar rights, that result in control by the parent company.

Specifically, the structured entities included in the Group's scope of consolidation are the special purpose vehicles:

- MCC RMBS;
- AD.FI. SME S.R.L.;
- 2017 POPOLARE BARI SME S.R.L.;
- 2017 POPOLARE BARI RMBS S.R.L.;
- 2018 POPOLARE BARI RMBS S.R.L.;
- 2019 POPOLARE BARI SME S.R.L.;
- 2019 POPOLARE BARI RMBS S.R.L.

For these special purpose vehicles, the Parent Company does not have interests in the share capital but does own significant portions of junior securities issued by these companies as part of securitisations.

3. Equity investments in companies subject to exclusive control with significant non-controlling interests

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

Name	Non-controlling interests %	Available non-controlling votes % (1)	Dividends distributed to third parties
1. MCC RMBS	100	100	0
2. BPB	3.18	3.18	0
3. CRO	28.77	28.77	0
4. BP BROKER	3.18	3.18	0
5. AD.FI. SME SRL	100	100	0
6. 2017 POPOLARE BARI RMBS S.R.L.	100	100	0
7. 2018 POPOLARE BARI RMBS S.R.L.	100	100	0
8. 2019 POPOLARE BARI SME S.R.L.	100	100	0
9. 2019 POPOLARE BARI RMBS S.R.L.	100	100	0

(1) Availability of votes at ordinary shareholders' meetings

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

Name	Total assets	Cash and cash equivalents	Financial assets	Property, plant and equipment and intangible assets	Financial liabilities	Shareholders' equity	Net interest income	Net banking and insurance income	Operating expenses	Profit (Loss) from continuing operations before tax	Profit (Loss) from continuing operations after tax	Profit (loss) after tax from disposal groups held for sale	Profit (loss) for the period (1)	Other income components net of tax (2)	Comprehensive income (3) = (1) + (2)
MCC RMBS	58	-	10	-	-	10	-	-	-	-	-	-	-	-	-
AD.FI.SME SRL	19	-	19	-	44	-26	-18	-31	-77	-107	-107	-	-107	-	-107
2017 POPOLARE BARI RMBS S.R.L.	35	-	19	-	-	10	-	-1	1	-	-	-	-	-	-
2018 POPOLARE BARI RMBS S.R.L.	40	-	29	-	-	10	-	-1	1	-	-	-	-	-	-
2019 POPOLARE BARI SME S.R.L.	77	-	68	-	-	10	-	-	-	-	-	-	-	-	-
2019 POPOLARE BARI RMBS S.R.L.	75	-	63	-	-	10	-	-	-	-	-	-	-	-	-

4. Significant restrictions

There are no significant restrictions pursuant to paragraph 13 of IFRS 12 to be reported. Specifically, there are no legal, contractual or regulatory restrictions on the Parent Company's ability to access or use assets and to settle the Group's liabilities. There are also no rights to protect non-controlling interests that would significantly limit the Bank's ability to access or use the assets and discharge the Group's liabilities.

5. Other information

The Mediocredito Centrale Group's consolidated financial statements include the financial statements of the Parent Company (Mediocredito Centrale S.p.A.) and those of its direct subsidiaries. Similarly, special purpose vehicles (SPVs) are also included when they meet the requirements of effective control, irrespective of the existence of an equity interest. There are no financial statements of subsidiaries used in the preparation of these consolidated financial statements that refer to a date other than that of the consolidated financial statements or financial statements prepared in currencies other than the euro.

The consolidation method adopted by the Group is line-by-line consolidation.

Line-by-line consolidation involves the acquisition of the balance sheet and income statement aggregates of subsidiaries on a line-by-line basis.

After having allocated the shareholders' equity and profit and loss attributable to the non-controlling interests, in a separate item, the value of the equity investment is eliminated by offset against the remaining value of the shareholders' equity of the subsidiary. The resulting differences, when positive, are recorded under intangible assets as goodwill or as other intangible assets, after any allocations to the assets or liabilities of the subsidiary. Negative differences are recognised in the income statement.

Assets, liabilities, income and expenses between consolidated enterprises are eliminated in full.

Acquisitions of companies are accounted for using the "acquisition method" envisaged by IFRS 3, according to which the identifiable assets acquired and liabilities assumed (including contingent liabilities) must be recognised at their respective acquisition-date fair values. In addition, for each business combination, any non-controlling interest in the acquiree may be recognised at fair value or in proportion to the non-controlling interest in the identifiable net assets of the acquiree. Any surplus of the consideration transferred (represented by the fair value of the assets sold, the liabilities incurred and the equity instruments issued) and the fair value of the non-controlling interests over the fair value of the assets and liabilities acquired is recognised as goodwill; if the price is lower, the negative difference is recognised in the income statement.

The "acquisition method" is applied from the acquisition date, i.e. from the time when control of the acquiree is actually obtained. The profits and losses of a subsidiary acquired during the reporting period are therefore included in the consolidated financial statements from its acquisition date. Similarly, the profits and losses of a subsidiary subject to disposal are included in the consolidated financial statements until the date control ceases. The difference between the proceeds from disposal and the carrying amount at the date of disposal (including any exchange differences recorded from time to time in the shareholders' equity upon consolidation) is recognised in the income statement.

Where necessary – and except in immaterial cases – any financial statements of consolidated companies prepared according to different accounting standards are brought into line with the accounting standards used by the Group.

Section 4 – Subsequent events

No events occurred subsequent to the reporting date that necessitate adjustments in the Group's economic results, equity and financial situation, in accordance with IAS 10, paragraph 10.

Section 5 – Other Aspects

Going concern information

When preparing the financial statements, management must assess the ability of the Group entities to continue as going concerns. The financial statements must be prepared on a going concern basis, unless management intends to liquidate or wind up the company or has no other realistic alternatives. If management, when making its assessments, is aware of significant uncertainties in relation to events or conditions that could lead to serious doubts about the company's ability to continue as a going concern, these uncertainties must be disclosed. If the financial statements are not prepared on a going concern basis, this fact must be indicated, together with the criteria on the basis of which the statements have been prepared and the reason why the company is no longer considered a going concern. In making the assessments, account has also been taken of the currently foreseeable effects relating to the evolution of the Covid-19 pandemic and the related repercussions on the Italian economy and the business of the Group entities. Considering the risks and uncertainties linked to the current macroeconomic situation and on the basis of the best information available when these financial statements were being prepared (see the Report on Operations – "Significant subsequent events" and "Operational impact of the Covid-19 health crisis and business outlook"), it is reasonable to expect the Group and entities belonging to the Group to continue to exist and to operate in the foreseeable future. In addition, the financial structure and operating performance do not show any signs that could give rise to uncertainty at this point in time and, consequently, the financial statements have been prepared on a going concern basis.

Risks and uncertainties linked to the use of estimates

Preparation of the Financial Statements also requires use of estimates and assumptions which may influence the values recognised in the Balance Sheet and Income Statement, as well as information relative to contingent assets and liabilities. Estimates and the related assumptions are based on the use of available management data and subject assessments based on historic experience.

By their nature, the estimates and assumptions used may change from year to year and, therefore, it is possible that in subsequent years the actual values shown in the Financial Statements may differ, even significantly, as a result of a change in the subjective evaluations used.

The main cases which involve the most use of subjective valuations by the company management are:

- quantification of losses due to reduction in the value of loans, securities, equity investments and, in general, other financial assets;
- quantification of provisions for risks and charges (determined on the estimate of the outgoings necessary to fulfil the obligations for which it is considered probable that resources will have to be used);
- quantification of employee severance benefits, of the company pension fund and of the other employee benefits (determined on the estimate of the present value of the obligations related to the probable outgoings which are discounted considering financial aspects – interest rates – estimated trend of remuneration, turnover rates and demographic data);
- deferred tax assets (the recognition of items related to deferred tax assets is based on the assessment that in coming years the Bank will produce taxable income of amounts such as to have the reasonable certainty that the future taxes to be paid on the said income will enable full absorption of the deferred tax assets);
- use of assessment models to determinate the fair value related to financial instruments not quoted on active markets.
- the determination of the net assets for the purpose of quantifying the effects of the provisional Purchase Price Allocation (“PPA”), in accordance with the provisions of the International Accounting Standard IFRS 3, related to the above-mentioned transaction with Banca Popolare di Bari S.p.A.;

Accordingly, risk assessment is mainly linked both to the evolution of the national and international socio-economic context, and to the performance of the financial markets,

which can affect the trend in bank rates, price fluctuations, actuarial bases and, more in general, counterparties' creditworthiness.

Estimated fees for the management of the Guarantee Fund pursuant to Law 662

With regard to the quantification of revenues consisting of fees for the management of the Guarantee Fund pursuant to Law 662/96, following the issue of support measures connected with the Covid 19 epidemic new types of operations eligible for guarantee by the Fund were introduced by legislation but not regulated by the Agreement signed on 28 March 2012, which governs, among other things, the fees for the management of the Fund.

In particular, these relate to:

- Law No. 27 of 24 April 2020 – Conversion into law of Decree Law No. 18 of 17 March 2020, which established a special section of the Fund to guarantee transactions subject to the support measures set out in Article 56, paragraph 2 of the that Decree; and
- Law No. 40 of 5 June 2020 – Conversion into law of Decree Law No. 23 of 8 April 2020, which introduced the eligibility for the fund's guarantee, with 100% coverage, both as a direct guarantee and as reinsurance, of loans (Article 13, paragraph 1, letter m) of up to €30,000.00 granted by banks, financial intermediaries pursuant to Article 106 of Legislative Decree No. 385 of 1 September 1993 (Consolidated Law on Banking) and other entities authorised to grant credit, in favour of small and medium-sized enterprises and individuals engaged in business activities, the arts or professions whose business activities have been harmed by the Covid-19 emergency.

As stated in the Report on Operations, at 31 December 2020, the number of accepted transactions for the above types totalled 196,775 (12.4% of the total) and 1,040,982 (67.5% of the total), respectively.

As a result, in accordance with IFRS 15, there is a modification of the contract (the Agreement) without a corresponding change in price. In such a case, the standard requires an entity to estimate the change in transaction price resulting from the modification in accordance with paragraphs 50-54 on estimating variable consideration and 56-58 on constraining estimates of variable consideration.

Specifically, the amount of variable consideration should only be included, in whole or in part, in the transaction price if it is highly probable that a significant reversal in the

amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

In making this assessment, the entity must consider both the likelihood and the magnitude of the revenue reversal. Factors that could increase the likelihood or the magnitude of a revenue reversal include, but are not limited to, any of the following:

- the amount of consideration is highly sensitive to factors beyond the entity's control.
- the entity's experience (or other evidence) with similar types of contracts is limited, or that experience (or other evidence) has limited predictive value;
- the contract has a large number and broad range of possible consideration amounts.

At present, the preliminary discussions held with the Ministry of Economic Development on this subject do not allow for a quantification of the variable consideration that could rule out, to a highly probable extent, a significant reversal in the cumulative revenue. Therefore, given that it is objectively impossible to make a reliable estimate of the variable consideration, the Bank has only recognised revenue from services that are quantified in the Agreement signed in 2012.

Risks, uncertainties and impacts of the Covid-19 epidemic

The main areas of focus analysed for the purposes of preparing the consolidated financial statements are set out below. Detailed information on strategies, objectives and risk management policies, as well as the financial position, is provided in the sections of the notes referred to below.

Details of the management and business aspects are provided in the specific section of the Report on Operations.

The Covid-19 emergency did not bring to light any risks that had not previously been taken into account, as the situations encountered are already mapped and monitored. See Part E, for a more complete discussion of the risks the Group is exposed to and the specific aspects related to the pandemic.

The spread of Covid-19 heightened the levels of uncertainty in accounting estimates, increasing their complexity. The main items affected are summarised below:

(a) Significant increase in credit risk and impairment losses on financial assets (IFRS 9)

See Part E, paragraph 2.3 Expected loss measurement methods.

(b) Impairment testing of other non-financial assets (IAS 36)

With regard to the other asset classes, there were no trigger events because these are mainly unrelated assets not impacted by Covid-19.

Contractual modifications resulting from Covid-19

1) Contractual modifications and derecognition (IFRS 9)

The moratoria granted by the Bank, in line with EBA guidelines, comply with certain specific requirements. Specifically, they must:

- be offered without distinction by the bank to a large group of (performing) borrowers or following legislative provisions;
- not provide a waiver of interest or principal but solely a deferral/extension of payments.

Since the moratoria granted only provide for a deferral/extension of the period in which payments are due, the application of a moratorium does not result in the derecognition of the loan.

2) Amendment to IFRS 16

The amendment made to IFRS 16 regarding contractual changes to leases made to account for the situation caused by the Covid-19 pandemic did not have a significant impact on MCC, as it made no changes to leases in 2020 due to the spread of the pandemic. The Bank is a party to leases solely as a lessee and has not requested contractual modifications, suspensions, or requests for deferral of fees or recognition of discounts as a result of the situation created by Covid-19.

New and upcoming accounting standards and interpretations

Accounting standards and interpretations applied from 1 January 2020

As required by IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors* – the following are the new international accounting standards, or amendments to accounting standards already in force, none of which had a significant impact on the

Bank's financial statements, whose application became mandatory from 1 January 2020:

- **Regulation No. 2075/2019 of 29 November 2019**, which implemented certain amendments to IFRS relating to references to the conceptual framework. The amendments are intended to update references to the previous framework in several accounting standards and interpretations and replace them with references to the conceptual framework revised in March 2018.
- **Regulation No. 2104/2019 of 29 November 2019**, which adopted certain amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", clarifying the definition of material information. It is emphasised that materiality depends on the nature and magnitude of the information or both. An entity also tests whether a disclosure, either individually or in combination with other information, is material in the context of its financial statements taken as a whole.
- **Regulation No. 551/2020 of 21 April 2020 – Amendments to IFRS 3**, which adopts the changes introduced by the IASB's publication of 22 October 2018 "Definition of a Business (Amendments to IFRS 3)", providing clarification and additional analysis on the definition of a business in the context of business combinations.
- **Regulation No. 34/2020 of 15 January 2020**, which adopted the document issued by the IASB in September 2019 on "Interest Rate Benchmark Reform (Amendments to IFRS 9 "Financial Instruments," IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures") and mandatorily applicable from 1 January 2020. These regulations introduced a number of changes regarding hedge accounting in order to prevent uncertainties about the amount and timing of interest rate benchmark-based cash flows from resulting in the interruption of existing hedges and difficulty in designating new hedging relationships.
- **Regulation (EU) 2020/1434 of 9 October 2020**, which adopted certain international accounting standards in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council, as regards International Financial Reporting Standard (IFRS) 16. The amendment to IFRS 16 provides for optional and temporary Covid-19-related operational support for lessees that

benefit from suspensions of lease payments, without compromising the relevance and usefulness of the financial information reported by enterprises.

Accounting standards and interpretations coming into force shortly

At the date of approval of these financial statements, the following standards/interpretations had been issued by the IASB and endorsed by the European Union, with date of adoption after 31 December 2020:

- **Regulation No. 2097/2020 of 15 December 2020** implementing the extension of the temporary exemption from the application of IFRS 9 (Amendments to IFRS 4 Insurance Contracts) published by the IASB on 25 June 2020. In view of the IASB's decision to postpone the date of first-time adoption of IFRS 17 to 1 January 2023 – which was also made on 25 June 2020 – the authorisation to postpone the application of IFRS 9 (Deferral Approach) has also been extended to 1 January 2023 to address the temporary accounting consequences of the different effective dates of IFRS 9 Financial Instruments and the forthcoming IFRS 17 Insurance Contracts.
- **Regulation No. 25/2021 of 13 January 2021**, the amendments “Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16”, published by the IASB on 27 August 2020, were implemented regarding issues related to phase two of the rate revision project.

The following standards/interpretations are still awaiting endorsement by the European Union:

- IFRS 17 – Insurance contracts;
- amendment to IAS 1 “Presentation of Financial Statements: Classification of Liabilities as Current or Non-current”;
- amendment to IFRS 3 “Reference to the Conceptual Framework”;
- amendment to IFRS 16 “Property, Plant and Equipment – Proceeds before Intended Use”;
- amendment to IAS 37 “Onerous Contracts – Cost of Fulfilling a Contract”;
- Annual Improvements to IFRS Standards 2018-2020.

The consequences that these standards, amendments and interpretations coming into force shortly may have on the financial disclosure are being examined and assessed.

Auditing Firm

The Group's consolidated financial statements are audited by Deloitte & Touche S.p.A. in execution of the shareholders' meeting resolution of 23 October 2020.

In accordance with Decree 39/2010, Article 17, paragraph 1, the audit engagement is for a period of nine financial years for the consolidated financial statements for the years ending from 31 December 2020 to 31 December 2028.

A.2 – THE MAIN FINANCIAL STATEMENT ITEMS

1 - Financial assets measured at fair value through profit and loss

Classification criteria

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

- financial assets held for trading;
- financial assets mandatorily measured at fair value, consisting of financial assets that do not meet the requirements for measurement at amortised cost or fair value through other comprehensive income. These are financial assets for which the contractual terms do not involve solely payments of principal and interest (meaning the SPPI test is not passed), or which are not held under a business model whose objective is to hold an asset in order to collect contractual cash flows (Held to Collect business model) or whose objective is achieved both through the collection of contractual cash flows and through the sale of financial assets (Held to Collect and Sell business model);
- financial assets designated at fair value, i.e. financial assets measured in this way at the time of initial recognition and when the requirements are met. An entity may irrevocably designate a financial asset as measured at fair value through profit and loss at the time of initial recognition if, and only if, by doing so a measurement inconsistency is eliminated or significantly reduced (fair value option).

Reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for the management of financial assets. In these cases, which are expected to be very infrequent, financial assets can be reclassified to one of the other two categories included under IFRS 9 (financial assets measured at amortised cost or financial assets measured at fair value through other comprehensive income). The transfer value is represented by the fair value at the time of reclassification and the effects of the reclassification apply prospectively starting from the date of reclassification. In this case, the effective interest rate for the reclassified financial asset is determined on the basis of its fair value on the reclassification date and this date is also considered to be the initial recognition date

for allocation within the various credit stages (stage assignment) for impairment purposes.

Recognition criteria

Financial assets are initially recognised at the settlement date for debt and equity securities, on the disbursement date for loans and the subscription date for derivative contracts.

Financial assets are initially recognised at their fair value without considering transaction costs or income directly attributable to the instruments.

Measurement criteria

After initial recognition, financial assets measured at fair value through profit and loss are measured at fair value. The effects of applying this measurement criteria are recognised in the Income Statement.

Market listings are used to determine the fair value of financial instruments listed on an active market. In the absence of an active market, commonly used estimate methods and models are adopted, which take all risk factors associated with the instruments into account and are based on data which can be obtained on the market, including: prices for listed instruments with similar characteristics, calculations of discounted cash flows, models to determine options prices, values taken from recent comparable transactions, etc. For equity securities and derivatives relative to equity securities, not listed on an active market, the cost criterion is used as an estimate of fair value only to a residual extent and limited to a few circumstances, specifically in the case that all the previously referenced measurement methods cannot be applied, or in the presence of a wide range of possible fair value measurements, in which cost represents the least significant estimate.

Derecognition criteria

Financial assets measured at fair value through profit and loss are derecognised when the right to receive cash flows expires or in the case of disposal, only if the disposal

involved substantial transfer of all risks and rewards associated with the assets concerned. On the other hand, if a significant portion of the risks and rewards related to the financial assets transferred remain, they continue to be recognised, even if legal ownership of those assets has effectively been transferred.

If it is not possible to determine the substantial transfer of risks and rewards, the financial assets are unrecognised if no type of control over them has been retained. Otherwise, even partial retention of control means that the asset must continue to be recognised in an amount equal to the residual involvement, measured by the exposure to changes in value to the asset transferred and changes in the cash flows of the asset.

2 - Financial assets measured at fair value through other comprehensive income

Classification criteria

This item includes financial assets which meet both of the following conditions:

- financial assets are held based on a business model whose objective is achieved both through the collection of contractually established cash flows and through sale (Hold to Collect and Sell business model), and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI Test passed).

In addition, this item includes equity instruments, not held for trading purposes, for which the option to designate them at fair value through other comprehensive income was exercised upon initial recognition.

Reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for the management of financial assets. In these cases, which are expected to be very infrequent, financial assets can be reclassified to one of the other two categories included under IFRS 9 (financial assets measured at amortised cost or financial assets measured at fair value through profit and loss). The transfer value is represented by the fair value at the time of reclassification and the effects of the reclassification apply prospectively starting from the date of reclassification. In the case of reclassification from the category in question to that of

amortised cost, the cumulative net income (loss) recognised in the valuation reserve is used to adjust the fair value of the financial asset at the date of reclassification. On the other hand, in the case of reclassification to the category of fair value through profit and loss, the cumulative net income (loss) previously recognised in the valuation reserve is reclassified from shareholders' equity to net income (loss) for the year.

Recognition criteria

Financial assets are initially recognised at the settlement date for debt and equity securities and on the disbursement date for loans. They are initially recognised at their fair value inclusive of transaction costs or income directly attributable to the instruments.

Measurement criteria

After initial recognition, assets measured at fair value through other comprehensive income are measured at fair value, with recognition in the income statement of the impacts deriving from application of the amortised cost and the effects of impairment, while other profits or losses deriving from a change in fair value are recognised in a specific shareholders' equity reserve, without passing through the income statement, until the financial asset is eliminated. At the time of disposal, whether total or partial, the cumulative profit or loss in the valuation reserve is entirely or partially posted to the Income Statement.

Equity instruments classified in this category are measured at fair value and the amounts recognised in a contra-entry to shareholders' equity (Statement of comprehensive income) do not need to subsequently be transferred to the income statement, even in the case of disposal. The only component relative to the equity securities in question subject to recognition in the income statement is any associated dividends.

Financial assets measured at fair value through other comprehensive income are subject to verification of a significant increase in credit risk (impairment) as established under IFRS 9, with consequent recognition of a value adjustment in the income statement to cover expected losses. More specifically, for instruments classified in

stage 1 (that is financial assets at the time of origination, when not impaired, and instruments which have not seen a significant increase in credit risk since initial recognition) expected losses after one year are recognised on the initial recognition date and at each subsequent reporting date. On the other hand, for instruments classified in stage 2 (performing assets, but with a significant increase in credit risk since initial recognition) and in stage 3 (impaired exposures) the expected loss is recognised for the entire residual life of the financial instrument.

Derecognition criteria

Financial assets measured at fair value through other comprehensive income are derecognised when the right to receive cash flows expires or in the case of disposal, only if the disposal involves the substantial transfer of all risks and rewards associated with the assets concerned. On the other hand, if a significant portion of the risks and rewards related to the financial assets transferred remain, they continue to be recognised, even if legal ownership of those assets has effectively been transferred.

If the substantial transfer of risks and rewards cannot be ascertained, financial assets are derecognised if no control is retained over them. Otherwise, even partial retention of control means that the asset must continue to be recognised in an amount equal to the residual involvement, measured by the exposure to changes in value to the asset transferred and changes in the cash flows of the asset.

3 - Financial assets measured at amortised cost

Classification criteria

This category includes financial assets (in particular loans and debt securities) which meet both of the following conditions:

- financial assets are held based on a business model whose objective is achieved through the collection of contractually established cash flows (Held to Collect business model), and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI Test passed).

More specifically, this item includes:

- loans to banks in various types which meet the requirements indicated in the previous paragraph;
- loans to customers in various types which meet the requirements indicated in the previous paragraph;
- - debt securities which meet the requirements indicated in the previous paragraph.

This category also includes operating receivables associated with the provision of financial activities and services (for example, to manage public subsidy funds or for servicing activities).

Reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for the management of financial assets. In these cases, which are expected to be very infrequent, financial assets can be reclassified to one of the other two categories envisaged by IFRS 9 (financial assets measured at fair value through other comprehensive income or financial assets measured at fair value through profit and loss). The transfer value is represented by the fair value at the time of reclassification and the effects of the reclassification apply prospectively starting from the date of reclassification. Profits or losses resulting from the difference between the amortised cost of the financial asset and its fair value are recognised in the income statement in the case of reclassification to Financial assets measured at fair value through profit and loss and to shareholders' equity, in the specific valuation reserve, in the case of reclassification to Financial assets measured at fair value through other comprehensive income.

Recognition criteria

Financial assets are initially recognised at the settlement date for debt securities and on the date of disbursement in the case of loans. They are initially recognised at their fair value inclusive of transaction costs or income directly attributable to the instruments.

In particular, with regard to loans, the disbursement date normally coincides with the date the contract was signed. If they do not coincide, a commitment to disburse funds is recognised on the date when the contract is signed; the commitment then ends when the instrument is disbursed. The loan/receivable is posted at its fair value, equal to the amount disbursed, or the subscription price, including costs/income directly attributable to the individual loan, which can be defined from the beginning of the transaction, even if settled subsequently. Costs that, even if they have the above-mentioned characteristics, are subject to reimbursement by the borrower counterparty or can be classified as normal internal administrative costs are excluded.

Measurement criteria

After initial recognition, the financial assets concerned are measured at amortised cost using the effective interest rate method. In these terms, the asset is recognised in the financial statements for an amount equal to the initial recognition value minus repayments of principal, plus or minus cumulative amortisation and adjusted for any provision to cover losses. The effective interest rate is the rate equal to the present value of the future cash flows of the asset, in terms of both principal and interest, of the amount disbursed inclusive of the costs/income attributable to said financial asset. This method of recognition, using a financial logic, makes it possible to distribute the economic effect of costs/income directly attributable to a financial asset throughout its expected residual life.

The amortised cost method is not used for assets – measured at historic cost – that have a short enough duration to make the effects of applying discounting negligible, or for assets without a defined maturity date or payable on demand.

Calculation of expected loss values from impairment is closely connected to the classification of the instruments concerned in one of three stages envisaged by IFRS 9. Specifically, stage 1 includes performing assets for which no significant increase in credit risk has occurred, stage 2 includes financial assets which are performing but have seen a significant increase in credit risk and stage 3 includes impaired financial assets (impaired past due, unlikely to pay and bad loans).

Impairment losses are then recognised in the income statement:

- at initial recognition, in an amount equal to the expected loss after 12 months;
- when the asset is subsequently measured, if the credit risk has not significantly increased since initial recognition, in relation to changes in the amount of value adjustments for expected losses after 12 months (stage 1);
- when the asset is measured subsequently, if the credit risk has significantly increased since initial recognition (transfer to stage 2), in relation to the recognition of value adjustments for expected losses relative to the entire residual life contractually established for the asset;
- upon subsequent measurement of the asset, when – after a significant increase in credit risk has been seen with respect to initial recognition – the significance of the increase no longer exists, in relation to the adjustment of cumulative value adjustments in order to take into account the passage from lifetime expected losses to losses over twelve months (return to stage 1).

When the financial assets concerned are performing, they are subject to measurement, aimed at determining value adjustments to be recognised, at individual loan level, based on the risk represented by probability of default (PD), loss given default (LGD) and exposure at default (EAD), to take account of the provisions of IFRS 9.

If, in addition to a significant increase in credit risk, objective evidence of a loss of value is also found (transfer to stage 3), then the amount of the loss is measured as the difference between the carrying amount of the asset – classified as impaired, in the same way as all other relationships held with the same counterparty – and the current value of estimated future cash flows, discounted at the original effective interest rate. The amount of the loss, to be recognised in the Income Statement, is determined on the basis of an analytical measurement process or determined for homogeneous categories and therefore analytically attributed to each position and takes into account, as detailed in the section 16 “Method of determining impairment”, forward-looking information and possible alternative collection scenarios.

The scope of impaired assets includes financial instruments classified as bad loans, unlikely to pay or past-due for more than 90 days, based on Bank of Italy rules, in line with IAS/IFRS and European regulations.

Expected cash flows take into account expected collection times and the presumable value in use of any collateral.

When the reasons for the impairment no longer exist following an event that occurs subsequent to the recognition of the reduction in value, writebacks are carried out, which are recognised in the income statement. Writebacks cannot exceed the amortised cost which the financial instrument would have had in the absence of previous adjustments.

Writebacks connected with the passing of time are posted as net interest income.

In some cases, during the life of the financial assets concerned and, in particular, those of loans, the original contractual conditions are subject to later modification by the parties to the contract. When, during the course of the life of an instrument, the contractual clauses are subject to change, it must be verified whether the original asset must continue to be recognised in the Financial Statements or whether, instead, the original instrument should be derecognised and a new financial instrument recognised in its place.

In general, changes to a financial asset lead to its derecognition and the recognition of a new asset, when the changes are “material”. Assessment of whether a change is substantial must include consideration of both qualitative and quantitative elements. These (qualitative-quantitative) analyses are aimed at defining the “materiality” of the contractual modifications made to a financial asset, and must therefore consider the purposes for which the modifications have been made, namely:

a. renegotiations for commercial reasons and forbearance measures due to financial difficulties of the counterparty. The former, aimed at “retaining” the customer, involve borrowers that are not in a situation of financial difficulty. This includes all renegotiation transactions that are aimed at adjusting the cost of the debt to market conditions. These transactions result in a modification of the original terms of the contract, usually requested by the borrower, which relate to aspects connected with the cost of the debt, with a consequent economic benefit for the borrower. Generally speaking, it is considered that whenever the bank renegotiates in order to avoid losing its customer, that renegotiation must be considered material because, if it were not carried out, the customer would be able to obtain financing from another intermediary and the bank would suffer a decrease in expected future revenues. The second, forbearance measures implemented for “credit risk reasons”, relate to the bank’s attempt to maximise the cash flow recovery on the original loan. The underlying risks and rewards are not normally substantially transferred after the modification and, consequently, the

accounting treatment that provides the most relevant information for the reader of the financial statements is modification accounting, which involves recognising the difference between the carrying amount and the present value of the modified cash flows discounted at the original interest rate through profit or loss and not through derecognition;

b. the presence of specific objective triggers that affect the characteristics and/or contractual flows of the financial instrument (such as a change in currency or a change in the type of risk exposure, when correlated to equity and commodity parameters), which are deemed to result in derecognition due to their impact (expected to be significant) on the original contractual flows.

With regard to staging, performing financial assets acquired as part of a business combination are classified on initial recognition as stage 1, regardless of their original classification.

With regard to impaired financial assets (stage 3) acquired as part of a business combination, these are identified on initial recognition as purchased or originated credit impaired (POCI) financial assets.

Derecognition criteria

Financial assets are derecognised when the right to receive cash flows expires or in the case of disposal, only if the disposal involved substantial transfer of all risks and rewards associated with the assets concerned. On the other hand, if a significant portion of the risks and rewards related to the financial assets transferred remain, they continue to be recognised, even if legal ownership of those assets has effectively been transferred.

If the substantial transfer of risks and rewards cannot be ascertained, financial assets are derecognised if no control is retained over them. Otherwise, even partial retention of control means that the asset must continue to be recognised in an amount equal to the residual involvement, measured by the exposure to changes in value to the asset transferred and changes in the cash flows of the asset.

4 - Hedging

The Group has taken advantage of the option, established when IFRS 9 was introduced, to continue to fully apply the provisions of the previous accounting standard IAS 39 with regard to hedge accounting, for all types of hedges (in the carved-out version endorsed by the European Commission).

Classification criteria

Risk hedging transactions are carried out to cover risks associated with changes in market value or in future cash flows relating to a certain item or groups of items that could have potential effects on the income statement. The type of hedging used by the Bank is fair value hedging, to hedge the exposure to changes in fair value (attributable to the various kinds of risks) of assets and liabilities recognised, or parts of them, groups of assets/liabilities, irrevocable commitments and portfolios of financial assets and liabilities, as allowed by IAS 39 endorsed by the European Commission.

Recognition criteria

Hedging derivatives, like all derivatives, are initially recognised and subsequently carried at fair value.

Measurement criteria

For fair value hedges, the change in the fair value of the hedged item is offset against the change in the fair value of the hedging instrument. This offsetting is recognised by booking the changes in value to the income statement of both the item hedged (as regards the changes produced by the underlying risk factor), and the hedging instrument. Any difference, representing the partial ineffectiveness of the hedge, consequently, constitutes its net economic effect. The derivative instrument is designated as a hedging instrument if there is official documentation regarding the relationship between the hedged item and the hedging instrument, and if it is effective from the start of the hedging and throughout the life of the hedge. Hedge effectiveness

depends on the degree to which the changes in fair value of the hedged item are offset by those of the hedging instrument. Consequently, the effectiveness is measured by comparing these changes, taking into account the Bank's intended goal at the time the hedge was put in place. A hedge is effective when the changes in the fair value of the hedging instrument almost completely neutralise, within the range of 80-125%, the changes in the hedged instrument, resulting from the risk element being hedged (dollar offset method). Effectiveness is assessed at every annual or interim reporting date. If it is found that the hedging is not effective, from that moment the hedging transaction is no longer entered in the accounts as such and the derivative contract is reclassified under instruments held for trading, and the financial instrument hedged is subsequently measured according to its accounting classification. Under IAS 39, fair value hedging can cover not only a single financial asset or liability but also a monetary amount resulting from a number of financial assets and liabilities (or parts of them), so that a series of derivative contracts can be used to reduce the changes in the fair value of the hedged instruments in response to changes in market interest rates (macro hedging). Net amounts resulting from asset or liability imbalances cannot be covered by macro hedging.

As in the case of fair value micro hedging, macro hedging is considered highly effective if, both at the start and during its life, the changes in the fair value of the monetary amount hedged are offset by changes in the fair value of the hedging derivatives and if the effective results fall within a range specified by IAS 39. In accordance with the instructions issued by the Bank of Italy for preparation of banks' financial statements, value adjustments on macro hedged financial assets/liabilities are posted under item 60 of the Assets and item 50 of the Liabilities, with a contra item under item 90 of the Income Statement.

5 - Equity investments

Recognition, classification and measurement criteria

This item includes interests held in associates.

Companies subject to significant influence (associates) are entities in which the Group holds at least 20% of the voting rights (including “potential” voting rights) or in which – despite holding a smaller proportion of voting rights – it has the power to participate in determining the financial and management policies of the investee by virtue of specific legal ties such as participation in shareholders’ agreements. Certain interests of more than 20% in which the Group has only economic rights over a portion of the returns from its investments, has no access to management policies and can only exercise governance rights limited to the protection of its economic interests, are not considered to be subject to significant influence.

Investments in associates are measured at cost less any impairment losses. If there is evidence that the value of an equity investment may have decreased, the recoverable value of the investment is then estimated, taking into account the current value of future cash flows which may be generated by the investment, including the final disposal value of the investment. If the recoverable amount is less than the carrying amount, the related difference is recognised through profit and loss. When the reasons for the impairment no longer exist following an event that occurs subsequent to the recognition of the reduction in value, writebacks are carried out, which are recognised in the income statement.

Derecognition criteria

Equity investments are derecognised when the contractual rights to the cash flows from the financial assets expire or when the equity investment is sold with the substantial transfer of all the risks and rewards attaching to them.

6 - Property, plant and equipment

Classification criteria

Property, plant and equipment includes plant, office machinery, furniture, computers, printers, fittings and equipment of any type. These are instrumental assets with several years of useful life used to carry out the company business. This includes leased assets pursuant to IFRS 16, as well as leasehold improvement costs.

The new IFRS 16 was issued in January 2016, replacing the existing IAS 17, SIC 15 and 27, and IFRIC 4. IFRS 16 provides criteria for determining whether a contract meets the definition of a lease. The new definition of a lease states that a lease exists from the time when the customer controls the use of an identified asset. This new definition focuses on the notion of control in line with IFRS 10 and IFRS 15.

Property, plant and equipment are recognised as assets when:

1. It is probable that future economic benefits associated with the asset will be enjoyed;
2. The cost of the asset can be measured reliably.

Property acquired through leases, through which the Company controls the use of the asset identified as the subject of the lease, is recognised as an asset of the Company (Right of Use) at the present value of the lease payments due.

Recognition criteria

Property, plant and equipment items are initially recognised at cost, inclusive of any directly attributable transaction costs. The cost is increased by any expenses incurred subsequently to improve these assets, replace a part or perform non-routine maintenance activities resulting in an increase in their future economic benefits. Routine maintenance expenses are recognised directly in the income statement. Based on IFRS 16, leases are recognised on the basis of a right-of-use model based on which, at the start date, the lessee has a financial obligation to make the payments due to the lessor to compensate for the right to use the underlying asset for the duration of the lease. When the asset is made available to the lessee for use (start date), the lessee recognises both the liability and the asset, consisting of the right of use.

Measurement criteria

Property, plant and equipment items are carried at cost, minus any depreciation or impairment. Property, plant and equipment depreciate, on the basis of the estimated expected useful life, as follows:

Fittings and equipment	15%
Furniture	12%
Office machines	20%

Depreciation is calculated at the reporting date and recognised in the income statement. In the case of impairment, assets are written down to their carrying amount and the amount of the impairment is recognised in the income statement.

With regard to assets consisting of the right of use, recognised on the basis of IFRS 16, these are measured using the cost model. In this case, the assets are subsequently depreciated throughout the duration of the leasing contract and subject to an impairment test if indications of impairment arise.

Derecognition criteria

The carrying amount of an item of property, plant and equipment must be derecognised in case of disposal, or when no future economic benefit is expected from its use. Gains and losses arising from the difference between the price collected from the sale of an asset and the carrying amount of such an asset are recognised in a specific item of the income statement.

7 - Intangible assets

Recognition criteria

Intangible assets are recognised at cost, adjusted for any transaction costs, only if it is probable that the future economic benefits attributable to the assets will be realised and if the cost of the assets can be measured reliably. Otherwise, the cost of intangible assets is recognised in the income statement in the period in which it is incurred.

Classification criteria

“Intangible assets” for IAS purposes include goodwill, governed by IFRS 3, and other intangible assets governed by IAS 38.

An intangible asset is only represented on the asset side of the financial statement if it is determined to be a resource that is:

- Non-monetary;
- Identifiable;
- Without physical substance;
- Held for use in the production or supply of goods or services, for rental to others, or for administrative purposes;
- Controlled by the enterprise;
- From which future economic benefits are expected.

Measurement criteria

For assets with a finite useful life, the cost is amortised on a straight-line basis or on a declining basis determined according to the flow of economic benefits expected from the asset. On the other hand, assets with an indefinite useful life are not subject to straight-line amortisation, but to a periodic impairment test.

If signs exist that show that an asset may have suffered an impairment loss, a comparison is made between the carrying amount of the asset and its recoverable amount. The amount of the loss, recorded in the income statement, is the difference between the carrying amount of the asset and its recoverable amount.

In particular, intangible assets include:

- technology-based intangible assets, such as application software, which are amortised based their expected technological obsolescence and, in any event, over a maximum period of seven years. Specifically, the costs incurred internally for the development of software projects constitute intangible assets and are recognised as assets only if all the following conditions are met: i) the cost attributable to the development can be reliably measured; ii) there is the intention, availability of financial resources and technical capacity to make the asset available for use or sale; and iii) it can be demonstrated that the asset is capable of producing future economic benefits. Capitalised software development costs only include the expenses incurred that can be directly attributed to the development process. Capitalised software development

costs are amortised on a straight-line basis over the estimated life of the related product/service to reflect the manner in which the future economic benefits from the asset are expected to be consumed by the entity from the start of production over the estimated life of the product;

- intangible assets linked to customers represented by the valuation, at the time of business combinations, of asset management relationships and the insurance portfolio. These assets, with a finite life, are originally measured by present value discounting the cash flows, using a rate that is representative of the time value of money and the specific risks of the asset, the cash flows representing the income margins over a period that expresses the contractual or estimated residual duration of the relationships in place at the time of the business combination.

Intangible assets consisting of asset management relationships are amortised on a straight-line basis over the period of greatest significance of the expected economic benefits for relationships that do not have a set maturity and, for relationships linked to insurance contracts, on a declining balance basis over the duration of the contracts for relationships with a set maturity (residual life of the policies);

- intangible assets linked to marketing represented by the valuation of the brand name, which is also recorded during business combinations. These assets are considered to have an indefinite life as they are expected to contribute for an indefinite period to the formation of income flows.

Lastly, intangible assets include goodwill. Goodwill may be recognised in a business combination when the positive difference between the consideration transferred and the fair value of the non-controlling interest, if any, and the fair value of the assets acquired is representative of the future earnings capacity of the investment. If this difference is negative (badwill) or if the goodwill is not justified by the investee's future earnings capacity, the difference is recognised directly through profit or loss.

At least once a year (or whenever there is evidence of impairment), a test of the adequacy of the value of the goodwill is carried out. To this end, the cash generating unit to which the goodwill is to be attributed is identified. The amount of any impairment is determined on the basis of the difference between the carrying amount of the goodwill and its recoverable amount, if lower. The recoverable amount is the greater

of the fair value of the cash generating unit, net of any costs to sell, and the related value in use. The resulting impairment losses are recognised through profit or loss.

Derecognition criteria

Intangible assets are derecognised at the time of their disposal or when no future economic benefits are expected.

Criteria for the recognition of income components

The amortisation of intangible assets is spread on a straight-line basis over the useful life of the asset. The useful life of an asset is defined in terms of the expected use of the asset by the enterprise. If the useful life of an asset is found to differ materially from previous estimates during the periodic review, the amortisation for the current and subsequent periods is adjusted.

Write-downs of intangible assets are recognised if an item has suffered an impairment loss in accordance with IAS 36. If the reasons for the write-down cease to apply in a subsequent period, the write-down is reversed in full or in part, recognising the amount under extraordinary income.

8 - Non-current assets and disposal groups held for sale

Non-current assets and discontinued operations for which a disposal process has been initiated and their sale is considered highly likely are recognised under “Non-current assets and disposal groups held for sale” when they are assets and under “Liabilities associated with assets held for sale” when they are liabilities. These assets or liabilities are measured at the lower of their carrying amount and fair value less costs to sell, except for certain types of assets (e.g. financial assets within the scope of IFRS 9) for which IFRS 5 specifically requires that the valuation criteria of the relevant accounting standard be applied.

Non-current assets and disposal groups may include portfolios of assets for which there is no quotation in an active market. In this case, they are measured at fair value by referring, where there is an agreement with the purchaser, to the transfer prices

resulting from that agreement. Where there is no agreement, specific valuation techniques are used depending on the asset and external fairness opinions may also be used.

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

The Group does not envisage any disposals and therefore no assets or liabilities of this type are reported in the financial statements.

9 - Current and deferred taxes

Income taxes are recognised at cost on an accrual basis, in accordance with the methods for recognising the costs and revenues that generated them. They therefore represent the balance of current and deferred taxes relating to the income for the period.

Current tax assets and liabilities include the net balance of the positions of Group companies with Italian and foreign tax authorities relating to direct taxation. Specifically, these items include the net balance between past and current tax liabilities for the year, calculated on the basis of a prudent forecast of the tax liability for the year, determined in accordance with current tax laws, and current tax assets consisting of prepayments, withholding taxes or other tax credits. The risk associated with these processes – in the same way as the risks associated with processes that did not require provisional payments – is assessed according to the methodology set out in IAS 37, according to the likelihood that financial resources will be used to settle them.

The Group does not participate in the national tax consolidation scheme and therefore the IRES (income tax) is calculated independently for the companies of the MCC Group. In addition, the Parent Company also agreed to the request from its Ultimate Parent (Invitalia) to exercise the option to participate in the national tax consolidation scheme for the period 2018-2020 (introduced by Legislative Decree No. 344 of 12 December 2003).

Deferred taxes are calculated by applying the balance sheet liability method, bearing in mind the fiscal effect connected with temporary differences between the carrying amount of assets and liabilities and their fiscal value, which lead to taxable or deductible amounts in future periods. For this purpose, “taxable temporary differences” are those that will result in taxable amounts in future periods and “deductible temporary differences” are those that will result in deductible amounts in future periods.

Deferred taxes are calculated by applying tax rates established under current laws to temporary taxable differences for which there is an actual probability that taxes will be paid and to temporary deductible differences for which there is reasonable certainty of future taxable amounts at the time when the related tax deductibility arises (probability test). Prepaid and deferred taxes relating to the same tax and maturing during the same period are offset against each other.

When deferred tax assets and liabilities refer to components that impacted the income statement, the contra entry is represented by income taxes.

In cases in which prepaid and deferred taxes refer to transactions that have directly affected shareholders' equity without impacting the income statement (such as adjustments on first-time adoption of IAS/IFRS, measurements of financial instruments recognised at fair value through other comprehensive income or contracts deriving from cash flow hedges), these are recognised as a contra entry to shareholders' equity, relative to specific reserves when appropriate (e.g. valuation reserves).

10 - Provisions for risks and charges

Provisions for pensions and similar obligations

Provisions for pensions are made in implementation of company agreements and can be classified as defined benefit plans. The liability for these plans and the related social security cost for current work services are determined on the basis of actuarial assumptions that involve projections of future payments on the basis of analysis of historic statistics and the demographic curve, and financial discounting of those flows on the basis of a market interest rate.

Actuarial gains and losses (variations in the current value of the obligation deriving from changes to actuarial assumptions and adjustments based on past experience) are recognised in the statement of comprehensive income.

Provisions for risks and charges in relation to commitments and guarantees given

This sub-item of provisions for risks and charges includes provisions for credit risk recognised in relation to commitments to disburse funds and to guarantees given which fall within the scope of the impairment rules pursuant to IFRS 9. In principle, for these cases the same methods of allocation are used for the three credit risk stages and for the calculation of expected losses in relation to the financial assets measured at amortised cost or at fair value through other comprehensive income.

Other provisions

Other provisions for risks and charges include allocations for legal obligations or associated with employment relations, or to disputes, including tax disputes, originating from a past event for which the disbursement of financial resources is likely in order to fulfil the said obligation, as long as the relevant amount can be reliably estimated.

Consequently, a provision is only recognised if and only if:

- there is an obligation in course (legal or implicit) as the result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount deriving from fulfilment of the obligation.

The amount recognised for the provision is the best estimate of the expenditure required to settle the present obligation at the reporting date and reflects risks and uncertainties inevitably associated with multiple events and circumstances. When the time factor is significant, provisions are discounted using current market rates. The provision and increases due to the time factor are recognised through profit or loss.

The provision is reversed when it becomes improbable that resources aimed at producing economic benefits will be used to fulfil the obligation or when the obligation is eliminated.

11 - Financial liabilities measured at amortised cost

Classification criteria

Amounts due to banks, amounts due to customers and securities issued represent the various forms of interbank funding and funding from customers, as well as repurchase agreements with repurchase obligation on maturity and funding via bonds and other funding instruments issued, net of any redeemed amounts.

These also include payables recognised by the company in its role as the lessee within lease agreements.

Recognition criteria

Such financial liabilities are first recognised on the date on which the related contract is signed, which normally coincides with the moment of the receipt of the sums collected or the issue of the debt securities.

