IFITALIA
GRUPPO BNP PARIBAS

# Financial Report 2019

INTERNATIONAL FACTORS ITALIA S.p.A. - IFITALIA
Company subject to the management and co-ordination of BNP Paribas S.A. – Paris
Registered offices and Headquarters: C.so Italia, 15, 20122 Milan, Italy
Tel. No. +39 (02) 67781
Fax No. +39 (02) 6671.3190
Ifitalia.it – info@ifitalia.it – Ifitalia@pec-ifitalia.it

Share capital: EUR 55,900,000
Tax Code No. 00455820589 - VAT No. 09509260155
Milan Companies' Register No. 00455820589 and Economic & Administrative Roster No. 683665
Register of Financial Brokers: mechanised code no. 19016

# FINANCIAL REPORT 2019

# REPORT ON OPERATIONS

# REPORT ON OPERATIONS

# 2019 Report on Operations

## Offices

| | | |
|---|---|---|
| Milan | 20122 | Corso Italia, 15<br>Tel. No. 02/67781 |

## Local Units

| | | |
|---|---|---|
| Milan | 20132 | Via Deruta, 19 |

## Commercial offices within branches of Banca Nazionale del Lavoro

| | | |
|---|---|---|
| Bari | 70121 | Via Dante Alighieri, 32/40<br>Tel. No. 080/5210177 |
| Bologna | 40125 | Via Rizzoli, 26<br>Tel. No. 051/237001 |
| Genoa | 16121 | Largo Eros Lanfranco, 2<br>Tel. No. 010/582571 |
| Mestre | 30175 | Corso del Popolo, 21<br>Tel. No. 041/5044070 |
| Naples | 80134 | Via Toledo, 126<br>Tel. No. 081/5517364 |
| Padua | 35139 | Piazza Insurrezione, 6/6A<br>Tel. No. 049/655988 |
| Palermo | 90133 | Via Roma, 291<br>Tel. No. 091/6111387 |
| Parma | 43100 | Piazza Garibaldi, 17/A<br>Tel. No. 0521/206232 |
| Pescara | 65121 | Corso Vittorio Emanuele, 148<br>Tel. No. 085/4429552 |
| Prato | 50047 | Via Bettino, 2<br>Tel. No. 0574/453605 |
| Rome | 00185 | Viale Altiero Spinelli, 30 |
| Turin | 10121 | Via XX Settembre, 40<br>Tel. No. 011/543444 |

## Directors and Officers as at 31 December 2019

| | | | |
|---|---|---|---|
| Board of Directors | MARIO GIROTTI | | *Chairman* |
| | PATRICK PIERRE MARIE GALOUZEAU DE VILLEPIN | | *Vice Chairman* |
| | MASSIMO MACCIONI | (from 29 April 2019) | *Director* |
| | REGINA CORRADINI D'ARIENZO | (from 29 April 2019) | *Director* |
| | RUXANDRA VALCU | (from 29 April 2019) | *Director* |
| | THIERRY VINCENT BERNARD | (expiry of term of office on 29 April 2019) | *Director* |
| | MARCO TARANTOLA | (expiry of term of office on 29 April 2019) | *Director* |
| | MICHELA CICENIA | (expiry of term of office on 29 April 2019) | *Director* |
| Board of Statutory Auditors | ROBERTO SANTAGOSTINO | | *Chairman* |
| | FRANCESCO SCHIAVONE PANNI | (expiry of term of office on 29 April 2019) | *Chairman* |
| | ROBERTO SERRENTINO | (expiry of term of office on 29 April 2019) | *Acting Auditor* |
| | GUIDO NATALE ANTONIO NORI | (expiry of term of office on 29 April 2019) | *Acting Auditor* |
| | LORENZO THEODOLI CICCOLINI | (expiry of term of office on 29 April 2019) | *Alternate Auditor* |
| | ROBERTO D'AYALA VALVA | (expiry of term of office on 29 April 2019) | *Alternate Auditor* |
| General manager | GIANLUCA LAURIA | | |

## Introduction and methodological note

As for the 2018 financial year, Ifitalia prepared the consolidated financial statements, which include in the scope of consolidation, other than Ifitalia, only Tierre Securitization srl, the SPV used for securitisation transactions (as described in detail on page 43 of this report) and a de facto subsidiary of Ifitalia.
Given the structure of the securitisation transactions that do not allow the receivables assigned to the SPV to be derecognised from Ifitalia's balance sheet assets, the values of the various items of the consolidated financial statements do not differ substantially from those of Ifitalia's separate financial statements.
For this reason, the values and analyses performed in the Report on Operations refer to Ifitalia's separate financial statements.
The figures in the report on operations are drawn up in millions of Euro.

## Highlights

| Ifitalia S.p.A. - Highlights | 2019 | 2018 | Var. % |
|---|---|---|---|
| **VOLUMES** | | | |
| Turnover | 32,334 | 29,588 | 9.3% |
| - without recourse | 29,628 | 26,355 | 12.4% |
| - with recourse | 2,706 | 3,233 | -16.3% |
| **ECONOMIC DATA** | | | |
| Net interest | 70 | 66 | 6.9% |
| Net commissions | 42 | 40 | 5.3% |
| Net banking income | 112 | 105 | 6.6% |
| Administrative expenses | 45 | 46 | -1.1% |
| *- personnel expenses* | *23* | *19* | 19.0% |
| Net adjustments for impairment of tangible and intangible assets | 5 | 3 | 38.8% |
| Net adjustments for impairment of financial assets | 12 | 10 | 24.9% |
| Net operating income | 73 | 47 | 54.6% |
| Profit for the year | 50 | 33 | 51.7% |
| **BALANCE SHEET DATA** | | | |
| Total assets | 7,662 | *7,896* | -3.0% |
| Total Risk Weighted Assets (RWA) | 5,808 | *5,955* | -2.5% |
| Financial assets measured at amortized cost | 7,523 | | |
| Available-for-sale assets | 5 | *5* | -11.9% |
| Financial liabilities measured at amortized cost | 6,653 | *6,969* | -4.5% |
| Equity | 761 | *711* | 7.0% |
| Tier 1 capital | 700 | *668* | 4.8% |
| Supervisory capital | 700 | *668* | 4.8% |
| **PROFITABILITY, EFFICIENCY AND DIVERSIFICATION INDICES** | | | |
| R.O.E. | 6.8% | 4.7% | 46.5% |
| (*)Cost / income (with amortisation/depreciation) | 44.5% | 46.7% | -4.5% |
| Net commissions/Earnings margin | 37.6% | 38.1% | -1.2% |

| Ifitalia S.p.A. | 2019 | 2018 | Var. % |
|---|---|---|---|
| **ASSET QUALITY** | | | |
| **Total problem positions** | **410** | **437** | **-6.1%** |
| - in relation to customer receivables | 5.53% | 5.70% | -3.1% |
| - coverage percentage | 69.28% | 67.45% | 2.7% |
| ***Non-performing positions*** | **305** | **305** | **0.2%** |
| *- in relation to customer receivables* | 4.11% | 3.97% | *3.4%* |
| *- coverage percentage* | 79.35% | 79.89% | *-0.7%* |
| ***Unlikely to pay*** | **85** | **104** | **-18.5%** |
| *- in relation to customer receivables* | 1.14% | 1.36% | *-15.9%* |
| *- coverage percentage* | 46.87% | 47.12% | *-0.5%* |
| ***Past due positions*** | **20** | **28** | **-27.5%** |
| *- in relation to customer receivables* | 0.28% | 0.37% | *-25.2%* |
| *- coverage percentage* | 12.21% | 8.43% | *44.9%* |
| | | | |
| **CAPITALISATION RATIOS** | | | |
| Tier 1 ratio | 12.05% | 11.21% | 7.5% |
| Solvency ratio | 12.05% | 11.21% | 7.5% |
| | | | |
| **STRUCTURAL DATA** | | | |
| Employees at year end | 272 | 226 | 20.4% |
| No. of commercial offices | 14 | 16 | -12.5% |
| - of which in Italy | 14 | 16 | -12.5% |
| | | | |
| **INFORMATION ON IFITALIA SECURITY** | | | |
| Total number of shares | 55,900 | 55,900 | 0.0% |
| - of which ordinary | 55,900 | 55,900 | 0.0% |
| Par value (euro) | 1 | 1 | 0.0% |
| Current value (euro) (*) | 13.62 | 12.72 | 7.0% |

*(*) Effective Equity/total number of share*

## Results overview

In 2019, the weakness of economic activity in Italy was reflected in the trend in loans; in this economic scenario, the factoring market showed a certain vitality with an increase in turnover (+6%) and average loans (+4%). However, the high level of competition and the availability of liquidity contributed to a further reduction in prices compared to the previous period.

In this context, Ifitalia maintained a selective strategy oriented towards the creation of value. All in all, average loans increased by 3.1% (net of two significant transactions in 2018 not renewed in 2019: +7%) and turnover by 9.3% in 2019. Net banking income increased by 6.6%, mainly due to growth in average lending volumes and turnover.

The cost of risk of EUR 9.2 million remained very low both in absolute terms and in terms of bps in relation to loans and receivables (12bps in 2019; 16bps in 2018).The excellent result of the cost of risk is attributable to a selective credit policy that led to a low level of additions to NPL, as well as a growing debtor-side risk insurance policy.

In terms of costs, there was a decrease in administrative expenses (-1.1%) despite the extraordinary provision made in 2019 for early termination of employment (known as "quota 100" retirement scheme) amounting to approximately EUR 1 million. On the other hand, value adjustments to intangible assets (consisting of software investments) increased as a result of the capitalisation of relevant IT projects (Basel 2, Mediana 2020 and Scoring).

From a financial point of view, **loans to customers** decreased from EUR 7,747 million in 2018 to EUR 7,523 million in 2019 (-2.89%) as a result of transactions with significant amount closed during 2019 and not repeated, as well as greater selectivity on year-end spot transactions.

The **net banking income** increased from EUR 105.4 million in 2018 to EUR 112.4 million in 2019 (+6.6%) and in particular:

- **net interest** amounted to EUR 70 million (+6.9%) versus EUR 65.5 million in 2018.The increase in net interest is mainly due to the growth in average lending volumes (+3.1%) and higher interest on tax credits; the effect of these increases offsets the lower interest on late payments from public entities.

- **net commissions**, equalling EUR 42.3 million, decreased compared to EUR 2.1 million in 2018 (+5.3%).The trend was affected by an increase in commission income, equal to EUR 55.3 million compared to EUR 53.7 million in 2018.The growth is mainly due to higher turnover volumes (+9.3%); the positive effect of this increase largely offsets the reduction in the average commission applied to customers.

As regards the **cost of risk**, in 2019 the Company recognised EUR 9.2 million, recording a decrease of 18.7% on the previous year, reaching minimum levels both in absolute terms and as a percentage of total receivables; additions to NPL during 2019 were also very low.

**Administrative expenses** recorded a 1.1% decrease compared to December 2018:

- **personnel expenses** increased by 19% compared to 2018 and take account of the provision for early termination of employment related to the "quota 100" retirement scheme;
- the **other administrative expenses** decreased by 15.9% from 2018

The changes in the various components of operating costs (higher personnel costs and lower administrative expenses) are partly due to the re-internalisation of the factoring backoffice (from 1 January 2019) which led to an increase in personnel costs of EUR 3.1 million, offset by lower expenses for outsourced services.

**Net value adjustments on tangible and intangible assets** were EUR 4.8 million against EUR 3.5 million in 2018, posting an increase of EUR 1.3 million. Of these, EUR 1.2 million (EUR 0.9 million in 2018) refer to tangible assets and EUR 3.7 million (EUR 2.6 million in 2018) to intangible assets.

In defining administrative expenses and depreciation and amortisation expenses compared with the net banking income, the cost to income ratio equalled 44.5% in 2019 against 46.7% in 2018.

**Other operating income and expenses** amounted to EUR 2.5 and are substantially in line with the results for 2018.

In 2019, a **capital gain** of EUR 17.8 million was recorded on the sale of the property in Via Pisani, the former headquarters of Ifitalia.

**Net operating income** stood at EUR 73.4 million (+ 54.6%; vs EUR 47.5 million in 2018; net of the capital gain on the sale of the property, the increase would be 17.2%).

After direct taxes, which were EUR 23 million, the **profit for the year** was EUR 50.2 million (EUR 33.1 million in 2018, + 51.7%).

* * *

**Equity**, including the profit for the year, stood at EUR 761 million (711 million in 2018; +7%).

As at 31 December 2019, the level of capitalisation for Supervisory purposes was expressed by a Tier 1 Capital Ratio of 12.05% (11.21% in 2018) and by a Total Capital Ratio of 12.05% (11.21% at the end of December 2018).

## Market in which the company operates

## Macroeconomic scenario

## The world economy and the Eurozone

In 2019, the world economy slowed down, held back also by factors of a temporary nature that interacted with widespread uncertainty. Global GDP increased by less than 3%, from 3.6% in 2018. The deterioration affected both advanced and emerging countries.
Trade tensions between the United States and China encouraged protectionist pressures that led to a reversal of the trend in the process of free trade. The value of world exports grew by only 1% from almost 4% in the previous year. The slowdown in trade penalised China, where growth rates have fallen to the lowest levels in recent years.
In the United States, the process of job creation continued uninterrupted. Growth remained solid although signs of a slowdown emerged at the end of the year. Household spending seemed more moderate while the investment pattern weakened.
The Eurozone suffered from the sharp decline in German manufacturing activity, which was penalised by the reduction in the means of transport sector. Inflation remained modest, falling short of the Central Bank's target. The recovery of the labour market continued albeit with differences between countries.
In the main economies, the monetary policy approach remained accommodative. However, at the end of the year, tensions emerged in the US interbank market. The Federal Reserve provided massive new injections of liquidity through short-term operations. The European Central Bank reshaped its policy, resuming the purchase of financial assets while the Bank of England continued to support the economy by guiding the uncertainty surrounding Brexit.
During 2019, the Italian Economy experienced substantial stagnation. The growth rate slowed down and was negative in the last quarter. GDP increased by 0.2% in total over the year, held back by the negative contribution from inventories, while that of foreign demand was positive. The investment pattern seemed uncertain, driven also by tax incentives. Companies remained cautious in their spending decisions despite sounder financial conditions and low costs of lending.
Italian exports slowed down, suffering from global uncertainty and growing in value by about 2%. Sales in the United States and the United Kingdom increased, those within the Eurozone suffered, those in China fell.
The worsening world context penalised the Italian manufacturing sector. Production decreased, reflecting the sharp drop in the automotive sector, in particular.
In Italy, labour market conditions further improved, although the recovery in the number of employees was accompanied by a still large delay in hours worked. Households' purchasing power benefited from an income recovery that was also helped by measures to combat poverty and weak trend in prices. Growth in consumption remained moderate with the savings rate stable at around 9%.

### Lending activities in Italy

In 2019, the weakness of economic activity in Italy was reflected in the trend in loans. Loans to the non-financial private sector (seasonally adjusted and corrected for the accounting effect of securitisations) remained unchanged compared to 2018 and loans to the public administration decreased by 3.6%. The annual trend in loans to households remained solid (+2.5%) thanks to the increase in disposable income and particularly favourable credit conditions. Consumer credit increased by 8.5% and home loans by 1.2%; while "other loans" are still declining.
In the non-financial private sector, there was a decline in loans to businesses (-1.9%), to which both the fall in demand due to lower financing needs for fixed investments, stocks and working capital and the high focus on creditworthiness contributed. The decline in loans to "high" risk companies, especially small ones, was particularly evident. Lending decreased in all production sectors (manufacturing -0.5%; services -1.7%) but with greater intensity in the construction sector (-4.3%). On the other hand, the use of the bond market among less risky companies increased.
The quality of the loan portfolio continued to improve during the year despite the unfavourable cyclical phase. In the third quarter of 2019, the ratio of impaired loans to total loans fell to 7.3%; net of write-downs, the ratio to total loans was 3.6%. The rate of impairment fell to 1.2%, a level never reached before. In particular, that of companies fell below 2% thanks to

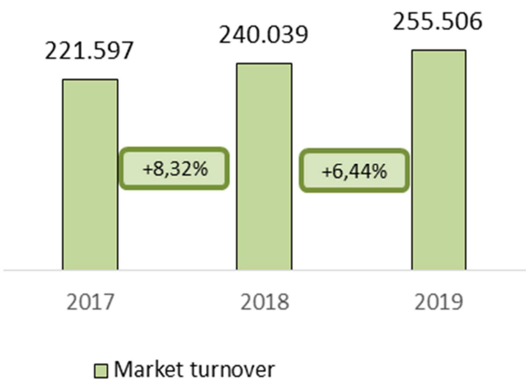
the reduction recorded in the services and construction sectors. The rate of impairment of household loans remained stable at 1%.
In terms of collections, current accounts continued to grow (about +6% on average for the year), partly generated by weakening in other forms of deposits. The reduction in bonds (-3.3% on average for the year) decreased considerably and started to grow again in the fourth quarter of the year. All in all, funding activity increased by 2.8% on average over the year.
Asset management business reported positive net inflows in 2019 (EUR 73 billion), partly due to an extraordinary transaction by the Poste Group at the beginning of the year. Total assets managed reached a new high approaching EUR 2.3 trillion.