Initial recognition takes place at the fair value of the liabilities, usually equal to the amount collected or to the issue price, plus any additional costs/income directly attributable to the individual deposit or issuance transactions. Internal administrative costs are excluded.

Measurement criteria

After initial recognition, these financial liabilities are measured at the amortised cost, using the effective interest rate method.

However, short-term liabilities, for which the time factor is negligible, are an exception. They are entered at the amount collected.

Lease liabilities are revalued when there is a lease modification (e.g. a change to the scope of the agreement), if this is not recognised/considered as a separate agreement.

Derecognition criteria

Financial liabilities are derecognised when they have matured or been discharged. Derecognition also takes place when previously issued debt securities are repurchased. The difference between the carrying amount of a liability and the amount paid for purchase is booked to the Income Statement.

12 - Financial liabilities held for trading

Recognition criteria

These financial instruments are recognised on the subscription date or issue date at a value equal to the fair value of the instrument, without considering any transaction costs or income directly attributable to the instrument.

Measurement criteria

All liabilities held for trading are measured at fair value with recognition of the result of that measurement in the Income Statement.

Derecognition criteria

Financial liabilities held for trading are derecognised when the contractual rights over related cash flows expire or when the financial liability is transferred, including the substantial transfer of all risks and rewards deriving from ownership of the same.

13 - Financial liabilities designated at fair value

Classification criteria

This item includes financial liabilities designated at fair value with a contra entry in the income statement, on the basis of the option granted to enterprises (fair value option) under IFRS 9 and in compliance with the cases established under the reference regulations.

Recognition criteria

These liabilities are recognised on the issue date in an amount equal to their fair value, including the value of any embedded derivative and net of placement fees paid.

Measurement criteria

These liabilities are measured at fair value and the result is recognised in accordance with the following rules established by IFRS 9:

- changes in fair value attributable to changes in the Bank's credit rating must be recognised in the statement of comprehensive income (shareholders' equity) and are not subject to reversal to the income statement even when the liability matures;
- the remaining fair value changes must be recognised in the Income Statement.

Derecognition criteria

Financial liabilities measured at fair value are derecognised when the contractual rights over related cash flows expire or when the financial liability is transferred, including the substantial transfer of all risks and rewards deriving from ownership of the same.

14 - Currency transactions

The Group does not carry out transactions of this kind.

15 - Insurance assets and liabilities

The Group does not carry out operations of this kind.

16 - Other information

Treasury shares

Banca Popolare di Bari holds treasury shares for a value of €25 million and the bank has set aside a reserve of the same amount for those shares. The Parent Company and the other Group companies do not hold any treasury shares.

Revenue recognition

Revenues are gross flows of economic benefits arising from the conduct of ordinary company business and are recognised at the time control of the goods or services is transferred to the customer at an amount representing the amount of consideration to which the customer is considered to be entitled. Specifically, revenue recognition is carried out using a model that must meet the following criteria:

- Identification of the contract, defined as an agreement in which the parties have agreed to perform their respective obligations;
- Identification of the individual performance obligations contained in the contract;
- Determination of the price of the transaction, i.e. the expected consideration for the transfer of the goods and/or services to the customer;
- Allocation of the transaction price to each performance obligation, based on the selling prices for the individual obligation;
- Recognition of the revenue when (or as) the performance obligation is satisfied by transferring a promised good or service to a customer.

Revenue may be recognised at a specific time, when the entity fulfils obligations by transferring the asset or service promised to the customer, or over time, as the entity

gradually fulfils obligations by transferring the asset or service promised to the customer. Specifically:

a) Interest is recognised on a pro rata basis according to the contractual interest rate or to the effective interest rate in case of application of the amortised cost. Interest income (or interest expense) also includes positive (or negative) spreads or margins accrued up to the reporting date on financial derivative contracts that are:

- Hedges of assets and liabilities that generate interest;
- Classified in the Balance Sheet in the trading book, but operationally linked to financial assets and/or liabilities measured at fair value (fair value option);
- Operationally linked to assets and liabilities classified in the trading book and involving the settlement of spreads or margins at multiple maturities;

b) Any arrears interest provided for by contract is recognised through profit or loss only when it is actually received;

c) Dividends are recognised through profit or loss during the year in which their distribution is approved;

d) Fees for revenues from services are recognised, on the basis of the existence of contractual agreements, in the period in which the services were provided. Fees considered in the amortised cost for the purpose of determining the effective interest rate are included in interest;

e) Gains and losses arising from the trading of financial instruments are recognised through profit or loss when the sale is completed, based on the difference between the consideration paid or received and the carrying amount of the instruments;

f) Revenue from the sale of non-financial assets is recognised when the sale is completed, unless most of the risks and rewards associated with the asset have been retained.

Recognition of costs

Costs are recognised through profit or loss on an accrual basis. Costs related to obtaining and fulfilling contracts with customers are recognised through profit or loss in the periods in which the related revenue is recognised.

Expenditure on third-party assets

Costs incurred on third-party assets (both tangible and intangible) are capitalised in view of the fact that, for the term during which the Group uses them, it has control of the assets and can obtain future economic benefits. The said costs, classified as other assets, as provided for in the Bank of Italy instructions, are amortised according to the contractual terms.

Offsetting financial assets and liabilities

On the basis of the indications of IAS 32 asset and liability items are offset in the accounts if the following requirements are fulfilled:

- possession of the contractual right exercisable for offsetting the amounts recognised in receivables and payables;
- the intention to settle the items net, or to realise the asset and at the same time extinguish the liabilities.

In accordance with the provisions of IFRS 7, more detailed information is provided in the tables of the Notes to the Financial Statements included in Part B – Other information. In particular, the carrying amounts affected by the standard before and after the effects of the offset and the measurement of the associated real guarantees are recognised.

Classification criteria for financial assets

Classification of financial assets into the three categories established under the IFRS 9 depends on two classification drivers: the business model under which the financial instruments are managed and the contractual characteristics of the cash flows deriving from financial assets (SPPI test).

Financial assets are classified based on the combination obtained from these two drivers, in accordance with that indicated below:

- Financial assets measured at amortised cost: assets which pass the SPPI test and fall under the Hold to collect (HTC) business model;
- Financial assets measured at fair value through other comprehensive income (FVOCI): assets which pass the SPPI test and fall under the Hold to collect and sell (HTCS) business model;
- Financial assets measured at fair value through profit and loss (FVTPL): this is a residual category, which includes financial instruments that cannot be classified within the previous categories on the basis of the results of the business model test or due to having failed the SPPI test.

SPPI test

For a financial asset to be classified at amortised cost or FVOCI, in addition to business model analysis, the contractual terms of the financial asset must give rise on specified dates to cash flows that are solely of payments of principal and interest (SPPI). This analysis must be done, in particular, on loans and debt securities.

The SPPI test must be performed on each individual financial instrument, at the time of its recognition. After initial recognition, and as long as it is recognised, the asset is not subjected to new assessments for the purposes of the SPPI test. When a financial instrument is derecognised and when a new financial asset is recognised, and SPPI test must be carried out on the new asset.

For the purposes of applying the SPPI test, IFRS 9 provides the following definitions:

- Principal: the fair value of the financial asset at initial recognition. This value may change during the life of the financial instrument, for example as an effect of payments of principal;
- Interest: the payment for the time value of money and the credit risk associated with the principle outstanding at a particular moment in time. It may also include remuneration for other base risks and costs associated with lending activity and a profit margin.

When assessing whether cash flows from a financial asset can be defined as SPPI, IFRS 9 refers to the general concept of a basic lending arrangement which is

independent of the legal form of the business. When the contractual clauses introduce exposure to risks or volatility of cash flows not in line with the definition of a basic lending arrangement, the contractual cash flows do not meet the definition of SPPI. Application of the classification driver based on contractual cash flows will occasionally require a subjective decision and, therefore, the definition of internal policies for application.

In the case of a modified time value of money, or when the interest rate is periodically redetermined on the basis of the average of particular short or medium/long-term rates, the company must assess, using both quantitative and qualitative information, whether the contractual cash flows still meet the definition of SPPI (benchmark cash flows test). When the test indicates that the (non-discounted) contractual cash flows are “significantly different” with respect to the cash flows deriving from a benchmark instrument (also non-discounted), or without a modified time value, the contractual cash flows cannot be said to meet the definition of SPPI.

As established under IFRS 9, a particular characteristic of contractual cash flows does not influence the classification of a financial asset if it can only have a minimal effect on the contractual cash flows of the financial asset (in each financial year and cumulatively). Similarly, if a characteristic of the cash flows is not genuine, i.e. it affects the instrument’s contractual cash flows only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur, it does not influence the classification of the financial asset.

Business model

With regards to the business model, IFRS 9 identifies three cases regarding the methods used to manage cash flows and sales of financial assets:

- Hold to Collect (HTC): this is a business model in which the objective is achieved by receiving contractual cash flows from financial assets included in their relative portfolios. The insertion of a portfolio of financial assets in this business model does not necessarily mean it is impossible to sell these instruments, even if it is necessary to consider the frequency, value and schedule of sales in previous years, the reasons for the sales and expectations regarding future sales;

- Hold to Collect and Sell (HTCS): this is a mixed business model, in which the objective is achieved by receiving contractual cash flows from the financial assets in the portfolio and also through sales, which are an integral part of the strategy. Both activities (collection of cash flows and sales) are indispensable for achieving the objective of the business model. Therefore, sales are more frequent and significant with respect to an HTC business model and are an integral part of the strategies pursued;
- Others/Trading: this is a residual category which includes both financial assets held for trading and financial assets managed using a business model that is different from the previous categories (Hold to Collect and Hold to Collect and Sell). In general, this classification is applied to a portfolio of financial assets for which management and performance are measured on a fair value basis.

The business model reflects the methods with which the financial assets are managed to generate cash flows to benefit the entity and is defined by top management with appropriate involvement of business structures. It should be determined considering the method used to manage the financial assets and, as consequence, the degree to which cash flows in the portfolio derive from the receipt of contractual cash flows, from sales or financial assets or from both activities. This assessment is not based on scenarios that, based on the entity's reasonable expectations, are not likely to occur, such as worst case or stress case scenarios. For example, if an entity expects that it will sell a particular portfolio of financial assets only in a stress case scenario, that scenario does not affect the entity's assessment of the business model for those assets if the entity reasonably expects that such a scenario will not occur.

The business model does not depend on management's intentions with respect to an individual financial instrument but refers to the way in which groups of financial assets are managed to achieve a particular business objective.

In summary, the business model:

- reflects the methods with which the financial assets are managed to generate cash flows;
- is defined by top management with appropriate involvement of business structures;
- must be observable by considering the how financial assets are managed.

In operational terms, the assessment of the business model is carried out in line with the company organisation, the specialisation of the business functions, the risk model and the assignment of the delegated powers (limits).

All relevant factors available at the assessment date are used in carrying out the assessment of the business model. The above information includes the strategy, the risks and their management, remuneration policies, reporting and the amount of sales. In the analysis of the business model, it is essential that the elements investigated are consistent with each other and, in particular, consistent with the strategy pursued. Evidence of activities not in line with the strategy must be analysed and duly justified.

In this regard and in relation to the management purposes for which the financial assets are held, the specific Provision No. 1170 Policy IFRS 9 – Classification and measurement of financial assets, approved by the competent governance levels, defines and sets out the constituent elements of the business model in relation to the financial assets included in the portfolios managed in the performance of operations on the business structures of the Parent Company.

For the Held to Collect portfolios, the Group has set the thresholds for admissibility of sales that do not invalidate the classification (frequent but not significant, individually and in aggregate, or infrequent even if of a significant amount). The parameters for identifying sales consistent with this business model have also been established to the extent they are attributable to an increase in credit risk.

Method of determining amortised cost

Amortised cost is one of the possible measurements of a financial asset or liability. This valuation is carried out for financial assets measured at amortised cost (item 40, assets), for those measured at fair value through other comprehensive income (item 30, assets) prior to fair value adjustment, and for financial liabilities measured at amortised cost (item 10, liabilities). Amortised cost must be calculated using the effective interest rate method, a method that involves distributing interest received or paid, and transaction costs and revenues, along the duration of the financial instrument. The amortised cost makes it possible to allocate all the costs and revenues generated by a financial instrument along the entire expected life of the said instrument. The costs and revenues to be allocated along the expected life of the said

financial instrument include the transaction costs (revenues) which are the marginal costs (revenues) directly attributable to the issue/acquisition of a financial instrument. Marginal means the costs (revenues) that would not have been produced if the entity had not acquired or issued the financial instrument. With particular reference to receivables, the commissions payable to the distribution channels and fees payable for participation in pooled loans are considered costs attributable to the financial instrument; while the revenues considered in calculating the amortised cost are up front commissions, and those for participation in pooling operations. For securities issued and other funding transactions, the placing commissions are considered in calculating the amortised cost, as well as legal expenses necessary for preparing placement. The effective interest rate is the rate that reduces to zero the present value, at the time of the measurement, of the total cash flow (the future payments or collections envisaged along the expected life of the financial instrument) of the financial instrument. The calculation of the effective interest rate must include all the economic components paid or received which are an integral part of the same, the transaction costs, and all the other premiums or discounts. Determination of the amortised cost is different according to whether the financial instruments considered are at fixed rate or variable rate and – in this latter case – according to whether the variability of the rate is known in advance (fixed rate for time bands) or otherwise. For financial instruments at fixed rate or at fixed rate for time bands (with the rate that varies after a certain period in fixed mode), the future cash flows must be quantified on the basis of the known interest rate (single or variable) during the life of the instrument. For instruments at variable rate, the variability of which is not known in advance (for example because it is linked to an index), the cash flows must be determined on the basis of the last known rate, and at each rate revision date the new effective rate of return is recalculated.

As indicated by IFRS 9, in some cases a financial asset is considered credit-impaired at initial recognition because the credit risk is very high, and it is consequently acquired at a deep discount (compared to the initial disbursement amount). If, based on the application of the classification drivers (SPPI test and Business Model), the financial assets concerned are classified as assets measured at amortised cost or at fair value through other comprehensive income, they are classified as Purchased or Originated Credit Impaired Assets (POCI) and are subject to specific treatment with respect to the impairment process. In addition, a credit-adjusted effective interest rate is calculated

on financial assets that qualify as POCI at initial recognition, for which the initial expected losses must be included in the cash flow estimates. This credit-adjusted effective interest rate is therefore used in applying the amortised cost and the resulting calculation of interest.

For impaired loans resulting from business combinations, the difference between the initial recognition amount (the fair value determined in the PPA) of the POCI and the previous carrying amount at the acquiree is divided into two components: one related to the lower recoverable cash flows estimated when measuring the fair value, which therefore include expected credit losses over the entire remaining life of the POCI, and the other related to the present value discounting of those lower recoverable cash flows. The reversal of the present value discounting (related to the estimated recoverable cash flows allocated to the impaired loans in the PPA) is recognised in interest income, on an accrual basis, to supplement the contractual interest rate with the higher return resulting from the lower value allocated to the recoverable cash flows, which, as mentioned above, take into account the expected losses over the entire remaining life of the POCI assets.

Measurement at amortised cost does not apply for assets/liabilities whose short duration leads the economic effect of the discounting to be considered negligible, nor for receivables with no definite maturity or on demand.

Method of determining impairment

Pursuant to IFRS 9, at every reporting date financial assets not measured at fair value through profit and loss are subject to assessment to determine whether there is evidence suggesting that the recognition value of the assets concerned is not entirely recoverable. Similar analysis is also done for commitments to disburse funds and for guarantees given which fall within the scope subject to impairment under IFRS 9. If this evidence of impairment exists, the financial assets concerned – together with all other remaining assets pertaining to the same counterparty – are considered impaired and placed in stage 3. For these exposures, consisting of financial assets classified in the categories of bad loans, unlikely to pay and past-due over 90 days, in accordance with the provisions of Bank of Italy Circular No. 262/2005, value adjustments must be

recognised in an amount equal to expected losses over a time horizon equal to their entire residual life.

For financial assets for which no evidence of impairment is found (non-impaired financial assets), it is instead necessary to determine whether there are indicators that the credit risk of an individual operation has significantly increased with respect to initial recognition. From a staging and measurement point of view, the consequences of this assessment are the following:

- when these indicators exist, the financial asset is placed in stage 2. In this case, in line with the dictates of international accounting standards and even in the absence of a manifest loss of value, the measurement involves recognition of value adjustments equal to expected lifetime losses. These adjustments are subject to review at each subsequent reporting date, in order to periodically verify their congruence with respect to constantly updated loss estimates and to take into account – if the indications of significantly increased credit risk no longer exist – the change in the time horizon for calculating expected losses;
- when these indicators do not exist, the financial asset is placed in stage 1. In this case, in line with international accounting standards and even in the absence of a manifest loss of value, the measurement involves recognition of expected losses over the next twelve months for the specific financial instrument. These adjustments are subject to review at each subsequent reporting date, both in order to periodically verify their congruence with respect to constantly updated loss estimates and to take into account – if indications of significantly increased credit risk present themselves – the change in the time horizon for calculating expected losses.

At each reporting date, the Group recognises the impairment amount through profit or loss as the sum of the changes in expected losses recognised by the individual entities included in the scope of consolidation. The valuation models adopted by the Parent Company and the other consolidated companies comply with the provisions of IFRS 9 and established market practices for the calculation of 12-month and lifetime Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). A preliminary analysis was carried out to compare the C&M and impairment policies for the financial assets to identify any significant differences and initiate a process of harmonisation and subsequent formulation of Group policies. This analysis did not

identify any discrepancies that could have a significant impact on the measurements in the financial statements.

Business combinations

The transfer of control of a business (or of a group of integrated activities and assets, conducted and managed as a unit) constitutes a business combination, which is governed by IFRS 3.

To this end, control is considered transferred when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

IFRS 3 requires an acquirer to be identified for all business combinations. The acquirer must be identified as the entity that obtains control over a controlled entity in accordance with the definition of control described above, as for example in the case of transactions involving the exchange of equity interests. The acquirer must be identified using other factors such as the entity whose fair value is significantly higher, the entity that pays any cash consideration, or the entity that issues the new shares.

The acquisition, and therefore the initial consolidation of the acquiree, must be recognised on the date on which the acquirer effectively obtains control of the company or business acquired. When this is achieved through a single exchange transaction, the date of exchange usually the same as the acquisition date.

However, it is always necessary to check whether there are any agreements between the parties that may result in a transfer of control prior to the exchange date.

The consideration transferred as part of a business combination must be determined as the aggregate of the fair values, at the exchange date, of assets sold, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for the control.

In transactions involving payment in cash (or when payment is envisaged using financial instruments similar to cash), the price is the agreed consideration, discounted where necessary if the payment is due in instalments over a period longer than the

short term. If payment is made through an instrument other than cash, i.e. by issuing equity instruments, the price is the fair value of the means of payment less costs directly attributable to the equity issuance transaction. Details of the methods used to determine the fair value of the financial instruments are provided in the section “Fair value disclosures”, however, for shares listed on active markets, the fair value is the stock market price at the acquisition date or, where absent, the latest available price.

Adjustments contingent on future events are included in the consideration for the business combination at the acquisition date if they are envisaged in the agreements and only if they are likely, can be reliably measured and are made within twelve months from the date of acquisition of control, while compensation for impairment of assets used is not considered because it is already included either in the fair value of the equity instruments or as a reduction in the premium or an increase in the discount on the initial issuance in the case of debt instruments.

Acquisition-related costs are the costs that the acquirer incurs to complete the business combination. These include for example professional fees paid to auditors, appraisers, legal advisors, costs for appraisals and audits, preparation of required disclosures, as well as consultancy fees incurred to identify potential targets to be acquired, where it is contractually agreed that payment shall be made only if the business combination is successful, and the costs of registering and issuing debt or equity securities.

The acquirer must recognise acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, except for the costs for the issuance of debt or equity securities which must be recognised in accordance with IAS 32 and IFRS 9.

Business combinations are recognised using the “acquisition method”, according to which the identifiable assets acquired (including any intangible assets not previously recognised by the acquiree) and the identifiable liabilities assumed (including contingent liabilities) must be recognised at their respective fair values at the acquisition date.

If the consideration transferred (consisting of the fair value of the assets transferred, the liabilities incurred or the equity instruments issued by the acquirer), plus the value of non-controlling interests (determined as described above) and the fair value of the interests already held by the acquirer where applicable, exceeds the fair value of the

assets and liabilities acquired, the difference must be recorded as goodwill. If, on the other hand, the assets and liabilities acquired are higher than the sum of the consideration, the non-controlling interests and the fair value of the interests already held, the difference must be recognised through profit or loss.

The business combination may be provisionally recognised the end of the year in which the combination takes place and must be completed within twelve months of the acquisition date.

The provisional effects of the purchase price allocation available at the date of approval of these consolidated financial statements have been recognised. This process will continue until 15 October 2021 (one year from the acquisition of control) and the final outcomes will be reflected in the 2021 financial statements as an adjustment to the 2020 figure.

Separate accounting

The Parent Company manages Public Funds and the provision of services related to them is governed by contracts signed with the Public Administrations. Management of the related resources is recorded in separate accounts, reported annually to the Public Administrations.

A.3 DISCLOSURE ON TRANSFERS BETWEEN FINANCIAL ASSET PORTFOLIOS

Since the adoption of IFRS 9, the Mediocredito Centrale Group has not made any changes to the business model for the management of its financial assets and consequently there have been no transfers between portfolios of financial assets.

In accordance with the general rules set out in IFRS 9 on the reclassification of financial assets (except for equity securities, for which no reclassification is permitted), reclassifications to other categories of financial assets are not permitted unless the entity changes the business model for their management. Such changes are expected to be highly infrequent and must be determined by management as a result of significant external or internal changes that can be demonstrated to external parties.

A.3.1 Reclassified financial assets: change in business model, carrying amount, and interest income

No disclosure is required because there are no reclassified financial assets recognised as balance sheet assets.

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

No disclosure is required because there were no transfers between portfolios of financial assets in 2020.

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

No disclosure is required because there are no reclassified financial assets recognised as balance sheet assets.

A.4 DISCLOSURE ON FAIR VALUE

Qualitative information

Fair value represents the price at which an asset can be exchanged, or a liability extinguished, between aware and willing parties, in an orderly transaction at arm's length conditions. In essence, fair value is a criterion that assumes that the entity is carrying on its business normally with no intention to liquidate its assets or to carry out transactions at unfavourable conditions. For financial instruments the fair value is determined according to a hierarchy of criteria in relation to the type and quality of the information used. More specifically three different input levels are identified according to whether the prices for the measurements:

- are represented by prices for identical assets and liabilities on active markets to which the entity has access;
- or are observable directly or indirectly;
- or, lastly, not observable.

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

A financial instrument is classified in levels 2 and 3 when there are no quoted prices in active markets. In such case, fair value is measured using prices obtained from financial markets for instruments listed on active markets or using internal measurement models for other financial instruments.

Where there are no quotations in an active market or where there is no regular market, the fair value is mainly determined using measurement techniques aimed at establishing the price of a hypothetical independent transaction, driven by normal market factors. These measurements include:

- reference to market values indirectly linked to the instrument to be measured and inferred from similar products due to their risk characteristics;
- measurements made using inputs – also only in part – that are not derived from observable market parameters, for which estimates and assumptions made by the valuer are used.

A.4.2 Measurement processes and sensitivities

The measurement of fair value classified as Level 3, also for accounting purposes, for all financial assets and liabilities is carried out by the specific internal functions of the Group Companies, as well as the sensitivity analysis for the financial assets and liabilities measured at Level 3 fair value, which can be performed based on the measurement model adopted.

A.4.3 Fair value hierarchy

With regard to the breakdown of portfolios according to fair value hierarchies, there are three separate levels:

- the fair value of the financial instrument is level 1 in the case of instruments listed on active markets which allow reliable use of market prices for their measurement;
- the fair value of the financial instrument is level 2 in the case of instruments not listed on active markets, whose fair value can, however, be determined by means of valuation models based on market prices;
- the fair value of the financial instrument is level 3 in the case of instruments not listed on active markets whose fair value cannot be determined by means of valuation models based on market prices.

Transfers between different levels of fair value only occur when the markets adopted for the quotations used to determine the fair value are closed or provide quotations for the financial instruments measured that are no longer significant due to the absence of trading, or lack of market liquidity. In such cases, full information is given on the date of the event and the related reasons, describing the measurement models adopted (mark to model) in line with the generally accepted methods.

A.4.4 Other information

The Group has not taken advantage of the exception provided by paragraph 48 of IFRS 13 (fair value based on net position) for financial assets and liabilities with positions that offset each other with respect to market risk or counterparty risk.

Qualitative information

A.4.5 Fair value hierarchy

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

Assets/financial liabilities carried at fair value	31/12/2020		
	L1	L2	L3
1. Financial assets measured at fair value through profit and loss	9	59	105,119
a) financial assets held for trading	9	59	4,115
b) financial assets designated at fair value	-	-	-
c) other financial assets mandatorily measured at fair value	-	-	101,004
2. Financial assets measured at fair value through other comprehensive income	969,918	-	82,873
3. Hedging derivatives	-	90,202	-
4. Property, plant and equipment	-	-	-
5. Intangible assets	-	-	-
Total	969,927	90,261	187,992
1. Financial liabilities held for trading	-	29,944	-
2. Financial liabilities designated at fair value	-	-	-
3. Hedging derivatives	-	-	-
Total	-	29,944	-

Key:

L1 = Level 1

L2 = Level2

L3 = Level3

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

	Financial assets measured at fair value through profit and loss				Financial assets measured at fair value through other comprehensive income
	Total	of which: a) financial assets held for trading	of which: b) financial assets designated at fair value	of which: c) other financial assets mandatorily measured at fair value	
1. Opening balance	107,200	4,115	-	103,085	79,310
2. Increases	623	-	-	623	323
2.1. Purchases	2	-	-	2	3
2.2. Profits recognised in:	336	-	-	336	-
2.2.1. Income Statement	336	-	-	336	-
- of which capital gains	323	-	-	323	-
2.2.2. Shareholders' equity	-	X	X	X	-
2.3. Transfers from other levels	-	-	-	-	-
2.4. Other increases	285	-	-	285	-
3. Decreases	2,655	-	-	2,655	82
3.1. Sales	-	-	-	-	-
3.2. Redemptions	323	-	-	323	-
3.3. Losses recognised in:	501	-	-	501	-
3.3.1. Income Statement	501	-	-	501	-
- of which capital losses	500	-	-	500	-
3.3.2. Shareholders' equity	-	X	X	X	-
3.4. Transfers from other levels	-	-	-	-	-
3.5. Other decreases	1,831	-	-	1,831	-
4. Closing balance	105,168	4,115	-	101,053	82

A.4.5.4 Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	31/12/2020		
	CA	L1	
1. Financial assets measured at amortised cost	12,664,764	1,773,659	
2. Property, plant and equipment held for investment	5,277	-	
3. Non-current assets and disposal groups held for sale	0	0	
Total	12,670,041	1,773,659	
1. Financial liabilities measured at amortised cost	13,193,729	-	
2. Liabilities associated with assets held for sale	-	-	
Total	13,193,729	-	

Key:

CA = Carrying amount

L1 = Level 1

L2 = Level2

L3 = Level 3

A.5 - INFORMATION ON “DAY ONE PROFIT/LOSS”

The carrying amount of the financial instruments is equal to their fair value on the same date. For financial instruments other than those measured at fair value through profit or loss, the carrying amount at the recognition date is normally assumed to be equal to the amount received or paid.

For financial instruments measured at fair value through profit or loss and classifiable as Level 3, any difference compared to the amount received or paid may in principle be recognised in profit or loss in the relevant line items, generating a “day one profit/loss” (DOP). This difference should only be recognised through profit or loss if it arises from changes in the factors on which market participants base their valuations in setting prices (including the time effect). Where the instrument has a defined maturity and no model is readily available to monitor changes in the factors on which market participants base their prices, the DOP may be transferred to profit or loss over the life of the financial instrument.

The Group has not realised any “day one profit/loss” from financial instruments in accordance with paragraph 28 of IFRS 7 and other related IAS/IFRS paragraphs.

Part B - Information on the consolidated balance sheet

Assets

Section 1 - Cash and cash equivalents - Item 10

1.1 Cash and cash equivalents: breakdown

	Total 31/12/2020
a) Cash on hand	108,129
b) Demand deposits with Central Banks	111
Total	108,240

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

2.1 Financial assets held for trading: breakdown by type

Item/Amount	Total 31/12/2020		
	L1	L2	L3
A. Financial assets (non-derivatives)			
1. Debt securities	6	-	1
1.1 Structured securities	-	-	-
1.2 Other debt securities	6	-	1
2. Equity instruments	3	-	4,114
3. Units in collective investment undertakings	-	-	-
4. Loans	-	-	-
4.1 Repurchase agreements	-	-	-
4.2 Other	-	-	-
Total (A)	9	-	4,115
B. Derivative instruments	-	-	-
1. Financial derivatives	-	59	-
1.1 trading	-	59	-
1.2 related to the fair value option	-	-	-
1.3 other	-	-	-
2. Credit derivatives	-	-	-
2.1 trading	-	-	-
2.2 related to the fair value option	-	-	-
2.3 other	-	-	-
Total (B)	-	59	-
Total (A+B)	9	59	4,115

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

Item/Amount	Total 31/12/2020
A. Financial assets (non-derivatives)	
1. Debt securities	7
a) Central Banks	-
b) Governments and other Public Sector Entities	4
c) Banks	-
d) Other financial companies	2
of which: insurance companies	-
e) Non-financial companies	1
2. Equity instruments	4,118
a) Banks	4,035
b) Other financial companies	79
of which: insurance companies	-
c) Non-financial companies	4
d) Other issuers	-
3. Units in collective investment undertakings	-
4. Loans	-
a) Central Banks	-
b) Governments and other Public Sector Entities	-
c) Banks	-
d) Other financial companies	-
of which: insurance companies	-
e) Non-financial companies	-
f) Households	-
Total (A)	4,125
B. Derivative instruments	
a) Central counterparties	-
b) Other	59
Total (B)	59
Total (A+B)	4,182

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

Item/Amount	Total 31/12/2020		
	L1	L2	L3
1. Debt Securities	0	0	7,415
1.1 Structured securities	-	-	-
1.2 Other debt securities	-	-	7,415
2. Equity instruments	-	-	-
3. Units in collective investment undertakings	-	-	93,589
4. Loans	-	-	-
4.1 Repurchase agreements	-	-	-
4.2 Other	-	-	-
Total	-	-	101,004

Key:

L1 = Level 1

L2 = Level2

L3 = Level 3

The amount for debt securities consists solely of exposures to corporate issuers.

The amount for units in collective investment undertakings consists of i) €14.7 million for reserved securities funds, ii) €55.3 million for closed-end real estate funds and iii) €23.9 million for private equity and private debt funds.

These funds do not qualify for consolidation in accordance with IFRS 10.

2.6 Other financial assets mandatorily measured at fair value: breakdown by borrower/issuer

	Total 31/12/2020
1. Equity instruments	-
of which: banks	-
of which: other financial companies	-
of which: non-financial companies	-
2. Debt Securities	7,415
a) Central Banks	-
b) Governments and other Public Sector Entities	-
c) Banks	-
d) Other financial companies	7,415
of which: insurance companies	-
e) Non-financial companies	-
3. Units in collective investment undertakings	93,589
4. Loans and advances	-
a) Central Banks	-
b) Governments and other Public Sector Entities	-
c) Banks	-
d) Other financial companies	-
of which: insurance companies	-
e) Non-financial companies	-
f) Households	-
Total	101,004

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

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

Item/Amount	Total 31/12/2020		
	L1	L2	L3
1. Debt Securities	961,565	0	0
1.1 Structured securities	-	-	-
1.2 Other debt securities	961,565	-	-
2. Equity instruments	8,353	-	82,873
3. Loans	-	-	-
Total	969,918	-	82,873

Key:

L1 = Level 1

L2 = Level2

L3 = Level 3

The amount for debt securities consists of €962 million of exposure to the Italian Government.

The equity securities consist of non-controlling interests in listed and unlisted financial and non-financial companies.

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

Item/Amount	Total 31/12/2020
1. Debt securities	961,565
a) Central Banks	-
b) Governments and other Public Sector Entities	961,565
c) Banks	-
d) Other financial companies	-
of which: insurance companies	-
e) Non-financial companies	-
2. Equity instruments	91,225
a) Banks	9,000
b) Other issuers:	82,225
- other financial companies	5,322
of which: insurance companies	4,468
- non-financial companies	76,903
- other	-
3. Loans	-
a) Central Banks	-
b) Governments and other Public Sector Entities	-
c) Banks	-
d) Other financial companies	-
of which: insurance companies	-
e) Non-financial companies	-
f) Households	-
Total	1,052,790

The sub-item “Equity securities”, b) “Other issuers – non-financial companies” at 31 December 2020 included the non-controlling interest in the IT outsourcer Cedacri SpA.

3.3 Financial assets measured at fair value through other comprehensive income: gross value and total value adjustments

	Gross value				Total value adjustments			Total partial write-offs*
	Stage 1	of which: instruments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	962,635	962,635	-	-	1,070	-	-	-
Loans and advances	-	-	-	-	-	-	-	-
Total 31/12/2020	962,635	962,635	-	-	1,070	-	-	-
of which: purchased or originated credit-impaired financial assets	X	X	-	-	X	-	-	-

* Values to be shown for informational purposes

Section 4 - Financial assets measured at amortised cost - Item 40

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

Type of transaction/Amount	Total 31/12/2020					
	Carrying amount			Fair value		
	Stage one and two	Stage 3	of which: purchased or originated impaired	L1	L2	L3
A. Loan and advances to Central Banks	2,346,632	-	-	-	2,346,632	-
1. Time deposits	-	-	-	X	X	X
2. Mandatory reserve	2,346,632	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X
4. Other	-	-	-	X	X	X
B. Loan and advances to banks	141,491	-	-	355	-	144,642
1. Loans	132,264	-	-	355	-	131,910
1.1 Current accounts and demand deposits	94,838	-	-	X	X	X
1.2. Time deposits	15,978	-	-	X	X	X
1.3. Other loans and advances:	21,448	-	-	X	X	X
- Reverse repurchase agreements	-	-	-	X	X	X
- Lease loans	-	-	-	X	X	X
- Other	21,448	-	-	X	X	X
2. Debt securities	9,227	-	-	-	-	12,732
2.1 Structured securities	-	-	-	-	-	-
2.2 Other debt securities	9,227	-	-	-	-	12,732
Total	2,488,124	-	-	355	2,346,632	144,642

Key:

L1 = Level 1

L2 = Level2

The sub-item Debt securities includes the Tier II subordinated bond loan 2019-2029 issued by Banca Carige, subscribed by MCC for a nominal value of €12 million (IT0005389934 – series 645).

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

Type of transaction/Amount	Total 31/12/2020					
	Carrying amount			Fair value		
	Stage one and two	Stage 3	of which: purchased or originated impaired	L1	L2	L3
1. Loans	7,722,405	237,699	150,421	-	-	8,887,752
1.1. Current accounts	357,965	49,177	28,996	X	X	X
1.2. Reverse repurchase agreements	-	-	-	X	X	X
1.3. Mortgage loans	5,758,820	146,566	92,202	X	X	X
1.4. Credit cards, personal loans and salary-backed loans	38,304	1,665	665	X	X	X
1.5 Lease loans	6,001	7,911	8,530	X	X	X
1.6. Factoring	63,637	-	-	X	X	X
1.7. Other loans	1,497,678	32,380	20,028	X	X	X
2. Debt securities	2,216,534	-	-	1,773,304	-	453,507
2.1. Structured securities	-	-	-	-	-	-
2.2. Other debt securities	2,216,534	-	-	1,773,304	-	453,507
Total	9,938,939	237,699	150,421	1,773,304	-	9,341,259

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

4.3 Financial assets measured at amortised cost: breakdown of amounts due from customers by borrower/issuer

Type of transaction/Amount	Total 31/12/2020		
	Stage one and two	Stage 3	of which: acquired or originated impaired assets
1. Debt securities	2,216,535	0	0
a) Governments and other Public Sector Entities	1,760,434	-	-
b) Other financial companies	449,452	-	-
of which: insurance companies	-	-	-
c) Non-financial companies	6,649	-	-
2. Loans to:	7,722,406	237,696	150,420
a) Governments and other Public Sector Entities	239,488	-	-
b) Other financial companies	224,854	6,964	5,100
of which: insurance companies	4,877	-	-
c) Non-financial companies	3,921,523	131,394	95,971
d) Households	3,336,541	99,338	49,349
Total	9,938,941	237,696	150,420

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

	Gross value				Total value adjustments			Total partial write-offs (*)
	Stage 1	of which: instruments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt	2,228,125	2,101,562	3,090	-	5,112	343	-	-
Loans	8,997,419	-	1,284,724	555,534	33,980	46,859	317,836	9,786
Total 31/12/2020	11,225,544	2,101,562	1,287,814	555,534	39,092	47,202	317,836	9,786
of which: purchased or originated credit-impaired financial assets	X	-	-	404,910	-	-	254,491	6,548

(*) Values to be shown for information purposes

4.4a Loans measured at amortised cost subject to Covid-19 support measures: gross value and total value adjustments

	Gross value				Total value adjustments			Total partial write-offs*
	Stage 1	of which: instruments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
1. EBA-compliant moratoria loans and advances	932,438	146,658	262,730	17,809	4,484	8,913	5,760	-
2. Other loans and advances with Covid-19 related forbearance	-	-	-	386	-	-	85	-
3. Newly originated loans and advances	557,075	-	76,446	611	852	1,859	77	-
Total 31/12/2020	1,489,513	146,658	339,176	18,806	5,336	10,772	5,922	-

Section 5 - Hedging derivatives - Item 50

5.1 Hedging derivatives: breakdown according to type of hedge and level

	Fair Value 31/12/2020			NV 31/12/2020
	L1	L2	L3	
A. Financial derivatives				
1. Fair value	-	90,202	-	460,471
2. Cash flows	-	-	-	-
3. Net investment in foreign Subsidiaries	-	-	-	-
B. Credit derivatives				
1. Fair value	-	-	-	-
2. Cash flows	-	-	-	-
Total	-	90,202	-	460,471

Key:

NV = notional value

L1 = Level 1

L2 = Level2

L3 = Level 3

Hedging derivatives are all related to funding obtained through bond issues by the Parent Company.

5.2 Hedging derivatives: breakdown according to portfolios hedged and type of hedge

Transaction/Type of hedge	Fair Value							Cash flows		Foreign Investments
	Micro						Macro	Micro	Macro	
	debt securities and interest rates	equity securities and equity indices	currencies and gold	loans and receivables	commodities	other				
1. Financial assets measured at fair value through other comprehensive income	-	-	-	-	X	X	X	-	X	X
2. Financial assets measured at amortised cost	-	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	-	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	-	-	-	-	-	-	-	-	-	-
1. Financial liabilities	90,202	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	90,202	-	-	-	-	-	-	-	-	-
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	X	-	X	-	-

Section 7 - Equity investments - Item 70

7.1 Equity investments: information on equity investment relationships

	Name	Registered office	Operating office	% Held	Available votes %
A.	Jointly controlled companies	0	0		
B.	Companies subject to significant influence	0	0		
	Istituto della Enciclopedia Italiana fondata da Giovanni Treccani S.p.A.	Rome, Piazza dell'Enciclopedia 4	Rome, Piazza dell'Enciclopedia 4	0.73	

7.4 Insignificant equity investments: accounting information

	Name	Carrying amount of the equity investments	Total assets	Total liabilities	Total revenues	Profit (Loss) from continuing operations after tax	Profit (loss) on discontinued operations after tax	Profit (loss) for the year (1)	Other income components after tax (2)	Comprehensive income (3)=(1)+(2)
A.	Jointly controlled companies									
B.	Companies subject to significant influence									
	Istituto della Enciclopedia Italiana fondato da Giovanni Treccani S.p.A.	564	211,092	134,867	57,928	(8,386)		(4,488)		(4,488)

The figures shown in the table refer to the most recently approved financial statements (31.12.2020) and, based on the information available, there is no evidence of impairment.

7.5 Equity investments: annual changes

	Total 31/12/2020
A. Opening balance	600
B. Increases	-
B.1 Purchases	-
- of which business combinations	-
B.2 Write-backs	-
B.3 Revaluations	-
B.4 Other changes	-
C. Decreases	36
C.1 Sales	-
- of which business combinations	-
C.2 Write-downs	-
C.3 Impairment	36
C.4 Other changes	-
D. Closing balance	564
E. Total revaluations	-
F. Total write-downs	36

Section 9 - Property, plant and equipment - Item 90

9.1 Property, plant and equipment for business use: breakdown of assets carried at cost

Item/Amount	Total 31/12/2020
1. Owned assets	132,493
a) land	69,746
b) buildings	53,216
c) furniture and fixtures	3,803
d) electronic equipment	1,847
e) other	3,881
2. Rights of use of assets acquired with leasing	55,881
a) land	-
b) buildings	54,660
c) furniture and fixtures	-
d) electronic equipment	-
e) other	1,221
Total	188,374
of which: obtained through the enforcement of guarantees received	-

9.2 Property, plant and equipment held for investment: breakdown of assets carried at cost

Item/Amount	Total 31/12/2020			
	Carrying amount	Fair value		
		L1	L2	L3
1. Owned assets	5,277	-	-	8,225
a) land	2,212	-	-	2,339
b) buildings	3,065	-	-	5,886
2. Rights of use of assets acquired with leasing	-	-	-	-
a) land	-	-	-	-
b) buildings	-	-	-	-
Total	5,277	-	-	8,225
of which: obtained through the enforcement of guarantees received	-	-	-	-

Key:

L1= Level 1

L2= Level 2

L3= Level 3

9.6 Property, plant and equipment for business use: annual changes

	Land	Buildings	Furniture	Electronic equipment	Other	Total
A. Gross opening balance	-	18,535	1,632	384	777	21,777
A.1 Total net reduction in value	-	(858)	(1,442)	(653)	(570)	(3,524)
A.2 Net opening balance	-	17,677	3,927	181	206	18,253
B. Increases:	69,747	97,093	3,835	1,986	5,442	178,104
B.1 Purchases	67,755	88,916	3,777	1,489	5,121	168,059
- of which business combinations	67,755	88,311	3,737	1,373	4,845	167,022
B.2 Capitalised improvement costs	-	12	2	404	8	426
B.3 Write-backs	-	-	-	-	-	-
B.4 Increases in fair value	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Transfers from properties held for investment	-	-	X	X	X	-
B.7 Other changes	992	8,165	56	93	313	9,619
C. Decreases:	1	6,894	222	320	547	7,984
C.1 Disposals	-	-	-	-	-	-
- of which business combinations	-	-	-	-	-	-
C.2 Depreciation	-	4,073	222	319	537	5,151
C.3 Impairment losses	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.4 Reduction of fair value	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-

a) property, plant and equipment held for investment	-	-	X	X	X	-
b) non-current assets and disposal groups held for sale	-	-	-	-	-	-
C.7 Other changes	1	2,821	-	1	10	2,833
D. Net final balance	69,746	107,876	3,803	1,847	5,101	188,373
D.1 Total net reduction in value	1	7,752	1,664	973	1,115	11,506
D.2 Gross closing balance	69,747	115,628	5,467	2,820	6,218	199,881
E. Carried at cost	-	-	-	-	-	-

9.7 Property, plant and equipment held for investment: annual change

	Total	
	Land	Buildings
A. Opening balance	-	-
B. Increases	2,212	3,115
B.1 Purchases	-	-
- of which business combinations	1,984	2,424
B.2 Capitalised improvement costs	-	-
B.3 Positive fair value changes	-	-
B.4 Increases in fair value	-	-
B.5 Positive exchange differences	-	-
B.6 Transfers from properties held for business use	-	-
B.7 Other changes	228	691
C. Decreases	-	50
C.1 Disposals	-	-
- of which business combinations	-	-
C.2 Depreciation	-	50
C.3 Impairment losses	-	-
C.4 Reduction of fair value	-	-
C.5 Negative exchange differences	-	-
C.6 Transfers to:	-	-
a) properties for business use	-	-
b) non-current assets and disposal groups held for sale	-	-
C.7 Other changes	-	-
D. Net final balance	2,212	3,065
E. Fair value measurement	(1,827)	(3,614)

Section 10 - Intangible assets - Item 100

10.1 Intangible assets: breakdown by type of asset

Item/Amount	Total 31/12/2020	
	Finite life	Indefinite life
A.1 Goodwill	X	-
A.1.1 attributable to the group	X	-
A.1.2 Minority interests	X	-
A.2 Other intangible assets	3,439	-
A.2.1 Assets measured at cost:	3,439	-
a) intangible assets generated internally	-	-
b) other assets	3,439	-
A.2.2 Assets measured at fair value:	-	-
a) intangible assets generated internally	-	-
b) other assets	-	-
Total	3,439	-

10.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: internally generated		Other intangible assets: other		Total
		FIN	INDEF	FIN	INDEF	
A. Opening balance	-	-	-	3,880	-	3,880
A.1 Total net reduction in value	-	-	-	(1,967)	-	(1,967)
A.2 Net opening balance	-	-	-	1,913	-	1,913
B. Increases	-	-	-	3,078	-	3,078
B.1 Purchases	-	-	-	1,515	-	1,515
- of which business combinations	-	-	-	1,498	-	1,498

B.2 Increases in internal intangible assets	X	-	-	1,072	-	1,072
B.3 Write-backs	X	-	-	-	-	-
B.4 Increases in fair value		-	-	-	-	-
- in shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
B.5 Positive exchange differences		-	-	-	-	-
B.6 Other changes		-	-	491	-	491
C. Decreases		-	-	1,553	-	1,553
C.1 Disposals		-	-	-	-	-
- of which business combinations		-	-	-	-	-
C.2 Value adjustments		-	-	1,184	-	1,184
- Amortisation	X	-	-	1,184	-	1,184
- Impairment		-	-	-	-	-
+ shareholders' equity	X	-	-	-	-	-
+ income statement		-	-	-	-	-
C.3 Impairment losses:		-	-	-	-	-
- in shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
C.4 Reduction of fair value		-	-	-	-	-
C.5 Negative exchange differences		-	-	-	-	-
C.6 Other changes		-	-	369	-	369
D. Net final balance		-	-	3,438	-	3,439
D.1 Total net reduction in value		-	-	3,520	-	3,520
E. Gross closing balance		-	-	6,958	-	6,958
F. Carried at cost		-	-	-	-	-

Key:

FIN = Finite life

INDEF = Indefinite life

Section 11- Tax assets and liabilities - Asset Item 110 and Liability Item 60

11.1 Deferred tax assets: breakdown

	Total 31/12/2020
A. Deferred tax assets recognised through profit and loss	298,579
- Impairment on loans	73,338
- Tax loss	43,912
- Deductibility in fifths contrib. from former Tercas voluntary scheme	14,575
-Relief on goodwill and intangible assets pursuant to Article 15 Leg. Dec. No. 185/08	27,026
-Provisions for risks and charges	26,284
-Goodwill	3,277
-Relief on goodwill from Gr. Tercas merger	4,293
-ACE (aid to economic growth)	9,625
-FTA IFRS 9	20,258
-Other on real estate	756
- Business combinations	69,315
-Other	5,919
B. Deferred tax assets recognised in equity	4,024
-for capital losses on available-for-sale securities	2,052
-for staff benefits	1,972
-other	-
Total deferred tax assets	302,603

11.2 Deferred tax liabilities: breakdown

	Total 31/12/2020
A. Deferred tax liabilities recognised through profit and loss	
-Properties value adjustment	5,629
-Interest on arrears	-
- Provisions at present value	222
-Other	58
- Business combinations	5,142
Total in income statement	11,051
	-
B. Deferred tax liabilities recognised in equity	-
-other financial instruments	4,647
-other assets/liabilities	103
Total in shareholders' equity	4,750
	-
Total Deferred tax liabilities	15,801

11.3 Changes in deferred tax assets (balancing entry in the income statement)

	Total 31/12/2020
1. Opening balance	10,327
2. Increases	316,117
2.1 Deferred tax assets recognised during the year	38,374
a) relating to previous years	-
b) due to change in accounting policies	-
c) write-backs	23,333
d) other	15,041
2.2 New taxes or increases in tax rates	-
2.3 Other increases	-
2.4 Business combinations	277,743
3. Decreases	27,865
3.1 Deferred tax assets derecognised in the year	27,865
a) reversals	27,865
b) write-downs due to non-recoverability	-
c) change in accounting policies	-
d) other	-
3.2 Reductions in tax rates	-
3.3 Other decreases:	-
a) transformation into tax credits pursuant to Law No. 214/2011	-
b) other	-
4. Closing balance	298,579

11.4 Changes in deferred tax assets pursuant to Law 214/2011

	Total 31/12/2020
1. Opening balance	5,436
2. Increases	93,135
3. Decreases	750
3.1 Reversals	750
3.2 Transformation into tax credits	-
a) deriving from losses for the year	-
b) deriving from tax losses	-
3.3 Other decreases	-
4. Closing balance	97,821

11.5 Changes in deferred liabilities (balancing entry in the income statement)

	Total 31/12/2020
1. Opening balance	-
2. Increases	11,073
2.1 Deferred tax liabilities recognised in the year	-
a) relating to previous years	-
b) due to change in accounting policies	-
c) other	-
2.2 New taxes or increases in tax rates	-
2.3 Other increases	-
2.4 Business combinations	11,073
3. Decreases	22
3.1 Deferred tax liabilities derecognised in the year	22
a) reversals	22
b) due to change in accounting policies	-
c) other	-
3.2 Reductions in tax rates	-
3.3 Other decreases	-
4. Closing balance	11,051

11.6 Changes in deferred tax assets (recognised in shareholders' equity)

	Total 31/12/2020
1. Opening balance	2,054
2. Increases	3,496
2.1 Deferred tax assets recognised during the year	89
a) relating to previous years	-
b) due to change in accounting policies	-
c) other	89
2.2 New taxes or increases in tax rates	-
2.3 Other increases	3,407
3. Decreases	1,525
3.1 Deferred tax assets derecognised in the year	1,521
a) reversals	1,521
b) write-downs due to non-recoverability	-
c) due to change in accounting policies	-
d) other	-
3.2 Reductions in tax rates	-
3.3 Other decreases	3
4. Closing balance	4,024

11.7 Changes in deferred tax liabilities (recognised in shareholders' equity)

	Total 31/12/2020
1. Opening balance	83
2. Increases	7,163
2.1 Deferred tax liabilities recognised in the year	-
a) relating to previous years	-
b) due to change in accounting policies	-
c) other	3,289
2.2 New taxes or increases in tax rates	-
2.3 Other increases	3,874
3. Decreases	2,496
3.1 Deferred tax liabilities derecognised in the year	2,496
a) reversals	15
b) due to change in accounting policies	-
c) other	2,481
3.2 Reductions in tax rates	-
3.3 Other decreases	-
4. Closing balance	4,750

11.8 Other information

Probability test pursuant to IAS 12 on deferred taxation

At 31 December 2020, the Group had deferred tax assets (DTAs) totalling €302.6 million in its balance sheet assets, of which €298.5 million as a balancing entry in the income statement and €4.1 million as a balancing entry in shareholders' equity.