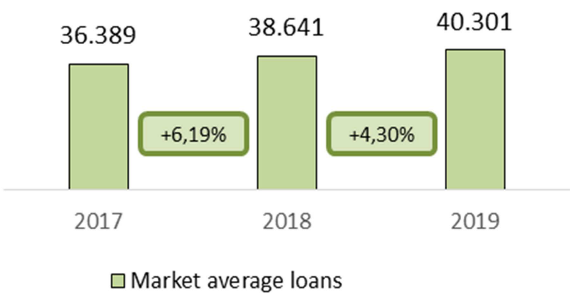
## The factoring market

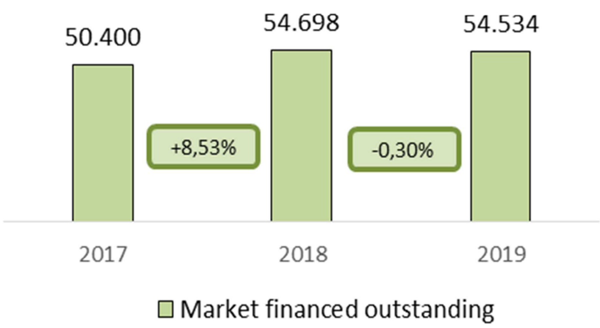
Based on the figures provided by Assifact in 2019, the Factoring market, in terms of **turnover**, came to EUR 255,506 million, up 6.44% over the previous year. Average loans increased by 4.30%.

In terms of the ratio of factoring market turnover to national GDP, 2019 shows an increase in the figure compared to the previous year (equal to 13.7%) by a value close to 14.3%.
This market continues to remain highly concentrated in the hands of the 3 main players.

In terms of **loans**, the market was EUR 54,534 million at the end of 2019, and was substantially in line with the previous year (-0.30%), while **average loans** of EUR 40,301 million increased by 4.30%.



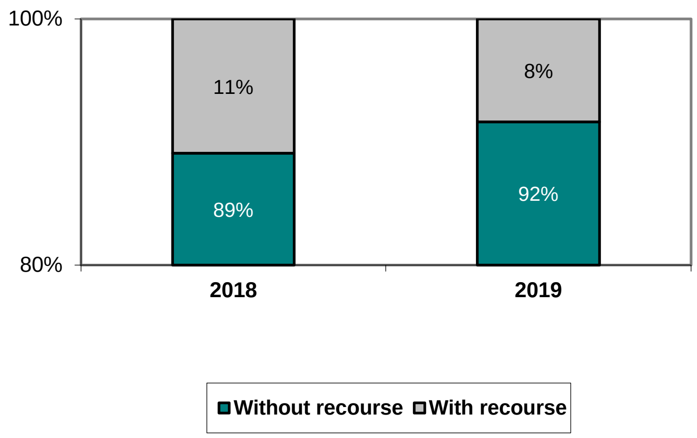
## Ifitalia's competitive positioning

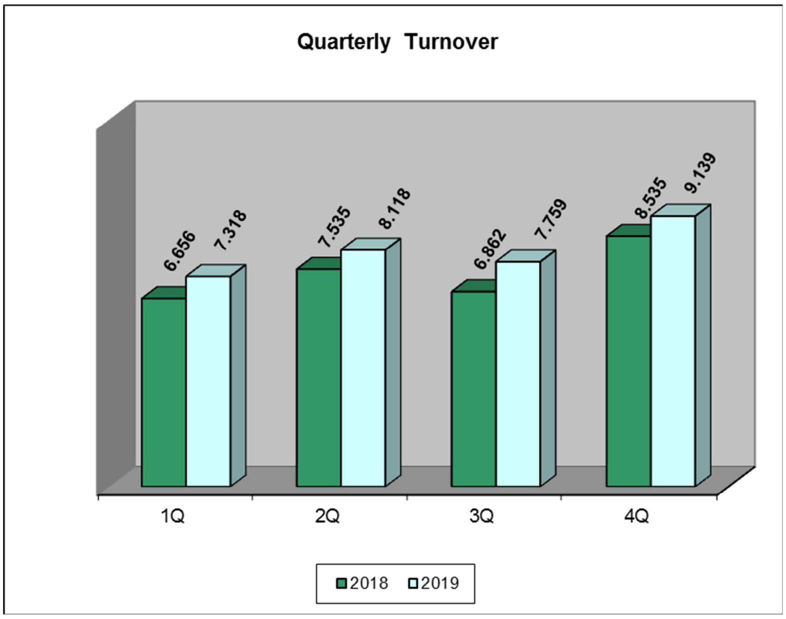
### Turnover

Ifitalia's turnover, or flow of loans/receivables acquired by the Company during 2019, reached EUR 32,334 million (EUR 29,588 million in 2018), representing growth of 9.3%.
With regard to the distribution across products, carried out according to the contractual form, without-recourse factoring represented 92% of total turnover (89% in 2018) while with-recourse factoring represented 8% (11% in 2018).

*(in millions of €)*

| TURNOVER | 31/12/2019 | 31/12/2018 | Changes | % |
|---|---|---|---|---|
| Without recourse | 29,628 | 26,355 | 3,273 | 12.4% |
| With recourse | 2,706 | 3,233 | (526) | -16.3% |
| **Total** | **32,334** | **29,588** | **2,746** | **9.3%** |

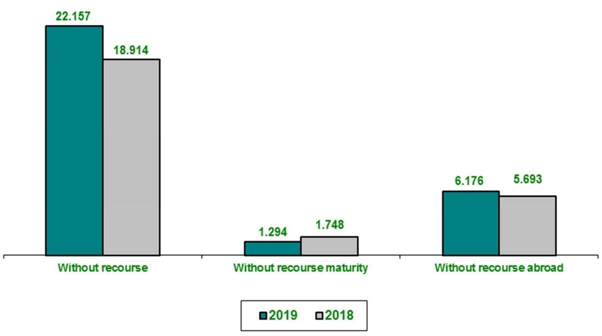


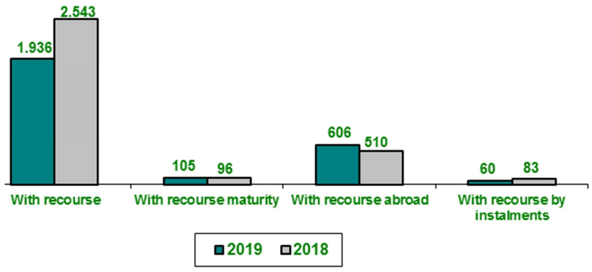



As regards the composition, the graphs below show without-recourse and with-recourse factoring further broken down into their income components.