Of these, €97.8 million (respectively €4.7 million for MCC, 84.7 million for BPB and €8.4 million for CRO) fell within the scope of Law No. 214/2011 and were therefore considered "qualified" DTAs, while €53.4 million (respectively €46.4 million for BPB and €7 million for CRO) related to tax losses and ACE (aid to economic growth) surpluses that can be carried forward for offset against income in future years, without time limits. The remaining €151.4 million (€16.5 million

for MCC, €114.6 million for BPB and €20.3 million for CRO, respectively), consisted of other DTAs arising from temporary differences. As a result, for the subsidiaries BPB and CRO, the “qualified” DTAs totalled €93.1 million, while DTAs attributable to tax losses and other deductible temporary differences amounted to €188.3 million.

The Group currently has DTAs dependent on future profitability not recognised in the financial statements of around €576 million, entirely attributable to BP Bari, including around €458 million relating to tax losses, which, based on the results of the probability test carried out in accordance with IAS 12 and the criteria adopted, are not considered recognisable.

A probability test was carried out on the amount of deferred tax assets recognised as assets and referring to tax losses and ACE (aid to economic growth) surpluses, and on those not recognised, to verify whether the forecasts of future profitability are sufficient to guarantee their reabsorption and therefore justify their recognition and maintenance in the financial statements or to verify the existence of the conditions for the recognition of new deferred tax assets.

When the probability test was carried out on the deferred tax assets recognised at 31 December 2020, those resulting from deductible temporary differences relating to write-downs on loans, goodwill and other intangible assets (known as “qualified DTAs”) were considered separately.

For these assets, the system of conversion into tax credits introduced by Article 2, paragraph 55 and following of Decree Law 225/2010, subsequently amended by Article 9, Decree Law 201/2011, converted into Law 214/2011, with effect from the tax period ended 31 December 2011, provided an additional and supplementary method of recovery, which ensures the recovery of qualified deferred tax assets in all circumstances, regardless of the future profitability of the company.

This position was also confirmed in the joint Banca d'Italia, Consob and ISVAP document No. 5 of 15 May 2012 (issued within the coordination group on the application of IAS/IFRS), concerning the “Accounting treatment of deferred tax assets arising from Law No. 214/2011”, according to which, by giving certainty to the recovery of DTAs, the probability test envisaged by IAS 12 is automatically satisfied as a result of the above-mentioned tax rules.

However, with specific regard to the above-mentioned DTAs, their continued convertibility into tax credits is subject to the payment of the fee set out in Decree Law No. 59 of 3 May 2016, converted with amendments into Law No. 119 of 30 June 2016. Law No. 15 of 17 February 2017 converting the “Salva Risparmio” Decree Law (Decree Law No. 237 of 23 December 2016) postponed the period for which the fee is due until 31 December 2030. To ensure the convertibility of DTAs into tax credits and avoid the negative impact that would otherwise have

been generated on shareholders' equity, the Group Banks took up the option by paying the above-mentioned fee.

With regard to the recoverability test, the analysis was carried out, in compliance with IAS 12, considering the provisions of the Italian tax system that impact on the measurement, including:

- the above-mentioned Article 2, paragraphs 55 to 59 of Decree Law No. 225/2010, as amended, concerning the conversion of “qualified” IRES and IRAP DTAs (or the related reversals in the event of tax losses) into tax credits;
- Article 84 of the Consolidated Income Tax Act, which allows for IRES tax losses to be carried forward indefinitely;
- Article 1, paragraph 4, of Decree Law No. 201 of 6 December 2011, converted with amendments by Law No. 214/2011, according to which the ACE (aid to economic growth) surplus not used in the period is carried forward without time limits or, alternatively, can be converted into a tax credit to be used to offset IRAP tax due in five annual instalments;
- Article 1, paragraphs 65-66, of Law No. 208 of 28 December 2015 (2016 Stability Act), which, starting from the tax period underway at 31 December 2017, reduced the ordinary IRES tax rate by 3.5 percentage points, down from 27.5% to 24%. To prevent the distorting effects that the fall in the IRES rate would have had on the regulatory capital of credit and financial institutions, the above-mentioned regulation also introduced a 3.5% IRES tax surcharge for these intermediaries in order to maintain the overall tax rate unchanged at 27.5%.

The following aspects were also taken into account in the recoverability analysis:

- a) IAS 12 does not set a maximum forecasting horizon for taxable income;
- b) the estimates of future taxable income were made using as reference the projections earnings of BPB and CRO for the period 2021-2024 based on the update of the Business Plans approved respectively by the Board of Directors of CRO on 8 February 2021 and the Board of Directors of BPB on 9 February 2021, which adopts the lines of action consistent with the general strategic objectives included in the update of the Business Plan of the Parent Company Mediocredito Centrale.
- c) the projections of taxable income for the years after 2024 up to 2034 have been estimated at a fixed amount, as the taxable income determined for the above-mentioned last year of the Plan, prudentially assuming a zero growth rate beyond the explicit period scenario;

- d) the assumptions of reversal of a significant part of the DTAs from temporary differences subject to verification of recoverability are substantially certain because they are determined in advance by the tax regulations currently in force;
- e) deferred tax liabilities (DTLs), where present, have been offset against DTAs where their offsetting is expected to take place in the same period.

Based on the analyses carried out, also with the aid of a leading external consultant and taking into account the regulatory and other conditions and the aspects described above, it was possible to maintain the DTAs already recognised in the financial statements and carry out a reassessment of the IRES DTAs not previously recognised in the financial statements amounting to €21.8 million (around €11.1 million for prior tax losses and ACE (aid to economic growth) surpluses and around €10.7 million deriving from other temporary differences), envisaging that they would be more than likely to be recovered by 2034.

The analysis substantially confirmed the capacity, also for IRAP tax purposes, to maintain the DTAs already recognised and to recognise off-balance sheet IRAP DTAs of around €1.5 million, whose overall recovery is expected by 2034.

Section 13 - Other assets - Item 130

13.1 Other assets: breakdown

	Total 31/12/2020
-Accrued income and prepayments	3,414
-Third-party bills and outstanding cheques	1,254
-Disputed items not related to lending operations	1,300
-Transitory items with branches	1,333
-Transitory items relating to financial operations	536
-Cheques to be settled	-
-Other transitory items awaiting processing	51,605
-Leasehold improvements and expenses	1,893
-Due from Invitalia	318
-Tax receivables	56,738
-Other	23,157
Total Other assets	141,548

Transitory items “with branches”, “relating to financial operations” and “awaiting processing” derive primarily from processing carried out in the final days of the year and cleared in the initial days of the following year.

Liabilities

Section 1 - Financial liabilities measured at amortised cost - Item 10

1.1 Financial liabilities measured at amortised cost: breakdown by type of amounts due to banks

Type of transaction/Amount	Total 31/12/2020			
	CA	Fair Value		
		L1	L2	L3
1. Due to central banks	3,219,155	X	X	X
2. Due to banks	175,306	X	X	X
2.1 Current accounts and demand deposits	19,944	X	X	X
2.2 Time deposits	-	X	X	X
2.3 Loans and advances	53,183	X	X	X
2.3.1 Repos	29,997	X	X	X
2.3.2 Other	23,186	X	X	X
2.4 Liabilities relating to commitments to repurchase treasury shares	-	X	X	X
2.5 Lease deposits	32	X	X	X
2.6 Other deposits	102,147	X	X	X
Total	3,394,460	-	-	3,402,923

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

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

Type of transaction/Amount	Total 31/12/2020			
	CA	Fair Value		
		L1	L2	L3
1. Current accounts and demand deposits	7,115,759	X	X	X
2. Time deposits	1,322,871	X	X	X
3. Loans	115,471	X	X	X
3.1 Repos	-	X	X	X
3.2 Other	115,471	X	X	X
4. Liabilities relating to commitments to repurchase treasury shares	-	X	X	X
5. Lease deposits	56,807	X	X	X
6. Other deposits	89,136	X	X	X
Total	8,700,045	-	-	8,968,569

Key:

L1 = Level 1

L2 = Level2

L3 = Level3

1.3 Financial liabilities measured at amortised cost: breakdown of securities issued

Type of securities/Amount	Total			
	31/12/2020			
	CA	Fair Value		
		L1	L2	L3
A. Securities				
1. bonds	1,063,201	-	804,052	305,749
1.1 structured	-	-	-	-
1.2 other	1,063,201	-	804,052	305,749
2. other securities	36,024	-	-	36,024
2.1 structured	-	-	-	-
2.2 Other	36,024	-	-	36,024
Total	1,099,224	-	804,052	341,773

Key:

L1 = Level 1

L2 = Level2

L3 = Level3

1.4 Details of debts/subordinated securities

Description	Issue Date	Maturity date	Balance 31/12/2020
Banca Popolare di Bari a Tasso Fisso 6,50% 2014-2021	30/12/2014	30/12/2021	213,471
Banca Popolare di Bari a Tasso Fisso 11,50% 2018-2025	31/12/2018	30/12/2025	15,003
Total			228,474

The non-convertible subordinated loans, all issued by BP Bari, constitute “class 2 instruments” in accordance with European Regulation No. 575 of 2013 (CRR), as defined by the Bank of Italy’s Supervisory Instructions. These loans are governed by a subordination clause according to which, in the event of the Bank’s liquidation, the bonds will be redeemed only after other creditors that are not equally subordinated have been satisfied. All the above loans meet the Bank of Italy’s requirements for inclusion in Tier 2 capital.

1.6 Finance lease liabilities

Time Bands	Total 31/12/2020	
	Payments to be made	
	Finance Leases	Operating Leases
Up to 1 year	-	9,926
1 year to 2 years	-	8,014
2 years to 3 years	-	6,835
3 years to 4 years	-	5,245
4 years to 5 years	-	8,224
More than 5 years	-	18,564
Total lease payments to be made	-	56,808
RECONCILIATION WITH PAYABLES		
Financial income not earned (-) (Discounting effect)	-	-
Lease liabilities	-	56,808

Section 2 - Financial liabilities held for trading - Item 20

2.1 Financial liabilities held for trading: breakdown

Type of transaction/Amount	Total 31/12/2020				
	NV	Fair Value			Fair Value *
		L1	L2	L3	
A. On-balance sheet liabilities					
1. Due to banks	-	-	-	-	-
2. Due to customers	-	-	-	-	-
3. Debt securities	-	-	-	-	-
3.1 Bonds	-	-	-	-	X
3.1.1 Structured	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X
3.2 Other securities	-	-	-	-	X
3.2.1 Structured	-	-	-	-	X
3.2.2 Other	-	-	-	-	X
Total (A)	-	-	-	-	-
B. Derivative instruments					
1. Financial derivatives	-	-	29,944	-	-
1.1 Trading	X	-	29,944	-	X
1.2 Linked to fair value	X	-	-	-	X
1.3 Other	X	-	-	-	X
2. Credit derivatives	X	-	-	-	X
2.1 Trading	X	-	-	-	X
2.2 Linked to fair value	X	-	-	-	X
2.3 Other	X	-	-	-	X
Total (B)	X	-	29,944	-	X
Total (A+B)	X	-	29,944	-	X

Key:

CA = Carrying amount

L1 = Level 1

L2 = Level2

L3 = Level3

Fair value* = Fair value calculated excluding changes in value due to changes in the issuer's credit rating since the issue date

Financial liabilities held for trading amounted to €29.9 million and included the negative fair value of derivative financial instruments used by BPB for hedging purposes. For the purposes of these consolidated financial statements, the hedge accounting relationships in place at BPB

have been discontinued at the date of acquisition of control and will be redesignated, in the event of a positive outcome of the effectiveness tests, in 2021.

Section 6 - Tax liabilities - Item 60

See section 11 of the assets.

Section 8 - Other liabilities - Item 80

8.1 Other liabilities: breakdown

	Total 31/12/2020
-Accrued expenses and deferred income	4,322
-Sums to be paid to the tax authorities	27,149
-Items related to securities and currency transactions	165
-Amounts available for payment to third parties	10,619
-Currency discount on portfolio transactions	55,388
-Transitory items with branches	305
-Fees relating to personnel	4,085
-Contributions to be paid to social security institutions	7,879
- Amounts due to suppliers for invoices received and to be received	42,987
-Amounts to be paid to public bodies on behalf of third parties	8,418
-Other transitory items awaiting processing	87,473
-Due to Invitalia	616
Due to Invitalia for national tax consolidation	16,438
-Security deposits	-
-Tax payables	37
-Other	17,036
Total Other Liabilities	282,917

The transitory items “with branches” and those “awaiting processing” derive primarily from processing carried out in the final days of the year and cleared in the initial days of the following year.

Section 9 – Provision for employee severance pay - Item 90

9.1 Provision for employee severance pay: annual changes

	Total 31/12/2020
A. Opening balance	3,121
B. Increases	41,007
B.1 Provisions for the year	96
B.2 Other increases	40,911
- of which business combinations	40,854
C. Reductions	2,277
C.1 Severance payments	1,764
C.2 Other decreases	513
- of which business combinations	-
D. Closing balance	41,850
Total	41,850

Like defined benefit pension plans, employee severance benefits are a form of employee compensation, with payment deferred until the end of the employment relationship. It accrues in proportion to the duration of the relationship and constitutes an additional component of personnel costs.

The amount of employee severance benefits is recognised in the financial statements on the basis of their actuarial value.

The discounting is carried out using the Projected Unit Credit Method, which involves making projections of future payments based on historical analysis of statistics and the demographic curve and discounting these flows based on market interest rates.

Following the reform of supplementary pensions contained in Legislative Decree No. 252 of December 2005 and brought forward in terms of application by Law No. 296 of 27 December 2006, for enterprises with at least 50 employees, the amounts of employee severance benefits accrued up to 31 December 2006 remained with the company, whilst those accruing from 1 January 2007 have been allocated, at the employee's discretion, to supplementary pension schemes or transferred to the INPS (national social security institute) Treasury Fund.

Employee severance benefits accruing up to 31 December 2006, also after the reform, continue to be treated as defined benefit plans, as envisaged in IAS 19.

For the purposes of IAS 19, the amounts of employee severance benefits accruing from 1 January 2007 are considered a defined contribution plan and their amount therefore is not subject to any actuarial assumptions.

Section 10 - Provisions for risks and charges - Item 100

10.1 Provisions for risks and charges: breakdown

Item/Component	Total 31/12/2020
1. Provisions for credit risks relative to financial commitments and guarantees given	9,118
2. Provisions for other commitments and guarantees given	3,606
3. Company pension funds	6,483
4. Other provisions for risks and charges	286,148
4.1 legal and tax disputes	147,242
4.2 personnel expenses	106,889
4.3 other	32,017
Total	305,356

At 31 December 2020, the sub-item 4.2 “personnel expenses” included the provision of €72 million for BP Bari’s redundancy incentives, relating to the Trade Union Agreement signed with the trade union representatives on 10 June 2020. This item also included the provision for leaving incentives for the Parent Company, amounting to €13 million, aimed at supporting the qualitative and quantitative reorganisation of MCC’s organisational structure.

10.2 Provisions for risks and charges: annual changes

	Provisions for other commitments and guarantees given	Pension funds	Other provisions for risks and charges	Total
A. Opening balance	-	3,323	3,255	6,578
B. Increases	4,982	3,536	291,708	300,226
B.1 Provisions in the year	90	168	42,004	42,262
B.2 Changes due to passage of time	-	-	-	-
B.3 Changes due to changes in discount rate	-	-	-	-
B.4 Other changes	-	3,368	249,704	253,072
- of which business combinations	4,892	3,098	249,704	257,694
C. Decreases	1,376	376	8,814	10,566
C.1 Use during the year	-	356	6,899	7,255
C.2 Changes due to changes in discount rate	-	-	-	-
C.3 Other changes	1,376	20	1,915	3,311
- of which business combinations	-	-	-	-
D. Closing balance	3,606	6,483	286,148	296,238

10.3 Provisions for credit risks relative to financial commitments and guarantees given

	Provisions for credit risks relative to financial commitments and guarantees given			
	Stage 1	Stage 2	Stage 3	Total
Commitments to disburse funds	3,941	4,170	-	8,111
Financial guarantees given	57	137	813	1,007
Total	3,998	4,307	813	9,118

10.4 Provisions for other commitments and other guarantees given

	Provisions for other commitments and guarantees given			
	Stage 1	Stage 2	Stage 3	Total
1. Other Commitments	-	-	-	-
2. Other guarantees given	113	418	3,075	3,606
Total	113	418	3,075	3,606

10.6 Provisions for risks and charges - other provisions

The liability item 100 “Provisions for risks and charges: c) other provisions for risks and charges” in the consolidated financial statements at 31 December 2020 included provisions of €286.1 million (of which €15.9 million for MCC, €247.4 million for BP Bari, €6.3 million for CRO and €16.5 million deriving from the effect of the preliminary results of the purchase price allocation required by IFRS 3, as detailed below), of which €147.2 million for disputes and other in-court and out-of-court legal and tax disputes (of which €0.6 million for MCC, €128 million for BP Bari, €2.2 million for CRO and the remainder deriving from the effects of the purchase price allocation).

Information on major litigation liabilities

Mediocredito Centrale

Specific allocations have been made for a labour lawsuit and three disputes with customers. There are also other disputes with customers and another tax dispute (further information is given below) for which no allocations have been made since at present the cost is unknown and the cases are expected to be won by the Bank.

There were also several other tax disputes and disputes with customers, resulting from agreements with contractual counterparties in extraordinary operations (business unit spin-offs or sales, termination of a series of legal agreements) completed between 1 July 2008 and 1 September 2010 with companies of the UniCredit Group, essentially concerning those companies, although the Bank may still be involved in the proceedings.

Lastly, in relation to subsidies managed by the Bank on the account of public administrations, there are several disputes with no relative provisions, in that any adverse judgements would be payable by the public administrations and therefore sustained through the available balances managed.

Information on contingent liabilities

In December 2011, on conclusion of a general inspection by the Italian Revenue Agency regarding the year 2008, the Bank was served a Report of Findings which challenged the deductibility of the costs incurred in 2008 – for a total of €19.6 million – for transactions concluded for current and potential disputes with the Parmalat Group. In relation to this dispute, following observations sent by the Bank on 29 February 2012, no notification of assessment has been received from the Italian Revenue Agency. The Report of Findings also assessed the Bank as having a taxable income of €16.2 million, pursuant to Article 37 bis of Presidential Decree 600/73, resulting from a reorganisation of the credit recovery sector, realised from the sale by the Bank and other companies of the UniCredit Group of non-performing positions in the factoring and loans segment to a subsidiary of the then parent company UniCredit S.p.A. Following the Report of Findings in 2012 the Lazio Regional Head Office of the Italian Revenue Agency charged the Bank and UniCredit S.p.A., pursuant to Article 37 bis, for deducting losses resulting from the sale of the non-performing positions. An appeal lodged against this charge by UniCredit SpA and the Bank was upheld by the Rome Provincial Tax Commission on 2 October 2014. The Italian Revenue Agency lodged an appeal in May 2015 and the discussion hearing was held on 10 May 2016, with a ruling filed on 13 June, with a favourable outcome as at first instance. On 13 January 2017, the Italian Revenue Agency lodged an appeal with the Court of Cassation. UniCredit, as the consolidating entity, submitted a request for facilitated settlement pursuant to Article 6 of Decree Law No. 119 of 23 October 2018, relative to the proceedings initiated by the bank jointly with MCC, as well as a request to suspend the proceedings until 31 December 2020, made in accordance with paragraph 10 of the aforementioned Article 6. According to the provisions of paragraph 12 of the above-mentioned

Article 6 of Legislative Decree No. 119 of 23 October 2018, the Italian Revenue Agency should have notified any decision to deny the facilitated settlement by 31 July 2020. To date, no such measure has been notified and, therefore, the facilitated settlement procedure must be considered to have been completed with a positive outcome.

These are expenses, obligations and responsibilities that refer to the Corporate Business Unit, already demerged to UCCB SpA (now UniCredit SpA) on 01 September 2010 and they therefore pertain exclusively to the former parent company UniCredit S.p.A..

Banca Popolare di Bari

The bank has exercised the option allowed by IAS 37 paragraph 92 not to provide detailed information on the amount of provisions made in the financial statements for individual risks if this information could seriously jeopardise and/or weaken its position in litigation and/or potential settlements.

The **Receivership of “CE.DI. Puglia Scarl” in liquidation** (now Beneficiaria 67) brought two clawback actions against BP Bari, of which i) one for the relationship already established with the former Nuova Banca Mediterranea (later acquired by BP Bari) with a claim of €32.5 million, and ii) the other for the position held by Banca Popolare di Bari with a claim of €8.4 million. With regard to the progress of the two proceedings, the following is noted:

- i. in relation to the first proceedings mentioned, by ruling of 24 January 2017, the Court of Bari ordered the Bank to pay €4.7 million in favour of the Receiver. In May 2017, the Bank paid the full amount specified in the ruling plus legal fees and interest. In second instance, the Court rejected the appeal lodged by the Bank, ordering it to pay the full amount of €32.5 million. The Bank, supported by legal advice, filed an appeal with the Court of Cassation, arguing that the appeal ruling was flawed in several respects, both procedurally and substantively, because, among other things, it did not take into account the above-mentioned payment of €4.7 million already made. In a ruling dated 12 November 2019, the Court granted the Bank's request for a stay of the appeal ruling;
- ii. with regard to the second proceedings mentioned, by ruling of 8 November 2016, the Court of Bari ordered the Bank to pay €4.4 million in favour of the Receiver. The Bank has appealed this decision. The Court of Appeal first partially suspended the enforceability of the ruling limited to the amount of €1.3 million, and then upheld the first instance ruling at the end of the proceedings. The opposing party first filed a separate appeal with the Court of Cassation against the aforementioned ruling – which made it necessary for the Bank to file a specific counter-appeal – and then filed a counter-appeal against the main appeal filed by the Bank, in which the Bank complained of a number of procedural and substantive flaws in the second instance ruling.

Currently, the hearing date for both proceedings pending before the Court of Cassation has not yet been set. At present, pending the two appeals before the Court of Cassation and considering the payments already made by the Bank to the opposing party, totalling €9.1 million plus legal fees and interest, the Bank, based the opinions issued by the lawyers appointed, has made the respective provisions pursuant to IAS 37, taking into account the amount of the claim and the grounds supporting the Bank in the appeals before the Supreme Court.

With regard to **litigation with Shareholders**, particularly since 2016, several civil law proceedings (mediations and lawsuits) have been initiated concerning the Bank's shares, including those issued in connection with capital increases.

In these proceedings, the main objections to the Bank's actions concern:

- the alleged invalidity of the investment transactions carried out in accordance with Article 23 of Legislative Decree 58/1998 due to the alleged lack of contractual documentation (i.e. in written form);
- the alleged breach of primary and secondary regulatory obligations imposed on financial intermediaries, with particular regard to the alleged lack of or incorrect profiling of investors, as well as the alleged lack of or incomplete information provided to investors on the characteristics and risk profiles of the shares of Banca Popolare di Bari;
- failed or untimely execution of orders to sell shares;
- in a small number of cases, the alleged breach of Article 94 of Legislative Decree 58/1998 in terms of the alleged misrepresentation in the prospectuses relating to the capital increases carried out by the Bank in 2014-2015.

In respect of the claims associated with the outstanding lawsuits amounting to around €80 million at 31 December 2020, a prudent assessment of the risk of adverse outcomes has been made, estimating the provisions in cases where these have been assessed as likely, in accordance with IAS 37 and the Bank's current policy on such matters.

With respect to the above, following the strengthening of the Bank's capital as approved by the Extraordinary Shareholders' Meeting of 29 June 2020, a settlement proposal was formally made to the Shareholders – individuals (including sole proprietors) – who had subscribed to at least one of the capital increases approved and carried out during the 2014 and 2015 financial years and participated in that Extraordinary Shareholders' Meeting. Following this event, the Bank paid out an amount of around €44 million to the Shareholders who accepted the settlement proposal.

The Bank constantly monitors the progress of litigation, also on prospective basis. To this end, it initiated further activities to assess and estimate the potential risk of litigation. As a result, in consideration of the provisions of IAS 37, it has made prudent estimates of provisions in the financial statements in relation to the claims, including out-of-court claims, made to date.

In addition, following the preliminary results of the purchase price allocation, further provisions of €16.5 million have been made in the consolidated financial statements to cover the “possible” risk of adverse outcomes, as required by IFRS 3 for business combinations.

Three criminal proceedings are also currently in progress but still at an early stage (two at the trial stage and one at the preliminary investigation stage) against former corporate officers and/or former directors of the Bank, in which numerous shareholders have decided to bring or may bring an action for damages as a result of alleged offences connected with the performance of the typical functions attributable to the defendants, and may also possibly make a claim of liability on the part of the Bank.

With regard to non-recourse assignments of NPLs, requests for compensation have also been received from the assignees, in accordance with the respective assignment agreements. The assignees have made several claims against the Bank relating to individual assigned relationships with regard to the management of the recovery activities.

The claims made have been formally contested by the Bank. The assignment agreements establish that, if the parties do not reach a fair and satisfactory solution on the compensation claimed, the disputes shall be settled by arbitration by (three) arbitrators appointed in accordance with those rules.

At the reporting date, the Bank estimated provisions in accordance with IAS 37 for these disputes after an internal audit and based whether any liability on the part of the Bank had been actually identified.

By writ of summons dated 5 April 2019, **Naxos SCA Sicav SIF**, a limited partnership with shares under Luxembourg law – classified as an investment company with variable capital – requested the District Court of Luxembourg, specialised in business matters, to (i) ascertain the Bank’s default with respect to the alleged failure to pay the sum of €51.5 million, by virtue of the Bank’s signature of a purchase request (Application Form) for 678,077.682 units of the sub-fund “Naxos SIF Capital Plus I” (“Sub-Fund” and/or “Fund”) created by Naxos SCA Sicav SIF, and, as a consequence, (ii) order the Bank to pay the above-mentioned amount. The Bank submitted its defence through the lawyers originally engaged for the transaction. The District Court of Luxembourg, in its ruling of 6 March 2020, held that the Bank was required to make payment to Naxos SCA Sicav SIF for the units referred to in proceedings in the amount of €51.5 million. The Bank has filed an appeal against the ruling by the Luxembourg judicial authority and, given that the ruling is not immediately enforceable, no payment has been made. The Bank, also based on the opinion of its legal advisors, considers the grounds for the appeal to be well founded on the basis of further arguments made, as well as the subsequent

reconstruction of the events that took place in 2020. The Bank is also confident that it will be recognised that there is no obligation to pay the above-mentioned amount, also due to the current lack of information on the performance and management of the sub-fund by the investment company.

In view of the above and the fact that the appeal filed is still in its preliminary stage, the Bank has, purely on a prudential basis, made an estimate of a provision. However, in accordance with paragraph 92 of IAS 37, the amount of the provision is not being disclosed in view of the current uncertainty and complexity of the supranational proceedings underway, as well as the limited information available to the Bank which could prejudice the outcome.

In December 2018, **Fondazione Cassa di Risparmio di Orvieto** filed a request for arbitration aimed at obtaining i) a declaration of the alleged breach by Banca Popolare di Bari of the agreement entered into on 30 June 2010, under which the Foundation had granted the latter a specific mandate, to be executed upon request and under predetermined conditions, for the sale of its non-controlling interest in Cassa di Risparmio di Orvieto, and ii) the consequent order to pay a contractual penalty of €5 million on the grounds that BP Bari had failed to execute the mandate received, even though in the Foundation's opinion, the conditions for its execution existed. The Bank, supported by legal advice, duly filed an appearance invoking the termination of the sale mandate agreement in question and pointing out, in particular, the significant change in the banking stock market, which had rendered the service objectively impossible due to the excessive burdens that had emerged, and challenging the basis of the Foundation's claim on several grounds. In the course of the proceedings, a technical expert report was filed on 19 October 2020, requested by the Bank and admitted by the Arbitration Board. By order dated 4 November 2020, the deadline for filing the award was extended until 31 May 2021. The parties then filed their respective final pleadings. At the hearing of 3 February 2021, the final discussion took place, at the end of which the Arbitration Board reserved judgement on the dispute.

Based on the legal analysis carried out and the findings of the above-mentioned technical expert report, the Bank believes that there are valid grounds to support its position, and appropriate allowances have been made in the provision for risks and charges to cover the estimated residual risks.

The Extraordinary Shareholders' Meeting of **Banca Tercas S.p.A.** (then in Special Administration and subsequently merged into BP Bari) of 29 July 2014, as part of the overall rescue operation for that bank, approved, among other things, the zeroing of the share capital, by cancelling the shares, to partially cover the considerable losses accrued up to that date. This generated disputes from former shareholders of the bank. In relation to these disputes, the arguments put forward by the claimants are mainly based on the alleged violation by Banca Tercas S.p.A. of its obligations of diligence, correctness and transparency of information, and

in terms of assessing the suitability of the contested financial transactions, envisaged by the Italian Civil Code and the industry sector regulations on the provision of investment services, all of which refer, among other things, to the alleged violation of the obligations specifically laid down in Article 21 of the Consolidated Law on Finance and Consob Communication 9019104 of 2 March 2009. The Bank has carefully examined and contested the individual actions and is currently monitoring the progress of this dispute, also with the aid of external advisors.

At the reporting date, the Bank has estimated a provision pursuant to IAS 37 based on the monitoring carried out and the opinions of the external advisors.

Information on contingent liabilities

By means of a summons served in September 2015, **Fondazione Pescaraabruzzo** sued Banca Tercas before the Court of L'Aquila, requesting the declaration of nullity of the resolution of the extraordinary shareholders' meeting of that bank of 29 July 2014 (at the time in Special Administration and subsequently merged into BP Bari), for alleged violation of the right to full disclosure for the shareholders, as well as alleged unlawful exclusion of the option right due to the old shareholders. The Foundation also requested the cancellation of the agreements for the purchase of Tercas shares that it signed between 2008 and 2010. In its ruling of May 2019, the Court of L'Aquila dismissed all of the claims brought by Fondazione Pescaraabruzzo against the bank, finding them in part inadmissible and in part unfounded, and ordered the claimant to pay the legal costs in the amount of €105 thousand plus incidentals, which was duly paid to Banca Popolare di Bari. Fondazione Pescaraabruzzo appealed against the aforementioned first instance ruling by notice of appeal served on the Bank in June 2019. Banca Popolare di Bari, in its capacity as the absorbing company of Banca Tercas, duly filed an appearance in the appeal proceedings requesting the complete rejection of the appeal filed by the Foundation, as well as, by way of cross-appeal, the acceptance of the objection of time limitation raised with regard to the request for cancellation of the agreements for the purchase of the shares of Banca Tercas, and finally reiterating, pursuant to Article 346 of the Code of Civil Procedure, all the petitions and objections already made in first instance. The dispute has been called for final ruling at a hearing on 8 September 2021.

Based on i) the observations made by the law firm engaged by the Bank, ii) the preliminary and substantive defence issues raised, and iii) the favourable developments in the case, the conditions envisaged by IAS 37 for making a provision do not apply.

By writ of summons served in November 2015, Fondazione Pescaraabruzzo sued Banca Tercas before the Court of L'Aquila, requesting that it be found liable pursuant to Article 2497 of the Italian Civil Code for breach of the principles of proper corporate management in the direction and coordination of Banca Caripe, a subsidiary of Fondazione Pescaraabruzzo, in the period

2012-2014 and up to the shareholders' resolution of 4 September 2014, through which the capital of Banca Caripe was reduced to zero and reconstituted. In its entry of appearance and statement of defence, which was duly filed in the proceedings, Banca Tercas appeared before the Court, objecting, on a preliminary basis, that the opposing summons was null and void and that the Foundation's claims were unenforceable, in addition to the proceedings being inadmissible due to abuse of law and due process. During the course of the proceedings, the Court fully rejected the preliminary petitions made by Fondazione Pescaraabruzzo. The case has currently been remanded for ruling.

Based on the observations made by the law firm engaged by the Bank, the conditions envisaged by IAS 37 for making a provision do not apply.

As part of a broader transaction for the sale of loans classified as bad loans, which took place on 31 October 2018, the Bank carried out the non-recourse sale of the loans with **DIMA COSTRUZIONI S.p.A. and DIMAFIN S.p.A.** (although it will remain responsible for any restitution or compensatory disputes connected with the loans sold). In the litigation initiated by the Di Mario Group against the banking industry as a whole, the following three rulings are currently pending:

- i. in March 2016, Mr. Di Mario, on his own behalf, brought legal proceedings against the former Banca Tercas, together with other banks, to determine their liability for the financial collapse of the companies of the Di Mario Group, requesting the defendants be ordered, jointly and severally, to pay compensation for the damages suffered, quantified at €700 million. In a ruling dated 10 October 2019, the Court of Rome declared the claimant's claim inadmissible. The ruling was appealed by the opposing party before the Rome Court of Appeal and by order dated 15 July 2020, the Court adjourned to 14 June 2021 for the hearing for the closing arguments;
- ii. in December 2017, the Receiver of the Bankruptcy of Di Mario brought legal proceedings against, among others, the former Banca Tercas to determine its liability for the collapse of the Group companies and, as a result, requested that all the defendants be ordered jointly and severally to pay damages totalling €8.9 million. The Bank, which duly entered an appearance, contested the claims, raising a number of procedural and substantive objections. The Court of First Instance held that, in light of the documents files and the objections raised by the parties, the case was ready for a ruling and that the preliminary investigation requested was unnecessary, and remanded the case for a ruling with a deadline for the filing of final pleadings and replies;
- iii. in May 2018, BP Bari, together with the banking industry as a whole, received a further summons issued at the request of GROMAR S.r.l., a company that had previously been

a supplier to DIMA COSTRUZIONI S.p.A. and a creditor of that company. In the summons, a petition was made to determine the liability of the banks for the payment of the goods delivered to the above-mentioned DIMA COSTRUZIONI S.p.A., with the consequent ordering of the banks, jointly and severally, to pay the claimant the sum of €1.1 million. The Bank duly entered an appearance and contested all the opposing claims. At the last hearing held on 13 July 2020, an adjournment was requested for the submission of the final pleadings with the rejection of the preliminary petitions made by the claimant. The court adjourned the hearing for this purpose to 4 May 2021. The case was again adjourned, by order of 2 March 2021, for final ruling at the hearing of 4 April 2023.

With regard to the above three disputes, based on the observations made by the law firm engaged by the Bank, the conditions envisaged by IAS 37 for making a provision do not apply.

Section 13 - Shareholders' equity attributable to the Group - Items 120, 130, 140, 150, 160, 170 and 180

13.1 "Share capital" and "Treasury shares": breakdown

Paid-up share capital €204,508,690 represented by 40,901,738 ordinary shares with a value of €5 each.

	Total 31/12/2020
A. Share capital	
A.1 Ordinary shares	204,509
A.2 Savings shares	-
A.3 Preference shares	-
A.4 Other shares	-
B. Treasury shares	
B.1 Ordinary shares	-
B.2 Savings shares	-
B.3 Preference shares	-
B.4 Other shares	-

13.2 Share capital - Number of shares of the Parent Company: annual changes

Item/Types	Ordinary	Other
A. Issued shares as at the beginning of the year	40,901,738	-
- fully paid	40,901,738	-
- not fully paid	-	-
A.1 Treasury shares (-)	-	-
A.2 Shares outstanding: opening balance	40,901,738	-
B. Increases	-	-
B.1 New issues	-	-
- against payment:	-	-
- business combinations	-	-
- bonds converted	-	-
- warrants exercised	-	-
- other	-	-
- free of charge:	-	-
- to employees	-	-
- to directors	-	-
- other	-	-
B.2 Sale of treasury shares	-	-
B.3 Other changes	-	-
C. Business transferred	-	-
C.1 Cancellation	-	-
C.2 Purchase of treasury shares	-	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
D. Shares outstanding: closing balance	40,901,738	-
D.1 Treasury shares (+)	-	-
D.2 Shares outstanding as at the end of the year	40,901,738	-
- fully paid	40,901,738	-
- not fully paid	0.00	0.00

13.3 Share capital: other information

The Share capital is subscribed by the sole shareholder Invitalia S.p.A. for an amount of €204,508,690 made up of 40,901,738 shares of €5 each.

13.4 Retained earnings: other information

	Total 31/12/2020
-Legal reserve	37,646
-Articles of association-related reserve	89,229
-Reserve pursuant to Legislative Decree No. 38/2005	554
-FTA IFRS 9 reserve	(14,897)
-Other reserves	(40,222)
-Treasury shares reserve	-
Total	72,310

At 31 December 2020, there were also share capital reserves of €430 million, related to the capital contribution made by the ultimate parent Invitalia SpA in accordance with the provisions of Decree 142/2019.

Section 14 - Non-controlling interests - Item 190

14.1 Breakdown of item 210 “non-controlling interests”

Name of entity	Total 31/12/2020
Equity investments in consolidated companies with significant non-controlling interests	
1. BANCA POPOLARE DI BARI SPA	18,043
2. CASSA DI RISPARMIO DI ORVIETO SPA	9,773
3. BPBROKER SRL	35
Other equity investments	60
Total	27,911

Other information

1. Financial commitments and guarantees given

	Nominal value of financial commitments and guarantees given			Total 31/12/2020
	Stage 1	Stage 2	Stage 3	
1. Loan commitments given	2,054,305	270,167	28,149	2,352,621
a) Central Banks	-	-	-	-
b) Governments and other Public Sector Entities	606,952	6,094	-	613,046
c) Banks	67,303	-	-	67,303
d) Other financial companies	34,251	5,024	2	39,277
e) Non-financial companies	1,182,887	233,197	26,534	1,442,618
f) Households	162,912	25,852	1,613	190,377
2. Financial guarantees given	42,397	2,991	1,027	46,415
a) Central Banks	-	-	-	-
b) Governments and other Public Sector Entities	387	12	-	399
c) Banks	27,120	-	-	27,120
d) Other financial companies	-	-	-	-
e) Non-financial companies	12,989	2,692	796	16,477
f) Households	1,901	287	231	2,419

2. Other commitments and guarantees given

	Nominal value
	Total 31/12/2020
1. Other guarantees given	
of which: non-performing loans	6,322
a) Central Banks	-
b) Governments and other Public Sector Entities	745
c) Banks	13
d) Other financial companies	155
e) Non-financial companies	69,399
f) Households	7,860
2. Other commitments	
of which: non-performing loans	-
a) Central Banks	-
b) Governments and other Public Sector Entities	-
c) Banks	-
d) Other financial companies	-
e) Non-financial companies	-
f) Households	-

3. Assets lodged as guarantee for own liabilities and commitments

Portfolios	Amount 31/12/2020
1. Financial assets measured at fair value through profit and loss	-
2. Financial assets measured at fair value through other comprehensive income	206,446
3. Financial assets measured at amortised cost	1,199,498
4. Property, plant and equipment	-
of which: property, plant and equipment constituting inventory	-

5. Management and intermediation services for customer accounts

Type of services	Amount
1. Execution of orders on behalf of customers	
a) purchases	-
1. settled	-
2. not settled	-
b) sales	-
1. settled	-
2. not settled	-
2. Portfolio management	13,372
a) individual	13,372
b) collective	-
3. 1. Custody and administration of securities	26,351,967
a) third party securities on deposits: relating to depositary bank activities (excluding portfolio management)	17
1. securities issued by companies included in the consolidation	-
2. other securities	17
b) third party securities held in deposits (excluding portfolio management): other	2,361,511

1. securities issued by companies included in the consolidation	209,576
2. other securities	2,151,935
c) third-party securities deposited with third parties	2,356,702
d) property securities deposited with third parties	21,633,737
4. Other transactions	-

7. Financial liabilities offset in the financial statements or subject to offsetting framework agreements or similar agreements

Type of instrument	Gross amount of financial liabilities (a)	Amount of financial assets offset in financial statements (b)	Net amount of financial liabilities recognised in financial statements (c=a-b)	Related amounts not subject to netting in the financial statements		Net amount (f=c-d-e) 31/12/2020
				Financial instruments (d)	Cash deposits given as collateral (e)	
1. Derivatives	29,938	-	29,938	-	29,938	-
2. Reverse repos	-	-	-	-	-	-
3. Securities lending	-	-	-	-	-	-
4. Other	-	-	-	-	-	-
Total 31/12/2020	29,938	-	29,938	-	29,938	-

Part C - Information on the consolidated income statement

Section 1 - Interest - Items 10 and 20

1.1 Interest and similar income: breakdown

Items/Technical types	Debt securities	Loans	Other transactions	Total 31/12/2020
1. Financial assets measured at fair value through profit and loss:	51	-	-	51
1.1 Financial assets held for trading	-	-	-	-
1.2 Financial assets designated at fair value	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	51	-	-	51
2. Financial assets measured at fair value through other comprehensive income	70	-	X	70
3. Financial assets measured at amortised cost:	3,090	66,733	X	69,823
3.1 Loans and advances to banks	992	24	X	1,016
3.2 Loans and advances to customers	2,098	66,709	X	68,807
4. Hedging derivatives	X	X	8,713	8,713
5. Other assets	X	X	28	28
6. Financial liabilities	X	X	-	4,718
Total	3,211	66,733	8,741	83,403
of which: interest income on impaired financial assets	-	3,159	-	3,159
of which: interest income on finance leases	-	-	-	-

1.3 Interest and similar expenses: breakdown

Items/Technical types	Payables	Securities	Other transactions	Total 31/12/2020
1. Financial liabilities measured at	(10,940)	(18,050)	X	(28,990)
1.1 Due to central banks	-	-	X	-
1.2 Due to banks	(173)	X	X	(173)
1.3 Due to customers	(10,767)	X	X	(10,767)
1.4 Debt securities in issue	X	(18,050)	X	(18,050)
2. Financial liabilities held for trading	-	-	-	-
3. Financial liabilities designated at fair value	-	-	-	-
4. Other liabilities and funds	X	X	-	-
5. Hedging derivatives	X	X	-	-
6. Financial assets	X	X	X	(2,147)
Total	(10,940)	(18,050)	-	(31,137)
of which: interest expense on lease liabilities	(821)	-	-	(821)

1.5 Spreads relating to hedging transactions

Item	Total 31/12/2020
A. Positive spreads relating to hedging transactions	8,713
B. Negative spreads relating to hedging transactions	-
C. Balance (A-B)	8,713

Section 2 - Fees and commissions - Items 40 and 50

2.1 Fee and commission income: breakdown

Type of service/Amount	Total 31/12/2020
a) guarantees given	412
b) credit derivatives	-
c) management, broking and consultancy services:	6,807
1. financial instrument trading	-
2. foreign currency trading	103
3. portfolio management	42
3.1. individual	42
3.2. collective	-
4. custody and administration of securities	88
5. custodian bank	-
6. placement of securities	1,918
7. reception and transmission of orders	288
8. advisory services	-
8.1 on investments	-
8.2 on financial structure	-
9. distribution of third-party services	4,368
9.1. portfolio management	1
9.1.1. individual	1
9.1.2. collective	-
9.2 insurance products	2,746
9.3 other products	1,621

d) collection and payment services	2,747
e) securitisation servicing	61
f) factoring	358
g) tax collection services	-
h) management of multilateral trading facilities	-
i) management of current accounts	9,117
j) other services	126,146
Total	145,645

The item “other services” mainly includes commissions for the management of public subsidy funds by the Parent Company, of which the SME Guarantee Fund is the largest at €107 million. For more details on the quantification of the fees for the SME Guarantee Fund, see the paragraph “Estimated fees for the management of the Guarantee Fund pursuant to Law 662” in Section 4 – Other aspects, Part A of these Notes.