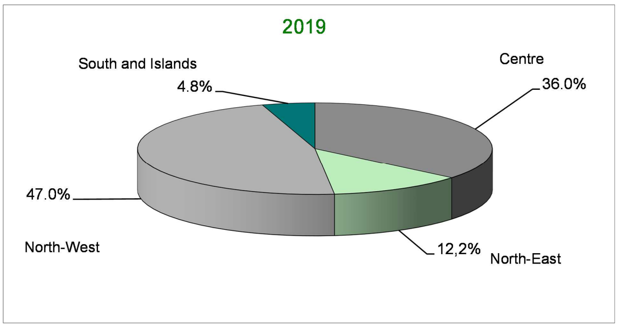
*(in millions of €)*

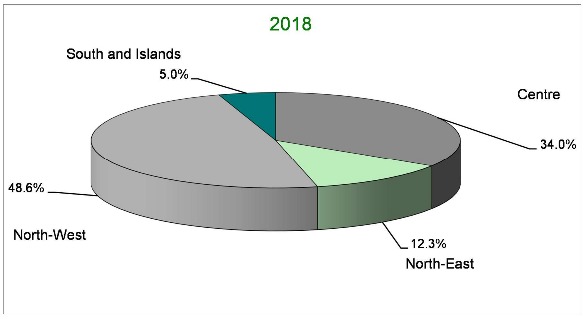
| Product | Turnover 2019 | Turnover 2018 | Changes | % | Incidence % 2019 |
|---|---|---|---|---|---|
| Without recourse | 22,157 | 18,914 | 3,243 | 17.1% | 68.5% |
| Without recourse maturity | 1,294 | 1,748 | (454) | -26.0% | 4.0% |
| Without recourse abroad | 6,176 | 5,693 | 483 | 8.5% | 19.1% |
| **Total** | **29,628** | **26,355** | **3,273** | **12.4%** | **91.6%** |
| | | | | | |
| With recourse | 1,936 | 2,543 | (608) | -23.9% | 6.0% |
| With recourse maturity | 105 | 96 | 9 | 8.8% | 0.3% |
| With recourse abroad | 606 | 510 | 96 | 18.8% | 1.9% |
| With recourse by instalments | 60 | 83 | (23) | -27.9% | 0.2% |
| **Total** | **2,706** | **3,233** | **(526)** | **-16.3%** | **8.4%** |
| | | | | | |
| **TOTAL** | **32,334** | **29,588** | **2,746** | **9.3%** | **100%** |




With regard to the domestic geographic breakdown of the transferors, they were distributed as follows:



The graphs above show turnover broken down by geographic area; in relation to Italy, which represents 93% (EUR 30,062 million) of the total, turnover increased by 8.63% compared with 2018 (EUR 27,672 million, 93.5% of the total).
On the other hand, foreign turnover amounted to EUR 2,272 million (+1.86%; EUR 1,915 million in 2018) and represents 7% of total turnover (6.5% in 2018).

Turnover

(in millions of €)

| Areas | 2019 | % of the total | 2018 | % of the total |
|---|---|---|---|---|
| CENTRE | 10,831 | 33.5% | 9,417 | 31.8% |
| NORTH-EAST | 3,672 | 11.4% | 3,413 | 11.5% |
| NORTH-WEST | 14,116 | 43.7% | 13,462 | 45.5% |
| SOUTH AND ISLANDS | 1,442 | 4.5% | 1,381 | 4.7% |
| **TOTAL FOR ITALY** | 30,062 | 93.0% | 27,672 | 93.5% |
| **ABROAD** | 2,272 | 7.0% | 1,915 | 6.5% |
| **TOTAL TURNOVER** | **32,334** | **100.0%** | **29,588** | **100.0%** |

With reference to the **sectors of economic activities**, 2019 turnover presented the following breakdown:

| TURNOVER BY ECONOMIC SECTOR | YEAR 2019 | YEAR 2018 | DELTA |
|---|---|---|---|
| 67 Commerce, recovery, repair services | 17.55% | 16.97% | 3.43% |
| 00 Unclassified subjects | 17.47% | 14.48% | 20.68% |
| 52 Energy products | 17.08% | 18.67% | -8.54% |
| 72 Communication services | 7.78% | 5.61% | 38.76% |
| 60 Means of transport | 7.00% | 6.97% | 0.54% |
| 73 Other services for sale | 5.22% | 10.47% | -50.12% |
| 61 Foodstuff and tobacco products | 4.36% | 3.87% | 12.70% |
| 59 Electric materials and supplies | 2.95% | 2.84% | 3.90% |
| 56 Metal products excluding means of transport | 2.50% | 2.68% | -7.03% |
| 55 Chemicals | 2.34% | 1.90% | 23.18% |
| 64 Rubber and plastic products | 2.05% | 1.65% | 24.28% |
| 63 Paper, paper products, press products, publishing | 2.02% | 2.26% | -10.33% |
| 66 Construction and public w orks | 1.76% | 1.99% | -11.31% |
| 53 Minerals, ferrous and non ferrous metals | 1.70% | 1.47% | 15.31% |
| 57 Agricultural and industrial machines | 1.70% | 1.72% | -0.90% |
| 69 Internal transport services | 1.59% | 1.14% | 40.00% |
| 71 Services connected to transports | 1.28% | 1.41% | -9.12% |
| 62 Textiles, footw ear and clothing | 1.01% | 1.00% | 0.84% |
| 65 Other industrial products | 0.75% | 1.05% | -28.50% |
| 58 Office machines, computers, precision tools, etc. | 0.66% | 0.51% | 31.13% |
| 68 Hotel and public services | 0.48% | 0.59% | -18.61% |
| 51 Farming, forestry, fishery products | 0.39% | 0.46% | -15.49% |
| 54 Minerals and non-metallic mineral products | 0.34% | 0.30% | 13.23% |
| **Total** | **100%** | **100%** | |

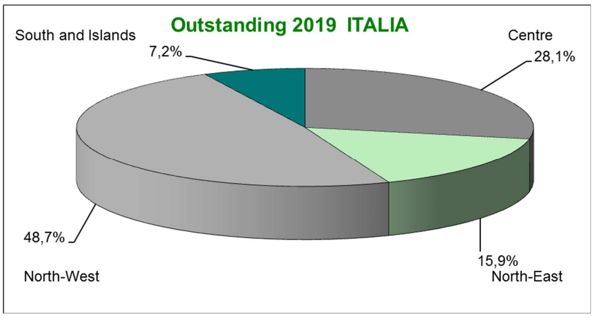
This year, the industries that make the most use of factoring are "Commerce services" (17.6%; +3.4% compared to 2018), "Energy products" (17.1%; -8.5% compared to 2018), "Communication services" (7.8%; +38.8% compared to 2018) and "Means of transport" (7%; +0.54% compared to 2018).
The first ten sectors represent 84.3% of total turnover (84.8% in 2018).

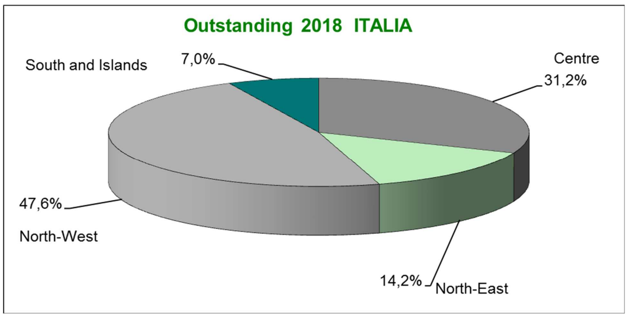
## Outstanding positions

The stock of loans/receivables at nominal value effectively factored at year end amounted to EUR 8,489 million (EUR 9,049 million in 2018, -6.18%), of which EUR 7,358 million (86.67% of total loans/receivables) refers to contracts factored without recourse, while EUR 1,132 million concerns with recourse contracts (13.33% of the total).
Within the amounts indicated above, total international factoring transactions amounted to EUR 1,803 million (21.23% of the total), of which EUR 1,615 million for export transactions (EUR 1,481 million in 2018) and EUR 188 million for import factoring transactions (EUR 140 million in 2018).

Outstanding positions in Italy came to EUR 7,846 million compared with EUR 8,505 million in the previous year and represent 92.4% of total outstanding positions (94% in 2018).

As regards the geographic breakdown of Domestic customers, from the **transferor side**, a decrease of 3.1% was recorded in the "Central" area (31.2% in 2018 versus 28.1% in 2019), offset by an increase in the "North East" area of +1.8% (from 14.2% in 2018 to 15.9% in 2019) and in the "North West" area +1.1% (from 47.6% in 2018 to 48.7% in 2019).