2.2 Fee and commission expense: breakdown

Services/Amounts	Total 31/12/2020
a) guarantees received	(364)
b) credit derivatives	-
c) management and broking services:	(70)
1. financial instrument trading	(10)
2. foreign currency trading	-
3. portfolio management:	-
3.1 own	-
3.2 third-party portfolio	-
4. custody and administration of securities	(37)
5. placement of financial instruments	-
6. off-site distribution of financial instruments, products and services	(23)
d) collection and payment services	(737)
e) other services	(2,252)
Total	(3,424)

Section 3 - Dividends and similar income - Item 70

3.1 Dividends and similar income: breakdown

Items/Income	Total 31/12/2020	
	Dividends	Similar income
A. Financial assets held for trading	-	-
B. Other financial assets mandatorily measured at fair value	-	-
C. Financial assets measured at fair value through other comprehensive income	769	-
D. Equity investments	-	-
Total	769	-

At 31 December 2020, dividends recorded under “C. Financial assets measured at fair value through other comprehensive income” included dividends received from other non-controlling interests classified in the portfolio of financial assets at fair value through other comprehensive income.

Section 4 - Net gains/(losses) on trading activities - Item 80

4.1 Net gains/(losses) on trading activities: breakdown

Transactions/Income components	Capital gains (A)	Disposal gains (B)	Capital losses (C)	Disposal losses (D)	Net gains/(losses) [(A+B) - (C+D)]
1. Financial assets held for trading	-	6	-	(4)	2
1.1 Debt securities	-	6	-	-	6
1.2 Equity instruments	-	-	-	(4)	(4)
1.3 Units in collective investment undertakings	-	-	-	-	-
1.4 Loans and advances	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	-	-	-	-	-
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Financial assets and liabilities: exchange differences	X	X	X	X	202
4. Derivatives	608	1	(878)	(1)	(270)
4.1 Financial derivatives:	608	1	(878)	(1)	(270)
- On debt securities and interest rates	1	1	(1)	(1)	-
- On equity securities and share indices	-	-	-	-	-
- On currencies and gold	X	X	X	X	-
- Other	607	-	(877)	-	(270)
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges related to the fair value option	X	X	X	X	-
Total	608	7	(878)	(5)	(66)

Section 5 - Net gains/(losses) on hedging activities - Item 90

5.1 Net gains/(losses) on hedging activities: breakdown

Income component/Amount	Total 31/12/2020
A. Gains on:	
A.1 Fair value hedging instruments	4,035
A.2 Hedged financial assets (fair value)	-
A.3 Hedged financial liabilities (fair value)	188
A.4 Cash-flow hedging derivatives	-
A.5 Assets and liabilities denominated in currency	-
Total gains on hedging activities (A)	4,223
B. Losses on:	
B.1 Fair value hedging instruments	(185)
B.2 Hedged financial assets (fair value)	-
B.3 Hedged financial liabilities (fair value)	(4,013)
B.4 Cash-flow hedging derivatives	-
B.5 Assets and liabilities denominated in currency	-
Total losses on hedging activities (B)	(4,198)
C. Net hedging result (A - B)	26
of which: net gains (losses) of hedge accounting on net positions	-

Section 6 - Gains/(losses) on disposal or repurchase - Item 100

6.1 Gains/(losses) on disposal or repurchase: breakdown

Items/Income components	Total 31/12/2020		
	Gains	Losses	Net gains/(losses)
Financial assets			
1. Financial assets measured at amortised cost	8	(443)	(434)
1.1 Loans and advances to banks	-	-	-
1.2 Loans and advances to customers	8	(443)	(434)
2. Financial assets measured at fair value through other comprehensive income	13,345	(4,556)	8,789
2.1 Debt securities	13,345	(4,556)	8,789
2.2 Loans and advances	-	-	-
Total assets (A)	13,353	(4,999)	8,354
Financial liabilities measured at amortised cost	-	-	-
1. Loans and advances to banks	-	-	-
2. Loans and advances to customers	-	(32)	(32)
3. Securities issued	195	-	195
Total liabilities (B)	195	(32)	162

Section 7 - Net gains/(losses) on other financial assets and liabilities measured at fair value through profit and loss - Item 110

7.2 Net value change in other financial assets and liabilities measured at fair value through profit and loss: breakdown of other financial assets mandatorily measured at fair value

Transactions/Income components	Capital gains (A)	Disposal gains (B)	Capital losses (C)	Disposal losses (D)	Net gains/(losses) [(A+B) - (C+D)]
1. Financial assets	324	13	(501)	(1)	(166)
1.1 Debt securities	126	13	(118)	(1)	20
1.2 Equity securities	-	-	-	-	-
1.3 Units in collective investment undertakings	198	-	(383)	-	(185)
1.4 Loans and advances	-	-	-	-	-
2. Financial assets: exchange differences	X	X	X	X	-
Total	324	13	(501)	(1)	(166)

Section 8 - Net value adjustments for credit risk - Item 130

8.1 Net value adjustments for credit risk relative to financial assets measured at amortised cost: breakdown

Transactions/Income components	Write-downs (1)			Writebacks (2)		Total 31/12/2020
	Stage one and two	Stage 3		Stage one and two	Stage 3	
		Write-offs	Other			
A. Loans and advances to banks	(30)	0.00	0.00	95	-	65
- Loans	(3)	-	-	95	-	92
- Debt securities	(27)	-	-	-	-	(27)
of which: acquired or originated impaired loans	-	-	-	-	-	-
B. Loans and advances to customers	(18,447)	(13)	(25,836)	11,780	4,380	(28,136)
- Loans	(16,900)	(13)	(25,836)	11,111	4,369	(27,269)
- Debt securities	(1,547)	-	-	669	11	(867)
of which: acquired or originated impaired loans	-	-	-	-	-	-
Total	(18,477)	(13)	(25,836)	11,875	4,380	(28,072)

8.1a Net value adjustments for credit risk related to loans measured at amortised cost subject to Covid-19 support measures: breakdown

Transactions/Income components	Net value adjustments			Total 31/12/2020
	Stage one and two	Stage 3		
		Write-offs	Other	
1. EBA-compliant moratoria loans and advances.	(5,599)	-	94	(5,505)
2. Other loans and advances with Covid-19 related forbearance measures	-	-	(49)	(49)
3. Newly originated loans and advances.	(2,174)	-	(77)	(2,251)
Total	(7,773)	-	(32)	(7,805)

8.2 Net value adjustments for credit risk for financial assets measured at fair value through other comprehensive income: breakdown

Transactions/Income components	Write-downs (1)			Write-backs (2)		Total 31/12/2020
	Stage one and two	Write-offs	Stage three Other	Stage one and two	Stage three	
A. Debt securities	(1,058)	-	-	590	-	(468)
B. Loans	-	-	-	-	-	-
- Loans and advances to customers	-	-	-	-	-	-
- Loans and advances to banks	-	-	-	-	-	-
of which: acquired or originated impaired financial assets	-	-	-	-	-	-
Total	(1,058)	-	-	590	-	(468)

Section 9 - Gains/losses from contractual changes without derecognition - Item 140

9.1 Gains (losses) from contractual changes: breakdown

Gains from contractual changes without derecognition totalling €118,720 thousand were recognised.

Section 12 - Administrative expenses - Item 190

12.1 Personnel expenses: breakdown

Type of expense/Amount	Total 31/12/2020
1) Employees	(62,545)
a) wages and salaries	(45,043)
b) social charges	(11,855)
c) severance pay	(2,558)
d) social security costs	-
e) allocation to employee severance pay provision	(43)
f) provision for retirements and similar provisions:	(148)
- defined contribution	-
- defined benefit	(148)
g) payments to external pension funds:	(772)
- defined contribution	(772)
- defined benefit	-
h) costs arising from share-based payments	-
i) other employee benefits	(2,126)
2) Other non-retired staff	(692)
3) Directors and statutory auditors	(758)
4) Early retirement costs	-
Total	(63,996)

12.2 Average number of employees by category

	Total 31/12/2020
1) Employees	3,146
a) senior managers.	28
b) managers	1,113
c) remaining employees staff	2,005
Other non-retired staff	-

12.4 Other employee benefits

	Total 31/12/2020
a) injury policies	(381)
b) health policies	(701)
c) meal vouchers	(565)
e) other	(479)
Total	(2,126)

12.5 Other administrative expenses: breakdown

	Total 31/12/2020
1. Indirect taxes and duties	(4,664)
2. Sundry costs and expenses	(35,797)
a) advertising, marketing and communication expenses	(119)
- entertainment expenses	(16)
- advertising expenses	(51)
- sponsorship expenses	(52)
b) expenses related to credit risk	(3,681)
- legal expenses for recovery of receivables	(1,919)
- commercial information, inspections and other expenses	(1,762)
c) indirect labour costs	(418)
- travel and motor vehicle rental costs	(407)
- other personnel expenses	(11)
d) information and communication technology expenses	(7,331)
- telephone and data transmission expenses	(1,285)
- ICT service	(5,578)
- maintenance and repair of ICT equipment	(468)
e) consulting and professional services	(8,548)
- technical and specialist advisory services	(2,213)
- other professional services	(4,455)
- legal and notarial expenses	(1,880)
f) expenses related to properties	(3,410)
- security	(364)
- cleaning services	(757)
- maintenance of furniture and fixtures, plant and equipment	(525)
- maintenance of premises	(327)
- rental expenses for rented premises	(622)
- utilities	(815)
g) other overheads	(12,290)
- insurance	(1,006)
- postal expenses	(428)
- printing and stationery	(328)
- duties, subscriptions and contributions to trade associations and guarantee funds	(639)
- contribution to the Resolution Fund	(4,218)
- administrative and logistical services	(4,559)
- charity	(34)
- other	(1,078)
Total	(40,462)

Section 13 - Net provisions for risks and charges - Item 200

13.1 Net provisions for credit risks relating to commitments to disburse funds and financial guarantees given: breakdown

	31/12/2020		
	Stage one and two	Stage 3	Total
- Provisions	(3,912)	(1)	(3,913)
- Reversals	1,072	22	1,094
Total	(2,840)	21	(2,819)

13.2 Net provisions for other commitments and other guarantees given: breakdown

	31/12/2020		
	Stage one and two	Stage 3	Total
- Provisions	(5)	(2)	(7)
- Reversals	139	1,237	1,376
Total	134	1,235	1,369

13.3 Net other provisions for risks and charges: breakdown

	Total 31/12/2020
- provision for litigation	(1,605)
Additions	(2,936)
Reversals	1,331
- provision for personnel expenses	(106)
Additions	(110)
Reversals	4
- provision for claw-back actions	(160)
Additions	(160)
Reversals	-
- other provisions for risks and charges	(19,900)
Additions	(19,968)
Reversals	68
Total	(21,771)

Section 14 - Net value adjustments on property, plant and equipment - Item 210

14.1. Net value adjustments on property, plant and equipment: breakdown

Asset/Income component	Depreciation (a)	Impairment losses (b)	Write-backs (c)	Net (a + b - c)
A. Property, plant and equipment				
1 Used in the business	(5,150)	-	-	(5,150)
- Owned	(1,782)	-	-	(1,782)
- Right of use of Leased Assets	(3,368)	-	-	(3,368)
2 Held for investment	(50)	-	-	(50)
- Owned	(50)	-	-	(50)
- Right of use of Leased Assets.	-	-	-	-
3 Inventories	X	-	-	-
Total	(5,202)	-	-	(5,202)

Section 15 - Net value adjustments of intangible assets - Item 220

15.1 Net value adjustments of intangible assets: breakdown

Asset/Income component	Amortisation (a)	Impairment losses (b)	Write-backs (c)	Net gains/(losses) (a + b - c)
A. Intangible assets				
A.1 Owned	(1,184)	-	-	(1,184)
- Generated internally by the company	-	-	-	-
- Other	(1,184)	-	-	(1,184)
A.2 Right of use of Leased Assets	-	-	-	-
Total	(1,184)	-	-	(1,184)

Section 16 - Other operating income and expenses - Item 230

16.1 Other operating expenses: breakdown

	Total 31/12/2020
- Losses on claw-back actions	(313)
- Losses on lawsuits	(281)
- Amortisation/depreciation of third-party assets	(2,014)
- Fees, duties and penalties	(48)
- Losses from robberies	(1)
- Securitisation expenses	(213)
- Other	(3,253)
Total	(6,123)

16.2 Other operating income: breakdown

	Total 31/12/2020
Recovery of legal expenses and notarial fees	363
Rental income and revenues from real estate services	28
Recovery from insurance customers	22
Tax recovery	3,415
Recovery of expenses on transactions with customers	517
Other	5,174
Badwill	160,038
Total	169,528

This item shows the recognition of the provisional badwill resulting from the purchase price allocation process still in progress. Further details are provided in Part G of these Notes.

17.1 Gains (losses) on equity investments: breakdown

	Total 31/12/2020
1) Jointly owned companies – Equity	
A. Income	-
1. Revaluations	-
2. Gains on disposal	-
3. Write-backs	-
4. Other income	-
B. Expenses	(36)
1. Write-downs	(36)
2. Impairment losses	-
3. Losses on disposal	-
4. Other expenses	-
Net profit	(36)
2) Companies under significant influence	
A. Income	-
1. Revaluations	-
2. Gains on disposal	-
3. Write-backs	-
4. Other income	-
B. Expenses	-
1. Write-downs	-
2. Impairment losses	-
3. Losses on disposal	-
4. Other expenses	-
Net profit	-
Total	(36)

Section 20 - Gains/(Losses) on disposal of investments - Item 280

20.1 Gains/(losses) on disposal of investments: breakdown

	Total 31/12/2020
A. Property	(224)
- Gains on disposal	-
- Losses on disposal	(224)
B. Other assets	-
- Gains on disposal	-
- Losses on disposal	-
Net gains/(losses)	(224)

Section 21 - Income taxes for the period on continuing operations - Item 300

21.1 Income taxes for the period on continuing operations: breakdown

	Total 31/12/2020
1. Current taxes (-)	(21,820)
2. Changes in current taxes for previous years (+/-)	97
3. Reduction of current taxes for the year (+)	-
3.bis Reduction of current taxes of the year for tax credits pursuant to Italian Law No. 214/2011 (+)	-
4. Changes in deferred tax assets (+/-)	10,578
5. Changes in deferred tax liabilities (+/-)	(443)
6. Taxes pertaining to the year (-) (-1 +/-2+3+3bis+/-4+/-5)	(11,589)

21.2 Reconciliation of theoretical tax liability and actual tax liability recognised

	Total 31/12/2020
Profit on continuing operations	(20,468)
Income taxes at nominal rate	-
Tax increases:	-
Costs not deductible for taxation - permanent differences	-
Other changes (tax rate variations, etc.)	-
Decreases in taxes	-
Non-taxable revenues - permanent differences	-
Non-taxable revenues - permanent differences relating to ACE (aid to economic growth)	-
Non-taxable revenues - permanent differences relative to patent box	-
Other Changes	-
IRES INCOME TAX	-

	Total 31/12/2020
Profit on continuing operations	(20,468)
Income taxes at nominal rate	1,140
Tax increases:	-
Non-deductible personnel costs	-
Net provisions for risks and charges and impairment of receivables	-
Non-taxable revenues - permanent differences relative to patent box	-
Other changes	(1,897)
IRAP INCOME TAX	(757)
	-

Section 23 - Minority interests - Item 340

23.1 Details of the item 340 “Minority interests”

Company name	Total 31/12/2020
Equity investments in consolidated companies with significant minority interests	
1. CASSA DI RISPARMIO DI ORVIETO SPA	1,973
2. BANCA POPOLARE DI BARI SPA	406
3. BANCA DEL MEZZOGIORNO - MEDIOCREDITO CENTRALE	-
Other equity investments	(1)
Total	2,378

Part D - Consolidated comprehensive income

DETAILED STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

Item		31/12/2020
10.	Profit (Loss) for the year	192,557
	Other income components without reversal to income statement	1,210
20.	Equity securities at fair value through other comprehensive income:	1,656
	a) changes in fair value	1,558
	b) transfers to other shareholders' equity components	98
30.	Financial liabilities designated at fair value through profit and loss (changes in own credit standing):	-
	a) changes in fair value	-
	b) transfers to other shareholders' equity components	-
40.	Hedging of equity securities at fair value through other comprehensive income:	-
	a) changes in fair value (hedged instrument)	-
	b) changes in fair value (hedging instrument)	-
50.	Property, plant and equipment	-
60.	Intangible assets	-
70.	Defined-benefit plans	152
80.	Non-current assets and disposal groups held for sale	-
90.	Portion of reserves from valuation of equity investments carried at equity	-
100.	Income taxes relating to other comprehensive income without reversal to income statement	(598)
	Other income components with reversal to income statement	3,451
110.	Hedging of foreign investments:	-
	a) changes in fair value	-
	b) reversal to income statement	-
	c) other changes	-
120.	Exchange differences:	-
	a) changes in value	-
	b) reversal to income statement	-
	c) other changes	-
130.	Cash flow hedges:	-
	a) changes in fair value	-
	b) reversal to income statement	-
	c) other changes	-
	of which: net result of positions	-
140.	Hedging instruments (non-designated elements):	-
	a) changes in value	-
	b) reversal to income statement	-
	c) other changes	-
150.	Financial assets (other than equity securities) measured at fair value through other comprehensive income:	5,157
	a) changes in fair value	13,464
	b) reversal to income statement	(8,307)
	- adjustments for credit risk	482
	- gains/losses on disposal	(8,788)
	c) other changes	-
160.	Non-current assets and disposal groups held for sale:	-

	a) changes in fair value	-
	b) reversal to income statement	-
	c) other changes	-
170.	Portion of reserves from valuation of equity investments carried at equity:	-
	a) changes in fair value	-
	b) reversal to income statement	-
	- write-downs for impairment	-
	- gains/losses on disposal	-
	c) other changes	-
180.	Income taxes relating to other comprehensive income with reversal to income statement	(1,705)
190.	Total other comprehensive income	4,662
200.	Comprehensive income (Item 10 +190)	197,219
210.	Non-controlling interests	(2,360)
220.	Consolidated comprehensive income attributable to the parent company	199,578

Part E - Information on risks and relative hedging policies

Introduction

On 12 March 2021, the Bank of Italy formalised the establishment of the Mediocredito Centrale Banking Group, consisting of Mediocredito Centrale (below also MCC), as Parent Company, Banca Popolare di Bari (below also BP Bari) and Cassa di Risparmio di Orvieto (below also CR Orvieto)⁶, with its entry in the register of banking groups with effect from 15 October 2020.

The year 2021 therefore marked a sharp break with the past with the drive towards the integration of models, systems and resources. As a result, at the reporting date there were still differences in the risk management methods used by the two main components of the Group, although the general structure of the Internal Control System was consistent.

Accordingly, the paragraphs below provide a description of the activities that, by their nature, are implemented similarly in accordance with regulatory requirements, and the activities that, on the other hand, reflect the particular nature of the Group's two main business areas: one focused on the business world, digitally oriented and revolving around its role as a Bank providing support to SMEs in southern Italy – by facilitating their access to credit – and to supporting the economy more generally through the management of the Central Guarantee Fund, other Public Administration funds and the Sustainable Growth Fund; and the second consisting of its operations as a local commercial bank supporting households and businesses, for which the implementation of the remediation plans and strengthening measures defined during the receivership, which ended on 15 October 2020, is currently being completed.

The Internal Control System

The Internal Control System (ICS) is a key part of the Banks' overall governance system. It is made up of the set of rules, functions, structures, staff, processes and

⁶ Banca Popolare di Bari and Cassa di Risparmio di Orvieto constituted a single Banking Group until 15 October 2020. In that structure, CR Orvieto, within the overall framework of governance, management and control of risks at consolidated level, implemented the system of processes and the methodological approach adopted at consolidated level to identify, measure/assess, monitor and manage corporate risks, also in on an integrated basis, taking into account the specific characteristics of the individual legal entities. Accordingly, unless otherwise specified, the statements made for BP Bari also apply for CR Orvieto.

procedures that are aimed, on the basis of sound and prudent management, at ensuring that the following objectives are achieved:

- verifying the implementation of corporate strategies and policies;
- containing risk within the limits set in the Bank's Risk Appetite Framework (RAF);
- safeguarding the value of assets and protecting against losses;
- effectiveness and efficiency of corporate processes;
- reliability and security of company information and IT procedures;
- preventing the risk that the company will be involved, even involuntarily, in illegal activities;
- compliance of transactions with the law and regulations, including supervisory regulations, and with internal policies, rules and procedures.

The primary responsibility for the risk management system within the broader framework of the Internal Control System lies with the Corporate Bodies, each according to their respective remits, and reflects the uniformity of the two arms of the Banking Group.

The Board of Directors, as the body responsible for strategic oversight, approves the strategic guidelines, objectives and risk management policies and verifies their correct implementation.

In 2020, Mediocredito Centrale updated its internal rules on the assessment process in its Internal Control System, based on the international standard "Enterprise Risk Management – Integrating with Strategy and Performance" (2017), issued by the Committee of Sponsoring Organization (CoSO) of the Treadway Commission. At the same time, it began revising all the rules to incorporate the changes resulting from the establishment of the Banking Group.

With regard to Banca Popolare di Bari, from 13 December 2019, the date when the Bank of Italy placed it under Special Administration, and until the end of that order⁷, the references to the Board of Directors contained in this document are to be understood as referring to the Official Receivers and subsequently to the new Bodies appointed within the newly formed Banking Group.

⁷ 15 October 2020, the date of establishment of the Banking Group.

Risk Appetite Framework – RAF

In accordance with the prudential supervisory regulations on internal control systems (Bank of Italy Circular 285), the banks of the Mediocredito Centrale Banking Group draw up their own internal regulations governing the following aspects:

- general framework of the RAF, as well as its underlying principles and connections with other business processes;
- roles and responsibilities of the corporate bodies, committees, control functions and other corporate functions involved in various ways in the process of defining and updating the RAF;
- the process of defining and periodically updating the RAF and the related system of metrics and thresholds (Risk Appetite Statement – RAS).

The review of the RAF and the related system of limits and objectives is carried out at least once a year and at central level, with specifications that may vary among the subsidiaries, and reflect the core values in relation to risk spread through the Group from top management down to the operational functions.

Specifically, within the Internal Control System, the Board of Directors (below also the Board):

- sets and approves risk objectives, tolerance thresholds and risk governance policies;
- approves the risk management process and assesses its compatibility with strategic policies and risk governance policies;
- ensures that the implementation of the RAF is consistent with the risk objectives and tolerance thresholds, periodically assessing its adequacy and effectiveness based on the results of the comparison between actual risk and risk objectives;
- ensures that the strategic plan, the RAF, the ICAAP, the budget and the internal control system are consistent.

At 31 December 2020, although there were similarities in the business processes of the banks making up the Group, full integration had not yet been achieved and these will become effective during 2021.

The structure of the Internal Control System set up at integrated level envisages the creation of a risk control function at the level of each individual subsidiary. Specifically,

the corresponding organisational unit in MCC will perform the functions at both individual level and policy level for the Group, while the corresponding unit in Banca Popolare di Bari will also perform the functions for Cassa di Risparmio di Orvieto, which has been assigned responsibility for managing the operational controls via the “Representatives”⁸. The risk profile is periodically monitored and submitted to the attention of the Corporate Bodies by the competent structures of the Parent Company, in order to promptly identify any issues of concern and implement the appropriate corrective actions.

Within this framework, MCC’s risk control function:

- supports the Board in the process of updating the RAF and the Corporate Bodies in setting the Group’s risk policies, assessing the capital adequacy (ICAAP) and the adequacy of the liquidity management and governance system (ILAAP) on a consolidated basis, and in preparing the related public disclosures;
- ensures timely and forward-looking monitoring of the Group’s exposure to the various types of risk, in accordance with the RAF, with particular regard to credit, market, counterparty, operational, interest rate, exchange rate and liquidity risk, with the aid of the risk control functions of the subsidiaries;
- provides support to the Corporate Bodies in promoting and disseminating an effective and sound control culture within the Group;
- oversees the determination of the capital adequacy and the risks required by the applicable regulations;
- verifies the correct execution, at individual level, of the performance monitoring of credit exposures, also by issuing opinions on operations and binding assessments on the classification of positions and the related provisions made, and at Group level in the cases envisaged by the escalation processes. The risk control function performs the same tasks for BP Bari and CR Orvieto;
- supports the Corporate Bodies in drawing up the Group’s restoration plan and contingency funding and recovery plan.

The corporate organisational structure ensures that the control functions carry out their mission in compliance with the supervisory regulations governing their activities and that the heads of the corporate control functions, in performing the coordination of their

⁸ This structure is based on the previous organisational setup in which BP Bari and CR Orvieto formed a single banking group.

activities, do not have direct responsibility for operational areas subject to control and are not hierarchically subordinate to the heads of those areas. Specifically, the risk control functions report hierarchically to the Chief Executive Officer and functionally to the Board of Directors of the Bank in which they are located. In addition, the Risk Control function's mission is continuously focused on the integrated management of risk, taking into account both the macroeconomic scenario and the Bank's business profile.

By means of specific rules, the Board of Directors governs the requirements and methods used by the risk control function to ensure its responsibilities are effectively carried out, as detailed in the Public Disclosure document (see below).

The risk-return objectives for the Group, at 31 December 2020, are broken down into the following main strategic areas, set at individual Legal Entity level, and include the following macro areas:

- capital adequacy;
- loan portfolio quality;
- profitability;
- liquidity and funding;
- other strategic areas of risk and operational efficiency.

Internal Capital Adequacy Assessment Process – ICAAP

In accordance with Bank of Italy Circular No. 285 of 17 December 2013, the Banking Group, within its internal rules, sets out the procedures for implementing the internal processes – ICAAP (Internal Capital Adequacy Assessment Process) and ILAAP (Internal Liquidity Adequacy Assessment Process) – under which it carries out an independent current and forward-looking assessment of its capital adequacy and liquidity governance and management system, with respect to the risks assumed and its strategic objectives, in addition to assessing the adequacy of the organisational controls the Group has in place for each of the risks it is exposed to.

At 31 December 2020, the outcomes of these processes still referred to the unmerged entities. Accordingly, the information below refers to the latest information available, only at individual level.

In situations of organisational continuity, the system of risk objectives described in the paragraph above, is subject to periodic review based on the results of the Supervisory Review and Evaluation Process (SREP) and the Bank's updated risk appetite framework, in line with the strategic objectives established in the Business Plan, the Group's business model and the methods used in the internal capital adequacy assessment process (ICAAP).

Mediocredito Centrale conducted regular ICAAP and ILAAP self-assessment processes during 2020. With regard to the Banca Popolare di Bari and Cassa di Risparmio di Orvieto, on the other hand, during the period of receivership, resulting from the Special Administration order, the appointment of the members of the Board of Directors and the Board of Statutory Auditors was revoked. The Official Receivers and the Supervisory Committee were appointed and removed when the new governance bodies took office on 15 October 2020 and consequently the ICAAP/ILAAP Report was not prepared. In 2021, the Group ICAAP and ILAAP report will be prepared, including the first integrations and harmonisations in terms of methods and risk measurement.

Remuneration Policies

The internal remuneration policy guidelines are based on the principle of segmentation, according to the role and contribution provided, with regard to the type and extent of business risk assumed by staff, in order to ensure a link between expected contribution, actual performance, remuneration and risks. To this end, particular emphasis is given to objectives with a direct impact on operating performance and the anchoring of metrics to the plan/budget approved by the Board of Directors, taking into account the risk appetite. The Group's overall remuneration and incentive policy system is approved annually by the Shareholders' Meeting in accordance with international and national regulations.

Information on capital adequacy, risk exposure, the general features of the systems used to identify, measure and manage the risks, and information on remuneration policies are published in a dedicated document (Pillar III Public Disclosure, which also contains the Group's Remuneration Policy) on the Bank's website: www.mcc.it, within the time limits set for the publication of the Annual Report, in line with prudential supervisory provisions (see CRR, Part Eight of Regulation EU 575/2013). The Bank pays special attention to the dissemination of a risk culture and works to ensure that it permeates all processes, both through periodic updates of the documents prepared for reporting, self-assessment and planning (Tableau de bord, ICAAP/ILAAP, Risk Appetite Framework) and through initiatives dedicated to the examination of specific issues. The regulatory framework governing the governance and management of risks and the operation of business processes is disseminated to all Group personnel through the respective company intranets and new regulations are communicated to all employees by e-mail, to ensure that internal regulatory updates are promptly made available. In addition, the Group ensures the dissemination of the risk culture through the organisation of training courses for its employees aimed at the correct application of the risk assessment and control models.

Section 1 - Accounting consolidation risks

A. Credit quality

A.1 Impaired and non-impaired loan exposures: amounts, value adjustments, changes and economic distribution

A.1.1 Distribution of loan exposures by portfolio and credit quality (carrying amount)

Portfolio/quality	Bad loans	Unlikely to pay	Impaired past-due exposures	Non-impaired past-due	Other non-impaired exposures	Total
1. Financial assets measured at amortised cost	35,234	160,949	41,514	145,374	12,281,693	12,664,764
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	961,565	961,565
3. Financial assets designated at fair value	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	7,415	7,415
5. Financial assets held for sale	-	-	-	-	-	-
Total 31/12/2020	35,234	160,949	41,514	145,374	13,250,673	13,633,744

A.1.2 Distribution of financial assets by portfolio and credit quality (gross and net amounts)

Portfolio/quality	Impaired				Non-impaired			Total (net exposure)
	Gross Exposure	Total value adjustments	Net exposure	Total partial write-offs*	Gross Exposure	Total value adjustments	Net exposure	
1. Financial assets measured at amortised cost	555,534	(317,837)	237,697	9,786	12,513,430	(86,365)	12,427,065	12,664,762
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	962,634	(1,069)	961,565	961,565
3. Financial assets designated at fair value	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	X	X	7,415	7,415
5. Financial assets held for sale	-	-	-	-	-	-	-	-
Total 31/12/2020	555,534	(317,837)	237,697	9,786	13,476,028	(87,396)	13,396,047	13,633,744

Portfolio/quality	Assets of evident low credit quality		Other assets
	Cumulative capital losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	66
2. Hedging derivatives	-	-	90,202
Total 31/12/2020	-	-	90,268

** Values to be shown for informational purposes*

Section 2 - Prudential consolidations risks

1.1 Credit risk

Qualitative information

1. General aspects

Although the Mediocredito Centrale Group was set up recently, it is noteworthy for the uniformity of its mission to support the Southern Italian economy and SMEs, which is shared by the banks making up the group.

In particular, the management provides guidance for the lending development activities and risk strategies, periodically subject to the approval of the Board of Directors at the annual budget meeting and at the time of the examination of the risk policies and the connected system of limits.

Risk monitoring is carried out on the main risk drivers, identified through the system of limits, set and structured in line with the actual evolution of operations and subject to regular review, as established in the Risk Management Process, contained in the rules of the risk control function.

At 31 December 2020, the empirical results of operations show Mediocredito Centrale's main loan exposures regarding primarily:

- bank risk, with regard to: current accounts, demand and time deposits, and loans related to transactions in derivatives that generate counterparty risk⁹.
- customer risk, consisting of: enterprises, with reference to loans to customers, joint-stock companies, limited companies and single member firms, and to other public and private entities, in compliance with the principle of prevalence, as well as private individuals¹⁰;
- other risks, mainly includes risk relative to the Italian government, represented by positions in Government Securities and the risk related to the Central Administrations, in the form of fees received for performing the subsidy activity.

With regard to Banca Popolare di Bari and Cassa di Risparmio di Orvieto, in general, loans are granted primarily to households (producers and consumers) and to small and medium-sized enterprises, defined as follows:

- Private Customers: this includes all individuals that re “consumers of goods and services” (for example students, people looking for their first or new job, employees, pensioners and housewives) who use the credit for non-productive purposes and do not have a Chamber of Commerce registration number. This category also includes small business operators;
- Corporate Customers: this market includes all entities with a Chamber of Commerce registration number that use the credit for business purposes. These customers are divided into market segments, based on revenue, lending facilities and operational and financial complexity. This segment includes institutions, limited liability companies, the public administration, etc.

Impacts from the Covid-19 pandemic

In 2020, the Italian economy was characterised by numerous fluctuations related to the emergency and the subsequent waves of Covid-19 infections. In response, the Government put in place various measures to support households and enterprises, which were then extended into 2021. In this context, Mediocredito Centrale confirmed its company Lending Policies, however, during the year it reviewed the sector analysis

⁹ For the latter the Bank is compliant with the EMIR Regulation.

¹⁰ Only applies for the part related to employees, because this portfolio is substantially in run-off.

used to determine lending strategies in general and, with regard to exposures subject to moratoria, implemented management and assessment methods in accordance with the guidelines issued by the Supervisory Authority (see below)¹¹.

In Banca Popolare di Bari, and consequently Cassa di Risparmio di Orvieto, the implementation of the lending policies included the further strengthening of the loan portfolio in order to monitor both the individual segments more effectively with different risk drivers¹² and the level of guarantees protecting against potential losses. Lending decisions are in any case based on risk detection systems such as counterparty ratings together with probability of default (PD) and loss given default (LGD) and also take into account the need to ensure a sufficient level of credit spread.

In particular, in the specific context of the Covid-19 pandemic health emergency, all the Group Banks maintained continuous operations, using the instruments made available by the Government to support enterprises. Specifically:

- As the manager of the Central Guarantee Fund, Mediocredito Centrale managed the large-scale use of this facility;
- the Group's banks financed SMEs, also by supporting their liquidity needs resulting from the current crisis, using the support of the guarantee from the Central Fund for SMEs, where appropriate, and signing the memorandum of understanding with SACE (Italian Export Credit Agency), enabling the provision of immediate support to enterprises in implementation of the numerous legislative measures. ("Liquidità" Decree Law No. 23 of 8 April 2020 and Article 56 "Cura Italia" Decree Law 18/2020);
- the Group banks adapted their risk assessment and monitoring tools to the regulatory changes implemented in response to the health emergency, for example in the management of customer relationships (access to moratoria).

In accordance with the "Guidelines on reporting and disclosure of exposures to measures applied in response to the Covid-19 crisis" published by the EBA¹³ and the Bank of Italy Communication of 30 June 2020 implementing the Guidelines, from the

¹¹ "Guidelines on reporting and disclosure of exposures subject to measures applied in response to the Covid-19 crisis", EBA (EBA/GL/2020/07).

¹² For example, those relating to particular economic sectors, major borrowers or particular categories of customers (corporate, small businesses, private individuals), assigning specific strategies and specialised monitoring to each of them.

¹³ EBA/GL/2020/07, published in June 2020.

reporting date of 30 June 2020 Mediocredito has prepared the public disclosure document, applying the discretionary choices allowed by the Guidelines, taking into account the size, nature, complexity and risk profile of intermediaries, as well as the specific characteristics of the banking sector and the impact that the Covid-19 has had in Italy.

Since these obligations are closely related to the pandemic situation, they are to be applied for a limited period of time. Specifically, the report is to be produced half-yearly (June and December) over an 18-month period. These Guidelines apply to less significant banks and banking groups and therefore, as a result of the change in the corporate structure, the disclosures for 31 December 2020 have been produced on an individual and consolidated basis. The disclosure provides details regarding:

- loans subject to “moratoria” that fall within the scope of the EBA Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the Covid-19 crisis;
- loans subject to forbearance measures applied as a result of the Covid-19 crisis;
- new loans guaranteed by the government or other public entities, according to the EBA templates.

2. Credit risk management policies

2.1 Organisational aspects

At 31 December 2020, the company organisational processes of the Group's individual banks still reflected the previous setup. As a result, although they were similarities, there were more local differences. A description is therefore provided below of the situation at that date and changes that are already underway to implement all the steps necessary to ensure the integration of the Group, which will be detailed in subsequent financial reports.

Mediocredito Centrale

In Mediocredito Centrale, the organisational structure relating to credit risk management establishes a clear separation between the business functions that originate and propose new loans and the functions that assess risk. For more complex transactions, in addition to scoring models, it uses an expert-based approach that analyses individual risk taking on the basis of various factors, including correctness of purpose, adequacy and temporal compatibility of cash flows generated for repayment of the debt, and level of risk of the structure. Where guarantees are used, on a complementary and collateral basis, these are also analysed and assessed. Operational monitoring of credit relationships with customers is carried out by the corresponding operational functions, in accordance with specific company rules. Those functions establish effective and immediate dialogue with the borrowing customers, from the appearance of the first signs of difficulty, such as late execution of repayments or requests for contractual waivers.

In particular, in the last few years the Bank has strengthened its credit monitoring and management platform through the use of specific IT tools supporting its operations, and through the adoption of related models to intercept/identify customers at risk of potential impairment, in order to ensure timely monitoring of positions based on customised alert thresholds and perform second and third level controls.

In the event of a deterioration in the risk profile of the borrower, the Chief Lending Officer Unit, reporting directly to the Chief Executive Officer, is responsible for managing the relationship. Specifically, its internal Credit Monitoring Unit monitors performing portfolios, proposing a change in classification, based on the powers assigned to it by the Board of Directors. Responsibility for managing the classified

positions and further changes in classification is then assigned to the Problem Loan Unit.

Banca Popolare di Bari and Cassa di Risparmio di Orvieto

In Banca Popolare di Bari, the management of customers is based on a comprehensive system of identification, review and amendment of operational mandates in relation to lending, which are summarised in an annually updated document (“Delegated Powers”). These mandates identify the corporate decision-making bodies and their powers based on the type of exposure (Enterprises/Private Individuals), the degree of risk of the customer and the type of credit facility. Apart from applications for small amounts, which are managed at local level, the application process is normally handled by the Central Lending Function. This function, which is part of the Lending Department and reports hierarchically to the Head Office, has the task of standardising the credit assessment processes and governing the disbursement processes. The entire process of credit risk taking and management by the risk taker units is implemented in accordance with the Bank’s strategic policies.

With regard to Cassa di Risparmio di Orvieto, in accordance with its previous configuration as a subsidiary of Banca Popolare di Bari, the processing of loan applications is normally carried out by the Central Lending Office, which is also responsible for identifying and monitoring the economic and legal Groups. For specific proposals coming under the responsibility of the Board, the competent structures of Banca Popolare di Bari are called upon to provide a prior opinion. In order to assess any related risks, strategic compliance with the existing Lending Policy is also verified.

2.2 Management, measurement and control systems

Mediocredito Centrale

Within the Internal Control System, the activities of controlling and measuring credit risk (level two controls) are the responsibility of the risk control function, which is assigned the task of monitoring:

- for individual exposures, the proper performance monitoring in terms of consistency of classifications, adequacy of provisions and fairness of the recovery process;
- for the portfolio, the trend of overall exposure to this risk, in keeping with the targets defined in the RAF.

From a regulatory perspective, credit risk is estimated on the basis of the standard methods envisaged by the prudential supervisory instructions applicable to both how the exposures are managed and any guarantees backing the positions. At management level, based on the provisions of the Lending Policies and in line with the definition of the operating limits, rating systems are used to assess the customer risk, which also support the preliminary application phase by setting prior levels of anomaly considered sustainable. Rating methods¹⁴ are also used.

- to periodically establish acceptance/refusal thresholds, which are integrated in the wider assessment process managed by specifically dedicated staff;
- to estimate expected returns from each loan, taking into account the risk component and the costs of all components in the production process.

With regard to counterparty risk, within the standardised methods, the definition of credit equivalents is estimated by the current value method, recommended by the Prudential Supervisory regulations. In addition, with reference to derivatives, an additional capital requirement is calculated for the risk of unexpected losses generated by fluctuations in the fair value deriving from changes in the creditworthiness of counterparties (Credit Value Adjustment – CVA). The Bank has also issued specific guidelines aimed at limiting exposure to counterparty risk in relation to derivatives through the collateralisation requirement obtained through a Credit Support Annex (CSA), typically with collateral consisting of cash or EMU government securities and a margining frequency of at least weekly and a Minimum Transfer Amount (MTA) of no more than €1 million. In addition, these guidelines, with regard to the exposure deriving from repurchase agreements, include risk mitigation techniques in the form of General Master Repurchase Agreements (GMRAs) with at least weekly margining and a maximum Minimum Transfer Amount (MTA) of €1 million.

With regard to concentration risk, the Bank, in addition to verifying systematic compliance with the rules on “large exposures”¹⁵ and “risk activities with related parties”¹⁶, monitors the level of concentration of exposures with regard to the following components:

¹⁴ In 2020, the existing rating model was upgraded, with the aim of having a consistently up-to-date tool in terms of performance and greater coverage in terms of the scope of rated companies.

¹⁵ Part Two, Chapter 10, Bank of Italy Circular 285/2013 and Articles 387 and following of Regulation EU 575/2013.

¹⁶ Title V of Circular 263 of 2006.

- single name: by means of the Granularity Adjustment (GA) envisaged by the prudential supervisory regulations¹⁷;
- geosectoral: through methods based on practices prevalently adopted by the banking industry and approved by the Regulator.

To this end, internal exposure limits have been set within the Lending Policies – in accordance with the rules on Large Exposures and in compliance with parameters compatible with the business plan and the RAF and maintaining balanced and sustainable limits in relation to the size of the balance sheet – that are based on the counterparty ratings, in line with a strategy aimed at growth in lending to particular customer sectors. The management of credit risk is carried out using a forward-looking approach, which includes stress testing to assess vulnerability to exceptional but plausible events related to specific assumptions about individual economic and financial variables (sensitivity analyses) or to combined movements of a set of variables under adverse scenarios (scenario analyses). In addition to its regulatory function, the forward-looking nature of the stress-testing programme enables the achievement of concrete management objectives by providing information on the Bank's risk exposure, the adequacy of the related mitigation and control systems and the ability to handle exceptional but plausible losses. The stress-testing programme therefore involves all levels of the Company (Bodies and Structures with different roles and responsibilities), to identify not only the most appropriate stress assumptions, but also the necessary organisational and mitigation measures based on the results of the stress tests. The Bank uses prudent valuation criteria in defining the severity of adverse scenarios and shocks, which are also developed with the aid of recognised external sources together with appropriate internal assumptions to better capture the Bank's vulnerabilities (linked for example to its business model). The stress testing methodology adopted by the Bank involves a forward-looking assessment of the effects arising from:

1. significant changes in one or more market factors (sensitivity analysis);
2. combined movements of a set of economic and financial variables in the event of an adverse scenario (scenario analysis).

¹⁷ Bank of Italy Circular 285, Part One - TITLE III – Chapter 1 - Annex B.

The following specific stress scenarios in line with the conditions arising from the pandemic crisis were developed in 2020:

1. Pre-Covid scenario: considering the latest data without taking into account the effects on the economy and the risk environment from the economic and health crisis generated by the Covid-19 pandemic;
2. Covid scenario: considering macroeconomic and risk scenarios consistent with the current emergency, under baseline and adverse conditions, with regard to actual and forecast data¹⁸.

In the specific context of the pandemic, the guidance provided by the European and Italian Supervisory Authorities has given rise to the need to carefully monitor and assess the counterparties that have benefited from the support measures deriving from the government decrees. The early warning system used for monitoring has limitations in detecting anomalies or possible difficulties or impairment of counterparties for positions that have been granted payment moratoria. In this respect, management actions were therefore identified to detect any future difficulties of customers to enable active support to be given to counterparties with temporary problems related to the pandemic. These actions were accompanied by a comprehensive analysis to identify potential risk factors and, where necessary, detailed reviews to assess the current or future financial difficulty of individual counterparties. This activity also had an impact on the consequent assessment of the significant increase in credit risk (SICR) and, in particular, on the granting of forbearance measures, in compliance with the existing regulations and the recommendations from the European Supervisory Authority. As a result of these new procedures, the level two controls were also partly revised and added to, with performance analyses and sampling of positions to be verified in the economic sectors most affected by the crisis resulting from the Covid-19 pandemic.

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¹⁸ The Covid situation is in itself an adverse market condition and therefore the baseline scenario is the expected scenario, i.e., the one most likely to be realised, whereas the adverse scenario is a situation that differs from the baseline and is characterised by an even higher level of risk.

The credit risk controls carried out by the Bank are governed by specific internal rules to guarantee the efficiency and effectiveness of the monitoring process, both in the ordinary and extraordinary lending phases.

The level one controls for the lending area¹⁹ are carried out by customer relationship managers, with the aid of IT instruments used in all phases of the relationship with the customer. Specifically, the electronic lending record, which is used in the lending approval and review process, incorporates i) the main rules stemming from the lending policies, ii) the internal rating system, and iii) the main sources of credit scores, to enable monitoring of credit quality already at the disbursement phase. The ordinary monitoring process involves the fund managers, the Bodies of the Bank's Business Department and the structures of the Lending Department²⁰.

Credit risk monitoring includes the verification of compliance both with the concentration limits established by the Bank of Italy ("Large Exposures" regulations) and with the general guidelines established as part of the planning of lending activities. Specifically, the commercial and control structures carry out detailed monitoring, according to specific needs, of branches and business sectors are experiencing economic difficulties, even when they are only potential or temporary. With regard to CR Orvieto, in 2020 the management of bad loans was carried out centrally by BP Bari (except for the use of a specialised external provider for specific assets).

In terms of the assumption of risks towards each category of customer, BP Bari and, consequently, CR Orvieto, have adopted different rating models based on the type of counterparty. These models are integrated into the company processes through the use of the outsourcer Cedacri. Specifically, two integrated risk quantification tools are used for the "Private Individuals" segment:

- the rating system developed in collaboration with the IT outsourcer Cedacri, enables the classification of customers according to probability of default. Clustering of these customers, which also takes account of their type, enables the capture of the specific characteristics of private individuals and more precise allocations between rating classes for entities that do not have performance anomalies;

¹⁹ Aimed at identifying, measuring, managing and monitoring credit risk at the origination stage.