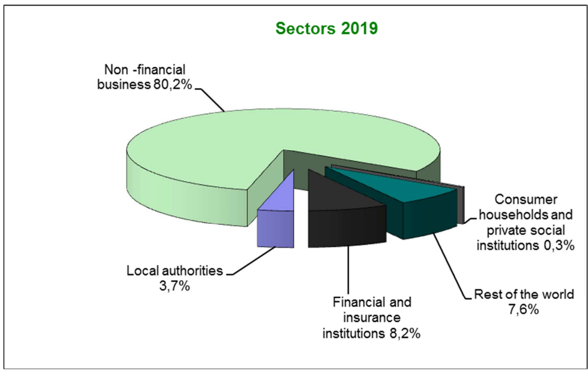


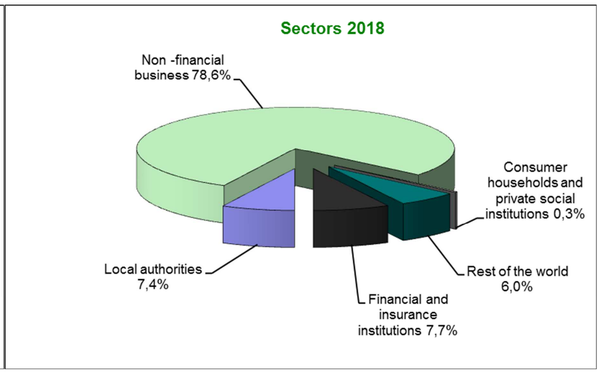




With regard to the foreign segment, the outstanding balance, considered in relation to the nationality of the transferor, came to EUR 643 million (EUR 544 million in 2018) and represented 7.6% of the total outstanding amount (6% in 2018).

| OUTSTANDING BALANCE | | | | (millions of euros) |
|---|---|---|---|---|
| **Areas** | **2019** | **% of the total** | **2018** | **% of the total** |
| CENTRE | 2,207 | 26.0% | 2,654 | 29.3% |
| NORTH-EAST | 1,249 | 14.7% | 1,204 | 13.3% |
| NORTH-WEST | 3,825 | 45.1% | 4,050 | 44.8% |
| SOUTH AND ISLANDS | 567 | 6.7% | 597 | 6.6% |
| **TOTAL FOR ITALY** | 7,847 | 92.4% | 8,505 | 94.0% |
| **ABROAD** | 643 | 7.6% | 544 | 6.0% |
| **TOTAL OUTSTANDING BALANCE** | **8,489** | **100.0%** | **9,049** | **100.0%** |

The breakdown of loans/receivables by segment confirms that in 2019, 80.2% of these amounts was attributable to transferors belonging to the category of non-financial businesses (78.6% in 2018).



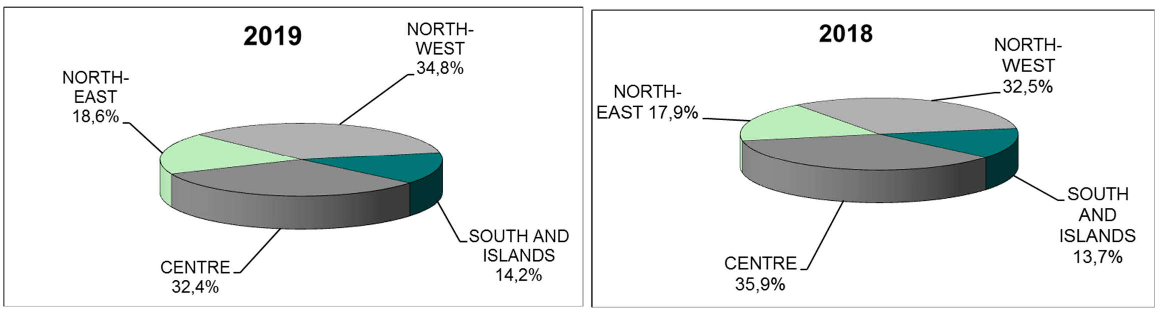

By contrast, with regard to the breakdown of these amounts according to the segment the transferor belongs to, the following table confirms that 60.3% of the customer portfolio concerns loans/receivables deriving from the top five segments of economic activities; adding the next five, 79.8% of the total is reached.

“Commerce, recovery, repair services” and “Means of transport”, representing 18.8% and 9%, respectively, are two of the most significant sectors.

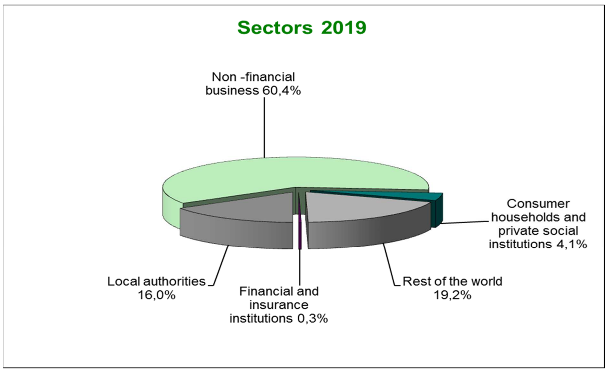
These sectors are followed by “Other services for sale” (8.5%) and “Energy products” (7.6%).

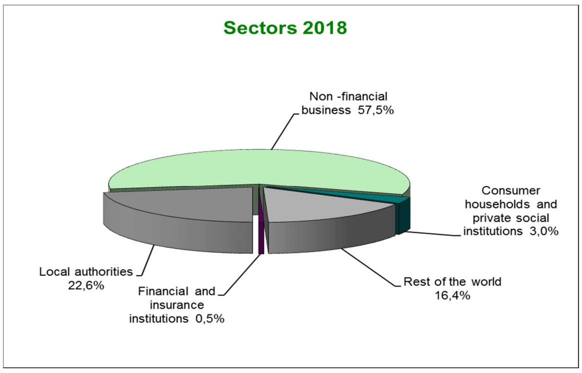
| | OUTSTANDING BY ECONOMIC SECTOR | YEAR 2019 | YEAR 2018 | DELTA |
|---|---|---|---|---|
| 67 | Commerce, recovery, repair services | 18.8% | 17.7% | 6.5% |
| 0 | Unclassified subjects | 16.4% | 17.6% | -7.3% |
| 60 | Means of transport | 9.0% | 7.5% | 20.1% |
| 73 | Other services for sale | 8.5% | 11.3% | -24.3% |
| 52 | Energy products | 7.6% | 8.2% | -6.9% |
| 59 | Electric materials and supplies | 4.7% | 3.9% | 20.4% |
| 56 | Metal products excluding means of transport | 4.1% | 3.6% | 14.5% |
| 61 | Foodstuff and tobacco products | 3.8% | 3.2% | 18.4% |
| 63 | Paper, paper products, press products, publishing | 3.5% | 3.4% | 3.8% |
| 57 | Agricultural and industrial machines | 3.4% | 3.7% | -9.3% |
| 66 | Construction and public works | 3.3% | 4.8% | -30.9% |
| 64 | Rubber and plastic products | 3.0% | 2.1% | 45.4% |
| 72 | Communication services | 2.7% | 2.7% | -0.9% |
| 55 | Chemicals | 2.0% | 2.1% | -5.2% |
| 71 | Services connected to transports | 1.4% | 1.6% | -10.0% |
| 69 | Internal transport services | 1.3% | 1.1% | 21.1% |
| 62 | Textiles, footwear and clothing | 1.3% | 1.3% | 2.6% |
| 53 | Minerals, ferrous and non ferrous metals | 1.3% | 1.2% | 7.5% |
| 65 | Other industrial products | 1.2% | 1.2% | -5.9% |
| 58 | Office machines, computers, precision tools, etc. | 1.1% | 0.6% | 70.7% |
| 54 | Minerals and non-metallic mineral products | 0.5% | 0.3% | 50.3% |
| 51 | Farming, forestry, fishery products | 0.4% | 0.4% | 18.2% |
| 68 | Hotel and public services | 0.4% | 0.3% | 32.7% |
| 70 | Maritime and air transport services | 0.2% | 0.2% | 6.6% |
| | **Total** | **100%** | **100%** | |

Following the previously analysed distribution of the outstanding transferor balances by geographic area, the same figure is now analysed seen from the **debtor side**. The graphs below reveal that, in relation to the previous year, the “North East”, “North West” and the “South and Islands” areas increased by 0.7%, 2.3% and 0.5%, respectively; whereas the “Centre” area recorded a decrease of 3.5%.



Likewise, the breakdown by sectors of economic activities, again analysed from the **debtor side**, expressed the situation indicated below, which revealed substantial growth in debtors belonging to the "Non-financial businesses" segment from 57.5% in 2018 to 60.4% in 2019 and a decrease in the "Public Administration" segment, which dropped from 22.6% in 2018 to 16% in 2019 due to the substantial collection of tax credits.



## Profit performance

### Net banking income

In order to assess the performance of the single components of the net banking income more fully, it is considered useful to analyse the breakdown of its individual items:

- **net interest** amounted to EUR 70 million (+6.9%) versus EUR 65.5 million in 2018.The increase in net interest income is mainly due to the growth in average lending volumes (+3.1%) and higher interest on tax credits; the effect of these increases offsets the lower interest on late payments from public entities.

| | | | *(in millions of €)* |
|---|---|---|---|
| | **31/12/2019** | **31/12/2018** | **Var %** |
| **Net interest** | **70.0** | **65.5** | **6.9** |

- **net commissions**, equalling EUR 42.3 million, decreased compared to EUR 2.1 million in 2018 (+5.3%).The trend was affected by an increase in commission income, equal to EUR 55.3 million compared to EUR 53.7 million in 2018.The growth is mainly due to higher turnover volumes (+9.3%); the positive effect of this increase largely offsets the reduction in the average commission applied to customers. The decrease in commission expense is mainly due to lower insurance costs (-4%).

| | | | *(in millions of €)* |
|---|---|---|---|
| | **31/12/2019** | **31/12/2018** | **Var %** |
| **Commission income** | | | |
| Services for factoring transactions | 55.3 | 53.7 | 3.0 |
| **Commission income** | **55.3** | **53.7** | **3.0** |
| **Commission expense** | | | |
| Other services | -13.0 | -13.5 | -4.0 |
| **Commission expense** | **-13.0** | **-13.5** | **-4.0** |
| **Net commission** | **42.3** | **40.2** | **5.3** |

The **net trading profit (loss)**, equating to a revenue of EUR 5 thousand (EUR 54 thousand in 2018), derives from the valuation at fair value (level 2) of derivatives entered into with BNL.

Moreover, **dividends** for EUR 38 thousand (EUR 59 thousand in 2018) were recorded, relating to the Serfactoring holding.

Adding net commissions and the aforementioned components to net interest, **net banking income** totals EUR 112 million (EUR 105 million in 2018; +6.6%).

## Net value adjustments for impairment of financial assets

*(in millions of €)*

| | 31/12/2019 | 31/12/2018 | Var % |
|---|---|---|---|
| **Net value adjustments/writebacks for impairment of loans and receivables** | | | |
| Net value adjustments/writebacks for discounting interest (*) | 2.3 | *2.1* | 0.1 |
| Net value adjustments, analytical | 9.3 | 7.9 | 0.2 |
| *non-performing loans* | *4.3* | *4.2* | *0.0* |
| *problem loans* | *0.1* | *0.0* | *-38.7* |
| *restructured receivables* | *4.8* | *3.7* | *0.3* |
| Total impairment | 0.7 | -0.2 | -5.6 |
| **Total net value adjustments/writebacks** | **12.3** | **9.9** | **0.2** |
| | *0.0* | *0.0* | *0.0* |
| *Discounting interest (*)* | *0.0* | *0.0* | *0.0* |
| *Operational Risk* | *-3.1* | *1.8* | *-2.8* |
| **Cost of Risk Total** | **9.2** | **11.7** | **-0.2** |

The **cost of risk** of EUR 9.2 million remains very low both in absolute terms and in terms of bps in relation to loans and receivables (12bps in 2019; 16bps in 2018).The level of additions to NPL is kept to a minimum.

(*) *As required by the new financial statement regulations, as from 2018 interest from time value is shown under net interest income and no longer included in net value adjustments.*

## Administrative expenses

| (in millions of €) | 31/12/2019 | 31/12/2018 | Var % |
|---|---|---|---|
| Administrative expenses: | -45.2 | -45.7 | -1.1 |
| *personnel expenses* | *-23.1* | *-19.4* | *19.0* |
| *others administrative expenses* | *-22.1* | *-26.3* | *-15.9* |
| *of which: indirect taxes and dues* | *1.0* | *1.2* | *-17.1* |
| **Administrative expenses** | **-45.2** | **-45.7** | **-1.1** |

As regards the year's performance for administrative expenses, it is noted that:

- **personnel expenses** increased by 19% compared to 2018 and take account of the provision for early termination of employment related to the "quota 100" retirement scheme;
- the **other administrative expenses** decreased by 15.9% from 2018.

The changes in the various components of operating costs (higher personnel costs and lower administrative expenses) are partly due to the re-internalisation of the factoring backoffice as from 1 January 2019) which led to an increase in personnel costs of EUR 3.1 million, offset by lower expenses for outsourced services.

## Other income components

The **net value adjustments on tangible and intangible assets** were EUR 4.84 million, an increase of 39% compared with the EUR 3.49 million in 2018. Of these, EUR 1.18 million (EUR 0.93 million in 2018) refer to tangible assets and EUR 3.66 million (EUR 2.56 million in 2018) to intangible assets. The increase in amortisation of intangible assets is mainly due to the capitalisation of significant IT projects (Basel 2, Mediana 2020 e Scoring.)

In 2019, a **capital gain** of EUR 17.8 million was achieved on the sale of the property in Via Pisani, the former headquarters of Ifitalia.

In light of the above, the **net operating income** and **profit from current operations before taxes** generated profit of EUR 73.4 million, EUR 25.9 million higher than 2018.

After income taxes, the **profit for the year** came to EUR 50.2 million (EUR 33.1 million in 2018, +51.7%).

| (in millions of €) | 31/12/2019 | 31/12/2018 | Var % |
|---|---|---|---|
| **Net operation income** | **73.4** | **47.5** | **54.6** |
| Income taxes for the year on current operations | -23.2 | -14.4 | 61.4 |
| **Profit from current operations net of taxation** | **50.2** | **33.1** | **51.7** |
| **Profit for the year** | **50.2** | **33.1** | **51.7** |

## Balance sheet items

### Loans and receivables

(in millions of €)

| | 31/12/2019 | 31/12/2018 | Var % |
|---|---|---|---|
| **Due from customers** | **7,520.6** | **7,739.5** | **-2.8** |
| - Factoring | 7,520.6 | 7,739.5 | -2.8 |
| **Due from banks** | **2.6** | **7.7** | **0.0** |
| **Loans and receivables** | **7,523.2** | **7,747.2** | **-2.9** |

**Loans and receivables**, net of value adjustments, totalled EUR 7,523 million, compared with EUR 7,747 million in the previous year, therefore with a decrease of 2.9%.
This item, according to the IAS/IFRS international accounting standards, includes loans and receivables purchased without recourse, advances issued with recourse and for receivables acquired without recourse that have not transferred all the risks and benefits, and loans to debtors granted for conceded payment extensions.

### Credit quality

Impaired loans and receivables decreased in 2019 from EUR 437 million in 2018 (EUR 142 million net; 1.8% of total loans) to EUR 410 million in 2019 (EUR 126 million net; 1.7% of total loans and receivables).

(in millions of €)

| | Gross exposure | Value adjustments | Net exposure | % hedging | % incidence on due from customers |
|---|---|---|---|---|---|
| **31/12/19** | | | | | |
| Non-performing loans | 305.1 | 242.1 | 63.0 | 79.4 | 0.8 |
| Problem loans | 84.9 | 39.8 | 45.1 | 46.9 | 0.6 |
| Restructured receivables | 20.5 | 2.5 | 18.0 | 12.2 | 0.2 |
| **Total impaired receivables** | **410.5** | **284.4** | **126.1** | **69.3** | **1.7** |
| **31/12/18** | | | | | |
| Non-performing loans | 304.5 | 243.3 | 61.2 | 79.9 | 0.8 |
| Problem loans | 104.3 | 49.1 | 55.1 | 47.1 | 0.7 |
| Restructured receivables | 28.3 | 2.4 | 25.9 | 8.4 | 0.3 |
| **Total impaired receivables** | **437.0** | **294.8** | **142.3** | **67.4** | **1.8** |

The total of **impaired loans and receivables**, net of value adjustments, amounted to EUR 126 million (142 million in 2018) with a comprehensive hedging of 69.3% (67.4% in 2018). These loans and receivables particularly concern:

- **non-performing loans** of EUR 305 million (EUR 304.5 million in 2018), 79.4% of which are hedged (79.9% in 2018), with a net value of EUR 63 million (EUR 61.2 million in 2018);
- **unlikely to pay**, totalling EUR 85 million (EUR 104 million in 2018) which, net of the related hedges of 46.9% (47.1% in 2018) present a net value of EUR 45.1 million (EUR 55.1 million in 2018). This category includes unlikely to pay receivables, subject to postponement and not subject thereto;

- **past due receivables** amounted to EUR 20.5 million (EUR 28.3 million in 2018). This decrease can be associated with the exit of some important positions. This category includes exposures continuously overdue for over 90 days (receivables from central authorities, central banks and local authorities) or 180 days (receivables from government agencies) whose total amount is at least 5 percent of the entire exposure to said debtor. The scope of observation excludes exposures to the Tax Authorities deriving from sales of tax credits (VAT, IRPEG, etc.); these loans and receivables have an undetermined maturity.