²⁰ In the case of CR Orvieto, where necessary, the involvement of BP Bari is also envisaged based on specific escalation processes.

- a specific acceptance model created by the provider CRIF, whose purpose is to strengthen the assessment of the credit rating of customers in the early months of the customer relationship, i.e. when a sufficiently detailed information set is not available.

In addition, BP Bari has implemented the acceptance model for Individual Firm customers, for which no financial information is available, so that the Bank's strategic decisions at the initial disbursement stage can be supplemented with a credit rating assessment, either relating to performance for "existing customers" or acceptance for new customers.

The internal rating system used for the Enterprises is an integrated tool for assessing the credit rating of the entire loan portfolio. Specifically, the rating is assigned to each customer using the following forms:

- analysis of the performance of the relationship at the Bank;
- analysis of the performance of the customer in the industry²¹;
- financial statement analysis.

The Bank has also completed the development of internal assessment tools to measure the credit risk of banking counterparties and public entities²²: credit ratings are assigned on the basis of the external rating, where available, or, if not available, for banking counterparties and companies operating in the financial sector, on the basis of a shadow rating model that assesses areas including profitability, cost of credit, size, liquidity, etc., and for public entities, on the basis of the external rating assigned to the administrative region in which the entity operates.

In order to make the lending approval and management process more effective and efficient, the Bank has also developed an internal rating override process, in addition to using a specific qualitative questionnaire, to supplement the purely statistical assessment carried out by the rating model by using qualitative information and identifying additional elements, also of a quantitative nature, which by nature cannot be captured in an automatic and standardised manner. In addition, in 2020 the Bank continued to use the rating model for Corporate customers, developed in a pool with other banks and in collaboration with the IT outsourcer Cedacri, in accordance with the regulatory requirements for Advanced Internal Rating Based (AIRB) systems. This

²¹ Produced based on data from Central Credit Register.

²² The outsourcer Cedacri does not provide specific credit assessment tools for these categories.

model uses a larger dataset of information and provides more robust and stable estimates over time. The rating process for this customer segment may also be subject to “certification” for counterparties that have submitted financial statements or are in first-time acceptance, and/or for larger counterparties (so-called Large Groups). There is also an override process aimed at adding information to the customer credit risk assessment that cannot be modelled and is therefore not captured by the rating model.

The rating model project is part of the primary activities for the integration of the newly established Banking Group, in order to ensure a uniform approach to the assumption and measurement of credit risk.

To continually increase the effectiveness of the credit performance monitoring process, the Bank uses a specific procedure for the management of problem loans, which streamlines the presentation of credit positions in default or with problem issues (even only potential), providing timely information to the various management and control levels. This tool constitutes a single pool into which information from the credit risk measurement instruments and the identification of problem loans is collected in a uniform and structured manner, according to similar parameters used by BP Bari and CR Orvieto. Specifically, with regard to the management of potential problem loans and problem loans, the Bank has continued to revise its processes and procedures for detecting, monitoring and managing problem loans, with a number of upgrades to the Credit Quality Management (CQM) procedure which enables positions to be divided into 10 management classes – each of which represent a different degree of risk, based on the supervisory regulations or due to symptoms of anomaly or potential problems requiring specific monitoring, and are identified automatically or entered manually by the central offices of the Lending Department (on their own initiative or on instructions from the Relationship Manager/Advisor) – that show signs of anomaly not yet automatically detected by the procedure²³.

As part of its credit performance monitoring, the Bank, in line with supervisory regulations, has implemented a process for assessing the consistency of credit classifications, the adequacy of provisions and the effectiveness of the recovery process. In addition, also in accordance with regulatory requirements, a credit performance monitoring framework has been developed which involves large-scale

²³ See the individual financial statements of Banca Popolare di Bari for details.

and specific checks, including by means of a name-based analysis of the credit exposures.

As part of the strengthening of credit risk management strategies, scenario analyses under “stress” conditions have been developed: the stress scenarios are projected through specific “satellite” models on both the probability of default and the expected stock of impaired loans.

2.3 Expected loss measurement methods

The measurement method for expected losses derives from IFRS 9 and is therefore consistent across the Group Banks.

This financial reporting standard establishes a close link between credit risk management and the recognition and measurement of expected losses to be recognised through profit or loss as impairment losses. This connection is based on a process designed to provide evidence of whether or not there has been a significant deterioration in the credit quality of a financial instrument at the reporting date since the date of initial recognition.

According to the reporting standard, assets and commitments that fall within a well-defined scope²⁴ are divided into three categories (stages) with different approaches to the quantification of impairment losses. This classification is based on transfer criteria linked to the credit quality of the item examined, which affect the way impairment losses are recognised and differ with respect to time period and recognition of interest income. Therefore, the Bank has implemented instruments which, in line with the dictates of the standard, allow it to automatically measure significant increases in credit risk. These instruments are differentiated with respect to the reference portfolio.

In general, in the absence of a significant increase in credit risk since its initial recognition, the financial instrument is maintained in stage 1 and an impairment loss is recognised in the financial statements equal to the 12-month expected credit losses.

²⁴ The scope of interest of IFRS9 is:

1. financial assets classified in the hold to collect portfolio and measured at amortised cost;
2. financial assets classified in the hold to collect and sell portfolio and measured at fair value through OCI;
3. loan commitments (no if at fair value through P&L);
4. guarantees (no if at fair value through P&L);
5. trade receivables.

If there has been a significant increase in credit risk since initial recognition, the financial instrument is assigned to stage 2 and an impairment loss is recognised equal to the lifetime expected credit losses (i.e. the expected credit losses that result from all possible default events over the expected life of a financial asset). In compliance with IFRS 9, estimates of the expected loss are made including a prudent point-in-time adjustment with recalibration on the average rate of decay of the proprietary portfolio, forward-looking scenarios and through-the-cycle calibrations. See the individual financial statements for more details.

Changes due to Covid-19

In 2020, Mediocredito Centrale made several changes to the above methodology mainly related to the pandemic, in line with the guidelines and recommendations provided by the Supervisory Authorities and regulators (ECB, EBA and Bank of Italy), which can be summarised as follows:

- updating the forward-looking factors used to estimate PDs by including macroeconomic scenarios that take into account the effects of the pandemic in their satellite models;
- prudential treatment of positions subject to moratoria.

In addition, to standardise the provisioning treatment for central government exposures with a zero risk weight²⁵ (RW=0%), the calculation of loan loss provisions includes the amount of exposure guaranteed by the Central Guarantee Fund, which previously had 0% coverage (LGD = 0%).

Assessment of significant increase in credit risk (SICR)

As mentioned in the introduction, no methodological changes have been made in terms of assessing significant increases in credit risk in any of the Group Banks, however the Banks have worked on their operational approaches.

At Mediocredito Centrale, the sector analysis used to determine the adjustments for the moratoria granted to enterprises operating in the most affected sectors was revised during the year (see the section below). This analysis is periodically updated, also in

²⁵ Specifically, coverage in terms of loan loss provisions is provided for Italian government securities held in the portfolio.

response to the rapidly changing pandemic situation and its sectoral impact and is used within the lending policies.

In BP Bari and CR Orvieto, monitoring was carried out both on the economic sectors most affected by the pandemic (e.g. tourism, recreational activities) and on the overall changes in the stage 2 dynamics.

Expected loss measurement

The methods used to measure expected losses have a common feature across all the Group Banks, which consists of revising the macroeconomic scenarios underlying the forward-looking adjustments required by IFRS 9.

Within Mediocredito Centrale, the macroeconomic scenarios were updated to April 2020 to incorporate the effects of the pandemic on profit or loss adjustments. In line with the EBA recommendations, to mitigate possible pro-cyclical effects, with a consequent difficulty in access to credit for enterprises, the volatility of the effect of increasing forward-looking multipliers²⁶ has been reduced, particularly in 2020, by using an average multiplier to be applied to all three years (2020, 2021 and 2022). In addition, a prudent solution has been adopted for determining the adjustments to positions subject to moratoria, also in view of the higher risk observed on the portion of the portfolio²⁷.

For BP Bari and CR Orvieto, the adjustment of the determination of impairment losses on the performing portfolio has been implemented through a specific update of the forward-looking macroeconomic scenarios underlying the IFRS 9 models used to estimate impairment. These reflect the fact the pandemic emergency has profoundly changed Italy's economic and financial outlook, generating expectations of an economic downturn with long-lasting repercussions and adverse impacts marked by a high degree of uncertainty. The forward-looking estimates have been carried out using specific satellite econometric models that enable the correlation of the target variable (system decay rates) to the explanatory macroeconomic variables (GDP, Unemployment and Inflation) based on three different scenarios that have been assigned a specific probability of occurrence, on the basis of expert opinion and in

²⁶ In line with best practice, the forward-looking adjustment to the risk parameters is applied to the following three years from the reporting date.

²⁷ See the individual financial statements for more details.

collaboration with the structures responsible for preparing the Business Plan, in order to maintain consistency with the plan forecasts.

See the individual financial statements for more details.

2.4 Credit risk mitigation techniques

An essential component for proper monitoring of credit risk is adequate management of credit risk mitigation techniques and tools, both during the acquisition stage and during subsequent monitoring of the value and efficacy of the guarantees. The Group Banks have therefore adopted an internal procedure supported, where appropriate, by IT tools for monitoring the guarantees acquired. The legal validity of the guarantees received is checked upon acquisition by the operational units, which are responsible for checking their certainty and effectiveness, prior to disbursement. The guarantees acquired are normally valid for the entire duration of the loans and facilities granted.

The purpose of the collateral or personal guarantees is to secure the loan and not to replace the borrowers' capacity to honour their obligations (creditworthiness). Creditworthiness is assessed by the functions responsible for credit inquiries mainly on the basis of the examination of the sources from which the repayment will be made (customer – transaction) and only secondarily the guarantees, considering both the present and future situation of the borrower company and the group it belongs to, where applicable.

The use of credit risk mitigation systems to calculate capital absorptions, using the standard approach, is governed by internal guidelines and by a specific operating procedure, which governs the method of assessing and monitoring their eligibility as tools for mitigating credit risk and the related capital absorption.

In the Public Disclosure, a specific section dedicated to risk mitigation techniques is provided for, with qualitative and quantitative information. This document is made available on the Bank's website in compliance with the provisions of the Prudential Supervisory regulations (see Part One, Title III – Chapter 2 and Part Two, Chapter 13 of Circular 285/2013).

The internal guidelines have the following objectives:

- to foster correct management of the loan and of the connected guarantees;
- to maximise the risk mitigation effect afforded by the protective instruments;
- to optimise the capital requirements according to the Basel recommendations (Credit Risk Mitigation);

- to define the general rules for the eligibility, valuation, monitoring and management of the collateral and of the personal guarantees.

The differences in the identification of the forms of guarantee used to mitigate credit risk stem from the different target customers of the Group Banks.

Mediocredito Centrale

The main types of guarantees suitable and used for Credit Risk Mitigation are:

- Real guarantees – Mortgages on residential or non-residential properties and, marginally, a real financial guarantee in the form of cash collateral;
- Personal sureties – Central Guarantee Fund (backed by the State guarantee), SACE (foreign trade insurance service).

Mediocredito also allows pledges on current accounts held with the Bank as guarantees. Finally, we note the presence of:

- cash collateral used to cover a position in derivatives with a leading Italian banking counterparty. From the contractual perspective, this guarantee is governed by an ISDA standard CSA;
- cash collateral used to cover repurchase agreements entered into with leading banking counterparts. From the contractual perspective, this guarantee is governed by a General Master Repurchase Agreement (GMRA).

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In view of the high volumes of business in the residential mortgage sector, the mitigation technique most used by BP Bari and CR Orvieto is still that of obtaining mortgage collateral, followed by pledges of securities (mainly government securities and mutual funds) and pledges of cash.

The value of financial collateral is monitored on an ongoing basis, taking into account a mark-to-market quotation, where available. Mortgage guarantees are subject to periodic valuation updates based on both statistical analysis and expert appraisals, in line with the regulatory requirements. Specifically, financial collateral is subject to controls on the deviation in value from the previous month's value, controls on the comparison of the value with the eligible amount of the collateral, and the percentage deterioration in the coverage level.

3. Impaired credit exposures

Regulation EU 630/2019 took effect on 26 April 2019, requiring banks to record provisioning carried out relative to non-performing exposures, for disbursements occurring after 26 April 2019, based on calendar provisioning, taking into account the ageing of the exposure and its type, with a calendar differing according to whether the transactions are secured or unsecured. In particular, for unsecured non-performing exposures, a three-year calendar is used, whereas a longer calendar is used for secured exposures: nine years for exposures with real estate guarantees and seven years for other types of guarantees. The calendar provisioning introduces a binding Pillar I requirement for all banks. The Group Banks have adapted their application procedures to enable compliance with the new regulations on loan provisioning.

3.1 Management strategies and policies

At 31 December 2020, the strategies and policies for managing impaired credit exposures still reflected the individual nature of the Banks that make up the Banking Group. These areas will be subject to appropriate review in 2021 in order to ensure uniformity and consistency of treatment throughout the Group.

Details are provided below of the activities carried out in the individual banks.

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The organisational unit responsible for Problem Loans carries out the performance checks on the status of the individual positions and related measurements, based on criteria that are systematically monitored. The risk control function carries out checks on the correct execution of the performance monitoring, with particular reference to impaired loans.

In consideration of the characteristics of its own portfolio, the external situation and its own management capacities, the Bank has selected the internal management approach for impaired loans. To that end, it periodically prepares and updates the operating management plan for impaired loans for the short term (usually a year) and medium/long-term (three years) and sends it to the regulatory authorities for informational purposes. Objectives are established for levels of non-performing loans (NPLs), before and after value adjustments, in amounts and as a percentage of total credit exposures towards customers, providing details of inflows and outflows from the

non-performing administrative categories and the methods used to decrease the stock of impaired loans.

The NPL management strategy is integrated with the RAF, the ICAAP budget processes and the Bank's remuneration and incentive policies.

The Bank's Board of Directors, based on a proposal from the Chief Executive Officer:

- annually defines and updates the NPL operating management plan;
- assesses and monitors, at least quarterly, progress made with respect to the objectives set in the plan;
- updates the Credit Regulations which establish criteria for classification, measurement and management of NPLs;
- identifies the units responsible for classifying, measuring and managing NPLs and defines their management objectives;
- verifies that the selected organisational structure is adequate to limiting the margin of management discretion for individuals involved in the process of classifying, measuring and managing NPLs, in the case of conflicts of interest;
- approves the objective systems used to select counterparties in the case of outsourcing and monitors the results;
- ensures adequate internal controls over the NPL management processes.

In general, in relation to the methods of classifying impaired loans, in addition to the criteria defined by the Supervisory Authority (for bad loans, unlikely-to-pay exposures, past-due impaired exposures, which make up the non-performing portfolio) and a check is carried out on events relating to the borrower customers.

The accounting status represents the customer's overall position, as stated in the financial statements, and reported in the Bank of Italy's Accounts Matrix. It refers the customer as a whole and therefore does not refer to the individual credit lines granted or the individual outstanding exposures. As a result, for customers that have several loan products, the reclassification assessment is made considering the total debt exposure, with consequent verification and application of the uniform classification for all the credit lines used, paying particular attention to analysing all the customer's positions in the databases.

The forborne exposures are shown within each class. Depending on the case, these exposures are classified as Bad Loans, Unlikely-to-Pay or Impaired Past-due

exposures and do not form a separate category of impaired assets. The concept of forbearance refers to individual loan contracts. Only lending relationships held with customers that have been granted concessions should therefore be reclassified as forborne.

For credit exposures classified as past due, UTP and bad loans, the Bank has minimum loss provisioning percentages specifically set out in its internal rules, which also specifically identify the circumstances in which these minimum provisioning percentages can be waived. The criteria for determining the write-downs and the related provisions are subject to benchmarking and continually reviewed and updated to ensure a correct representation of the Bank's risk profiles, as well as compliance with the applicable regulatory provisions.

Interest on arrears is included in the item Interest income of the Income Statement only if effectively collected, since the part not collected is entirely written down.

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The strategies of the Banks for the management of impaired loans envisage a gradual reduction in volumes over time, to be achieved, primarily, through meticulous, effective and careful management of positions that are already impaired. Particular emphasis is also placed on ensuring the best management of relationships that show early signs of impairment. The procedures for classifying relationships are governed by a specific policy that specifically identifies the circumstances in which the classification between the various classes of impairment is made, as well as the events that require further analysis concerning the correct assignment of the statuses. At the same time, another policy is used to determine the doubtful loans, which identifies the criteria to be used to make the provisioning calculation, taking into account, among other things, the technical types involved, and the guarantees acquired.

From an operational perspective, at the beginning of 2018, Banca Popolare di Bari and Cassa di Risparmio di Orvieto modified their organisational structure and related internal processes in order to optimise the management of impaired loans. Specifically, they outsourced the management of almost all medium to small loans classified as bad loans and UTP, assigning a specific engagement to a company belonging to a leading group operating in the debt collection sector, with appropriate means, structure, experience and professional expertise. Larger positions, on the other hand, have

remained under internal management and are continuously and systematically monitored by specific structures dedicated exclusively to the management of those relationships.

As regards CR Orvieto, at 31 December 2020 there were no expectations of the sale of specific clusters of NPLs and the provisioning therefore did not include “sale scenarios” in the estimate of expected losses.

3.2 Write-offs

Write-offs of uncollectable accounting items and consequent recognition of losses may occur in the following cases:

- uncollectability of the receivable, based on certain and precise elements;
- renunciation of the loan, based on: unilateral withdrawal of the loan and residual amount against settlement agreements; and
- loan disposals.

In relation to various cases in which write-offs are possible, it is necessary, also for tax reasons, to keep all documents able to demonstrate the validity of the decision made, by way of example documents indicating the activities carried out and the date on which collection attempts ended, even if unsuccessful. The amount to be written off is based on the gross accounting balance at the customer level and must be fully written down.

Additionally, under certain circumstances it is necessary to recognise partial impairment of gross loans in order to adjust them to the Bank’s effective collection rights. These circumstances may arise, for example, in the case of provisions not committed, in the context of bankruptcy proceedings, on the basis of which a lower receivable is recognised than that in the books. In these cases, it is necessary to recognise impairment based on a resolution by the decision-making body, identified on the basis of the current delegations of powers (indicating the loan allowed as the “amount offered”). Note that portions of loans subject to write-off must already be entirely provisioned and that approved partial write-offs are included when calculating total losses in the case of settlements following the write-off.

The situations identified that could lead to a write-off, apart from the other situations identified on a case-by-case basis by the Decision-Making Body, refer to the unsuccessful outcome of recovery actions connected to bankruptcy procedures and

the waiver of loans, as well as long periods of time spent under defaulted loans and bad loans for which a settlement agreement has been entered into with the borrower that has been duly fulfilled through the collection of the agreed amount.

3.3 Purchased or originated impaired financial assets

In accordance with IFRS 9 “Purchased or Originated Credit Impaired” (POCI) assets are defined as exposures that are impaired at the purchase or origination date. Specifically, an exposure is identified as POCI as a result of the purchase of an impaired loan from a third party, i.e. as a result of:

- the derecognition of a previous relationship to which substantial contractual modifications have been made (see IFRS 9, paragraph B5.5.26). In this case, since there is evidence that the modified financial asset is impaired at initial recognition, the new financial asset is recognised as an originated impaired financial asset (POCI), unless the instrument fails the SPPI test;
- the provision of new loans to counterparties with a high credit risk profile, not aimed at maximising recovery value.

POCI loans are therefore initially entered at stage 3 and have specific properties with respect to the staging process and the consequent calculation of the expected loss. From the date of initial recognition and for the entire remaining lifetime of these instruments, the impairment is always equal to the expected lifetime credit loss. Consequently, the expected losses on POCI assets, even if they return to performing status, can never be calculated over a 12-month period (as is the case for stage 1 positions).

At the level of the individual Group Banks, in Banca Popolare di Bari the impaired loans qualifying as purchased or originated credit impaired financial assets consist of defaulted positions acquired by the Bank, resulting from the acquisition of the assets of the former Banca Popolare delle Province Calabre, whereas Mediocredito Centrale and Cassa di Risparmio di Orvieto do not have any impaired loans qualifying as purchased or originated credit impaired financial assets.

At consolidated level, in accordance with the provisions of IFRS 9, all the loans of Banca Popolare di Bari and Cassa di Risparmio di Orvieto that were classified as stage 3 on the date of acquisition of control by MCC have been considered as POCI.

4. Financial assets subject to commercial renegotiation and forbore exposures

According to the EBA Implementing Technical Standard (ITS), forbearance measures are granted to borrowers by a bank, when they find themselves, or are about to find themselves, in difficulty in fulfilling their financial commitments²⁸. An exposure which has been granted a forbearance measure by the bank must be classified among impaired forbore exposures or among other forbore exposures, regardless of whether the measure creates a loss for the bank. The following are considered forbearance measures:

- a change in the contractual terms and conditions which the borrower would not be able to comply with, entirely or partially, in consideration of the financial difficulties they find themselves in, aimed at making the debt more sustainable for the borrower and which would not be granted if the borrower was not having financial difficulties;
- a total or partial refinancing of a problem loan, which would not be granted if the borrower was not having financial difficulties.

The following are considered evidence of forbearance measures:

- a modification of the contractual terms favourable to the borrower (forbearance in absolute terms);
- a modification of the contractual terms resulting in the application of more favourable terms and conditions with respect to those which the bank applies to customers with the same risk profile as the borrower (forbearance in relative terms);
- the exercise of contractual clauses whose application is left to the discretion of the borrower if the bank approves the exercise of those clauses or finds that the borrower is in financial difficulty.

Accordingly, for renegotiations of a commercial nature, which are not included in the cases discussed in this section, the assessments consider the financial viability of the actions requested and the decisions taken never result in a change in the status of the position. The rescheduling of debts due to current or prospective financial difficulties

²⁸ European Banking Authority, EBA FINAL draft Implementing Technical Standards on Supervisory reporting on forbearance and non-performing exposures under article 99(4) of Regulation (EU) No 575/2013.

of customers, which are included in the cases discussed in this section, are based on verification of the sustainability of the commitments with respect to the received and expected cash flows. This assessment is carried out through an ordinary preliminary examination and approval process. Any forbearance measures adopted are recorded in the company systems and monitored over time by the designated structures, in compliance with the applicable regulations. Any changes to be made to the classification of relationships benefiting from forbearance measures are expressly governed by internal rules concerning the classification of loans.

In 2020, the Covid19 emergency prompted the government and trade associations to support the economy by granting legislative moratoria, which were accompanied by non-legislative moratoria, i.e. voluntary initiatives coordinated within the banking industry. The characteristics of the moratoria granted in the context of Covid19, as set out in the EBA Guidelines²⁹ implemented by the Bank of Italy, can be summarised as follows:

- they must not be limited to borrowers in financial difficulty as a result of the pandemic crisis;
- only changes to the schedule of payments for a predefined limited period of time are envisaged and no other terms and conditions (such as interest rate) are changed;
- the same conditions are offered for the changes of the payment schedules to all exposures subject to the moratorium, even if the application of the moratorium is not compulsory for obligors;
- the moratorium does not apply to new loan contracts granted after the date when the moratorium was announced.

The applicability of the Guidelines, initially envisaged until 30 September 2020, was extended by the EBA to 31 March 2021 as a result of the evolution of the pandemic, also being monitored by the EBA for its effects on the economy. In the updated Guidelines on legislative and non-legislative moratoria, the EBA clarified that only loans suspended (or for which the suspension has been extended) under general payment moratoria not exceeding a total of nine months, including previously granted payment suspensions, are eligible for application of the Guidelines.

²⁹ EBA GL/2020/02, Guidelines on legislative and non-legislative moratoria on loan repayment.

Mediocredito Centrale has decided to adopt a prudent solution for the treatment of moratoria, in particular for the determination of impairment losses on these positions, details of which are provided in section 2.3 Expected loss measurement methods – Changes due to Covid 19.

Quantitative information

A. Credit quality

A.1 Impaired and non-impaired loan exposures: amounts, value adjustments, trend and economic distribution

A.1.1 Prudential consolidation - Distribution of financial assets by past-due range (carrying amount)

Portfolios/risk stages	Stage 1			Stage 2			Stage 3		
	From 1 day to 30 days	From over 30 days to 90 days	Over 90 days	From 1 day to 30 days	From over 30 days to 90 days	Over 90 days	From 1 day to 30 days	From over 30 days to 90 days	Over 90 days
1. Financial assets measured at amortised cost	19,067	-	113	31,217	42,802	52,182	3,305	4,006	214,105
2. Financial assets measured at fair value through other comprehensive	-	-	-	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-	-	-	-
Total	31/12/2020 19,067	-	113	31,217	42,802	52,182	3,305	4,006	214,105

A.1.2 Prudential consolidation - Financial assets, commitments to disburse funds and financial guarantees given: changes in total value adjustments and total provisions

Causes/stages of risk	Total value adjustments									
	Assets in stage 1					Assets in stage 2				
	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual impairment	of which: collective impairment	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual impairment	of which: collective impairment
Opening balance (gross amount)	10,749	588	-	-	11,336	5,657	-	-	-	5,657
Increases in acquired or originated financial assets	-	-	-	-	-	-	-	-	-	-
Reversals different from write-offs	(738)	(584)	-	-	(1,322)	(454)	-	-	-	(454)
Net losses/recoveries on credit impairment	5,941	1,052	-	-	6,993	1,418	-	-	-	1,418
Contractual changes without cancellation	-	-	-	-	-	-	-	-	-	-
Changes in estimation methodology	-	-	-	-	-	-	-	-	-	-
Write-off	-	-	-	-	-	-	-	-	-	-
Other changes	23,140	13	-	-	23,154	-	-	-	-	-
- of which business combinations	22,734	13	-	-	22,748	40,582	-	-	-	40,582
Closing balance (gross amount)	39,092	1,069	-	-	40,161	47,203	-	-	-	47,203
Recoveries from financial assets subject to write-off	-	-	-	-	-	-	-	-	-	-
Write-off are not recognised directly in profit or loss	-	-	-	-	-	-	-	-	-	-

A.1.2 Prudential consolidation - Financial assets, commitments to disburse funds and financial guarantees given: changes in total value adjustments and total provisions

Causes/stages of risk	Total value adjustments						Total provisions for commitments to disburse funds and financial guarantees given			Total
	Assets in stage 3					Of which: purchased or originated impaired financial assets	Stage 1	Stage 2	Stage 3	
	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual impairment	of which: collective impairment					
Opening balance (gross amount)	81,023	-	-	81,023	-	-	973	439	300	99,729
Increases in acquired or originated financial assets	-	-	-	-	-	-	-	-	-	-
Reversals different from write-offs	(276)	-	-	(276)	-	-	(214)	(150)	(300)	(2,716)
Net losses/recoveries on credit impairment	25,302	-	-	17,778	7,524	(1)	179	3,324	(21)	37,195
Contractual changes without cancellation	-	-	-	-	-	-	-	-	-	-
Changes in estimation methodology	-	-	-	-	-	-	-	-	-	-
Write-off	(32,931)	-	-	-	-	(32,931)	-	-	-	(32,931)
Other changes	244,718	-	-	54,754	189,964	254,492	3,059	694	834	313,040
- of which business combinations	244,213	-	-	54,249	189,964	1,291	3,059	694	834	312,129
Closing balance (gross amount)	317,836	-	-	153,279	197,488	221,560	3,997	4,307	813	414,317
Recoveries from financial assets subject to write-off	11	-	-	11	-	-	-	-	-	-
Write-off are not recognised directly in profit or loss	(418)	-	-	(418)	-	-	-	-	-	(418)

A.1.3 Prudential consolidation - Financial assets, commitments to disburse funds and financial guarantees given: transfer between various credit risk stages (gross and nominal values)

Portfolios/risk stages	Gross values/nominal value					
	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3	
	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
1. Financial assets measured at amortised cost	470,827	417,426	108,355	10,150	70,852	1,905
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
3. Financial instruments classified as held for sale	-	-	-	-	-	-
4. Loan commitments and financial guarantees given	84,647	183,974	7,531	2,171	13,657	634
31/12/2020	555,474	601,400	115,886	12,321	84,509	2,539

A.1.3a Loans subject to Covid-19 support measures: transfer between various credit risk stages (gross and nominal values)

Portfolio/quality	Gross values/nominal value					
	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3	
	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
A. Financial assets at amortised cost	161,164	139,008	10,388	427	6,677	312
A.1 EBA-compliant moratoria loans and advances	89,027	133,348	10,002	407	6,076	220
A.2 Other loans and advances with Covid-19 related forbearance measures	-	-	386	-	-	-
A.3 Newly originated loans and advances	72,137	5,660	-	20	601	92
B. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-
B.1 EBA-compliant moratoria loans and advances	-	-	-	-	-	-
B.2 Other loans and advances with Covid-19 related forbearance measures	-	-	-	-	-	-
B.3 Newly originated loans and advances	-	-	-	-	-	-
Total 31/12/2020	161,164	139,008	10,388	427	6,677	312

A.1.4 Prudential consolidation - On-balance sheet and off-balance sheet loan exposures to banks: gross and net amounts

Type of exposure/Amounts	Gross Exposure		Total value adjustments and total provisions	Net Exposure	Total partial write-offs*
	Impaired	Non-impaired			
A. On-balance sheet credit exposures					
a) Bad loans	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
b) Unlikely to pay	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
c) Non-performing past due	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
d) Performing past due	X	-	-	-	-
- of which: forborne exposures	X	-	-	-	-
e) Other performing exposures	X	2,491,117	2,994	2,488,123	-
- of which: forborne exposures	X	-	-	-	-
Total (A)	-	2,491,117	2,994	2,488,123	-
B. Off-balance sheet credit exposures					
a) Non-performing	-	X	-	-	-
b) Performing	X	184,691	-	184,691	-
Total (B)	-	184,691	-	184,691	-
Total (A+B)	-	2,675,808	2,994	2,672,814	-

* Values to be shown for informational purposes

A.1.5 Prudential consolidation - On-balance sheet and off-balance sheet loan exposures to customers: gross and net amounts

Type of exposure/Amounts	Gross Exposure		Total value adjustments and total provisions	Net exposure	Total partial write-offs*
	Impaired	Non-impaired			
A. On-balance sheet credit exposures					
a) Bad loans	180,290	X	145,056	35,234	9,896
- of which: forborne exposures	14,370	X	7,258	7,112	-
b) Unlikely to pay	322,700	X	161,751	160,949	-
- of which: forborne exposures	142,618	X	56,091	86,527	-
c) Non-performing past due	52,544	X	11,030	41,514	-
- of which: forborne exposures	11,970	X	1,999	9,971	-
d) Performing past due	X	151,772	6,398	145,374	-
- of which: forborne exposures	X	8,508	254	8,254	-
e) Other performing exposures	X	10,840,590	78,042	10,762,548	-
- of which: forborne exposures	X	125,130	4,690	120,440	-
Total (A)	555,534	10,992,362	402,277	11,145,619	9,896
B. Off-balance sheet credit exposures					
a) Non-performing	35,499	X	3,887	31,612	-
b) Performing	X	2,347,603	8,837	2,338,766	(18)
Total (B)	35,499	2,347,603	12,724	2,370,378	(18)
Total (A+B)	591,033	13,339,953	432,154	13,516,462	9,878

* Values to be shown for informational purposes

A.1.5a On-balance sheet credit exposures to customers subject to Covid-19 support measures: gross and net amounts

Type of exposure/Amounts	Gross Exposure	Total value adjustments and total provisions	Net exposure	Total partial write-offs*
a) EBA-compliant moratoria loans and advances	-	-	-	-
b) Other loans and advances with Covid-19 related forbearance measures	-	-	-	-
c) Newly originated loans and advances	-	-	-	-
B. OFF-BALANCE SHEET UNLIKELY TO PAY EXPOSURES	16,153	5,381	10,772	-
a) EBA-compliant moratoria loans and advances	15,166	5,221	9,945	-
b) Other loans and advances with Covid-19 related forbearance measures	386	85	301	-
c) Newly originated loans and advances	601	75	526	-
C. NON PERFORMING PAST-DUE	2,653	541	2,112	-
a) EBA-compliant moratoria loans and advances	2,643	539	2,104	-
b) Other loans and advances with Covid-19 related forbearance measures	-	-	-	-
c) Newly originated loans and advances	10	2	8	-
D. PERFORMING PAST-DUE	2,696	86	2,610	-
a) EBA-compliant moratoria loans and advances	2,541	85	2,456	-
b) Other loans and advances with Covid-19 related forbearance measures	-	-	-	-
c) Newly originated loans and advances	155	1	154	-
E. OTHER PERFORMING EXPOSURES	1,312,305	10,670	1,301,635	-
a) EBA-compliant moratoria loans and advances	1,095,012	10,131	1,084,881	-
b) Other loans and advances with Covid-19 related forbearance measures	-	-	-	-
c) Newly originated loans and advances	217,293	539	216,754	-
TOTAL (A+B+C+D+E)	1,333,807	16,678	1,317,129	-

A.1.7 Prudential consolidation - On-balance sheet exposures to customers: changes in gross impaired exposures

Reasons/Categories	Bad loans	Unlikely to pay	Impaired past-due exposures
A. Opening balance (gross amount)	28,515	106,325	-
of which: sold non-cancelled exposures	-	-	-
B. Increases	194,940	328,328	84,810
B.1 transfer from performing loans	417	12,504	15,486
B.2 transfer from acquired or originated impaired financial assets	129,688	286,907	-
B.3 transfer from other non-performing exposures	42,454	14,218	-
B.4 contractual changes with no cancellations	-	-	-
B.5 other increases	22,381	14,699	69,324
C. Decreases	43,165	111,953	32,266
C.1 transfers to performing loans	-	6,184	10,486
C.2 write-offs	947	32,115	-
C.3 collections	4,164	10,992	657
C.4 Sale proceeds	-	30	-
C.5 losses on disposals	-	-	-
C.6 transfers to other non-performing exposures	-	42,409	14,264
C.7 contractual changes with no cancellations	-	-	-
C.8 other decreases	38,054	20,223	6,859
D. closing balance (gross amount)	180,290	322,700	52,544
of which: sold non-cancelled exposures	33,597	111,184	13,395

A.1.7bis Prudential consolidation - On-balance sheet credit exposures to customers: changes in gross forborne exposures broken down by credit quality

Reasons/Quality	Forborne exposures: impaired	Forborne exposures: non-impaired
A. Opening balance (gross amount)	76,726	7,163
of which: sold non-cancelled exposures	-	-
B. Increases	144,486	138,323
B.1 transfers from performing non-forborne exposures	1,105	11,422
B.2 transfers from performing forborne exposures	2,364	X
B.3 transfers from non-performing forborne exposures	X	6,074
B.4 inflows from impaired non-forborne exposures	8,286	-
B.4 other increases	132,731	120,827
C. Reductions	52,254	11,848
C.1 transfers to performing non-forborne exposures	X	4,534
C.2 transfers to performing forborne exposures	6,074	X
C.3 transfers to non-performing forborne exposures	X	2,364
C.4 write-offs	32,125	-
C.5 collections	4,789	4,361
C.6 Sale proceeds	-	-
C.7 losses from disposal	-	-
C.8 other reductions	9,266	589
D. Closing balance (gross amount)	168,958	133,638
of which: sold non-cancelled exposures	18,080	20,442

A.1.9 Prudential consolidation - On-balance sheet impaired loan exposures to customers: changes in total value adjustment

Reasons/Categories	Bad loans		Unlikely to pay		
	Total	of which: forborne exposures	Total	of which: forborne exposures	
A. Opening balance (gross amount)	20,894	1,293	60,129	46,697	
of which: sold non-cancelled exposures	-	-	-	-	
B. Increases	158,808	6,153	174,082	46,157	
B.1 Write-downs of acquired or originated impaired financial assets	105,872	X	144,707	X	
B.2 other write-downs	5,233	637	26,917	14,418	
B.3 losses on disposals	-	-	-	-	
B.4 transfers from other categories of non performing exposures	30,994	372	2,458	348	
B.5 contractual changes with no cancellations	-	-	-	-	
B.6 other increases	16,709	5,144	-	31,391	
C. Reductions	34,646	188	72,460	36,763	
C.1 write-backs from valuation	754	169	3,244	2,251	
C.2 write-backs from collections	224	4	3,144	1,753	
C.3 gains from disposals	-	-	1	-	
C.4 write-offs	849	15	32,115	32,110	
C.5 transfers to other categories of non performing exposures	-	-	30,986	372	
C.6 contractual changes with no cancellations	-	-	-	-	
C.7 other decreases	32,819	-	2,970	277	
D. Closing balance (gross amount)	145,056	7,258	161,751	56,091	
of which: sold non-cancelled exposures	25,186	2,089	52,318	28,000	

A.2 Classification of exposures on the basis of external and internal ratings

A.2.1 Prudential consolidation - Distribution of financial assets, commitments to disburse funds and financial guarantees given by external rating class (gross values)

Exposures	External rating class						Unrated	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Financial assets measured at amortised cost	357	35,490	2,180,936	12,451	9,166	-	10,830,492	13,068,892
- Stage 1	357	35,490	2,180,936	6,895	4,079	-	8,997,787	11,225,544
- Stage two	-	-	-	5,556	5,087	-	1,277,171	1,287,814
- Stage three	-	-	-	-	-	-	555,534	555,534
B. Financial assets measured at fair value through other comprehensive income	-	-	962,634	-	-	-	-	962,634
- Stage 1	-	-	962,634	-	-	-	-	962,634
- Stage two	-	-	-	-	-	-	-	-
- Stage three	-	-	-	-	-	-	-	-
C. Financial assets held for sale	-	-	-	-	-	-	-	-
- Stage 1	-	-	-	-	-	-	-	-
- Stage two	-	-	-	-	-	-	-	-
- Stage three	-	-	-	-	-	-	-	-
Total (A+B+C)	357	35,490	3,143,564	12,451	9,166	-	10,830,492	14,031,526
of which: purchased or originated impaired financial assets	-	-	-	-	-	-	404,910	404,910
D. Commitments to disburse funds and financial guarantees given								
- Stage 1	-	40	1,715	16,888	-	-	2,078,060	2,096,703
- Stage two	-	-	-	37	20,000	-	253,122	273,159
- Stage three	-	-	-	-	-	-	29,176	29,176
Total (D)	-	40	1,715	16,925	20,000	-	2,360,358	2,399,038
Total (A+B+C+D)	357	35,530	3,145,279	29,376	29,166	-	13,190,850	16,430,564

A.3 Distribution of secured credit exposures by type of guarantee

A.3.2 Prudential consolidation - Secured on-balance sheet and off-balance sheet loan exposures to customers

	Gross Exposure	Net exposure	Collateral (1)				Personal guarantee (2)					
							Credit derivatives					Public administrations
			Property - Mortgages	Properties - Lease loans	Securities	Other collateral	CLN	Other derivatives				
								Central counterpartie s	Banks	Other financial companies	Other entities	
1. Secured on- balance sheet credit exposures	7,343,354	7,024,153	4,432,565	16,277	35,380	225,744	-	-	-	-	-	1,363,751
1.1. Totally secured	6,662,891	6,378,196	4,427,929	16,277	33,589	204,147	-	-	-	-	-	893,851
- of which non- performing	503,767	267,784	192,691	-	891	9,192	-	-	-	-	-	5,000
1.2. partially secured	680,463	645,957	4,636	-	1,791	21,597	-	-	-	-	-	469,851
- of which non- performing	20,089	7,762	48	-	94	106	-	-	-	-	-	1,141
2. Secured off- balance sheet credit exposures:	848,321	843,015	5,994	-	7,041	16,479	-	-	-	-	-	39,600
2.1. Totally secured	732,678	730,125	5,994	-	5,949	13,912	-	-	-	-	-	31,750
- of which non- performing	19,924	18,782	18	-	137	486	-	-	-	-	-	1,141
2.2. partially secured	115,643	112,890	-	-	1,092	2,567	-	-	-	-	-	7,800
- of which non- performing	3,121	2,192	-	-	84	1,179	-	-	-	-	-	1,141

B. Distribution and concentration of loan exposures

B.1 Prudential consolidation - On-balance sheet and off-balance sheet exposures to customers by sector

Exposures/Counterparties	Public administrations		Financial companies		Financial companies (of which: insurance companies)		Non-financial companies
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure
A. On-balance sheet credit exposures							
A.1 Bad loans	-	-	8	7,330	-	-	25,738
- of which: forborne exposures	-	-	-	-	-	-	4,883
A.2 Unlikely to pay	-	-	2,180	3,742	-	-	98,444
- of which: forborne exposures	-	1	254	254	-	-	58,633
A.3 Non-performing past-due	-	-	2	2	-	-	8,532
- of which: forborne exposures	-	-	-	-	-	-	2,665
A.4 Performing exposures	2,961,491	5,330	697,218	12,633	4,877	-	3,928,700
- of which: forborne exposures	-	-	1	-	-	-	59,944
Total (A)	2,961,491	5,330	699,408	23,707	4,877	-	4,061,414
B. Off-balance sheet credit exposures							
B.1 Non-performing exposures	-	-	2	-	-	-	29,741
B.2 Performing exposures	610,705	3,487	39,429	1	-	-	1,489,980
Total (B)	610,705	3,487	39,431	1	-	-	1,519,721
Total (A+B)	3,572,196	8,817	738,839	23,708	4,877	-	5,581,135

B.2 Prudential consolidation - On-balance sheet and off-balance sheet exposures to customers by region (WORLD)

Exposures/Region	Italy		Other European countries		Americas		Asia
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	
A. On-balance sheet credit exposures							
A.1 Bad loans	35,231	145,030	3	26	-	-	-
A.2 Unlikely to pay	160,543	161,531	104	58	-	1	151
A.3 Non-performing past-due	41,298	10,988	118	23	73	15	-
A.4 Performing exposures	10,902,719	84,407	4,600	30	592	3	-
Total (A)	11,141,380	400,859	4,825	137	665	19	151
B. Off-balance sheet credit exposures							
B.1 Non-performing exposures	31,612	3,887	-	-	-	-	-
B.2 Performing exposures	2,338,059	8,829	402	8	-	-	2
Total (B)	2,369,671	12,716	402	8	-	-	2
Total (A+B)	13,511,051	413,575	5,227	145	665	19	153

B.2 Prudential consolidation - On-balance sheet and off-balance sheet exposures to customers by region (ITALY)

Exposures/Region	Northwest Italy		Northeast Italy		Central Italy
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure
A. On-balance sheet credit exposures					
A.1 Bad loans	4,202	30,479	35	660	20,781
A.2 Unlikely to pay	8,170	8,927	10,296	15,228	38,047
A.3 Non-performing past-due	2,223	521	1,366	338	6,308
A.4 Performing exposures	683,256	16,633	989,552	9,208	4,474,828
Total (A)	697,851	56,560	1,001,249	25,434	4,539,963
B. Off-balance sheet credit exposures					
B.1 Non-performing exposures	1,649	145	33	1	4,274
B.2 Performing exposures	179,485	1,152	61,949	1,405	450,981
Total (B)	181,134	1,297	61,982	1,406	455,255
Total (A+B)	878,985	57,857	1,063,231	26,840	4,995,218

B.3 Prudential consolidation - On-balance sheet and off-balance sheet exposures to banks by region (WORLD)

Exposures/Region	Italy		Other European countries		Americas		
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure
A. On-balance sheet credit exposures							
A.1 Bad loans	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-
A.3 Non-performing past-due	-	-	-	-	-	-	-
A.4 Performing exposures	2,466,881	2,980	19,132	7	1,659		6
Total (A)	2,466,881	2,980	19,132	7	1,659		6
B. Off-balance sheet credit exposures							
B.1 Non-performing exposures	-	-	-	-	-	-	-
B.2 Performing exposures	77,185	-	90,203	-	17,000		-
Total (B)	77,185	-	90,203	-	17,000		-
Total (A+B) 31/12/2020	2,544,066	2,980	109,335	7	18,659		6

B.3 Prudential consolidation - On-balance sheet and off-balance sheet exposures to banks by region (ITALY)

Exposures/Region	Northwest Italy		Northeast Italy		Central Italy	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-balance sheet credit exposures						
A.1 Bad loans	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-
A.3 Non-performing past-due	-	-	-	-	-	-
A.4 Performing exposures	117,401	2,975	403	1	385	
Total (A)	117,401	2,975	403	1	385	
B. Off-balance sheet credit exposures						
B.1 Non-performing exposures	-	-	-	-	-	-
B.2 Performing exposures	52	-	-	-	27,133	
Total (B)	52	-	-	-	27,133	
Total (A+B)	117,453	2,975	403	1	27,518	

C. Securitisations

Qualitative information

At 31 December 2020, there were differences in the Group's scope of operations described in this paragraph. Details will therefore be provided below of the specific features of the two perimeters, Parent Company and Subsidiaries.

This part does not include securitisations in which the originator is a bank of the Mediocredito Centrale Group and the total liabilities issued (e.g. ABS securities) are subscribed at the time of issue by one or more companies of the Group. For details on these self-securitisations, see the section on liquidity risk in Part E of the Notes to the Consolidated Financial Statements.

Qualitative information

Mediocredito Centrale

In the Parent Company, at the reporting date, there were no securitisations originated for the purpose of transferring credit risk. However, in 2019 the Bank began two tranching cover securitisations with the portfolio guaranteed by the Central Guarantee Fund to cover initial losses, aimed at providing loans to enterprises, and it assumed the role of investor in basket bond transactions in support of the growth of SMEs in southern Italy (Campania Basket Bond and Puglia Basket Bond). At 31 December 2020, these transactions did not entail risk deriving from securitisations as these are simple standard transactions, in which the risk taken on and the mitigation guarantee are clear. One of them is an investment transaction in a position towards a securitisation³⁰ for €24.6 million relating to the "Puglia Basket Bond" for which the risk profile of the underlying assets has been known since the origination phase (due diligence on the underlying issuers subject to credit investigation by the Bank). In relation to the above, therefore, it is considered that there is no risk that "the underlying economic substance of a securitisation is not fully reflected in decisions made to measure and manage risk". These transactions come under the operating methods

³⁰ The transaction structured by Unicredit (originator and arranger) to finance minibonds issued by SMEs based in Puglia, with principal and interest guaranteed by Puglia Sviluppo through a portfolio guarantee on first losses issued to the vehicle (cash collateral) is a position in the securitisation in which it maintains a significant net economic interest, retaining at least 5% of each minibond (risk retention). In accordance with Regulation EU 575/2013 (CRR) and Regulation EU 2402/2017 ("Securitisation Framework"), the other basket bond transactions outstanding at 31 December 2020 do not have the elements that constitute a securitisation and, therefore, the rules established credit risk (look-through approach) are applied to calculate the capital requirement.

identified by the Bank for achieving its mission to provide support for the economy and it is therefore expected that these instruments will be used more frequently in the near future.

In 2016, the Bank carried out a securitisation of residential mortgages, the underlying tranches of which are still fully held (as mentioned in the introduction to this paragraph, see the paragraph on Liquidity Risk) through the special purpose vehicle (SPV) MCC-RMBS srl. As a result of this configuration, the transaction does not entail any securitisation risk and does not change the risk profile of the portfolio.

Banca Popolare di Bari and Cassa di Risparmio di Orvieto

The loan securitisations are identified as a means of diversifying the sources of funding, i.e. as an instrument for transferring credit risk to third parties (de-risking).

Details of the transactions carried out by the Banks are provided below.

2017 Popolare Bari RMBS Srl

On 7 July 2017, the subsidiaries Banca Popolare di Bari and Cassa di Risparmio di Orvieto completed a multi-originator securitisation, selling a portfolio of performing residential mortgages, identified on the basis of predefined criteria to constitute a “block” in accordance with the Securitisation Law 130/1999, for a principal amount of loans totalling €728.3 million.

The portfolio consists of around €73 million of loans arising from the closing of the Popolare Bari Mortgages Srl securitisation, previously carried out by Banca Popolare di Bari, and another portfolio not previously securitised.

Special Purpose Vehicle	2017 Popular Bari SMBS Srl
Type of transaction	Traditional
Originator	Banca Popolare di Bari – Cassa di Risparmio di Orvieto
Servicer	Banca Popolare di Bari
Arranger	J.P. Morgan
Computation Agent	Securitisation Services SpA
Corporate Servicer	Securitisation Services SpA
Type of securitised assets	RMBS - Residential mortgage loans
Quality of securitised assets	Performing
Value date	07/07/2017
Portfolio sale price	728,304,805
- of which: Originator Banca Popolare di Bari	601,660,921

- of which: Originator Cassa di Risparmio di Orvieto	126,643,884
Rating agencies	Moody's – DBRS Rating Limited

(amounts in €)

The originators Banca Popolare di Bari and Cassa di Risparmio di Orvieto sold a total amount of loans equal to €728,304 thousand to the special purpose vehicle “2017 Popolare Bari RMBS Srl”.

In relation to the loans sold and the creation of a liquidity reserve and a retention amount totalling €19,684 thousand, the special purpose vehicle “2017 Popolare Bari RMBS Srl” issued four separate classes of asset-backed securities (ABS), one senior (A), one mezzanine (B) and two junior (J1 and J2), for a total amount of €747,990 thousand.

The senior and mezzanine classes were rated by DBRS Rating Limited and Moody's.

Security	Class	Listing exchange	Rate/Spread	Rating DBRS/Moody's	Final Redemption Date	Nominal value issued	Residual value at period-end	Subscriber
A	Senior	Irish Stock Exchange	3 Months Euribor/0.4	AAH/Aa3	30/04/2058	597,210	285,902	Of which:
						566,460	271,181	Third party investors
						30,750	14,721	Banca Popolare di Lodi
B	Mezzanine	Irish Stock Exchange	3 Months Euribor/0.6	AAL/A2	30/04/2058	58,264	58,264	Of which:
						48,133	48,133	Banca Popolare di Lodi
						10,131	10,131	Cassa di Risparmio Orvieto
J1	Junior	n.l.	Variable Return	not rated	30/04/2058	76,428	76,428	Banca Popolare di Bari
J2	Junior	n.l.	Variable Return	not rated	30/04/2058	16,088	16,088	Cassa di Risparmio Orvieto
Totals						747,990	436,682	

In consideration of the high quality of the underlying portfolio (rating at issue date Aa2 Moody's and AA DBRS) and the benefits in terms of new market opportunities, improvement of the Group's structural liquidity situation, increase in direct funding and diversification of medium/long-term funding sources, on 2 October 2017 the senior note was sold below par to third party investors at a unit price of €99.16, for a total amount of €592,193 thousand, compared to a nominal value of €597,210 thousand.

During 2020, with a view to optimising the cost of funding, the subsidiary Banca Popolare di Bari considered the viability of repurchasing part or all of the senior note placed on the market. At the reporting date, Banca Popolare di Bari held a residual amount of the senior note valued at €14,721 thousand, net of redemptions made in the meantime.

The structure of the transaction does not entail the transfer of the substantial risk of the underlying loans to third parties and, therefore, the conditions provided for by IFRS 9 for the derecognition of receivables have not been met. In essence, the Group did not carry out a definitive sale of the portfolio of loans sold, but, instead, received a loan from the special purpose vehicle. Consequently, pursuant to IFRS 9, in the individual financial statements of the originator banks:

- the loans object of the transaction continue to be recorded in the related type in the balance sheet assets;
- the consideration received by the special purpose vehicle following the placement of the senior tranche with third parties has been recognised as an offsetting entry to the financial liability recognised towards the special purpose vehicle for the loan received;
- the interest relating to the loans sold, net of the interest connected with the liability recognised towards the special purpose vehicle, continues to be recognised.

In the consolidated financial statements, the securities issued by the special purpose vehicle, not subscribed by the originator banks, are recorded under the liabilities item 30 “Securities issued”.

Both originators, Banca Popolare di Bari and Cassa di Risparmio di Orvieto, in their capacity as servicers, continue to manage collections on the portfolio sold and directly maintain relations with the customers, transferring collections of principal and interest to the collection account with the depository bank on a daily basis. Designated central structures of the subsidiary Banca Popolare di Bari then oversee the cash flows deriving from securitised assets, continuously monitoring their collection and managing the recovery procedures for impaired positions. On the basis of the servicing agreement, the tasks relating to the recovery procedures for bad loans relating to Cassa di Risparmio di Orvieto have been assigned to Banca Popolare di Bari, as master servicer.

Each servicer periodically provides information to the special purpose vehicle (as well as the other counterparties identified in the servicing agreements) on the activities carried out by means of the servicer’s report, which details the collection and settlement of the loans sold, the amount of the impaired positions, past-due instalments, etc..

Due to its nature as a securitisation involving performing secured and unsecured loans securitised in accordance with the provisions of Law 130/1999, it did not entail a change in the credit risk of the transferred portfolio.

At the reporting date, the income result connected with the outstanding positions towards the securitisation was €3,725 thousand.

Unwinding of 2017 Popolare Bari SME Srl securitisations

Following the full redemption of the senior notes of the 2017 Popolare Bari SME multi-originator securitisation and the consequent cancellation of the benefits related to the liquidity generated by it, the subsidiaries Banca Popolare di Bari and Cassa di Risparmio di Orvieto closed the transaction in November. By means of a repurchase agreement signed on 12 November, each originator repurchased all the loans from the SPV and, on 25 November 2020, the final settlements of the transaction took place with the redemption of the mezzanine and junior notes and the extinction of any other operating debts of the SPV outstanding on the effective date of the unwinding.

This a securitisation in which the securitised loans were not derecognised from the balance sheets of each originator in accordance with IFRS 9 and therefore the unwinding did not have any impact on profit or loss.

“Adriatic Finance SME Srl” securitisation of performing leases

In 2008, a securitisation was carried out on lease loans not originated by Banca Tercas (later merged into Banca Popolare di Bari) but by Terleasing Spa (now Terfinance Spa) which was not part of the Tercas Group at the time, using Adriatico Finance SME Srl as a special purpose vehicle in accordance with Law 130/99.

Specifically, the loans (leases) sold to the special purpose vehicle amounted to €118,437 thousand.

Special Purpose Vehicle	Adriatic Finance SME Srl
Type of transaction	Securitisation
Originator	Banca Tercas
Servicer	Terfinance
Arranger	HSBC BANK Plc
Computation Agent	130 Finance S.r.l.
Corporate Servicer	130 Servicing S.p.A.
Type of securitised assets	Leases
Quality of securitised assets	Performing

Value date	20/03/2008
Portfolio sale price (*)	118,437,360.00
Rating agencies	not rated
<i>(*) excluding accrued interest and suspended interest</i>	
<i>(amounts in €)</i>	

In respect of the loans sold, the SPV financed the transaction by issuing senior, mezzanine and junior class ABS securities which were fully subscribed by Banca Tercas.

Following the merger of the former Banca Tercas into Banca Popolare di Bari in 2016, the latter acquired ownership of these ABS securities.

Security	Class	Listing exchange	Rate/Spread	Rating	Final Redemption Date	Nominal value issued	Residual value at period-end	Subscriber
A	Senior	n.l.	3 Month Euribor	not rated	31/12/2032	65,750	0	Former Banca Tercas
B	Mezzanine	n.l.	3 Month Euribor	not rated	31/12/2032	33,886	17,273	Former Banca Tercas
C	Junior	n.l.	3 Month Euribor	not rated	31/12/2032	19,027	19,027	Former Banca Tercas
Total						118,663	36,300	

Following the securitisation, the former Banca Tercas effectively assumed all the risks and rewards of the loan portfolio sold and the assets and liabilities relating to the segregated assets of the special purpose vehicle have therefore been consolidated on a line-by-line basis. Accordingly, the consolidated financial statements include the lease receivables recognised at the year-end by the special purpose vehicle.

On the basis of the sale agreement for the loan portfolio, the former Banca Tercas provided financial support to the SPV by granting a Deferred Price amounting to an original €9,066 thousand. The gross value of this loan at the reporting date was €6,906 thousand and has been fully written down.

Quantitative information

C.1 Prudential consolidation - Exposures from the main “own” securitisations, broken down by type of securitised asset and type of exposure

TYPE OF SECURITISED ASSETS/EXPOSURES	On-balance sheet exposures						Guarantees given						Credit facilities					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Carrying amount	Write-downs/write-backs	Carrying amount	Write-downs/write-backs	Carrying amount	Write-downs/write-backs	Net exposure	Write-downs/write-backs	Net exposure	Write-downs/write-backs	Net exposure	Write-downs/write-backs	Net exposure	Write-downs/write-backs	Net exposure	Write-downs/write-backs	Net exposure	Write-downs/write-backs
A. Totally derecognized	315,675		1,005		440								12,487					
A.1 Popolare Bari NPLs 2016 Srl - Bad loans	77,213												2,859					
A.2 Popolare Bari NPLs 2017 Srl - Bad loans	66,131												2,633					
A.3 Popolare Bari NPLs 2018 Srl - Bad loans	170,660		1,005		38								6,995					
A.4 SPV Project 1806 Srl - energy loans	1,670				402													
B. Partially derecognized																		
B.1 ...																		
B.2 ...																		
B.3 ...																		
C. not derecognised	283,233		58,272		92,516													
C.2 2017 Banca Popolare Bari RMBS Srl	283,233		58,272		92,516													

The amounts shown under item A “Subject to full derecognition” refer to senior notes entirely held by the subsidiaries Banca Popolare di Bari and Cassa di Risparmio di Orvieto resulting from the securitisations through “Popolare Bari NPLs 2016 Srl”, completed in 2016, “Popolare Bari NPLs 2017 Srl” completed in December 2017, “Popolare Bari NPLs 2018 Srl”, completed in November 2018 and “SPV Project 1806 Srl”, completed in June 2019, which involved the transfer of the credit risk of the underlying positions to third parties.

The amounts in item C “Not derecognised” refer to the securitisation of performing loans through “2017 Popolare di Bari RMBS Srl” carried out by the subsidiaries Banca Popolare di Bari and Cassa di Risparmio di Orvieto.

C.2 Prudential consolidation - Exposures from the main “third-party” securitisations, broken down by type of securitised assets and by exposure type

TYPE OF SECURITISED ASSETS/EXPOSURES	On-balance sheet exposures						Guarantees given						Credit facilities					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Carrying amount	Write-downs/write-backs	Carrying amount	Write-downs/write-backs	Carrying amount	Write-downs/write-backs	Net exposure	Write-downs/write-backs	Net exposure	Write-downs/write-backs	Net exposure	Write-downs/write-backs	Net exposure	Write-downs/write-backs	Net exposure	Write-downs/write-backs	Net exposure	Write-downs/write-backs
A1 - agricultural loans (BNT)					4,350													
A3 – NPL (Fino 1)	34,724																	

The amount relating to the item “Agricultural loans” refers to the fair value of the security, recorded under item 20c) of the assets, of the third-party securitisation through “BNT Portfolio SPV Srl”. The item “NPL” reports the carrying amount, recorded under item 40b) of the assets, of the senior note, backed by a GACS guarantee, of the third-party securitisation through “Fino 1 Securitisation Srl”. Both securities are held by the subsidiary Banca Popolare di Bari.

C.3 Prudential consolidation - Interests in securitisation special purpose vehicles

Securitisation name/Special purpose vehicle	Registered office	Consolidation	Assets			Liabilities		
			Loans	Debt securities	Other	Senior	Mezzanine	Junior
Popolare Bari NPLs 2016 Srl	Conegliano	NO	63,958		8,405	76,712	14,000	10,035
Popolare Bari NPLs 2017 Srl	Conegliano	NO	60,703		6,026	64,166	10,100	13,450
Popolare NPLs 2018 Srl	Conegliano	NO	369,916		34,707	334,673	50,000	15,780
SPV Project 1806 Srl	Milan	NO	41,834			33,216		7,433
2017 Popolare Bari RMBS Srl	Conegliano	YES	440,127		30,869	285,902	58,264	92,516
BNT Portfolio SPV Srl	Conegliano	NO	163,024		14,066			270,359
Adriatic Finance SME Srl	Milan	YES	16,278		2,531		17,273	19,027
Fino 1 Securitisation Srl (*)	Milan	NO	4,898,956		52,758	250,296	69,640	50,311

(*) The value of the assets of the Fino 1 Securitisation SRL transaction refers to the GBV of the loans at 31/12/2020

With regard to “Popolare Bari NPLs 2016 Srl” and “Popolare Bari NPLs 2017 Srl”, the subsidiary Banca Popolare di Bari holds the senior tranche issued by the special purpose vehicles. For “Pop NPLs 2018 Srl”, the subsidiaries Banca Popolare di Bari and Cassa di Risparmio di Orvieto hold the senior tranche, subscribed upon issuance and the retention of the mezzanine and junior tranches. Given that the structure of the above securitisations does not involve the transfer of credit risk to third parties, the conditions envisaged by IFRS 10 for the consolidation of the special purpose vehicles do not apply.

With regard to the third-party securitisation through “BNT Portfolio SPV Srl”, the subsidiary Banca Popolare di Bari holds a marginal share of the ABS securities issued

under the transaction. In this regard, the conditions envisaged by IFRS 10 for the consolidation of the special purpose vehicle do not apply.

The segregated assets of “Adriatico Finance SME” and “2017 Popolare Bari RMBS” are consolidated by the Parent Company MCC.

At 31 December 2020, the Group recognised the senior note “Fino 1”, held by the subsidiary Banca Popolare di Bari, and backed by a “GACS” Italian government guarantee, arising from a securitisation of NPLs originated by the Unicredit Group, in its securities portfolio at amortised cost.

C.4 Prudential consolidation - Unconsolidated securitisation special purpose vehicles

Popolare Bari NPLs 2016 Srl

Following the securitisation of bad loans through the special purpose vehicle “Popolare Bari NPLs 2016 Srl”, carried out by the subsidiary Banca Popolare di Bari, the Group holds the entire senior tranche issued by the SPV, backed by a “GACS” Italian government guarantee, with a carrying amount of €77,213 thousand at 31 December 2020.

Below are the details of the senior tranche:

Security	Listing exchange	Rate/Spread	Rating	Final Redemption Date	Nominal value issued	Residual value at period-end	Subscriber
Senior	Unlisted	Euribor 6M/0.50	DBRS BBB+, Moody's Baa 1	01/12/2036	126,500	77,213	Banca Popolare di Bari

Under the transaction, the subsidiary Banca Popolare di Bari, in compliance with the requirements of the rating agencies, granted the special purpose vehicle a limited recourse loan aimed at financing the cash reserve. Specifically, the loan has an amortising profile related to the residual debt of the senior and mezzanine notes and will be extinguished on the payment date when the senior tranche is fully redeemed. The payment waterfall envisaged in the rules of the notes establishes that interest on the limited recourse loan is senior to the payment of interest on the senior and mezzanine notes, and that the repayment of principal on the loan is senior to the repayment of principal on the senior and mezzanine notes. The remaining debt at the reporting date amounted to €2,859 thousand.

Balance sheet items/Type of structured entity	Asset accounting portfolios	Total assets (A)	Liability accounting portfolios	Total assets (B)	Net carrying amount (C = A - B)	Maximum exposure to loss risk (D)	Difference between exposure to loss risk and carrying amount (E = D - C)
Special purpose vehicle "Popolare Bari NPLs 2016 Srl"	Item 40.b) Due from customers	80,072			80,072	80,072	

The maximum exposure to the risk of loss (€80,072 thousand) at the reporting date was therefore equal to the sum of the carrying amount of the senior tranche held by the subsidiary Banca Popolare di Bari (€77,213 thousand) and the remaining debt connected with the above-mentioned limited recourse loan (€2,859 thousand).

In view of the structure of the securitisation, the events or circumstances that could expose Mediocredito Centrale Group to a loss are neutralised by the "GACS" Italian government guarantee covering the entire exposure to the senior tranche.

Popolare Bari NPLs 2017 Srl

Following the securitisation of bad loans through the special purpose vehicle "Popolare Bari NPLs 2017 Srl", carried out by the subsidiary Banca Popolare di Bari, the Group holds the entire senior tranche issued by the SPV, backed by a "GACS" Italian government guarantee, with a carrying amount of €66,131 thousand at 31 December 2020.

Below are the details of the senior tranche:

Security	Listing exchange	Rate/Spread	Rating	Final Redemption Date	Nominal value issued	Residual value at period-end	Subscriber
Senior	Unlisted	Euribor 6M/0.30	Rating DBRS Baa3, Moody's BBB(low), Scope BBB	December 2037	80,900	66,131	Banca Popolare di Bari

Under the transaction, the subsidiary Banca Popolare di Bari, in compliance with the requirements of the rating agencies, granted the special purpose vehicle a limited recourse loan aimed at financing the cash reserve. Specifically, the loan has an amortising profile related to the residual debt of the senior and mezzanine notes and will be extinguished on the payment date when the senior tranche is fully redeemed. The payment waterfall envisaged in the rules of the notes establishes that interest on the limited recourse loan is senior to the payment of interest on the senior and mezzanine notes, and that the repayment of principal on the loan is senior to the

repayment of principal on the senior and mezzanine notes. The remaining debt at the reporting date amounted to €2,633 thousand.

Balance sheet items/Type of structured entity	Asset accounting portfolios	Total assets (A)	Liability accounting portfolios	Total assets (B)	Net carrying amount (C = A - B)	Maximum exposure to loss risk (D)	Difference between exposure to loss risk and carrying amount (E = D - C)
Special purpose vehicle "Popolare Bari NPLs 2017 Srl"	Item 40.b) Due from customers	68,764			68,764	68,764	

The maximum exposure to the risk of loss (€68,764 thousand) at the reporting date was therefore equal to the sum of the carrying amount of the senior tranche held by the subsidiary Banca Popolare di Bari (€66,131 thousand) and the remaining debt connected with the above-mentioned limited recourse loan (€2,633 thousand).

In view of the structure of the securitisation, the events or circumstances that could expose Mediocredito Centrale Group to a loss are neutralised by the "GACS" Italian government guarantee covering the entire exposure to the senior tranche.

Pop NPLs 2018 Srl

Following the securitisation of bad loans through the special purpose vehicle "Pop NPLs 2018 Srl", carried out by the subsidiaries Banca Popolare di Bari and Cassa di Risparmio di Orvieto, together with a pool of banks, the Group holds a part of the senior tranche issued by the SPV, subscribed in relation to the portfolio sold, backed by a "GACS" Italian government guarantee, with a carrying amount of €334,673 thousand at 31 December 2020.

Below are the details of the senior tranche:

Security	Listing exchange	Rate/Spread	Rating	Final Redemption Date	Nominal value issued	Residual value at period-end	Subscriber
Senior	Unlisted	Euribor 6M/0.30	Moody's rating Baa3, Scope BBB	December 2033	426,000	334,673	Pool of Banks

Under the transaction, the subsidiaries Banca Popolare di Bari and Cassa di Risparmio di Orvieto, in compliance with the requirements of the rating agencies, granted the special purpose vehicle a limited recourse loan aimed at financing the cash reserve. Specifically, the loan has an amortising profile related to the residual debt of the senior and mezzanine notes and will be extinguished on the payment date when the senior

tranche is fully redeemed. The payment waterfall envisaged in the rules of the notes establishes that interest on the limited recourse loan is senior to the payment of interest on the senior and mezzanine notes, and that the repayment of principal on the loan is senior to the repayment of principal on the senior and mezzanine notes. The remaining debt at the reporting date amounted to €6,995 thousand.

Balance sheet items/Type of structured entity	Asset accounting portfolios	Total assets (A)	Liability accounting portfolios	Total assets (B)	Net carrying amount (C = A - B)	Maximum exposure to loss risk (D)	Difference between exposure to loss risk and carrying amount (E = D - C)
Special purpose vehicle "Pop NPLs 2018 Srl"	Item 40.b) Due from customers	177,655			177,655	177,655	
Special purpose vehicle "Pop NPLs 2018 Srl"	Item 20.c) Other financial assets mandatorily measured at fair value	1,043			1,043	1,043	

The maximum exposure to the risk of loss (€178,698 thousand) at the reporting date was therefore equal to the sum of i) the carrying amount of the senior tranche (€170,660 thousand), ii) the retentions in accordance with regulations of the mezzanine and junior tranches (€1,043 thousand) included in the "mandatorily at fair value" securities portfolio, and iii) the remaining debt connected with the above-mentioned limited recourse loan (€6,995 thousand).

In view of the structure of the securitisation, the events or circumstances that could expose Mediocredito Centrale Group to a loss are neutralised by the "GACS" Italian government guarantee covering the entire exposure to the senior tranche.

SPV Project 1806 Srl

Following the securitisation of performing loans through the special purpose vehicle "SPV Project 1806 Srl", the subsidiary Banca Popolare di Bari subscribed a part of the senior tranche, totalling €41,380 thousand, and a part of the junior tranche, totalling €9,642 thousand, issued by the SPV.

As specified above, to comply with the retention obligation, the subsidiary Banca Popolare di Bari holds around 5% of each tranche issued by the SPV.

Below are the details of the senior tranche:

Security	Listing exchange	Rate/Spread	Rating	Final redemption date	Nominal value issued	Residual value at year end	Subscriber
Senior	Unlisted	Euribor3M/2.10	not rated	August 2034	41,830	33,216	Banca Popolare di Bari - Third investor
							(amounts in € thousands)

The parts of the senior tranche and the junior tranche subscribed had a carrying amount of €1,670 thousand and €402 thousand, respectively, at 31 December 2020, and were included in the “mandatorily at fair value” securities portfolio.

Balance sheet items/Type of structured entity	Asset accounting portfolios	Total assets (A)	Liability accounting portfolios	Total liabilities (B)	Net carrying amount (C = A - B)	Maximum exposure to loss risk (D)	Difference between exposure to loss risk and carrying amount (E = D - C)
Special purpose vehicle “SPV Project 1806 Srl”	Item 20.c) Other financial assets mandatorily	2,072			2,072	2,072	
							(amounts in € thousands)

The maximum exposure to the risk of loss (€2,072 thousand) at the reporting date was therefore equal to the sum of the fair value of the senior and junior tranches held by the subsidiary Banca Popolare di Bari.

BNT Portfolio SPV Srl third-party securitisation

The subsidiary Banca Popolare di Bari holds 3.3% of the ABS securities issued by the special purpose vehicle “BNT Portfolio SPV Srl” within a securitisation of performing and non-performing loans originated by Banca Nuova Terra, which was carried out in the first half of 2014.

The transfer price of the portfolio sold, consisting essentially of secured and unsecured agricultural loans, amounted to a total of €397.8 million.

The special purpose vehicle, specifically set up in accordance with Law 130/99, financed the operation by issuing a single class of ABSs, with a nominal value of €397.8 million, which were subscribed by a pool of “member” banks consisting of Banca Popolare dell’Emilia Romagna, Banco Popolare, Banca Popolare di Vicenza, Banca Popolare di Sondrio and Banca Popolare di Bari. Of the “member banks”, the subsidiary Banca Popolare di Bari is the only bank outside the syndicate agreement relating to the strategic management of the transactions.

Security	Listing exchange	Rate/Spread	Rating	Final Redemption Date	Nominal value issued	Residual value at period-end	Subscriber
Single Class	Unlisted	Euribor 6M/0.90	Not rated	08/02/2042	397,600,000	270,359	Pool of Banks
Totals					397,600,000	270,359	

The subsidiary Banca Popolare di Bari subscribed for the above-mentioned securities in the amount of €13 million, representing a marginal portion (3.3%) of the total nominal value issued, recognised in the “mandatorily at fair value” securities portfolio (Asset item 20 c).

With regard to the valuation of the securitised portfolio, a servicing committee was set up for the transaction, consisting of members appointed by each subscribing bank, whose tasks include decisions on moratoria, repayment plans and settlements (beyond the pre-determined ordinary management thresholds), and the assessment of loss forecasts on the outstanding loan portfolio at 30 June and 31 December each year.

Balance sheet items/Type of structured entity	Asset accounting portfolios	Total assets (A)	Liability accounting portfolios	Total assets (B)	Net carrying amount (C = A - B)	Maximum exposure to loss risk (D)	Difference between exposure to loss risk and carrying amount (E = D - C)
Special purpose vehicle “BNT Portfolio SPV Srl”	Item 20.b) Other financial assets mandatorily measured at fair value	4,350			4,350	4,350	

The maximum exposure to the risk of loss is therefore equal to the carrying amount of the ABS subscribed by the subsidiary Banca Popolare di Bari.

At the reporting date, there were no contributions from the Group as financial support to the special purpose vehicle.

The events or circumstances that could expose Mediocredito Centrale Group to a loss are linked to the performance of the loan portfolio underlying the ABSs securities issued by the special purpose vehicle.

Fino 1 Securitisation Srl third-party securitisation

The subsidiary Banca Popolare di Bari holds 13.85% of the senior security note issued by the special purpose vehicle “Fino 1 Securitisation Srl” within a securitisation of NPLs loans originated by the Unicredit Group, backed by a “GACS” Italian government guarantee.

Below are the details of the senior tranche:

Security	Listing exchange	Rate/Spread	Rating	Final Redemption Date	Nominal value issued	Residual value at period-end	Subscriber
Senior	Unlisted	Euribor 6M/0.50	DBRS BBB+, Moody's A2	31/10/2045	650,000	250,296	Pool of Banks

The subsidiary Banca Popolare di Bari subscribed for the above-mentioned securities in the amount of €90 million, representing 13.85% of the total nominal value issued, recognised in the “at amortised cost” securities portfolio (Asset item 40 c).

Balance sheet items/Type of structured entity	Asset accounting portfolios	Total assets (A)	Liability accounting portfolios	Total assets (B)	Net carrying amount (C = A - B)	Maximum exposure to loss risk (D)	Difference between exposure to loss risk and carrying amount (E = D - C)
Special purpose vehicle “Fino 1 Securitisation Srl”	Item 40.b) Due from customers	34,724			34,724	34,724	

The maximum exposure to the risk of loss is therefore equal to the carrying amount of the ABS subscribed by the subsidiary Banca Popolare di Bari.

At the reporting date, there were no contributions from the Group as financial support to the special purpose vehicle.

The events or circumstances that could expose Mediocredito Centrale Group to a loss are linked to the performance of the loan portfolio underlying the ABSs securities issued by the special purpose vehicle.

C.5 Prudential consolidation - Servicer activities - own securitisations: payments received on securitised loans and redemptions of securities issued by the securitisation special purpose vehicle

Servicer	Special purpose vehicle	Securitised assets (period-end figure)		Loan repayments received during the year		Percentage of securities redeemed (period-end figure)					
		Impaired	Performing	Impaired	Performing	Senior		Mezzanine		Junior	
						Impaired	Performing	Impaired	Performing	Impaired	Performing
Banca Popolare di Bari/Cassa di Risparmio di Orvieto (*)	2017 Popolare Bari RMBS Srl	11,413	428,162	80	28,406	-	52.13%	-	-	-	-

(*) Each Servicer for its own originated portfolio

C.6 Prudential consolidation - Consolidated securitisation special purpose vehicles

With regard to this item, see the information provided above in subsection C “Qualitative Information.”

D. Disposal transactions

A. Financial assets disposed of but not fully derecognised Qualitative information

Within Mediocredito Centrale, the financial assets indicated below refer to repurchase agreements recognised under amounts due to banks and carried out to obtain short-term funding, with securities offered as collateral.

Within the BP Bari and CR Orvieto scope, the information relating to transactions that originated the sale of financial assets not derecognised is provided in subsection C “Securitisations” of this section.

Quantitative information

D.1 Prudential consolidation - Financial assets disposed of and fully recognised and associated financial liabilities: carrying amount

	Financial assets disposed of and fully recognised					
	Carrying amount	of which: securitised	of which: subject to sales contracts with repurchase agreements	of which impaired	Carrying amount	
A. Financial assets held for trading	-	-	-	X	-	
1. Debt securities	-	-	-	X	-	
2. Equity instruments	-	-	-	X	-	
3. Loans	-	-	-	X	-	
4. Derivatives	-	-	-	X	-	
B. Other financial assets mandatorily measured at fair value	-	-	-	-	-	
1. Debt securities	-	-	-	-	-	
2. Equity instruments	-	-	-	X	-	
3. Loans	-	-	-	-	-	
C. Financial assets designated at fair value	-	-	-	-	-	
1. Debt securities	-	-	-	-	-	
2. Loans	-	-	-	-	-	
D. Financial assets measured at fair value through other comprehensive income	29,986	-	29,986	-	29,997	
1. Debt securities	29,986	-	29,986	-	29,997	
2. Equity Securities	-	-	-	X	-	
3. Loans	-	-	-	-	-	
E. Financial assets measured at amortised cost	1,132,462	1,132,462	-	40,628	49,511	
1. Debt securities	-	-	-	-	-	
2. Loans	1,132,462	1,132,462	-	40,628	49,511	
Total	31/12/2020	1,162,448	1,132,462	29,986	40,628	79,508

E. Prudential consolidation - credit risk measurement models

This section has not been completed because the Banking Group does not use internal portfolio models to measure exposure to credit risk.

1.2 Market risk

1.2.1 Interest rate and price risk - regulatory trading book

Qualitative information

A. General aspects

At 31 December 2020, within Mediocredito Centrale there were no positions attributable to the regulatory trading book. Consequently, the entire financial structure is composed of the “banking book”.

Banca Popolare di Bari also had almost zero exposure to market risks deriving from investments allocated to the “regulatory trading book”. The main source of interest rate risk, in line with the Bank’s traditional risk/return profile, is bonds and bond and interest rate derivatives. Specifically, the bond portfolio had zero volumes throughout the period. The main source of price risk within the “regulatory trading book”, on the other hand, consists of investments in equities, which also had minor volumes during the period.

Cassa di Risparmio di Orvieto does not have its own regulatory trading book. In line with previous years and the Bank’s traditional risk/return profile, the securities portfolio is characterised by the presence of Eurozone government bonds, held under a “Held To Collect” business model, i.e. with the objective of collecting the contractual cash flows expected during the lifetime of the financial instruments.

B. Management processes and measurement methods for interest rate and price risk

In light of the observations made above, this section has only been completed for Banca Popolare di Bari.

In accordance with the regulatory guidelines, the Bank has implemented specific procedures and control systems for the prudent management of market risk.

The activities aimed at quantifying the capital requirements, based on the adoption of the standard methodology defined by prudential regulations, are accompanied by additional controls that enable the management of the exposure to market risks

in line with the indications from the corporate bodies with strategic policy-making functions.

These controls are set out in a specific policy that identifies systems and tools for measuring, controlling and mitigating market risk, as well as defining the procedures and actors involved in the risk management process.

Specifically, in line with the organisational structure in place and in compliance with the applicable prudential regulations, the Bank's Board of Directors establishes guidelines and strategic policies regarding the assumption and management of market risk, in terms of risk/return objectives. The Ordinary and Extraordinary Finance Function, on the other hand, is responsible for the operational implementation and execution of the trading book management policies on the markets, in accordance with the guidelines provided by the competent committees supporting the Board of Directors.

The Bank's risk control function defines the methods for measuring and monitoring market risk and ensures control and mitigation of the risk. In addition, in collaboration with the competent corporate structures, it ensures consistency with the limits set in the overall risk appetite framework for market risk. The system of operating limits is an essential element of the broader market risk management framework in place and, in accordance with the internal rules, it is subject to possible updates in the light of changes in the financial markets and the Bank's organisational structure. It will therefore be revised from a Group perspective following changes in the corporate structure.

Specifically, the current system is based on the identification of a series of parameters/indicators to monitor the exposure to market risk, including the capital invested, the daily variations in the value of the portfolio, the related concentration levels (broken down by rating and counterparty), the degree of diversification of the financial instruments held and the level of Value at Risk, which represents the maximum loss of value that a portfolio may suffer in a given holding period and with a particular level of confidence (ten days, 99th percentile). To this end, the Bank uses an advanced IT platform, provided by Morgan Stanley Capital

International-Barra (MSCI) and based on the RiskMetrics model, which has advanced libraries for the valuation and pricing of financial instruments and enables a precise estimate of the level of risk of the securities and derivatives typically used by the Bank for trading purposes. Specifically, the model provides an estimate of the portfolio's Expected Shortfall (ES) or Conditional VaR (CVaR), a measure that represents the expected value of the worst losses beyond a given percentile and therefore has a higher degree of stability and prudence than VaR. The quantification of ES (or CVaR) is performed daily using a historical simulation approach and is based on the last 500 market observations (2-year lookback period).

Impacts from the Covid-19 pandemic

In light of the observations made in the paragraph above, this section has only been completed for Banca Popolare di Bari.

In view of the size of the trading book in 2020, and in line with the management policy aimed at maximum containment of any market risk, no changes were required to the market risk management strategy and the models for measuring and controlling this type of risk.

Quantitative information

1. Regulatory trading book: distribution by residual maturity (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives

Type/Residual maturity	On-demand	Up to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	From over 5 years to 10 years	More than 10 years	Undefined duration
1. On-balance sheet assets	2	-	-	-	1	3	-	-
1.1 Debt securities	2	-	-	-	1	3	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	2	-	-	-	1	3	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	6,907	41	-	-	-	-	-
+ Short positions	-	2,124	41	-	-	-	-	-

2. Regulatory trading book: breakdown of equity exposures and equity indices by main listing market countries

This table has not been produced because a sensitivity analysis to interest rate risk based on internal models and other methodologies is provided below.

3. Regulatory trading book - internal models and other methods of sensitivity analysis

This section summarises the results of the analysis of interest rate risk and price risk within the regulatory trading book. Specifically, the tables below show details of the CVaR generated by the “interest rate” and “price” risk factors, respectively.

Int Rate CVaR	End of Day Amount
15/10/2020	0
31/12/2020	0

values in € units

Equity CVaR	End of Day Amount
15/10/2020	109
31/12/2020	75

values in € units

1.2.2 Interest rate and price risk - banking book

A. Interest rate and price risk: general aspects, management processes and measurement methods

Interest rate risk can be defined as the risk that changes in market interest rates have unfavourable effects on assets and liabilities held for purposes other than trading, with an impact, therefore, on profitability and/or on the Bank's economic value. To measure and manage their exposure to interest rate risk, the Group Banks have adopted dedicated policies and implemented specific procedures aimed at monitoring the levels of risk assumed and containing them within the overall framework of operating limits set by the corporate bodies. Information about individual Group Banks is provided below:

Mediocredito Centrale

The exposure to interest rate risk derives mainly from the degree of maturity transformation carried out by the Bank, i.e. the collection of funds with a short-term repricing frequency and the investment in assets with a longer-term rate revision. As a result, it is quantified on the basis of an analysis of the mismatch between the repricing deadlines of asset and liability items (so-called gap risk). The following, however, are of limited significance, partly due to the Bank's particular business model:

- basis risk: the risk associated with imperfect correlation in the adjustment of lending and borrowing rates on different instruments, but with otherwise similar price revision characteristics (maturity and/or revision frequency);
- option risk: the risk associated with the presence of options in the Bank's assets, liabilities and off-balance sheet instruments.

The Board of Directors oversees the supervision of the overall framework for identifying, measuring, monitoring and managing interest rate risk and approves the related policy. With regard to risk measurement in particular, the Board of Directors also approves the methodologies and assumptions adopted for the stress tests. The management strategy for interest rate risk, including the risk appetite expressed in the RAF, the scenarios adopted in the simulations and the risk mitigation actions, is part of the Bank's overall strategy and is subject to approval by the Board of Directors. The interest rate risk appetite is expressed both in terms of expected impact on net interest income (short-term view) and its impact on economic value (medium/long-term view).

The Chief Executive Officer is responsible for executing the risk management strategy and approving the related capital and operating limits, which are expressed in terms of duration, with details of the main risk-generating components.

The definition and optimisation of the Bank's financial structure is ensured by the Chief Financial Officer in accordance with the indications provided by the company bodies in specific Guidelines and in line with the risk targets set by the corporate bodies ("Risk Appetite Framework"). Financial operations are monitored both preventively – in order to identify the optimal financial structure in relation to changes in market conditions – and after the fact, to ensure observance of risk objectives and the approved system of limits. The second-level control activities are the responsibility of organisational structures separate and independent from the operating units.

At 31 December 2020, the most significant elements characterising the exposure to interest rate risk were:

- medium/long-term loans relating to the core lending business, consisting mainly of variable rate loans indexed to the Euribor (85%), fixed rate loans (13%) and, to a residual extent, mixed-rate loans (2%);
- factoring transactions;
- investments in multi-year treasury bonds, with an average duration of 1.7 at the reporting date;
- fixed-rate and zero-coupon bonds, with maturities distributed across the time frame shown in table B1 below;
- ECB funding (“TLTRO III”);
- variable rate deposit liabilities indexed to the Euribor with Cassa Depositi e Prestiti;
- variable rate deposit liabilities indexed to the Euribor with the European Investment Bank (EIB);
- short and medium-term deposit liabilities indexed to the Euribor with enterprise customers;
- short and medium-term deposit liabilities indexed to the Euribor with Invitalia Group companies;
- repurchase agreements with banking counterparties;
- on demand deposits from enterprise customers, deriving from on demand current accounts and time deposits;
- demand deposits from Invitalia Group companies;
- demand deposits generated by technical current accounts related to management of public subsidies.

Additionally, the following positions are part of the overall ALM structure:

- hedging derivatives for bond funding;
- deposits (assets or liabilities), indexed to EONIA, received or made as collateral for the positive or negative market value of hedging derivative contracts and for repurchase agreements (cash collateral).

The positions deriving from the securitisation of residential mortgage loans carried out in 2016 have no effect on the overall ALM structure and therefore do not

generate any interest rate risk, because the securities issued by the special purpose vehicle were entirely subscribed by the Bank.

The Bank adopts robust methods for measuring risk, able to include all relevant elements (risk exposure drivers and risk factors) in the light of its business model.

In terms of risk factors, parallel shifts in the interest rate curve as well as non-parallel movements are considered (e.g. parallel shocks on the curve equal to a change of ± 200 basis points, “steepener” shocks, “flattener” shocks, etc.), from both a deterministic and a probabilistic perspective (shocks on the curve corresponding to the 1st/99th percentile of the historical distribution of annual interest rate changes).

The analysis model considers the effect of an instantaneous shock (first instant after the reference date) both in terms of impact on economic value and as an impact on the expected net interest income over an annual period.

The estimate of the impact on economic value measures the theoretical change in the market value of the banking book according to the standard duration analysis model, based on the mapping/grouping of all the positions of interest-bearing funding, interest-bearing loans and derivative instruments, by repricing time bands: for each band, the estimate of the change in value is obtained by applying the modified duration and the assumed local rate shock.

In addition to the overall change in value of the banking book, the model provides a disaggregated measure by macro-class of funding and lending, also for the purpose of setting operating limits on the most significant types. The model also provides an estimate of duration, again broken down by macro-class of funding and lending.

Net interest income is estimated using the gap analysis model, again starting with the mapping/grouping of all rate-sensitive positions into repricing time bands. For each band, the change in net income is obtained by multiplying the net repricing position by the assumed shock and the duration over which interest accrues at the new rate.

To ensure that the exposure to interest rate risk of the banking book is always in line with the Bank's risk appetite – as defined in the Risk Appetite Framework – the operating function and the risk control function independently carry out monthly monitoring and, for certain types of transactions (e.g. changes in the portfolio of securities owned), preventive impact analysis.

The risk control function also carries out stress test to estimate potential adverse consequences deriving from extreme but plausible market scenarios. Stress scenarios are identified on the basis of the situation of the financial markets and forecasts made by external sources, taking into account the vulnerabilities associated with the Bank's business model.

With regard to price risk, the Bank has only negligible exposure because it does not hold a significant number of shares.

Banca Popolare di Bari and Cassa di Risparmio di Orvieto

The measurement system for interest rate risk detects all significant sources of risk that can affect the banking book, including:

- interest-rate revision risk: the risk associated with timing mismatches in the maturities (for fixed-rate positions) and rate revision date (for floating-rate positions) of the Bank's assets, liabilities and off-balance sheet items;
- yield-curve risk: the risk associated with changes in the slope and level of the yield curve;
- basis risk: the risk associated with imperfect correlation in the adjustment of lending and borrowing rates on different instruments, but with otherwise similar price revision characteristics (maturity and/or revision frequency);
- option risk: the risk associated with the presence of options in the Bank's assets, liabilities and off-balance sheet instruments.

The Board of Directors has primary responsibility for ensuring the effectiveness of the management and control system for interest rate risk. In its capacity as Strategic Supervisory Body, the Board of Directors establishes the guidelines for the management of interest rate risk, by setting strategic directions and policies expressed in terms of risk/return objectives.

The Ordinary and Extraordinary Finance Function contributes to the management of interest rate risk, in accordance with the guidelines set by the competent committees (ALM, Treasury and Capital Management Committee) supporting the Board of Directors.

The risk control function defines the principles and methods for measuring and monitoring interest rate risk, which, until 31 December 2020, also extended to Cassa di Risparmio di Orvieto. The controls carried out by the Function, subject of specific reporting sent to the competent corporate bodies and structures, are conducted at least monthly based two distinct and complementary outlooks:

- Current earnings outlook: aimed at assessing interest rate risk on the sensitivity of net interest income to changes in interest rates over a set period (twelve months);
- Economic value outlook: changes in interest rates that may affect the economic value of the Bank's assets and liabilities. The economic value of a bank is represented by the present value of expected cash flows. Unlike the current earnings outlook, the economic value outlook identifies the risk generated by the repricing or maturity gap over a long-term period.

Specifically, estimates of exposure to interest rate risk on the banking book are made using a specific internal model, based on an asset and liability management procedure provided by a leading IT outsourcer (ALMPro Ermas by Prometeia).

Sensitivity analyses are conducted on a full evaluation basis and include the effects of specific modelling of core deposits and loan prepayments. Specifically, the Bank has implemented the following behavioural models, which are periodically updated and calibrated:

- core deposits model: based on two separate analyses, dedicated respectively to the study of the persistence of the volumes of core deposits and the changes in interest rates relating to these aggregates with respect to changes in market interest rates;
- prepayment model: used to estimate an expected amortisation schedule of loans at maturity different from the contractual maturity, by determining the

coefficients of a parametric survival function that takes into account quantitative financial variables (e.g. refinancing incentives) and category-dependent explanatory variables (e.g. type of counterparty, age of the borrower, etc.).

The procedure is also supplemented by specific models for evaluating the impact on the risk profile of the implicit optionality (cap/floor) on floating rate positions. By taking these aspects into account, interest rate risk management, as a whole, can be more oriented towards optimising the ALM structure, benefiting both expected profitability and capital absorption.

The main tool for mitigating interest rate risk is the monitoring of the thresholds set out in the Risk Appetite Framework and the related limits. This activity is aimed at ensuring that interest rate risk is properly and effectively managed by promptly identifying any issues of concern and identifying appropriate corrective actions. Specifically, to assess the alignment of the exposure to interest rate risk with the risk profile defined by the Strategic Policy-Making Bodies, the Bank uses the above-mentioned internal model to estimate a Risk Indicator in line with the approach set out by the Bank of Italy in Circular 285/2013. This indicator is determined as the difference between the present value of assets and liabilities and the corresponding present value estimated on the basis of the same rate curve, to which a shock is applied corresponding to the annual changes in interest rates recorded over a multi-year observation period, considering the upward 99.9th percentile. Lastly, the difference between the two current values is compared to the Own Funds figure to obtain a Risk Indicator expressed in percentage terms.

In line with the provisions of Bank of Italy Circular 285/2013, which implemented the specific EBA Guidelines on the management of interest rate risk of the banking book, when conducting stress tests the Bank accompanies the assumptions of parallel shocks (e.g. +/-200 bps) of the interest rate curves with specific scenarios of standardised non-linear shocks, as defined in the EBA Guidelines (EBA/GL/2018/02). In addition, also in line with the EBA Guidelines on the management of interest rate risk of the banking book implemented by Circular 285/2013, specific analyses have been introduced within the stress tests based on

changes in the key assumptions underlying the behavioural models for the customers.

Lastly, in addition to quantifying the impact on the value of shareholders' equity, the model used allows estimates to be made of the effects of changes in interest rates on net interest income, in order to quantify the exposure of expected earnings results to changes in market curves.

The price risk for Banca Popolare di Bari is essentially linked to the presence of investments in the portfolio of assets held under the "Held to Collect and Sell" business model, i.e. with the aim of both collecting the contractual cash flows and making possible sales of the financial instruments contained in it. Specifically, the Bank monitors its exposure to equity and bond price risk by estimating, on a daily basis, the Conditional Value at Risk or Expected Shortfall (CVaR) of the investments allocated to the banking book using the historical simulation approach described above (see Section 2.1 B). For Cassa di Risparmio di Orvieto, price risk is mainly related to the presence of financial instruments held in the portfolios owned by the bank and measured at fair value. This risk, which is periodically monitored by means of a specific series of indicators, had been largely reduced to essentially residual levels in 2020: the competent structures allocated to Banca Popolare di Bari provide precise quantification of the Bank's invested capital, daily changes in the value of proprietary portfolios and specific Value at Risk measures. Specifically, VaR, which is determined on a daily basis, is an indication of the maximum loss of value that a portfolio could suffer in a given holding period and with a particular level of confidence. The estimate is made using a historical simulation approach and is based on 500 market observations (2-year lookback period).

Lastly, with regard to the aggregates consisting of investments and fair value level 3 funds, the Bank monitors a specific system of early warning indicators established as part of its market risk management policy.