## Liability provisions

*(in millions of €)*

| | 31/12/2019 | 31/12/2018 | Var % |
|---|---|---|---|
| Provision for employees termination benefits | 4.7 | 4.1 | 15.4 |
| Provision for risks and charges | 6.9 | 13.1 | -46.9 |
| b) other provisions | 6.9 | 13.1 | -46.9 |
| **Total** | 11.6 | 17.1 | -32.1 |

As at 31 December 2019, **liability provisions** were EUR 11.6 million (-32.1% compared with 17.1 million in 2018) and represent the allocations needed to cover future outlays deemed likely with respect to outstanding events.

The **provision for employee termination benefits** refers, for each employee, to obligations of defined benefits regarding work done until the date that the "accruing" employee termination benefits are transferred to INPS or to external retirement benefits as set forth by the 2007 budget act. The liability is posted using the actuarial method considering the probable future date on which the effective financial outlay shall take place. As at 31 December 2019, the provision was EUR 4.7 million (EUR 4.1 million at the end of 2018).

The **other provisions**, equalling EUR 6.9 million, include:

- *provision for legal disputes,* of EUR 4.5 million (10.7 million at the end of 2018) for allocations against revocations and legal proceedings; the reduction in this provision of EUR 6.2 million is attributable for EUR 3.2 million to uses related to the settlement of cases/disputes and for EUR 3.5 million to write-backs due to favourable outcome; moreover, provisions of EUR 0.5 million were made in 2019 for new cases/disputes.
- *personnel expenses* are in line with the previous year (2.4 compared to 2.3 million at the end of 2018).

## Equity items

**Equity** as at 31 December 2019 amounted to EUR 761 million (EUR 711 million in 2018), up by 7.05% due to the following changes:

| | |
|---|---|
| **Equity as at 31 December 2018** | **711.05** |
| 2019 changes: | |
| - net profit as at 31 December 2019 | 50.21 |
| - change in other reserves | -0.11 |
| **Equity as at 31 December 2019** | **761.15** |

With regard to the capital adequacy of Ifitalia as at 31 December 2019, Ifitalia closed with **total own funds** of **EUR 699.7 million**, up EUR 32.1 million, in the presence of total capital requirements of EUR 348.4 million with a capital surplus of EUR 351.3 million. The Tier 1 came to 12.05% and the Total Capital Ratio was 12.05%.
Own funds as at 31 December 2019 do not include the 2019 profit, which will be capitalised following approval of the financial statements by the Shareholders' Meeting.

A summary of the figures relating to the capital adequacy follows

| | **2019** | **2018** | **Var. %** |
|---|---|---|---|
| Tier 1 capital | 699.7 | 667.6 | 4.8 |
| Tier 2 capital | 0.0 | 0.0 | 0.0 |
| Elements to be deducted | 0.0 | 0.0 | 0.0 |
| Transitional regime - impact of T2 (+/-) | 0.0 | 0.0 | 0.0 |
| **SUPERVISORY CAPITAL** | **699.7** | **667.6** | **4.8** |
| **Risk Weighted Assets (*)** | **5,808.1** | **5,954.8** | **(2.5)** |
| **Total prudential requirements** | **348.4** | **357.2** | **(2.5)** |
| Capital excess | **351.3** | **310.4** | **13.2** |
| Tier 1 capital ratio | 12.05% | 11.21% | 7.5 |
| Total capital ratio | 12.05% | 11.21% | 7.5 |

(*) As from 2018, the above-mentioned aggregates have been calculated according to Basel II

## Infra-group transactions and those "related parties"

Relations with the parent company and other companies belonging to the BNL-BNPP group, included in what is set forth pursuant to art. 2497 and following of the Italian Civil Code, include both financial and commercial relations.

The borrowing transactions with the Parent Company, regulated at market conditions, totalled EUR 5,508 million and represented the majority of amounts owed to banks; the remaining part is represented by exposures to BNL for an amount of EUR 560 million.

In relation to securitisation transactions, Ifitalia as at 31 December 2019 had a debt position to SPV of EUR 286 million, which represents the portion of the securitised portfolio financed by other companies of the group. The related income transferred to other Group companies amounted to EUR 2.082 million.

With regard to the operating transactions with BNPP group companies, made up mainly of service agreements for providing IT services (mainframe use and use of data networks and software support and maintenance) and company vehicle hire, costs were incurred for EUR 6.330 million (EUR 5.979 million in 2018).

Expenses/profits were also recorded for staff seconded respectively from or to other Group companies for an annual total of EUR 3.938 million in 2019 (EUR 2.512 million in 2018).

In 2019, income from Group companies for rents receivable of EUR 0.367 million (EUR 0.401 million in 2018) and costs for rents payable of EUR 0.09 million in line with 2018 were also recorded.
Also in 2019, the property in Via Pisani was sold to BNPP Group companies with a capital gain of EUR 17.8 million.

Ifitalia uses external servicing provided by BNL Spa for the management of the following services:

- administrative, accounting and tax service (Musca)
- tax advisory service
- compliance activity management service

Moreover, BNL provides the following services supplied until 2018 by BPI Scpa (merged into BNL spa as from 31 December 2018)

- property management service
- HR management/administrative service
- purchase management service
- NPL management service
- Operation service and operational support
- Business continuity service

In 2019, costs totalling EUR 2.5 million were incurred for all the above activities (EUR 2.2 million for 2018).

In order to have operational support, Ifitalia contracted out some back office activities to the company ITP srl (company belonging to the BNPP group). The costs incurred for these activities amounted to EUR 768 thousand in 2019 (in 2018 this activity was carried out by BPI Scpa, which outsourced services to ITP, and amounted to EUR 720 thousand)

Furthermore, the company makes use of an internal audit service offered by BNL, based on the BNP Paribas guidance regarding Internal Control Systems. The total costs sustained were EUR 0.331 million (EUR 0.350 million in 2018).

Expenses for coordinating factoring activities at the group level, performed by the "Global Factoring Competence Centre", were incurred for EUR 0.527 million in 2019 (EUR 0.484 million in 2018).

Furthermore, for providing commercial services, Ifitalia made use of the collaboration of the BNL/BNPP branches to which it paid commercial commission charges of about EUR 2.569 million total (EUR 2.550 million in 2018).

With regard to the loans granted against factoring activity, it is specified that Ifitalia receives, disinvests and provides guarantees regarding the BNL Parent Company and some BNL-BNPP Group companies.
All transactions between the Bank and related parties are carried out at market conditions.

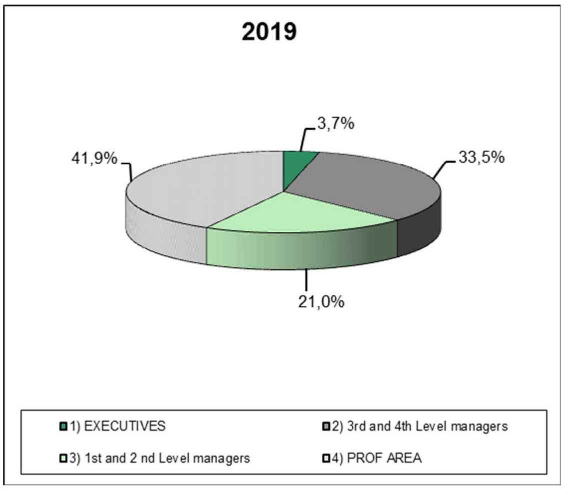
The summary of equity and economic relations for 2019 with the parent company and other companies belonging to the BNL-BNPP Group originating from financial or commercial relations are indicated on page 148 of the Notes to the Accounts.