Impacts from the Covid-19 pandemic

Following an increase in volatility in the financial markets in March and April 2020, triggered by the pandemic crisis, the Group Banks implemented measures to

assess the potential impact of unexpected interest rate movements on earnings and/or economic value. These analyses and the subsequent monitoring of risk indicators during the year did not reveal any elements likely to significantly alter the exposure to interest rate risk on the banking book.

Quantitative information

1. Banking book: distribution by residual maturity (repricing date) of financial assets and liabilities

Type/Residual maturity	On-demand	Up to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	From over 5 years to 10 years	More than 10 years	Undefined duration
1. On-balance sheet assets	4,247,815	4,298,413	2,375,933	247,011	1,357,676	478,052	900,311	(157,500)
1.1 Debt securities	242	292,621	1,896,332	58,480	651,664	9,227	289,072	13,950
- with early redemption option	242	73,987	5,203	81	565	9,227	265,745	0
- other	0	218,634	1,891,129	58,399	651,099	0	23,327	13,950
1.2 Loans to banks	114,189	2,360,970	434	0	0	0	0	0
1.3 Loans to customers	4,133,384	1,644,822	479,167	188,531	706,012	468,825	611,239	(171,450)
- current accounts	381,972	77	1,474	2,018	22,058	201	0	0
- other loans	3,751,412	1,644,745	477,693	186,513	683,954	468,624	611,239	(171,450)
- with early redemption option	3,518,721	1,526,001	330,282	178,840	674,760	467,835	589,662	0
- other	232,691	118,744	147,411	7,673	9,194	789	21,577	(171,450)
2. On-balance sheet liabilities	6,992,928	282,557	194,730	816,363	4,414,193	292,589	24,306	0
2.1 Due to customers	7,141,645	220,489	186,364	596,319	603,239	107,519	24,306	0
- current accounts	6,803,767	203,046	147,860	568,391	405,912	0	0	0
- other payables	337,878	17,443	38,504	27,928	197,327	107,519	24,306	0
- with early redemption option	0	0	0	0	0	0	0	0
- other	337,878	17,443	38,504	27,928	197,327	107,519	24,306	0
2.2 Due to banks	(157,941)	53,183	0	0	3,493,838	0	0	0
- current accounts	20,175	0	0	0	0	0	0	0
- other payables	(178,116)	53,183	0	0	3,493,838	0	0	0
2.3 Debt securities	9,224	8,885	8,366	220,044	317,116	185,070	0	0
- with early redemption option	0	0	0	0	0	0	0	0
- other	9,224	8,885	8,366	220,044	317,116	185,070	0	0
2.4 Other liabilities	0	0	0	0	0	0	0	0
- with early redemption option	0	0	0	0	0	0	0	0
- other	0	0	0	0	0	0	0	0
3. Financial derivatives	80,190	1,285,367	129,725	66,215	696,062	403,656	221,386	0
3.1 With underlying security	0	303	303	0	0	0	0	0
- Options	0	0	0	0	0	0	0	0
+ Long positions	0	0	0	0	0	0	0	0

+ Short positions	0	0	0	0	0	0	0	0
- Other derivatives	0	303	303	0	0	0	0	0
+ Long positions	0	0	303	0	0	0	0	0
+ Short positions	0	303	0	0	0	0	0	0
3.2 Without underlying security	80,190	1,285,064	129,422	66,215	696,062	403,656	221,386	0
- Options	0	670,659	109,212	55,621	319,822	177,952	139,845	0
+ Long positions	0	11,639	32,638	54,659	319,822	177,952	139,845	0
+ Short positions	0	659,020	76,574	962	0	0	0	0
- Other derivatives	80,190	614,405	20,210	10,594	376,240	225,704	81,541	0
+ Long positions	0	228,970	15,000	0	300,000	160,471	0	0
+ Short positions	80,190	385,435	5,210	10,594	76,240	65,233	81,541	0
4. Other off-balance sheet transactions	380,281	22,683	49,311	0	0	0	0	0
+ Long positions	154,143	22,683	49,311	0	0	0	0	0
+ Short positions	226,138	0	0	0	0	0	0	0

2. Banking book: internal models and other methods of sensitivity analysis

Banca Popolare di Bari

This section summarises the results of the analysis of interest rate risk within the banking book. Specifically, the tables below show the impact on net interest income (flow repricing model) assuming a parallel change in interest rates of +/- 100 basis points.

Item description	Shock + 100 bps	Shock - 100 bps
Change in net interest income	+39,352	-28,252

Figures in € thousands

The table below, on the other hand, shows the sensitivity of the value of shareholders' equity (full evaluation model) under the assumption of parallel shocks to the curve of +/- 100 bps and the steepener shock (fall in short-term rates and rise in long-term rates):

Item description	Shock + 100 bps	Shock - 100 bps	Steepener shock
Reduction in value of shareholders' equity	-2,174	- 95,710	+19,267

Figures in € thousands

All the analyses carried out take into account the impact of the models described above (core deposits, loan prepayments, cap/floor on floating rate positions).

Cassa di Risparmio di Orvieto

This section summarises the results of the analysis of interest rate risk within the banking book. Specifically, the table below shows the impact on net interest income (repricing gap model with modelling of core deposits) assuming a shift in interest rates of +/- 100 basis points:

Item description	Shock + 100 bps	Shock - 100 bps
Change in net interest income	+ 4,366	-3,831

Figures in € thousands

The table below, on the other hand, shows the sensitivity of the value of shareholders' equity (full evaluation model) under the assumption of parallel shocks to the curve of +/- 100 bps and the steepener shock (fall in short-term rates and rise in long-term rates):

Item description	Shock + 100 bps	Shock - 100 bps	Steepener shock
Reduction in value of shareholders' equity	+2,776	-11,616	+10,439

Figures in € thousands

1.2.3 Foreign currency risk

Qualitative information

A. General aspects, management processes and measurement methods for foreign currency risk

During the year 2020, the Group did not engage in any gold transactions or foreign exchange transactions. Consequently, at the year-end there were no transactions in currencies other than the euro that could generate foreign currency risk.

1.3 Derivative instruments and hedging policies

1.3.1 Derivative instruments held for trading

A. Financial derivatives

A.1 Financial derivatives held for trading: notional values at end of period

Underlying assets/Type of derivative	Total 31/12/2020			
	Central counterparties	Over the counter		Organised markets
		Without central counterparties		
		With offsetting agreements	Without offsetting agreements	
1. Debt securities and interest rate indexes	-	-	243,970	-
a) Options	-	-	-	-
b) Swaps	-	-	243,970	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equity instruments and stock indexes	-	-	-	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Gold and currencies	-	-	6,656	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	6,656	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	-	-	-	-
5. Other	-	-	-	-
Total	-	-	250,626	-

A.2 Financial derivatives held for trading: positive and negative fair value - breakdown by product

Type of derivative	Total 31/12/2020			Organised markets
	Over the counter			
	Central counterparties	Without central counterparties		
		With offsetting agreements	Without offsetting agreements	
1. Positive fair value				
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	59	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	-	-	59	-
2. Negative fair value				
a) Options	-	-	-	-
b) Interest rate swaps	-	-	29,938	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	6	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	-	-	29,944	-

A.3 OTC financial hedging derivatives: notional values, positive and negative fair value by counterparty

Underlying assets	Central counterparties	Banks	Other financial companies	Other entities
Contracts not included in offsetting agreements				
1) Debt securities and interest rate indexes				
- notional value	X	243,970	-	-
- positive fair value	X	-	-	-
- negative fair value	X	29,938	-	-
2) Equity instruments and stock indexes				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Gold and currencies				
- notional value	X	6,477	-	179
- positive fair value	X	52	-	6
- negative fair value	X	6	-	-
4) Commodities				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts included in offsetting agreements				
1) Debt securities and interest rate indexes				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
2) Equity instruments and stock indexes				
- notional value	-	-	-	-
- positive fair value	-	-	-	-

- negative fair value	-	-	-	-
3) Gold and currencies				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Commodities				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual life of OTC financial hedging derivatives: notional values

Underlying/Residual life	Up to 1 year	Over 1 year and up to 5 years	More than 5 years	Total
A.1 Financial derivative contracts on debt securities and interest rates	-	-	243,970	243,970
A.2 Financial derivative contracts on equity securities and stock indexes	-	-	-	-
A.3 Financial derivative contracts on exchange rates and gold	6,656	-	-	6,656
A.4 Financial derivative contracts on other values	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2020	6,656	-	243,970	250,626

1.3.2 Hedge accounting

Qualitative information

A. Fair value hedging

The hedging derivatives in place refer solely to Mediocredito Centrale. In order to immunise the Parent Company's economic value against the impact of changes in interest rates on bond funding at zero coupon rates, each bond issue has been hedged by means of an Interest Rate Swap derivative contract signed with a primary market counterparty. These positions can therefore be classified as fair value hedges.

B. Cash flow hedging

There are no cash flow hedges.

C. Hedging of foreign investments

There are no hedges for foreign investments.

D. Hedging instruments

Each hedging instrument includes a receivable portion that precisely replicates the interest accruing on bond issues and a payable portion indexed to the Euribor parameter plus a spread, so as to perfectly compensate for variations in cash flows from the hedged element due to variations in the rates.

E. Items hedged

Given that the aim of the hedging transaction is to immunise the economic value of the banking book from interest rate risk, the element hedged is not precisely the bond, but a portion of it, represented by the component affected by the change in interest rates.

Verification of hedge effectiveness is done using the “hypothetical derivative” method, represented by the derivative contract that would be stipulated in the (theoretical) absence of counterpart risk. It consists in verifying that the change in the value of the hedged element (hypothetical derivative), based on a conventional interest rate shock, is equal to the change in the value of the hedging instrument (effective derivative). Any difference (ineffectiveness) must be attributed entirely to the difference between the fair market spread (hypothetical derivative) and that effectively negotiated with the counterparty (effective derivative).

() The macro hedging rules adopted by the Bank comply with the requirements of IAS 39 and consequently the column “Change in value used to recognise hedge ineffectiveness” has not been filled in.*

Quantitative information

A. Financial hedging derivatives

A.1 Financial hedging derivatives: notional values at end of period

Underlying assets/Type of derivative	Total 31/12/2020			
	Over the counter			Organised markets
	Central counterparties	Without central counterparties		
		With offsetting agreements	Without offsetting agreements	
1. Debt securities and interest rate Indexes	-	460,471	-	-
a) Options	-	-	-	-
b) Swaps	-	460,471	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equity instruments and stock indexes	-	-	-	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Gold and currencies	-	-	-	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	-	-	-	-
5. Other	-	-	-	-
Total	-	460,471	-	-

A.2 Financial hedging derivatives: positive and negative fair value - breakdown by product

Type of derivative	Change in value used to calculate hedging ineffectiveness			
	Total 31/12/2020			
	Over the counter			Organised markets
	Central counterparties	Without central counterparties		
		With offsetting agreements	Without offsetting agreements	
Positive fair value	90,202			
a) Options	-	-	-	-
b) Interest rate swaps	-	90,202	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	-	90,202	-	-
Negative fair value				
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	-	-	-	-

A.3 OTC financial hedging derivatives: notional values, positive and negative fair value by counterparty

Underlying assets	Central counterparties	Banks	Other financial companies	Other entities
Contracts not included in offsetting agreements				
1) Debt securities and interest rate indexes				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
2) Equity instruments and stock indexes				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Gold and currencies				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
4) Commodities				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts included in offsetting agreements				
1) Debt securities and interest rate indexes				
- notional value	-	460,471	-	-
- positive fair value	-	90,202	-	-
- negative fair value	-	-	-	-
2) Equity instruments and stock indexes				
- notional value	-	-	-	-
- positive fair value	-	-	-	-

- negative fair value	-	-	-	-
3) Gold and currencies				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Commodities				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual life of OTC financial hedging derivatives: notional values

Underlying/Residual life	Up to 1 year	Over 1 year and up to 5 years	More than 5 years	Total
A.1 Financial derivative contracts on debt securities and interest rates	-	300,000	160,471	460,471
A.2 Financial derivative contracts on equity securities and stock indexes	-	-	-	-
A.3 Financial derivatives on currencies and gold	-	-	-	-
A.4 Financial derivative contracts on exchange rates and gold	-	-	-	-
A.5 Financial derivative contracts on other values	-	-	-	-
Total 31/12/2020	-	300,000	160,471	460,471

1.4 Liquidity risk

Qualitative information

A. General aspects, management processes and measurement methods for liquidity risk

Liquidity risk, in general terms, means the risk of the Bank being unable to finance new loans and/or to promptly comply with its own payment commitments. The liquidity risk governance and management system is intended to avoid the occurrence of certain conditions which could give rise to this situation of default.

At 31 December 2020, the Group Banks had differences in relation to their specific business context, with consequent effects on their exposure to this risk.

Accordingly, details are provided below of the situation in the different scopes.

Mediocredito Centrale

Exposure to liquidity risk depends initially on the specific business model (second level bank focused on lending to enterprises), which involves a low amount of retail deposits, at low cost and stable over the medium/long term, which requires higher usage of transformation of maturities and secured forms of funding in order to limit the cost of funding. Additionally, management decisions with regard to instruments used to mitigate the risk are also important. These include the qualitative/quantitative structure of liquidity reserves, the portion of tied assets, and level of diversification for funding.

In relation to these aspects and risk factors which could impact expected cash flows, as part of the International Liquidity Adequacy Assessment Process (ILAAP), the following types of liquidity risk to which the Bank is exposed and their significance have been identified:

- a. contingency liquidity risk, with low significance;
- b. mismatch liquidity risk, i.e. refinancing at unfavourable conditions, with high significance;
- c. market liquidity risk, i.e. risk of forced sale of securities or loans receivable at a price lower than fair value, with low significance;

- d. funding liquidity risk, i.e. risks associated with the structure of funding and concentration of counterparties/types/maturities having negative effects on market appetite for the Bank's unsecured debt, with high significance;
- e. asset encumbrance risk, i.e. risk associated with encumbered assets for guaranteed funding operations having negative effects on market appetite for the Bank's unsecured debt, with high significance.

In relation to these risks, the liquidity monitoring system is structured as follows.

- with regard to funding liquidity risk, contingency liquidity risk and market liquidity risk, exposure to the risk is monitored jointly with the maturity ladder model, placing expected cash flows and the counterbalancing capacity on a monthly calendar and calculating the cumulative balance for each maturity period. Scenario analysis involves the introduction of stress scenarios relating to non-renewal of short-term funding and haircuts on liquidity reserves. Risk exposure is expressed in terms of days of survival and, more specifically, using the Liquidity Coverage Ratio;
- exposure to funding liquidity risk is also measured in terms of deposit concentration by type, counterparty and renewal date;
- exposure to mismatch liquidity risk is expressed as the percentage of illiquid assets financed by stable deposits and, in particular, using the Net Stable Funding Ratio;
- for asset encumbrance risk, exposure to risk is expressed as the ratio between encumbered assets and total assets;
- in terms of risk factors (monitoring of unfavourable events which could impact expected cash flows), a system of early warning indicators is in place, aimed at identifying events able to create liquidity stress or crises in advance.

The overall liquidity risk monitoring system involves daily checks carried out by:

- the Finance and Treasury Unit, for level one controls assigned to the operating function that assumes the risk;
- the risk control function, for level two controls by a structure that is separate and independent from the first.

In relation to the monitoring illustrated above, risk objectives, operating limits and attention thresholds are defined which, in line with prudential regulations, represent the reference measures for the implementation of the Risk Appetite Framework, Contingency Funding Plan and Recovery Plan. In particular, in terms of escalation processes and options available in crisis situations, specific rules are established in terms of expected cash flows over the short term (3 months) and very short term (7 days), as well as with respect to the ratio between liquid reserves and net outflows expected under stress conditions (Liquidity Coverage Ratio).

The monitoring of the liquidity indicators carried out in 2020 identified levels well above the management and regulatory thresholds, in particular the LCR regulatory indicator remained at levels generally double the prudential requirement (100%), with an average of 269%, a minimum of 178% and a figure of 195% at 31 December 2020.

These indicators are also subject to forward-looking analysis when planning funding (funding plan), in order to verify before the fact whether balance is maintained in line with the risk appetite identified by the Board of Directors (Risk Appetite Framework).

Banca Popolare di Bari

The main objective of the Bank's liquidity risk monitoring and management system is to maintain a constant balance between cash inflows and outflows and to ensure that a sufficient buffer of liquid reserves is available to meet the Bank's payment obligations at any given time, also in adverse scenarios. This objective is pursued through careful management of assets and liabilities and prudent planning of funding requirements. In accordance with the applicable prudential regulations, liquidity risk is managed on the basis of the guidelines contained in a specific policy that sets out the criteria adopted for identifying and defining liquidity risk, in line with the provisions of Bank of Italy Circular 285/2013, the organisational model governing the liquidity risk management process and the responsibilities of the corporate bodies and structures, the methods used to measure liquidity risk and conduct stress tests, the characteristics and requirements the various assets must

meet to fall within the scope of the counterbalancing capacity, and the system of operating limits and early warning thresholds for both operational and structural liquidity.

The Bank's Corporate Bodies have primary responsibility for ensuring the effectiveness of the management and control system for liquidity risk. Specifically, based on the management model adopted at 31 December 2020, the Bank's Board of Directors establishes guidelines and strategic policies regarding the assumption of liquidity risk, in terms of objectives and related tolerance thresholds. The ALM, Treasury and Capital Management Committee oversees the monitoring and decision-making functions relating to liquidity risk, both with regard to ordinary operations and strategic policy decisions. The Ordinary and Extraordinary Finance Function contributes to the management of liquidity risk, in line with the guidelines set by the competent committees supporting the Board of Directors. The risk control function, on the other hand, guarantees control over liquidity risk, both through the measurement and periodic monitoring of risk indicators and through specific analyses and management reports. The main metric adopted for measuring and monitoring liquidity risk is the maturity ladder, a tool used to assess the Bank's residual liquidity over a given period of time, to identify potential problems and enable tactical and/or strategic corrective action to be taken in good time.

Specifically, the competent corporate structures prepare specific maturity ladders to monitor both the Bank's operational liquidity (to manage the gaps between inflows and outflows of cash expected in the short term) and the structural liquidity profile, with a view to ensuring the maintenance of the financial stability in the medium/long term. In order to promptly report any liquidity strains, the risk control function performs daily monitoring of a specific system of operating limits and early warning indicators, set in line with the measurement metrics adopted and the risk tolerance threshold established by the competent corporate bodies. The Bank then conducts regular stress tests to assess the impact on its liquidity position of adverse events caused by the risk factors it is exposed to. Specifically, systemic and idiosyncratic stress scenarios are defined with impacts on funding aggregates,

lending and the value of the counterbalancing capacity. In accordance with the provisions of prudential regulations, the system of operating limits and early warning thresholds in place is continuously compared with the results of periodic stress tests conducted. The Functions involved in the liquidity risk management process also periodically monitor the level of the Bank's dependence on its own sources of funding and its ability to promptly activate alternative funding channels and/or back-up liquidity reserves. Say This monitoring is accompanied by periodic analyses of the level of concentration of customer deposits and the main maturities of the funding aggregates. Specifically, the analyses involve segmenting maturing transactions both by type of counterparty (retail, institutional, etc.) and by type of funding (bond issues, time deposits, interbank, etc.). In accordance with the legal and regulatory provisions, a process of estimation and monitoring of liquidity indicators has been implemented, oriented respectively towards "survival" in conditions of acute stress in the short term (LCR) and structural stability of the sources of funding in the medium to long term (NSFR). The set of controls is completed by the monitoring of specific intra-daily liquidity risk indicators, also in order to quantify the minimum liquidity requirements for the Bank's operational needs. During the reporting period³¹, the Bank implemented specific management actions to maintain a sufficient buffer of liquid reserves. Particular attention was given to initiatives aimed at diversifying funding sources and consolidating the stock of assets eligible for refinancing operations with the Eurosystem. The monitoring conducted showed that, at 31 December 2020, the liquidity position was higher than the operating limits set on the basis of the results of the stress tests (in line with the "Liquidity Risk Management Policy"). Lastly, in line with the prudential regulations, the Bank has prepared a specific management plan to safeguard the company's financial structure in situations of liquidity stress ("Contingency Funding and Recovery Plan"). The contingency plan identifies the roles and tasks of the various organisational units involved in the liquidity risk management process, as well as the procedures to be activated when risk triggers are exceeded.

³¹ Starting from the end of the period of receivership until 31 December 2020.

Cassa di Risparmio di Orvieto

The liquidity risk for Cassa di Risparmio di Orvieto is managed on the basis of the guidelines set out in the policy drawn up by Banca Popolare di Bari, given the Group's previous configuration. The liquidity risk control and management process is carried out through the competent structures of Banca Popolare di Bari, which are responsible for the measurement and periodic monitoring of the indicators envisaged by the policy, as well as the preparation of analyses and management reports.

In view of the centralised system of liquidity management, a specific structure of risk indicators has also been established for Cassa di Risparmio di Orvieto:

- a minimum remaining availability limit;
- an early warning indicator aimed at promptly reporting any situations of stress.

The structure of thresholds established for the bank also includes specific early warning indicators relating to structural liquidity, expressed as minimum coverage ratios between lending and funding with the same maturity.

Regular overall stress tests are carried out at Banca Popolare di Bari to assess the impact of adverse events on the consolidated and individual liquidity position. Specifically, systemic and idiosyncratic stress scenarios have been defined with impacts on funding aggregates, lending and the Bank's counterbalancing capacity. In accordance with the provisions of prudential regulations, the system of operating limits and early warning thresholds in place is continuously compared with the results of periodic stress tests conducted.

The functions involved in the liquidity risk management process also periodically monitor the level of the dependence on the related sources of funding. This monitoring is accompanied by periodic analyses of the level of concentration and the main maturities of the Bank's funding aggregates.

Specific management actions have strengthened the Bank's liquidity position and ensured the constant availability of a sufficient level of liquid reserves. Indeed, in

2020, the Bank's liquidity buffer was consistently above the operating limits set by the policy based on the results of the stress tests.

Impacts from the Covid-19 pandemic

As the effects of the Covid-19 pandemic unfolded, Mediocredito Centrale put in place measures to assess the potential impacts of unexpected liquidity demands from customers and volatility in the value of liquid assets as a result of a possible deterioration in market conditions. To this end, monitoring was strengthened, for example, on drawdowns on revolving credit lines and volumes of factoring transactions. In addition, the incremental risk factors generated by the health crisis were incorporated into the analyses and stress scenarios for the internal liquidity adequacy assessment process (ILAAP). However, no signs of stress were found on the operational and structural liquidity profiles and the liquidity indicators remained stably above the minimum thresholds and therefore in line with the pre-defined risk appetite.

In 2020, as part of the initiatives aimed at countering the effects of the pandemic on the real economy, Banca Popolare di Bari and Cassa di Risparmio di Orvieto managed their available liquidity, in accordance with the objective of providing support to economic entities operating in the local communities served and in line with the government interventions (e.g. moratoria, renewal of credit facilities, etc.) implemented over time.

No changes were made to the way the overall exposure to liquidity risk is measured and monitored.

The tables below show distribution according to term and currency of the assets and liabilities at 31 December 2020.

Quantitative information

1. Distribution by maturity according to residual contractual term of financial assets and liabilities

Items/Time frames	On-demand	From over 1 day to 7 days	From over 7 days to 15 days	From over 15 days to 1 month	From over 1 month to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	More than 5 years	Undefined duration
On-balance sheet assets	668,476	13,440	30,720	103,053	418,840	439,822	596,711	5,720,166	3,710,763	2,361,047
A.1 Government securities	3	-	-	-	9,023	5,225	64,349	2,566,909	15,002	-
A.2 Other debt securities	836	-	-	40	368	1,142	1,027	7,783	481,635	-
A.3 Units in collective investment undertakings	93,589	-	-	-	-	-	-	-	-	-
A.4 Loans	574,048	13,440	30,720	103,013	409,449	433,455	531,335	3,145,474	3,214,126	2,361,047
- Banks	114,078	352	-	-	-	434	-	-	-	2,361,047
- Customers	459,970	13,088	30,720	103,013	409,449	433,021	531,335	3,145,474	3,214,126	-
On-balance sheet liabilities	7,369,273	35,488	8,086	102,986	117,508	190,809	846,958	4,166,920	308,022	-
B.1 Deposits and current accounts	7,139,541	5,291	7,030	84,603	108,853	148,521	574,620	403,823	-	-
- Banks	29,541	-	-	-	-	-	-	-	-	-
- Customers	7,110,000	5,291	7,030	84,603	108,853	148,521	574,620	403,823	-	-
B.2 Debt securities	9,112	192	1,051	1,918	5,741	15,662	231,713	317,957	176,071	-
B.3 Other liabilities	220,620	30,005	5	16,465	2,914	26,626	40,625	3,445,140	131,951	-
Off-balance sheet transactions										
C.1 Financial derivatives with capital Swap										
- Long positions	-	6,762	-	-	145	343	-	-	-	-
- Short positions	-	2,283	-	-	143	41	-	-	-	-
C.2 Financial derivatives without capital Swap										
- Long positions	-	-	-	-	-	-	-	-	-	243,970
- Short positions	-	-	-	278	576	1,255	2,020	-	-	-

C.3 Deposits and
loans to be received

- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

C.4 Irrevocable
commitments to
disburse funds

- Long positions	55,981	-	-	13	4,153	10,990	9,392	65,742	79,886	-
- Short positions	226,155	-	-	-	-	-	-	-	-	-

C.5 Financial
guarantees given

-	-	-	-	-	-	-	-	-	-	-

C.6 Financial
guarantees received

-	-	-	-	-	-	-	-	-	-	-

C.7 Credit
derivatives with
capital swap

- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

C.8 Credit
derivatives without
capital Swap

- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

Self-Securitisations

The self-securitisations of performing loans were structured with the objective of improving liquidity risk management, focusing on optimising the management of the loan portfolio and diversifying the sources of funding, reducing their cost and matching the natural maturities of assets and liabilities.

The direct and full subscription by the individual Bank of the asset-back securities (ABS) issued by the special purpose vehicles established in accordance with Law 130/1999 did not permit the Bank to obtain direct liquidity from the market, but it did enable it to hold securities that could be used for refinancing operations with the European Central Bank, improving the safety margin and liquidity risk position. Eligible, rated securities represent the core of the Group's ability to meet short-term commitments through readily liquid instruments.

The originator banks, having retained substantially all the risks and rewards of ownership of the assets sold, recognise these loans in full, applying the accounting treatment required by IFRS 9 for the category of financial instruments they belong to, while the notes issued by the special purpose vehicle and subscribed for are not recognised. At least until when part of the junior notes are placed on the market, the above-mentioned sale and purchase transactions, to be considered jointly in accordance with the principle of substance over form, merely constitute a conversion of the loans into securities, without any material economic effect.

Servicing agreements have been entered into with the special purpose vehicles under which the Bank carries out all activities related to the management of the loans sold (administration, management, collection and recovery) and, as master servicer, the coordination, administration and recovery activities for the bad loans. Below is a brief description of the securitisations carried out by the Group.

Mediocredito Centrale

MCC RMBS S.R.L.

In October 2016, the Bank carried out a self-securitisation of residential mortgages for liquidity purposes. The transaction consisted of the non-recourse sale of a portfolio of performing residential mortgages, with a residual debt of around €419 million, to a special purpose vehicle (SPV) called MCC RMBS S.R.L. The SPV funded the purchase of the loans by issuing asset-backed securities (ABS), which were fully subscribed by the Bank (senior tranche for a nominal value of €320 million and junior tranche for a nominal value of €107.2 million). The senior notes are rated by DBRS Ratings Ltd and Moody's Investor Services Ltd, listed on the Luxembourg market and can be used by the Bank as collateral for refinancing with the ECB. As a result, this transaction increased the volume of funding available for the medium- and long-term loan portfolio.³²

This transaction has an impact on the Bank's portfolio, because it reduces the illiquid portion of the loan portfolio (and therefore of Illiquid Assets), with a

³² Senior securities that can be used as collateral in refinancing operations have a lower haircut than the underlying loans.

consequent positive impact on Structural Liquidity, and requires a lower use of primary liquidity reserves (government bonds), with a positive impact on operating liquidity (Liquidity Coverage Ratio, Cumulative Gap up to 12m).

Banca Popolare di Bari and Cassa di Risparmio di Orvieto

2019 Popolare Bari SME Srl

In July 2019, the subsidiaries Banca Popolare di Bari and Cassa di Risparmio di Orvieto carried out a review of the previously implemented “2019 Popolare Bari SME” bridge financing, with the aim of making the portfolio sold as eligible as possible for the notes from the securitisation to be used in refinancing operations with the Eurosystem.

This review of the securitised portfolio was carried out as follows:

- through a repurchase agreement dated 30 July 2019, the subsidiaries Banca Popolare di Bari and Cassa di Risparmio di Orvieto repurchased part of the portfolio of non-eligible loans sold, which were part of the previous SME bridge financing, for a total amount of €629 million;
- through a sale agreement dated 1 August 2019, the subsidiaries Banca Popolare di Bari and Cassa di Risparmio di Orvieto sold an additional portfolio of eligible loans, for a total amount of €224.8 million.

Compared to the previous bridge financing transaction, the GBV of the eligible loan portfolio increased from €1.6 billion (the residual pre-review GBV from the previous bridge financing transaction) to €1.2 billion (post-review GBV).

Special Purpose Vehicle	2019 Popolare Bari SME Srl
Type of transaction	Self-securitisation
Originator	Banca Popolare di Bari - Cassa di Risparmio di Orvieto
Servicer	Banca Popolare di Bari
Arranger	Natwest Markets
Computation Agent	Securitisation Services SpA
Corporate Servicer	Securitisation Services SpA
Type of securitised assets	Loans to small and medium-sized enterprises (SMEs)
Quality of securitised assets	Performing
Bridge Financing availability date	43,580
Additional Sale availability date	43,733
Portfolio sale price	1,698,593,814
- of which: originator Banca Popolare di Bari	1,492,370,893
- of which: originator Cassa di Risparmio di Orvieto	206,222,921
Portfolio repurchase price	629,045,770
- of which: originator Banca Popolare di Bari	577,172,105
- of which: originator Cassa di Risparmio di Orvieto	51,873,665
Portfolio sale price	224,760,777
- of which: originator Banca Popolare di Bari	206,833,446
- of which: originator Cassa di Risparmio di Orvieto	17,927,331
Total "desecuritisations" at period end	
Rating agencies	Moody's - DBRS Rating Limited

(amounts in €)

As a result of the above-mentioned review of the securitised portfolio and the new liquidity reserve amounting to a total of €16,824 thousand, on 8 August 2019, as part of the settlement of the transaction, the SPV redeemed the notes relating to the above-mentioned bridge financing in full and issued the following tranches of notes:

- Senior Class A1 notes, totalling €681,378,000.00, Euribor 3m + 0.40% spread (floor 0%), subscribed on a pro-rata basis in relation to the portfolio sold by each originator, with a DBRS AA (sf) rating and Moody's Aa3 (sf) rating;
- Senior Class A2 notes, totalling €66,361,000, Euribor 3m + 0.70% spread (floor 0%), subscribed on a pro-rata basis in relation to the portfolio sold by each originator, with a DBRS AA (sf) rating and Moody's A3 (sf) rating;

- Junior J1 notes, totalling €396,272,000.00, Euribor 3m (floor 0%) plus additional return, subscribed by the subsidiary Banca Popolare di Bari and unrated;
- Junior J2 notes, totalling €57,819,000.00, Euribor 3m (floor 0%) plus additional return, subscribed by the subsidiary Cassa di Risparmio di Orvieto and unrated.

Security	Class	Listing exchange	Rate/Spread	DBRS/Moody's rating	Final Redemption Date	Nominal value issued	Residual value at period-end	Subscriber
A1	Senior	Borsa Italiana	3 Month Euribor/0.40	AA/Aa3	31/05/2059	681,378	312,466	Of which:
						594,639	259,874	Banca Popolare di Bari
						86,739	52,592	Cassa di Risparmio Orvieto
A2	Senior	Borsa Italiana	3 Month Euribor/0.70	A/A3	31/05/2059	66,361	66,361	Of which:
						57,913	57,913	Banca Popolare di Bari
						8,448	8,448	Cassa di Risparmio Orvieto
J1	Junior	n.l.	3 Month Euribor	not rated	31/05/2059	396,272	396,272	Banca Popolare di Bari
J2	Junior	n.l.	3 Month Euribor	not rated	31/05/2059	57,819	57,819	Cassa di Risparmio Orvieto
Totals						1,201,830	832,918	

(amounts in € thousands)

This reviewed transaction therefore qualifies as a “self-securitisation”, i.e. a securitisation where the notes issued by the special purpose vehicle are fully subscribed by the originator banks. As a result, each originator bank has retained all the risks and rewards related to the securitised assets. Consequently, since the conditions envisaged by IFRS 9 for the derecognition of loans have not been met, each originator continues to recognise those loans in full, applying the accounting treatment envisaged by IFRS 9 for the category of financial instruments they belong to, while the fully subscribed notes issued by the special purpose vehicle are not recognised as balance sheet assets.

The subsidiaries, Banca Popolare di Bari and Cassa di Risparmio di Orvieto, in their capacity as servicers, continue to manage collections on the portfolio sold and directly maintain relations with the customers, transferring collections of principal and interest to the collection account with the depository bank on a daily basis. Designated central structures of the subsidiary Banca Popolare di Bari then oversee the cash flows deriving from securitised assets, continuously monitoring their collection and managing the recovery procedures for impaired positions.

The servicer periodically provides information to the special purpose vehicle (as well as the other counterparties identified in the servicing agreements) on the activities carried out by means of the servicer's report, which details the collection and settlement of the loans sold, the amount of the impaired positions, past-due instalments, etc..

Due to its nature as a securitisation involving performing secured and unsecured loans securitised in accordance with the provisions of Law 130/1999, it did not entail a change in the credit risk of the transferred portfolio.

2019 Popolare Bari RBMS Srl

Like the "SME" transaction and with the same objective, the "2019 Popolare Bari RMBS" bridge financing, previously carried out by the subsidiaries Banca Popolare di Bari and Cassa di Risparmio di Orvieto, was also reviewed in September 2019.

This review of the securitised portfolio was carried out as follows:

- through a repurchase agreement dated 27 September 2019, the subsidiaries Banca Popolare di Bari and Cassa di Risparmio di Orvieto repurchased part of the portfolio of non-eligible loans sold, which were part of the previous RMBS bridge financing, for a total amount of €168 million;
- through a sale agreement dated 8 October 2019, the subsidiaries Banca Popolare di Bari and Cassa di Risparmio di Orvieto sold an additional portfolio of eligible loans, for a total amount of €158.8 million.

Compared to the previous bridge financing transaction, the GBV of the eligible loan portfolio increased from €803.2 million (the residual pre-review GBV from the previous bridge financing transaction) to €794.1 million (post-review GBV).

Special Purpose Vehicle	2019 Popolare Bari RMBS Srl
Type of transaction	Self-securitisation
Originator	Banca Popolare di Bari - Cassa di Risparmio di Orvieto
Servicer	Banca Popolare di Bari
Arranger	Natwest Markets
Computation Agent	Securitisation Services SpA
Corporate Servicer	Securitisation Services SpA
Type of securitised assets	RMBS – Residential mortgage loans
Quality of securitised assets	Performing
Bridge Financing availability date	43,596
Additional Sale availability date	43,733
Portfolio sale price	835,181,183
- of which: originator Banca Popolare di Bari	762,369,426
- of which: originator Cassa di Risparmio di Orvieto	72,811,758
Portfolio repurchase price	167,966,517
- of which: originator Banca Popolare di Bari	156,155,171
- of which: originator Cassa di Risparmio di Orvieto	11,811,345
Portfolio sale price	158,817,095
- of which: originator Banca Popolare di Bari	135,257,355
- of which: originator Cassa di Risparmio di Orvieto	23,559,740
Total “desecuritisations” at period end	
Rating agencies	Moody’s - DBRS Rating Limited

(amounts in €)

As a result of the above-mentioned review of the securitised portfolio and the new liquidity reserve amounting to a total of €14,962 thousand, on 15 October 2019, as part of the settlement of the transaction, the SPV redeemed the notes relating to the bridge financing in full and issued the following tranches of notes:

- Senior Class A1 notes, totalling €641,216,000.00, Euribor 3m + 0.40% spread (floor 0%), subscribed on a pro-rata basis in relation to the portfolio sold by each originator, with a DBRS AA (high)(sf) rating and Moody’s Aa3 (sf) rating;
- Senior Class A2 notes, totalling €23,749,000.00, Euribor 3m + 0.70% spread (floor 0%), subscribed on a pro-rata basis in relation to the portfolio sold by each originator, with a DBRS A (high)(sf) rating and Moody’s A2 (sf) rating;
- Mezzanine Class B notes, totalling €31,665,000.00, Euribor 3m + 1.00% spread (floor 0%), subscribed on a pro-rata basis in relation to the portfolio

sold by each originator, with a DBRS BBB (high)(sf) rating and Moody's Baa2 (sf) rating;

- Junior J1 notes, totalling €101,265,000.00, Euribor 3m (floor 0%) plus additional return, subscribed by the subsidiary Banca Popolare di Bari and unrated;
- Junior J2 notes, totalling €11,591,000.00, Euribor 3m (floor 0%) plus additional return, subscribed by the subsidiary Cassa di Risparmio di Orvieto and unrated.

Security	Class	Listing exchange	Rate/Spread	DBRS/Moody's rating	Final Redemption Date	Nominal value issued	Residual value at period-end	Subscriber
A1	Senior	ExtraMot (Borsa Italiana)	3 Month Euribor/0.40	AAH/Aa3	31/05/2069	641,216	526,984	Of which:
						575,363	470,995	Banca Popolare di Bari
						65,853	55,988	Cassa di Risparmio Orvieto
A2	Senior	ExtraMot (Borsa Italiana)	3 Month Euribor/0.70	AH/A2	31/05/2069	23,749	23,749	Of which:
						21,310	21,310	Banca Popolare di Bari
						2,439	2,439	Cassa di Risparmio Orvieto
B	Mezzanine	ExtraMot (Borsa Italiana)	3 Month Euribor/1.00	AL/Baa2	31/05/2069	31,665	31,665	Of which:
						28,413	28,413	Banca Popolare di Bari
						3,252	3,252	Cassa di Risparmio Orvieto
J1	Junior	n.l.	3 Month Euribor	not rated	31/05/2069	101,265	101,265	Banca Popolare di Bari
J2	Junior	n.l.	3 Month Euribor	not rated	31/05/2069	11,591	11,591	Cassa di Risparmio Orvieto
Totals						809,486	695,254	

(amounts in € thousands)

To hedge against interest rate risk, the special purpose vehicle entered into derivative contracts (front swaps) with Natwest Markets. Identical financial structures were then replicated between Natwest Markets and the subsidiaries Banca Popolare di Bari and Cassa di Risparmio di Orvieto (back-to-back swaps).

In the same way as the SME transaction described, this reviewed transaction therefore qualifies as a “self-securitisation”, i.e. securitisation where the notes issued by the special purpose vehicle are fully subscribed by the originator banks. As a result, each originator bank has retained all the risks and rewards related to the securitised assets. Consequently, since the conditions envisaged by IFRS 9 for the derecognition of loans have not been met, each originator continues to

recognise those loans in full, applying the accounting treatment envisaged by IFRS 9 for the category of financial instruments they belong to, while the fully subscribed notes issued by the special purpose vehicle are not recognised as balance sheet assets.

The subsidiaries, Banca Popolare di Bari and Cassa di Risparmio di Orvieto, in their capacity as servicers, continue to manage collections on the portfolio sold and directly maintain relations with the customers, transferring collections of principal and interest to the collection account with the depository bank on a daily basis. Designated central structures of the subsidiary Banca Popolare di Bari then oversee the cash flows deriving from securitised assets, continuously monitoring their collection and managing the recovery procedures for impaired positions.

The servicer periodically provides information to the special purpose vehicle (as well as the other counterparties identified in the servicing agreements) on the activities carried out by means of the servicer's report, which details the collection and settlement of the loans sold, the amount of the impaired positions, past-due instalments, etc..

Due to its nature as a securitisation involving performing secured and unsecured loans securitised in accordance with the provisions of Law 130/1999, it did not entail a change in the credit risk of the transferred portfolio.

2018 Popolare Bari RMBS Srl

On 17 May 2018, the subsidiaries Banca Popolare di Bari and Cassa di Risparmio di Orvieto completed a multi-originator self-securitisation, selling a portfolio of performing residential mortgages, identified on the basis of predefined criteria to constitute a "block" in accordance with the Securitisation Law 130/1999, for a principal amount of loans totalling €805 million.

The portfolio consists of around €510 million of loans arising from the closing of the 2011 Popolare Bari SPV and 2013 Popolare Bari RMBS Srl securitisations carried out by the subsidiaries Banca Popolare di Bari and Cassa di Risparmio di Orvieto, which were unwound, and around €160 million of loans of the subsidiaries

transferred to the Bank of Italy “ABACO” collateral system, together with another portfolio not previously securitised.

Special Purpose Vehicle	2018 Popolare Bari RMBS Srl
Type of transaction	Traditional
Originator	Banca Popolare di Bari - Cassa di Risparmio di Orvieto
Servicer	Banca Popolare di Bari
Arranger	J.P. Morgan
Computation Agent	Securitisation Services SpA
Corporate Servicer	Securitisation Services SpA
Type of securitised assets	RMBS - Residential mortgage loans
Quality of securitised assets	Performing
Value date	12/05/2018
Portfolio sale price	804,984,782
- of which: originator Banca Popolare di Bari	660,846,995
- of which: originator Cassa di Risparmio di Orvieto	144,137,787
Total “desecuritisations” at period end	
Limited recourse mortgage loan granted by Originator Banca Popolare di Bari	
Limited recourse mortgage loan granted by Originator Cassa di Risparmio di Orvieto	
Rating agencies	DBRS Rating Limited / Moody's

(amounts in €)

In relation to the loans sold and the creation of a liquidity reserve and a retention amount totalling €18,058 thousand, the special purpose vehicle “2018 Popolare Bari RMBS Srl” issued four separate classes of asset-backed securities (ABS), one senior (A), one mezzanine (B) and two junior (J1 and J2), for a total amount of €826,981 thousand.

The senior and mezzanine classes were rated by DBRS Rating Limited and Moody's.

Security	Class	Listing exchange	Rate/Spread	DBRS/Moody's rating	Final Redemption Date	Nominal value issued	Residual value at period-end	Subscriber
A	Senior	Luxembourg Stock Exchange	3 Month Euribor/0.40	AAH/Aa3	30/04/2059	648,237	419,520	Of which:
						561,720	346,453	Banca Popolare di Bari
						122,517	73,066	Cassa di Risparmio Orvieto
B	Mezzanine	Luxembourg Stock Exchange	3 Month Euribor/0.70	AAL/Baa1	30/04/2059	48,299	48,299	Of which:
						39,651	39,651	Banca Popolare di Bari
						8,648	8,648	Cassa di Risparmio Orvieto
J1	Junior	n.l.	3 Month Euribor	not rated	30/04/2059	77,534	77,534	Banca Popolare di Bari
J2	Junior	n.l.	3 Month Euribor	not rated	30/04/2059	16,911	16,911	Cassa di Risparmio Orvieto
Totals						826,981	562,264	

(amounts in € thousands)

To hedge against interest rate risk, the special purpose vehicle entered into derivative contracts (front swaps) with JP Morgan. Identical financial structures were then replicated among JP Morgan and the subsidiaries Banca Popolare di Bari and Cassa di Risparmio di Orvieto (back-to-back swaps).

The subsidiaries, Banca Popolare di Bari and Cassa di Risparmio di Orvieto, in their capacity as servicers, continue to manage collections on the portfolio sold and directly maintain relations with the customers, transferring collections of principal and interest to the collection account with the depository bank on a daily basis. Designated central structures of the subsidiary Banca Popolare di Bari then oversee the cash flows deriving from securitised assets, continuously monitoring their collection and managing the recovery procedures for impaired positions.

The servicer periodically provides information to the special purpose vehicle (as well as the other counterparties identified in the servicing agreements) on the activities carried out by means of the servicer's report, which details the collection and settlement of the loans sold, the amount of the impaired positions, past-due instalments, etc..

Due to its nature as a securitisation involving performing secured and unsecured loans securitised in accordance with the provisions of Law 130/1999, it did not entail a change in the credit risk of the transferred portfolio.

1.5 Operational risk

Qualitative information

A. General aspects, management processes and measurement methods

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

Such losses include, among others, those resulting from fraud, human error, the interruption of operations, system non-availability, contractual default, natural disasters. Operational risk also includes legal risk, while strategic risk and reputational risk are not included. The Group also includes the specific aspects of IT risk within the scope of operational risk.

Given the specific characteristics that differentiate the operations of the banks constituting the Group at the reporting date of these consolidated financial statements, details on the Parent Company and its subsidiaries are provided below in separate sections.

Mediocredito Centrale

In line with the principle of proportionality, the Bank measures the operational risk using the “Basic Indicator Approach”³³ under which the exposure to risk is linked to business volumes. In view of the Bank’s operations, exposure to operational risks is mainly associated with lending to enterprises, particularly to SMEs, and to operations relating to the management of subsidised funds.

For the monitoring of the main operational risk phenomena/events, the Bank uses a risk self-assessment process, carried out with the contribution of all Bank structures, coordinated by the risk control function. This provides a prospective assessment of the main types of operational risks on the basis of estimates and judgements made by the risk owner operating departments. In the organisational structure adopted by the Bank, the unit responsible for controlling and measuring operational risks is the risk control function, which works with the structures

³³ In the Basic Indicator Approach, the capital requirement is calculated by applying a regulatory coefficient of 15% to the three-year average of the related indicator (Regulation 575/2013, Part III, Title III, Chapter 2).

concerned, in order to identify the main operational risk mitigation initiatives and monitor their effective implementation.

Outstanding litigation

The nature of the Bank's operations, consisting of a division dedicated strictly to banking activities and another dedicated to the management of subsidised funds, is also reflected, in compliance with the rules on segregation, in the structure of the operating units dedicated to the management of the legal aspects connected with those operations. With regard to the banking activities, there are two legal disputes relevant to the assessment of operational risks, which are currently being handled by the General Counsel Unit. Specifically, for the first of these, recognised in 2015, no provision has been made because the risk of an unsuccessful outcome has been assessed as "low". For the second dispute, however, which was recognised in 2020, the Bank has considered it appropriate to make a provision. In this case, the operational risk identified relates to a type of activity no longer practised by the Bank, namely the granting of loans through the agent channel. With regard to the subsidies managed by the Bank on behalf of the Public Administrations, legal disputes are handled by the dedicated specialist unit, Subsidised Legal. However, the disputes that are outstanding each year do not usually have any economic repercussions on the Bank's ordinary business, given that unfavourable outcomes of the outstanding lawsuits do not have an impact on MCC's profit or loss because all the commissioning Public Administrations are responsible for paying the expenses incurred for legal proceedings, which are therefore taken from the funds managed. Accordingly, no provisions are made for this category of disputes. However, for this category of disputes concerning subsidies, in the small number of cases in which the counterparties make allegations directly referring to the actions of MCC, with a consequent specific claim for damages, it is necessary to estimate the related risk of adverse outcomes and note whether appropriate provisions should be made for possible losses. Although the disputes concern various types of subsidies, the subject of the lawsuits tends to be procedural disputes and/or disputes relating to the interpretation of the regulations governing the subsidies and dictating the actions of the various actors in the subsidy scheme,

such as the beneficiary enterprises, the manager MCC, the various Public Administrations owning the funds, and any experts and appraisers engaged to estimate and assess the funded projects, etc.

At 31 December 2020, there were seven legal disputes concerning subsidies considered significant for the purposes of assessing operational risks and doubtful outcomes, with different levels of estimated loss and consequent provisions.

With regard to labour disputes, at the reporting date, the Human Resources and Organisation Unit was handling a single case, for which the Bank has made a specific provision.

Banca Popolare di Bari and Cassa di Risparmio di Orvieto

In line with the applicable regulations and market best practices, the operational risk management system adopted by the bank and also extended to Cassa di Risparmio di Orvieto is based on a framework whose main operational management phase involves the identification of operational risks on a historical basis and from a forward-looking perspective, accompanied by the measurement, control and reporting phases. Through this operational risk management framework, the Bank aims to achieve the following main objectives:

- ensuring proper control of identified and assessed operational risks, in relation to an acceptable level of exposure consistent with the Bank's available capital and economic resources;
- improving the effectiveness of operational processes in order to ensure the quality and continuity of operations and to raise the level of service offered to customers;
- developing an operational risk culture within the bank to ensure full awareness of the risks assumed.

With regard to risks impacting on business continuity, the existing business continuity plan has been confirmed. This plan identifies the actors, scenarios and business continuity solutions for managing possible interruptions of the Bank's critical processes, in order to restore the service to a sufficient level of operational viability also in cases of catastrophic events and to ensure the

resumption of operations of critical processes within established tolerable time frames, in compliance with the applicable regulatory standards and industry best practices. As a result of the severe restrictions imposed by the pandemic, it was not possible to carry out the activities in the multi-year testing plan (2018-2021) for the testing of the Business Continuity Plan – except for the Disaster Recovery tests provided by the outsourcer Cedacri – and for the training of critical staff. The bank also periodically reports its operating loss data to the DIPO (Italian operational losses database) Observatory.

Impacts from the Covid-19 pandemic

In response to the outbreak of the Covid-19 pandemic, Mediocredito Centrale implemented a series of activities aimed at identifying and assessing the current and future associated operational risks, in order to plan appropriate mitigation actions. These activities included:

- data collection on pandemic-related operational loss events attributable to extraordinary costs in response to the initial phase of the emergency to restore operations (e.g. costs related to health and hygiene, sanitisation, purchase of PPE, etc.)³⁴;
- evaluation, within the risk self-assessment conducted, of the emerging effects related to possible problem issues attributable to the emergency and the increased awareness of new areas of potential risk (e.g. health and safety, potential service disruptions related to the pandemic, cyber threats).

For BP Bari and CR Orvieto, the Covid-19 pandemic led to the need to extend the loss data collection processes to the recognition of historical operational losses, recognised and accounted for in 2020, relating to the costs incurred to deal with the health emergency and restore the situation existing prior to the spread of the pandemic. For internal management purposes, periodic and recurring costs incurred in the new situation, which are directly related to the Covid-19 emergency (e.g. periodic sanitisation costs, periodic PPE costs), were also recorded. In line with the applicable EBA guidelines, operational losses resulting from the pandemic

³⁴ “Covid-19 one-off operational risks” (EBA/REP/2020/39).

were primarily classified under Event Type 06, which includes risk events related to business disruptions and IT system failures. With regard to business continuity management, the actions taken in this area were aimed at ensuring, above all, the continuous and proper performance of the activities identified as most critical, as well as the general adequacy of the levels of service provided to customers, in compliance with the regulations issued by the competent authorities. With regard to the Head Office structures, from the outset of the health emergency, the most critical activities were secured to ensure operational continuity, allowing work to be carried out remotely with the physical separation of staff. In light of the long duration of the restrictive measures imposed by the pandemic, access to smart working was extended to the other central functions and to the coordination units of the commercial line, also providing access to remote working for the structures most involved in supporting the management of the special administration. As regards the commercial network, in line with the approach adopted at industry level, a large number of branches were closed during the strictest lockdown phase, mainly in communities where there were other branches. For the branches that remained open, in addition to generally reducing the opening hours to the public solely to the early morning and receiving customers by appointment only, the use of alternate days was widely adopted based on the level of operations observed.

Quantitative information

In 2020 the Mediocredito Centrale continued to acquire information on operational losses and to monitor the events in progress, reporting quarterly to the Internal Controls and Risks Committee and to the Company Boards on the capital requirement to cover operational risk. At 31 December 2020, the most significant type of risk event in terms of frequency and gross actual loss was “Execution, Delivery and Process Management” due to deficiencies in completing and managing transactions. The amount of provisions for operational risk at 31 December 2020 was around €0.4 million, up with respect to the previous year by around €0.2 million.

For the year 2020, the process of collecting historical losses resulted in a net loss (loss value determined net of any insurance recoveries) for BP Bari of around €25.9 million and for CR Orvieto of around €0.5 million. The overall estimate included both cash losses and provisions recognised throughout 2020. These losses did not include pending losses and credit risk boundary losses.

Part F - Information on consolidated shareholders' equity

Section 1 - Consolidated shareholders' equity

A. Qualitative information

The consolidated shareholders' equity, as detailed in the sections below, consists of share capital, profit reserves, the valuation reserve relating to the HTCS securities portfolio and defined benefit plans.

It is subject to constant and joint monitoring by the CFO and CRO Units of the Parent Company, to verify its current and future adequacy in relation to the capital requirements connected to the development of the business and consistent with the risk appetite defined by the Board of Directors of the Parent Company.

Internal capital management procedures also take into account the mandatory minimum consolidated capital requirements established by the Supervisory Regulations (Basel III), which set two fundamental objectives:

- to strengthen banks' ability to absorb the shocks deriving from financial and economic stress;
- to increase transparency and disclosure to the public in relation to the risks that banks assume.

To achieve the first objective, measures have been provided for that increase the quantity and quality of the intermediaries capital endowment, through the application of additional reserves compared with the minimum requirements (capital conservation reserves and countercyclical supervisory instruments), rules on the management of liquidity risk and financial leverage (further requirements needed to face short term liquidity risk, to maintain the long-term structural balance and to contain financial leverage).

Additionally, implementing the EBA guidelines on the SREP, the Supervisory Authority periodically reviews the capital requirements of individual banks in relation to their overall riskiness and the results of the prudential control process. In particular, in relation to the three capital ratios provided for in the legislation (CET 1, Tier 1 and TCR), as part of the

SREP the Bank of Italy defines, for each Bank subject to its direct supervision, the individual level of the following requirements:

- Total SREP capital ratio (TSCR) or binding requirement;
- Overall Capital Requirements (OCR) or total requirement;
- Pillar 2 guidance (P2G) or target requirement (where provided for).

B. Quantitative information

B.1 Consolidated shareholders' equity: breakdown by type of company

Shareholders' equity items	Prudential consolidation	Insurance companies	Other enterprises	Consolidation eliminations and adjustments	Total
1. Share capital	247,627	-	63	-	247,691
2. Share premium reserve	7,483	-	-	-	7,483
3. Reserves	501,472	-	(25,429)	26,267	502,310
4. Equity instruments	-	-	-	-	-
5. (Treasury shares)	-	-	-	-	-
6. Revaluation reserves:	1,748	-	-	-	1,748
- Equity instruments designated at fair value through other comprehensive income	2,170	-	-	-	2,170
- Hedge accounting of equity instruments designated at fair value through other comprehensive income	-	-	-	-	-
- Financial assets (different from equity instruments) at fair value through other comprehensive income	912	-	-	-	912
- Property, plant and equipment	-	-	-	-	-
- Intangible assets	-	-	-	-	-
- Foreign investments hedging	-	-	-	-	-
- Cash flow hedging	-	-	-	-	-
- Hedging instruments (non-designated items)	-	-	-	-	-
- Foreign exchange differences	-	-	-	-	-
- Non-current assets and disposal groups classified as held for sale	-	-	-	-	-
- Financial liabilities designated at fair value through profit or loss (own creditworthiness changes)	-	-	-	-	-

- Actuarial gains (losses) on defined benefit plans	(1,335)	-	-	-	(1,335)
- Part of valuation reserves from investments valued at equity method	-	-	-	-	-
- Special revaluation laws	-	-	-	-	-
7. Profit (Loss) of the year (+/-) attributable to the group and minority interests	192,272	-	284	-	192,557
Total	950,603	-	(25,082)	26,267	951,789

B.2 Valuation reserves for financial assets measured at fair value through other comprehensive income: breakdown

Item/Amount	Prudential consolidation		Insurance companies		Other enterprises		Consolidation eliminations and adjustments		Total	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	921	(9)	-	-	-	-	-	-	921	(9)
2. Equity Securities	2,368	(198)	-	-	-	-	-	-	2,368	(198)
3. Loans	-	-	-	-	-	-	-	-	-	-
Total 31/12/2020	3,289	(207)	-	-	-	-	-	-	3,289	(207)

B.3 Valuation reserves for financial assets measured at fair value through other comprehensive income: annual changes

	Debt securities	Equity securities	Loans
1. Opening balance	(2,613)	-	-
2. Positive changes	9,790	2,365	-
2.1 Fair value increases	9,289	1,240	-
2.2 Net losses on impairment	325	X	-
2.3 Reclassification through profit or loss of negative reserves: following disposal	-	X	-
2.4 Transfers to other comprehensive shareholders' equity (equity instruments)	-	66	-
2.5 Other changes	176	1,059	-
3. Negative changes	6,265	195	-
3.1 Fair value reductions	9	198	-
3.2 Recoveries on impairment	-	-	-
3.3 Reclassification through profit or loss of positive reserves: following disposal	5,882	X	-
3.4 Transfers to other comprehensive shareholders' equity (equity instruments)	-	-	-
3.5 Other changes	374	(3)	-
4. Closing balance	912	2,170	-

B.4 Valuation reserves relating to defined-benefit plans: annual changes

	31/12/2020		
	Employee severance benefits	Internal pension fund	Total
1. Opening balance	223	(1,485)	(1,262)
2. Increases	324	19	343
2.1 Increases in fair value	-	-	-
2.2 Transfers to other net equity items	11	-	11
2.3 Other changes	313	19	332
3. Decreases	234	182	416
3.1 Decreases in fair value	40	182	222
3.2 Transfers to other net equity items	-	-	-
3.3 Other changes	194	-	194
4. Closing balance	313	(1,648)	(1,335)

Section 2 - Own funds and regulatory banking ratios

For more details, see the disclosure on own funds and capital adequacy found in the Public Disclosure ("Pillar III"), available in Italian only on the Parent Company's website (www.mcc.it).

2.1 Own funds

A. Qualitative information

1. Common Equity Tier 1 capital (CET1)

Consolidated Own Funds are determined on a quarterly basis in accordance with the rules set out in Circular No. 285 of 17 December 2013, issued by the Bank of Italy, in implementation of the new Basel Capital Accord (Basel III) as amended.

Own Funds are calculated as the sum of positive and negative components, based on capital quality, and the positive components must be fully available to the Bank in order to be used in the calculation of capital absorption.

Own Funds consist of Common Equity Tier 1 capital (CET1), Additional Tier 1 capital (AT1) and Tier 2 capital (T2), adjusted by prudential filters and net of certain deductions.

CET1 includes the paid-in capital, reserves, undistributed net income for the period and the components of an economic nature accumulated over time directly in shareholders' equity, in relation to the valuation of financial assets measured at fair value and profits or losses relating to defined-benefit plans.

Intangible assets, deferred tax assets that rely on future profitability and do not arise from temporary differences (net of the related deferred tax liabilities) and, if they exceed certain thresholds, deferred tax assets that rely on future profitability and arise from temporary differences, must then be deducted from CET1.

The Own Funds and related capital absorption reported in these consolidated financial statements are consistent with the supervisory reports already sent to the

Supervisory Authority, however, they may be subject to further refinements as a result of implementations relating to the newly formed banking group.

B. Quantitative information

	Total 2020
A. Common Equity Tier 1 (CET1) before the application of prudential filters of which CET1 instruments subject to transitional provisions	747,050
B. CET1 prudential filters (+/-)	
C. CET1 before items to be deducted and the impacts of the transition regime (A+/- B)	747,050
D. Items to be deducted from CET1	155,640
E. Transitional arrangements - Impact on CET1 (+/-), including non-controlling interests subject to transitional arrangements	111,714
F. Total Common Equity Tier 1 capital (CET1) (C - D +/- E)	703,124
G. Additional Tier 1 capital (AT1) before deductions and transitional effects of which AT1 instruments subject to transitional provisions	
H. Items to be deducted from AT1	
I. Transitional arrangements - Impact on AT1 (+/-), including instruments issued by subsidiaries and included in AT1 due to transitional arrangements	
L. Total Additional Tier 1 capital (AT1) (G - H +/- I)	
M. Tier 2 capital (T2) before items to be deducted and the impacts of transitional arrangements of which T2 instruments subject to transitional arrangements	
No. Items to be deducted from T2	
O. Transitional arrangements - Impact on T2 (+/-), including instruments issued by subsidiaries and included in T2 due to transitional arrangements	33,749
P. Total Tier 2 capital (T2) (M - N +/- O)	33,749
Q. Total own funds (F+L+P)	736,873

2.2 Capital adequacy

A. Qualitative information

The prudential supervisory provisions for banks (Bank of Italy Circular No. 285 of 17 December 2013 as amended), which transpose the regulations on capital measurement and capital ratios (Basel III), stipulate that the Group's total own

funds must represent at least 10.5% (total capital ratio including minimum requirement and capital conservation buffer) of the total weighted assets arising from the typical risks of banking and financial operations (credit, counterparty, market and operational risks). Specifically, the regulatory capital requirements consist of 8% as a minimum requirement, in accordance with Article 92 of EU Regulation 575 of 26 June 2013 (CRR), and 2.5% as a capital conservation buffer. Under the Supervisory Review and Evaluation Process (SREP), the competent authorities may impose additional capital requirements to those resulting from the application of the regulatory requirements.

Based on the structure of Own Funds described above, the regulatory capital ratios are subject to the following limits:

- Common Equity Tier 1 capital must be at least 4.5% of risk-weighted assets at all times, as a minimum requirement, and at least 7.0% as a total requirement (including the capital conservation buffer);
- Tier 1 capital must be at least 6% of risk-weighted assets at all times, as a minimum requirement, and at least 8.5% as a total requirement;
- own funds must be at least 8% of risk-weighted assets at all times, as a minimum requirement, and at least 10.5% as a total requirement.

B. Quantitative information

<i>Categories/Values</i>	<i>Weighted amounts/requirements 31/12/2020</i>
A. RISK ACTIVITIES	
A.1 CREDIT AND COUNTERPARTY RISK	
1) STANDARDISED APPROACH	5,021,156
2) INTERNAL RATINGS BASED APPROACH	0
2.1 Foundation	
2.2 Advanced	
3) SECURITISATIONS	22,899
B. REGULATORY CAPITAL REQUIREMENTS	
B.1 CREDIT AND COUNTERPARTY RISK	403,525
B.2 CREDIT VALUATION ADJUSTMENT RISK	873
B.3 SETTLEMENT RISK	
B.4 MARKET RISK	660
1. STANDARDISED APPROACH	660
2. INTERNAL MODELS	
3. CONCENTRATION RISK	
B.5 OPERATIONAL RISK	29,338
1. BASIC INDICATOR APPROACH	29,338
2. STANDARDISED APPROACH	
3. ADVANCED MEASUREMENT APPROACH	
B.6 OTHER CALCULATION ITEMS	0
B.7 TOTAL PRUDENTIAL REQUIREMENTS	434,396
C. RISK ASSETS AND SUPERVISORY RATIOS	
C.1 Risk-weighted assets	5,429,942
C.2 Common Equity Tier 1 capital/Risk weighted assets (CET1 capital ratio)	13%
C.3 Tier 1 capital/Risk weighted assets (Tier 1 capital ratio)	13%
C.4 Total own funds/Risk weighted assets (Total capital ratio)	13.6%

Part G - Business combinations involving companies or business units

Section 1 - Business combinations completed during the year

1.1 Business combinations

Name	Date of transaction (a)	Cost of transaction	% Interest (b)	Net banking and insurance income (c)	Net income/loss for the year	Net Income/Loss recorded from the acquisition date
Banca Popolare di Bari Group	15 Oct 2020	430	96.8			

1.2 Other information

Acquisition of the Banca Popolare di Bari Group

For a description of the assumptions and the process that led to Mediocredito Centrale's acquisition of Banca Popolare di Bari and, consequently, of the pre-existing Banca Popolare di Bari Group (now discontinued), see the section "The Banca Popolare di Bari acquisition" in the Report on Operations.

Regulatory requirements established by IFRS 3

This transaction is a business combination to be accounted for in accordance with IFRS 3, which requires the use of the acquisition method. Under this method, at the acquisition date, the acquirer must:

- identify the acquirer and the acquisition date;
- determine the acquisition cost;

- carry out the “Purchase Price Allocation” (“PPA”), by recognising the identifiable assets, liabilities and potential liabilities of the acquiree at their acquisition-date fair value, except for non-current assets (or disposal groups) classified as held for sale in accordance with IFRS 5, which are recognised at fair value less costs to sell.

Any amount in excess of the cost of the combination that is not allocated must be recognised as goodwill. If the difference arising from the accounting of the combination at favourable prices is negative, it must be recognised in the income statement as negative goodwill, badwill or bargain purchase.

Identification of the acquirer and the acquisition date

In addition to identifying Mediocredito Centrale as the acquirer, a key aspect of accounting for a business combination is determining the acquisition date, i.e. the date when the acquirer actually obtains control of the acquiree. Determining the acquisition date is also important because it is only from the time when control is obtained that the results of the acquired business or investees are included line-by-line in the acquirer’s financial statements. It is also the date on which the fair value of the assets and liabilities subject to acquisition are measured.

The Extraordinary Shareholders’ Meeting of Banca Popolare di Bari under special administration held on 29 June 2021 approved:

1. the acknowledgement of the financial position at 31 March 2020, of the reduction to zero of the share capital as a result of the losses accrued at that date and of the reconstitution of a positive shareholders’ equity of €10 million as a result of the payments made by the IDGS and subject to the conversion and capital increase referred to in points 2 and 3 below.
2. conversion into a joint-stock company and consequent adoption of a new wording of the articles of association;
3. the paid capital increase in one or more tranches, excluding the option rights pursuant to Article 2441, paragraphs 5 and 6, of the Italian Civil Code, for a total of €933,246,586 to be offered for subscription to the Interbank Deposit Guarantee Scheme and to Banca del Mezzogiorno - MedioCredito Centrale S.p.A..

As a result, in implementation of the above-mentioned resolution, on 30 June 2020 MCC received 7,166,666,666 ordinary shares from BPB in exchange for a payment of €430 million and 8,054,109,767 ordinary shares from the IDGS in exchange for a payment of €1, resulting in a holding of 15,220,776,433 ordinary shares in BPB, with a carrying amount of €430,000,001 and representing around 96.8% of the share capital.

At that date, however, the receivers appointed by the Bank of Italy in its Order of 13 December 2019 were still in place with full powers, as there had been no revocation or termination of the special administration, and therefore MCC, despite holding the majority of voting rights in the ordinary shareholders' meeting of BPB, did not have control of BPB within the meaning of IFRS 10, as it did not have the power to direct the relevant activities of BPB. This power, in view of the continued existence of the receivership, remained with the receivers appointed in accordance with Articles 70 and 72 of the Consolidated Law on Banking until otherwise ordered by the Supervisory Authority.

On **15 October 2020**, the ordinary shareholders' meeting of BPB was held, which appointed the new Board of Directors, as nominated by the majority shareholder MCC. The management of the special administration by the receivers appointed by the Bank of Italy also ended on that date. As a result, from that date, MCC has had control of Banca Popolare di Bari and its subsidiaries, with the consequent obligation to prepare consolidated financial statements.

In this regard, Banca Popolare di Bari prepared the financial statements for the special administration covering the period from 1 January 2019 to 15 October 2020, and these financial statements, prepared on an individual and unconsolidated basis, constitute the financial position for the consolidation into MCC. The financial statements at 30 September 2020 were used for the other subsidiaries, because it was not possible to prepare interim financial statements and the 15-day time mismatch was not significant for consolidation purposes.

Determination of the acquisition cost (or consideration transferred)

Pursuant to IFRS 3, paragraph 37, the consideration transferred in a business combination must be measured at the acquisition-date fair value of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer. In the case of the acquisition of the BPB Group, the acquisition cost was **€430 million**.

Purchase Price Allocation (PPA)

At the acquisition date, the acquirer must allocate the cost of the business combination by recognising the acquiree's identifiable assets, liabilities and contingent liabilities at their fair values at that date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5, which are recognised at fair value less costs to sell.

The acquirer must separately recognise the acquiree's identifiable assets, liabilities and contingent liabilities at the acquisition date only if they meet the following criteria at that date:

- a) in the case of an asset other than an intangible asset, it is likely that any associated future economic benefits will flow to the acquirer, and its fair value can be measured reliably;
- b) in the case of a liability other than a contingent liability, it is likely that an outflow of resources embodying economic benefits will be required to settle the obligation, and its fair value can be measured reliably;
- c) in the case of an intangible asset or a contingent liability, its fair value can be measured reliably.

Recognition of these assets and liabilities at their fair value, following the purchase price allocation, is reflected in the income statements subsequent to the acquisition date, which must consider the revenues and costs relating to the business acquired on the basis of the cost of the business combination incurred by the acquirer. For example, depreciation expense included after the acquisition date in the acquirer's income statement that relates to the acquiree's depreciable assets shall be based on the fair values of those depreciable assets at the acquisition date, i.e. their cost to the acquirer. In addition, in the event of the disposal of assets recorded at fair value in the PPA, for

the financial statements of the acquirer the gain or loss on disposal must be determined based on the carrying amount including the residual gain at the date of disposal.

Any excess between the cost incurred for the business combination and the fair value of the identifiable assets, liabilities and contingent liabilities must be recorded as goodwill. If, on the other hand, the fair value of the identifiable net assets of the acquiree is higher than the acquisition cost, income (negative goodwill, badwill or bargain purchase) must be recognised in the acquirer's income statement.

The impact of the PPA was determined with the aid of independent experts, who identified the fair value at the acquisition date of several balance sheet items, and with the support of the internal structures of the BPB Group and MCC.

With respect to the measurement period within which to obtain the information necessary to measure the acquiree's identifiable assets and liabilities at fair value and to terminate the PPA process, IFRS 3 requires that period to end as soon as the acquirer has received all the necessary information in existence at the acquisition date or has determined that it is not practicable to obtain more information to measure the acquiree's assets and liabilities. In any event, the measurement period must not exceed one year from the acquisition date. The PPA has been **partially completed** for the acquisition of BPB: the fair value measurement of the loan portfolio (impaired and non-impaired) and the related staging have not yet been completed due to the need to finish the analysis/standardisation of the model to be used to determine the ECL to be applied to them. Accordingly, the existing staging of the consolidated companies has been maintained in the provisional PPA and the final staging allocation of this loan portfolio and the related quantification of the ECL has been postponed until the completion of the PPA. Lastly, the BPB Group's real estate assets have not yet been measured at fair value, because the appraisals need to be updated to take account of the market situation at the acquisition date.

As a result, the measurements below may be adjusted upon completion of the PPA.

Reclassifications of balance sheet items made in the PPA

With regard to the classification or designation of identifiable assets acquired and liabilities assumed in a business combination, IFRS 3, in paragraph 15, establishes that, at the acquisition date, the acquirer must classify or designate the identifiable assets acquired and liabilities assumed as necessary to apply other IFRSs subsequently. The acquirer must make those classifications or designations on the basis of the contractual terms, economic conditions, its operating or accounting policies and other pertinent conditions as they exist at the acquisition date.

In some situations, IFRSs provide for different accounting depending on how an entity classifies or designates a particular asset or liability. Examples of classifications or designations that the acquirer shall make on the basis of the pertinent conditions as they exist at the acquisition date include but are not limited to:

- classification of particular financial assets and liabilities as measured at fair value through profit or loss or at amortised cost, or as a financial asset measured at fair value through other comprehensive income in accordance with IFRS 9 Financial Instruments;
- designation of a derivative instrument as a hedging instrument in accordance with IFRS 9; and
- assessment of whether an embedded derivative should be separated from a host contract in accordance with IFRS 9.

To this end, an analysis and comparison of the accounting standards and measurement criteria adopted by MCC and the BPB Group was carried out to identify any significant divergences that could result in the need to reclassify balance sheet items. This exercise did not identify any significant differences and therefore no reclassifications were made.

Solely for the hedges outstanding at the BPB Group at the acquisition date, these were not redesignated for the purposes of MCC's consolidated financial statements at 31 December 2020 pending the necessary analyses to verify their effectiveness. Consequently, the hedging derivatives were reclassified under financial liabilities held for trading, while the value adjustment of the assets subject to macro hedging was reversed with an offsetting entry in shareholders' equity.

The fair value of the assets and liabilities acquired

On the basis of the above, the PPA therefore focused on the fair value measurement of the assets acquired and liabilities assumed.

The fair value measurement of the individual accounting items subject to acquisition was carried out with the aid of leading independent third-party experts and mainly concerned:

- a) the loans to customers, both performing and non-performing;
- b) intangible assets not previously recognised by the acquiree;
- c) property, plant and equipment
- d) financial instruments
- e) provisions for risks and charges.

a. loans to customers

For the **performing and past due loans**, the assessment approach was structured as follows:

Assessment of the portfolio	— Extraction of portfolio data by transaction at the Assessment Date, including identification and accounting information — Extraction of arrears data for each individual transaction from January 2021 onwards — Analysis of records and extraction of any additional information relating to the transactions — Preliminary analysis of information availability/database quality for reconstruction of repayment plan
Clustering	— Portfolio segmentation between stage 1, stage 2 and past due — Grouping of loans in the portfolio into buckets based on the following criteria: ○ type of product (unsecured/secured, short-term/with amortisation schedule) ○ type of amortisation schedule ○ amortisation rate (fixed, variable)
Identification	— Identification of risk variables estimated for each significant cluster of the portfolio and analysis of the consistency and

of significant variables	applicability of the parameters provided, also through market benchmarking — Development of amortisation schedules based on the arrears of the remaining debt for each transaction — Estimation of first cash flow as the difference between the gross exposure at the Valuation Date and the outstanding debt at January 2021 — Estimation of the expected loss (ECL) on a forward-looking basis — Estimation of loan loss provisions (LLP) using an expected loss approach — Estimation of the operating expenses for managing the portfolio and determination of the expected net cash flows on the portfolio
Identification of financial structure	— Determination of the target financial structure between debt and equity differentiated by type of underlying loans — Identification of the relevant parameters for the determination of the discount rate (β, R_f, K_e, K_d)
Measurement	— Development of the measurement tool for the loans analysed — Discounting of net cash flows at the identified discount rate (DCF method)

Given the need to complete the analysis/standardisation of the model for determining the ECL to be applied to these loans at consolidated level, these values will be updated to factor in the results of this analysis. This work was therefore still ongoing at the date of these financial statements and the results will be taken into account in the final PPA. The following procedure was adopted for **UTP loans**:

- For the scope examined, information was extracted on credit lines with gross/net exposure
- For the estimate of net recovery flows, it was assumed that gross recoveries were equal to the net book value of each position and the following benchmark approach was adopted: (1) servicing-related base fee applied to the GBV of each

position over the estimated recovery period (3 years on average); and (2) servicing-related performance fee applied to gross cash flows.

With regard to the measurement of the fair value of **non-performing loans**, the following approach was adopted:

- For the scope examined, information was extracted on credit lines with gross/net exposure, borrower type and any collateral;
- Based on the information provided by BPB, gross recovery flows were estimated using an approach differing according to borrower cluster (secured vs. unsecured)
- Specifically, gross flows were identified using a judicial-based approach for the secured component (recovery on the asset based on existing proceedings) and an approach based on benchmark recovery curves for the unsecured component
- The following approach based on market benchmarks was used to estimate net recovery flows: (1) application of legal costs and fees to estimated gross cash flows; (2) servicing-related base fee applied to the GBV of each position over the estimated recovery period; and (3) servicing-related performance fee applied to gross cash flows net of legal costs and fees.

b. Intangibles

The valuation of the intangible Customer Relationships was carried out by discounting the future net income flows related to them, determined by taking into account:

- changes in assets based on an estimate of the probability of closing relationships (lifting curve)
- revenues attributable to assets defined on the basis of the fee profile associated with the customer relationships
- operating expenses
- notional tax effect

In accordance with the guidelines set out by IFRS 3, the customers taken as a reference for the valuation of the Customer Relationships only included the relationships established prior to the Valuation Date. The ability to generate new relationships, which

cannot be separated and transferred to third parties other than by transferring the company as a whole, is not valued.

The income flows were discounted based on a cost of capital of 6.82%. The valuation took into account the tax amortisation benefit, i.e. the tax benefit for a potential third-party buyer related to the deductibility of the amortisation of the asset, in the event of a cash-settled transaction.

The analyses carried out did not identify the conditions for the valuation of the Customer Relationships component.

c. Property, plant and equipment

For each asset in the perimeter, the comparison between the 2021 OMI (Osservatorio Mobiliare Italiano – Italian Securities Observatory) market values and the values obtained from the 2019 desk appraisals provided by BPB showed significant differences, partly related to the different valuation time horizon. In light of this, real estate values will be updated to factor in the current market situation. This work was therefore still ongoing at the date of these financial statements and the results will be taken into account in the final PPA.

d. Financial instruments

Aside from securities for which a fair market value is available, the analysis focused mainly on a number of complex securities measured at amortised cost, consisting of securitisation tranches. On the whole, the above NPLs securitisations, from which the related tranching originated, are backed by a “GACS” Italian government guarantee which guarantees coverage of any underperformance in terms of recoveries on the portfolios that affect the senior notes.

e. Provisions for risks and charges

The measurement took into account the litigation regarding the shares that could arise from the disputes and charges filed by the shareholders in relation to the various capital increases carried out by BPB in 2012-2013, 2014 and 2015.

The analysis focused on the cases identified in the “Possible but not likely” cluster, which in the case of business combinations can be valued in terms of provisions. Specifically, in order to quantify the scope of the provision in the PPA, the population was broken

down into individual positions, determining whether the claimants were also subscribers to the capital increases that took place during the period (2012/2013-2015). The provision was based on the existing litigation policies that set out the prudent criteria for calculating provisions related to the risk of adverse outcomes determined in relation to the nature/subject of the litigation.

Determination of goodwill

Based on the above, the table below summarises the allocation of the acquisition cost and the resulting goodwill.

Shareholders' equity of the BPB Group at 15 October 2020	751	a
Reversal of outstanding macrohedging on BPB	(14)	b
PPA effects	(117)	c
Adjusted shareholders' equity (net assets acquired)	620	d = a+b+c
Non-controlling interests	(30)	e
Shareholders' equity attributable to the group	590	f = d + e
Cost of the business combination	(430)	g
Goodwill	160	h = f + g

As shown in the table above, the PPA conducted in accordance with IFRS 3 identified goodwill of €160 million.

In the PPA, non-controlling interests were measured as a pro-rata share of the fair value of the net assets acquired.

Part H - Transactions with related parties

Information is provided below on the remuneration of key management personnel and information on transactions with the various types of related parties.

1. Disclosure on the fees of key management personnel

The table below shows the amount of benefits paid to key management personnel including VAT and additional charges where applicable.

		Short-term benefits	Post-employment benefits	Other long-term benefits	Severance benefits
	Fees to directors	565			
	Fees to Statutory Auditors	147			
	Fees to the Bank's key management personnel	3,479		35	222

2. Information on transactions with related parties

In 2020, there were no transactions with related parties or with entities other than related parties, or atypical or unusual transactions.

The atypical or unusual transactions carried out with related parties all fall within the scope of the Group's ordinary operations and are normally carried out at market conditions and, in any case, at the same conditions as applied to independent third parties.

Subject to compliance with Article 2391 of the Italian Civil Code, on the interests of directors, the Group was subject to the provisions of Article 136 of the Consolidated Law on Banking regarding the obligations of bank representatives, pursuant to which the latter cannot assume obligations of any kind or conduct buying and selling transactions, directly or indirectly with the Group that they direct, manage or control, unless approved by a Board of Directors' resolution passed unanimously, except for the vote from the director involved and with vote in favour by all the members of the company's Board of Statutory Auditors.

The related parties also include Fondazione Cassa di Risparmio di Orvieto as an entity exercising significant influence over the subsidiary CR Orvieto. All the transactions included in the “obligations of bank officers” pursuant to Article 136 of the Consolidated Law on Banking have been the subject of specific board resolutions.

Loans, guarantees given and funding referable to key personnel and their related parties outstanding at 31 December 2020, including amounts relating to transactions carried out in compliance with Article 136 of the Consolidated Law on Banking with companies that those parties are involved with, were broken down as follows:

Item	Total
Loans and guarantees given	5,660
Direct funding	4,592
Indirect and managed funding	2,152
Shares	12,059

The transactions with related parties are summarised below:

	Assets		Liabilities		Income Statement				Commitments
	Due from customers	Other assets	Due to customers	Other liabilities	Interest income	Interest expense	Personnel expenses	Other administrative expenses	Commitments to disburse funds
Agenzia nazionale per l'attrazione degli investimenti e lo sviluppo d'impresa S.p.A. (Invitalia S.p.A.)		318	207,913	17,053		677	288	187	
Infratel Italia S.p.A.			38,252			46			12,000

	Assets		Liabilities		Income Statement					Commitments
	Due from customers	Other assets	Due to customers	Other liabilities	Interest income	Fee and commission on income	Interest expense	Fee and commission expense	Administrative expenses	Commitments to disburse funds
Cassa Depositi e Prestiti S.p.A.			33,557				188			
Enel S.p.A.			100,059				29			
Fincantieri Cantieri Navali Italiani S.p.A.	664				152					10,000
Leonardo S.p.A.										37
Gruppo Poste Italiane S.p.A.	3,879		285,408	1,757	3		231	11	1,477	
Raffineria di Milazzo S.C.p.A.	10,460				22					
Rai Way S.p.A.	144				1					

Disclosure on the activity of management and coordination of companies

The Parent Company is subject to the management and coordination of the ultimate parent Invitalia S.p.A., for which the key information, provided in the summary statement below as required by Article 2497 bis of the Italian Civil Code, was taken from its latest approved annual financial statements at 31 December 2019.

For a proper and complete view of Invitalia S.p.A.'s equity and financial situation at 31 December 2019, as well as the results achieved by the company in the financial year ending on that date, see the financial statements which, together with the independent auditor's report, are available in the format and in the manner required by law.

**AGENZIA NAZIONALE PER L'ATTRAZIONE DEGLI INVESTIMENTI E
LO SVILUPPO D'IMPRESA S.p.A.**

**Summary statement of the essential information from the latest approved
financial statements, pursuant to Article 2497-bis, Italian Civil Code**

figures in € thousands

BALANCE SHEET	31.12.2019

ASSETS	
Cash and cash equivalents	5
Financial assets measured at fair value through profit and loss	90,537
Financial assets measured at amortised cost	1,050,317
Equity investments	337,248
Property, plant and equipment and intangible assets	88,163
Tax assets	13,614
Non-current assets and disposal groups held for sale	113,956
Other assets	39,025
TOTAL ASSETS	1,732,866

LIABILITIES AND SHAREHOLDERS' EQUITY	
Financial liabilities measured at amortised cost	535,676
Tax liabilities	1,794
Other liabilities	371,184
Employee severance benefits	6,675
Provisions for risks and charges	11,986
Share capital	836,384
Reserves	(51,080)
Valuation reserves	(362)
Profit (Loss) for the year	20,609
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,732,866

COMMITMENTS	1,190,677

INCOME STATEMENT	31.12.2019
ITEM	
Net interest income	(1,649)
Net fees and commissions	127,852
Dividends and similar income	-
Net gains/(losses) on trading activities	1,380
Net gains/(losses) on disposal or repurchase	1,260
Net gains/(losses) of other financial assets and liabilities measured at fair value through profit or loss	1,260
Net value adjustments for credit risk	(1,406)
Administrative expenses	(126,775)
Net provisions for risks and charges	1,096
Net value adjustments on property, plant and equipment	(4,759)
Net value adjustments on intangible assets	(1,173)
Other operating income/expense	3,373
Gains (losses) on equity investments	21,342
Income taxes for the period on continuing operations	(1,167)
Profit (loss) on discontinued operations after tax	(24)
Profit (loss) for the year	20,609

Part L - Segment reporting

The segment reporting for the Group is based on the information that the Parent Company's management uses to adopt its operational decisions (management approach) and is therefore consistent with the disclosure requirements envisaged in IFRS 8. Two business segments have been identified: Banking and Management of subsidised funds. The allocation of the economic and financial results to the two business segments is based on the accounting standards used for preparing and presenting the financial statements. For each segment subject to disclosure, the result achieved is presented in terms of gross profit from continuing operations. Below are the main figures from the income statement and the equity aggregates, which summarise the contributions from the two segments.

ECONOMIC RESULTS (figures in € thousands)	MCC CONSOLIDATED AT 31/12/2020		
	Lending	Management of Subsidised Funds	Total
NET BANKING AND INSURANCE INCOME	85,011	118,556	203,567
OPERATING PROFIT/(LOSS)	6,708	89,422	96,130
<i>Net value adjustments on receivables and on provisions for guarantees and commitments</i>	<i>(27,195)</i>	<i>(1,226)</i>	<i>(28,421)</i>
NET OPERATING PROFIT/(LOSS)	(20,487)	88,196	67,709
<i>Provisions for risks and charges, charges for transactions</i>	<i>(12,154)</i>	<i>(11,151)</i>	<i>(23,305)</i>
<i>Negative Goodwill</i>	<i>160,000</i>		<i>160,000</i>
<i>Gains (losses) from equity investments and sale of investments</i>	<i>(260)</i>		<i>(260)</i>
GROSS PROFIT ON CONTINUING OPERATIONS	127,099	77,045	204,144
<i>Income Taxes</i>			<i>(11,589)</i>
NET INCOME FOR THE PERIOD			192,555
<i>Non-controlling interests</i>			<i>(2,378)</i>
PARENT COMPANY NET INCOME FOR THE PERIOD			194,933

OTHER INFORMATION (figures in € thousands)	MCC CONSOLIDATED AT 31/12/2020		
	Lending	Management of Subsidised Funds	Total
Loan brokerage:			
Loans and advances to customers and banks	12,532,492	132,271	12,664,763
Management of Public Funds:			
Funds of third parties under management, recognised under separate accounting (*)		13,695,522	
<i>of which: Guarantee Fund Italian Law 662/96</i>		<i>13,500,943</i>	

Part M - Information on Leases

Section 1 - LESSEE

Qualitative information

IFRS 16 “Leases” was introduced by EU Regulation No. 2017/1986 of 31 October 2017 to replace IAS 17 and applies from 1 January 2019.

This standard provides a new definition of a lease and introduces a criterion based on control (right of use) over an asset to distinguish lease agreements from service agreements, identifying the following as discriminating factors: identification of the asset, right to replacement of the asset, right to substantially obtain all economic benefits deriving from use of the asset and the right to direct the use of the asset underlying the agreement.

“Leases” consequently refer to all agreements where the lessor conveys to the lessee the right to use an asset for a period of time in exchange for consideration. This definition therefore goes beyond the concept of leases (financial/operating) generally considered in accounting practice prior to the issue of the new standard. In fact, the scope of IFRS 16 also includes ordinary leases for tangible assets (e.g. property) used by the company in the conducting its business.

With regard to the new accounting treatment, the lessee recognises a Right of Use of an Asset in the balance sheet assets and a Lease Liability in the balance sheet liabilities equal to the present value of the lease payments envisaged for the agreement and not yet paid. The amortisation of the Right of Use and the interest expense arising from the Lease Liability are recognised in the income statement.

In identifying rights of use, the “simplifications” permitted by IFRS 16 apply, namely:

- exclusion from the scope of application of “short-term” leases, i.e. with a residual lifetime of less than 12 months at the date of first application;
- exclusion from the scope of application of “low-value” leases, i.e. leases with an estimated purchase value of less than €5,000.

With regard to the choices made in applying the standard, the following should be noted:

- the scope of application of the new standard essentially refers to property rental and vehicle hire agreements;
- the incremental borrowing rate is determined on the basis of a risk-free curve plus the funding spread (representing the creditworthiness of the lessee);
- with regard to the duration of leases, in general only the first contractual renewal period has been considered as reasonably certain, unless there are particular contractual clauses, facts or circumstances that would allow additional renewals to be considered or cause the end of the lease.

Quantitative information

For information about rights of use acquired through leasing, see Part B - Section 9 - Property, plant and equipment - Item 90 of these Notes.

For information about lease liabilities see Part B - Section 1 - Financial liabilities measured at amortised cost - Item 10 of these Notes.

For information about the interest expense on lease liabilities and other charges associated with the rights of use acquired through leases, see Part C - Section 1 - Interest - Items 10 and 20 and Section 14 - Net value adjustments on property, plant and equipment - Item 210 of these Notes.

COUNTRY-BY-COUNTRY REPORTING (ARTICLE 89 DIRECTIVE 2013/36/EU)

Country-by-country reporting (Article 89 Directive 2013/36/EU)

The relevant information at 31 December 2020 is provided in the table below.

Geographical location of establishment	A		B	C	D	E	F
	Name of the companies established	Nature of business	Turnover/Net banking and insurance income	Number of employees on a full-time equivalent basis	Profit or loss before tax	Tax on profit or loss	Government grants received
Italy	Mediocredito Centrale S.p.A.	Banking	154,694	323	63,033	11,688	-
Italy	MCC RMBS S.r.l.	Finance	-	-	-	-	-
Italy	Banca Popolare di Bari S.p.A.	Banking	39,199	2,240	(11,111)	(1,912)	-
Italy	Cassa di Risparmio di Orvieto S.p.A.	Banking	8,809	242	(9,357)	2,500	-
Italy	BPBroker S.r.l.	Finance	541	6	374	(90)	-
Italy	Adriatic Finance SME Srl	Finance	-	-	-	-	-
Italy	2017 POPOLARE BARI RMBS S.r.l.	Finance	-	-	-	-	-
Italy	2018 POPOLARE BARI RMBS S.r.l.	Finance	-	-	-	-	-
Italy	2019 POPOLARE BARI RMBS S.r.l.	Finance	-	-	-	-	-
Italy	2019 POPOLARE BARI SME S.r.l.	Finance	-	-	-	-	-
Total companies included in scope of consolidation			203,243	2,811	42,939	12,186	

**FEES FOR AUDIT AND NON-AUDIT SERVICES
PURSUANT TO ARTICLE 149 DUODECIES OF
CONSOB REGULATION NO. 11971**

Fees for auditing and non-audit services pursuant to Article 149 duodecies of Consob Regulation No. 11971

Type of service	Service provider	Recipient	Fees in € thousands
Independent audit services	Deloitte&Touche SpA	Mediocredito Centrale	178
Other services	Deloitte Consulting Srl	Mediocredito Centrale	70
Independent audit services	Deloitte&Touche SpA	Banca Popolare di Bari	120
Independent audit services	Deloitte&Touche SpA	Cassa di Risparmio di Orvieto	35
Other services	Deloitte&Touche SpA	Cassa di Risparmio di Orvieto	19
Independent audit services	Deloitte&Touche SpA	BP Broker	9
Independent audit services	Deloitte&Touche SpA	MCC RMBS	24
Independent audit services	Deloitte&Touche SpA	2017 Popolare Bari RMBS	19
Independent audit services	Deloitte&Touche SpA	2018 Popolare Bari RMBS	19
Independent audit services	Deloitte&Touche SpA	2019 Popolare Bari RMBS	19
Independent audit services	Deloitte&Touche SpA	2019 Popolare Bari SME	19
Independent audit services	Deloitte&Touche SpA	Adriatico Finance	17

Amounts do not include VAT, out-of-pocket expenses and CONSOB contribution

CERTIFICATION OF THE ANNUAL FINANCIAL STATEMENTS PURSUANT TO ARTICLE 81-TER OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999, AS AMENDED

Certification of the Consolidated Financial Statements

pursuant to Article 81 ter of Consob Regulation No. 11971 of 14 May 1999
as amended

1. The undersigned, Bernardo Mattarella, in his capacity as Chief Executive Officer of Mediocredito Centrale S.p.A., and Elena De Gennaro, in her capacity as Financial Reporting Manager of Mediocredito Centrale S.p.A., certify the following, taking into account, amongst other things, the provisions of article 154-bis, paragraphs 3 and 4, of Legislative Decree No. 58 of 24 February 1998:

- the adequacy in relation to the characteristics of the company and
- the effective application,

of the management and accounting procedures employed to prepare the consolidated financial statements in 2020.

2. The adequacy and effective application of the management and accounting procedures for the preparation of the financial statements at 31 December 2020 were checked on the basis of methods defined by the Parent Company in accordance with COSO templates and, for the IT component, COBIT templates, which are generally accepted international reference frameworks for the internal control system³⁵. In consideration of the broader project to upgrade the Internal Control System, with a view, amongst other things, to harmonise it at Group level, work is being carried out to verify the adequacy and effective application of the existing management and accounting procedures, together with work on rationalising those procedures on the basis of generally accepted methodologies.

3 The undersigned also certify that

3.1 the Consolidated Financial Statements:

- a) have been prepared in accordance with the international accounting standards, endorsed by the European Union pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council, dated 19 July 2002;
- b) correspond to the amounts shown in the Company's records and accounts;
- c) provide a true and fair view of the shareholder's equity, and the performance and financial position of the issuer and the companies comprised within the consolidation.

the report on operations comprises a reliable analysis of the performance, operating result and financial position of the issuer and of the companies included in the consolidation, together with a description of the main risks and uncertainties they are exposed to.

Rome, 01 June 2020

The Chief Executive Officer

Bernardo Mattarella

The Financial Reporting Manager

Elena De Gennaro