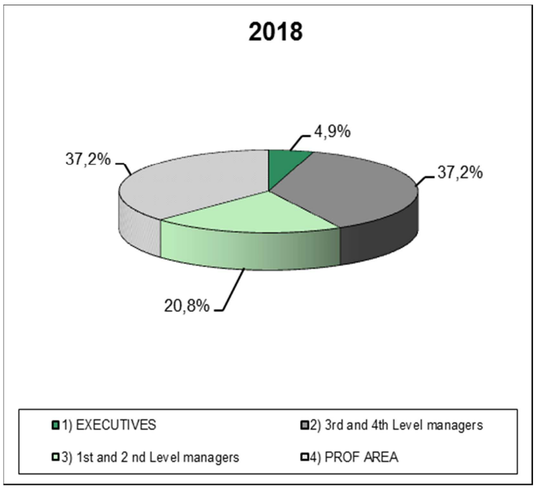
## Human resources

Following the acquisition from BNL of the former BPI "Operations" business segment on 1 January 2019, Ifitalia's workforce from that date increased by 50 resources, 15 of whom were seconded.
The personnel as at 31 December 2019 amounted to 272 individuals (+20% compared to 31 December 2018), broken down as in the tables below:

### Distribution by grading

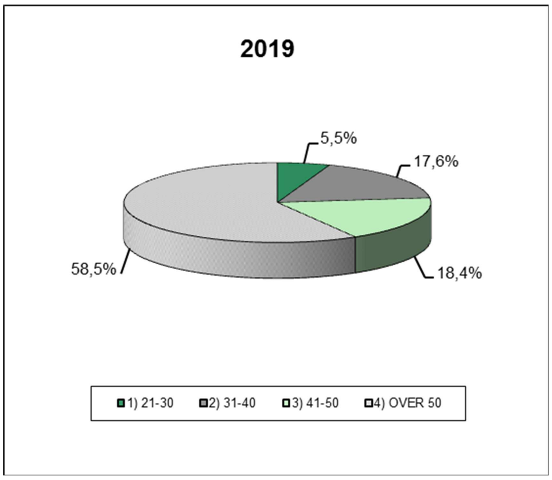
| Category | 31/12/2019 | 31/12/2018 | 2019 in % | 2018 in % |
|---|---|---|---|---|
| 1) EXECUTIVES | 10 | 11 | 3.7% | 4.9% |
| 2) 3rd and 4th Level managers | 91 | 84 | 33.5% | 37.2% |
| 3) 1st and 2nd Level managers | 57 | 47 | 21.0% | 20.8% |
| 4) PROF AREA | 114 | 84 | 41.9% | 37.2% |
| **Total** | **272** | **226** | **100%** | 100% |

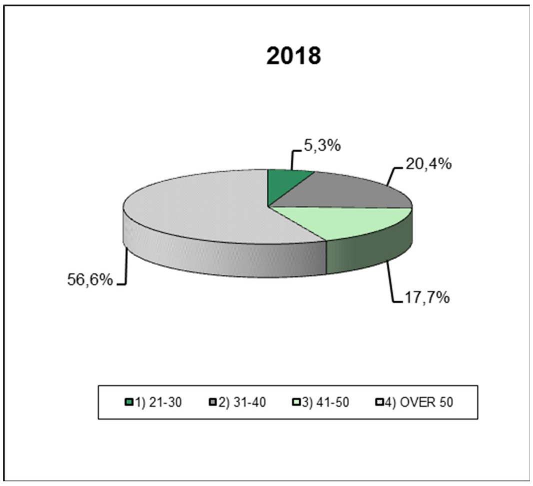


## Distribution by age

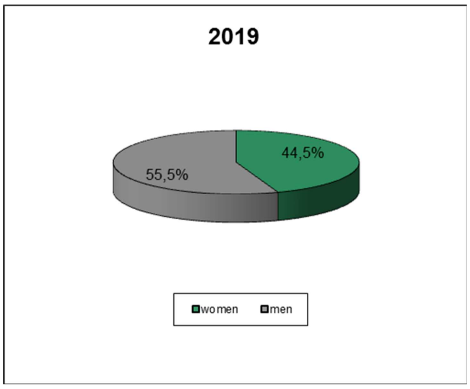
| Age group | 31/12/2019 | 31/12/2018 | 2019 in % | 2018 in % |
|---|---|---|---|---|
| 1) 21-30 | 15 | 12 | 5.5% | 5.3% |
| 2) 31-40 | 48 | 46 | 17.6% | 20.4% |
| 3) 41-50 | 50 | 40 | 18.4% | 17.7% |
| 4) OVER 50 | 159 | 128 | 58.5% | 56.6% |
| **Total** | **272** | **226** | **100%** | 100% |

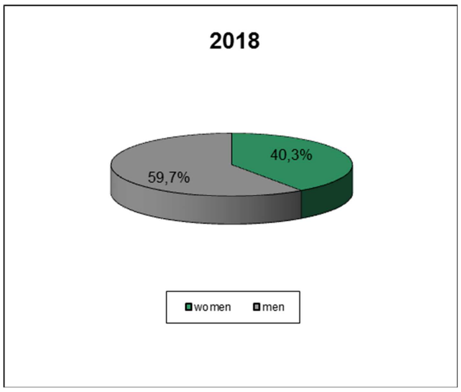



## Distribution by gender

| Category | 31/12/2019 | 31/12/2018 | 2019 in % | 2018 in % |
|---|---|---|---|---|
| women | 121 | 91 | 44.5% | 40.3% |
| men | 151 | 135 | 55.5% | 59.7% |
| **Total** | **272** | **226** | **100.0%** | 100% |



## Management Policies and Human Resources Development

The procedures and related tools for managing and developing Human Resources in Ifitalia are designed and governed in close synergy with those adopted within BNP Paribas Group in Italy.

In 2019, ABOUT ME, the new system for managing performance, professional development and intra-group mobility became a common asset and was confirmed as an important lever to make the management of development and career paths increasingly homogeneous within the Group.

With regard to mobility, during 2019, professional development processes were activated for about 15% of the business population with the objective of offering people and, consequently, the organisation as a whole, opportunities for enrichment and skill development. In particular, 26 colleagues changed roles, 3 mobility procedures were activated with Group companies in Italy and, finally, 11 external people were hired (including contract transformations). All of these actions were aimed at further strengthening customer management and development activities.

The management strategy is confirmed as being focused on the substantial involvement of direct managers in guiding employees as well as in identifying and preparing individual development plans.

## Training

With a view to continuous evaluation and growth of the Company's human resources, investments continued to be made in training activities during 2019.
The total training hours provided in 2019 came to 4,500, equal to approximately 2 days per capita, between classroom-based and remote courses.

With regard to the offer, in addition to having a complete training catalogue, which concerns both behavioural/managerial and technical matters, in-house initiatives were carried out specifically aimed at commercial and managerial roles.

With reference to training topics, 29% were of a technical-specialist nature, 47% related to regulations and 24% were behavioural and linguistic. 58% was delivered in the classroom and 42% online.

The coverage of the business population was 100%.

## Selection and Employer Branding

In collaboration with the other Group companies, the commitment to Employer Branding has grown, with the objective of increasing and expanding the presence of BNP Paribas Group and Ifitalia in the labour market.

The Employer Branding initiatives in which Ifitalia participates, in collaboration with other BNP Paribas entities in Italy, includes the Ambassador Programme: initiative intended for universities and aimed at promoting the image of the company within Italian universities.

During the year, 11 recruits were also hired.

## Remuneration policies

Remuneration tools adopted in 2019 for personnel were divided into interventions to the fixed component of remuneration (raises and promotions) and to the variable component (bonuses, incentive plans, company bonuses, welfare), in line with defined standards and guidelines.

# OTHER INFORMATION

## Organisational structure

In 2019, the organisational structure of the Company remained substantially unchanged. A number of minor changes were made, mainly aimed at consolidating the organisational structure launched following the merger of Business Partner International Spa into BNL Spa, and the consequent acquisition of a business unit by Ifitalia Spa on 1 January 2019.

A number of new organisational roles were created, focusing on specific areas, including in particular:

- the role of the Digital Evolution Point of Reference, within the Management Division, with the task of managing the technical/IT projects of competence, coordinating and monitoring the most relevant project activities, supervising the implementation phases and taking care of the optimisation of the related processes in an evolutionary perspective of efficiency and innovation;
- the role of IRBA Project Point of contact, with the task of overseeing and monitoring all the project phases concerning the activities to be carried out in order to obtain validation of the models for IRBA purposes by the Bank of Italy.

During the first quarter of 2020, the structure of the Commercial Network was rationalised through the creation of a single territory called Lombardy, Piedmont, Liguria and Valle d'Aosta, resulting from the merger of the two pre-existing territories.

## Management and coordination of Parent Company activities

The company is subject to the management and coordination of BNP Paribas activities.
The company has a traditional Governance and Control system that comprises the Shareholders' Meeting, Board of Directors, General Manager and Board of Statutory Auditors.

## Treasury or parent company shares in the portfolio

The Company does not hold any treasury or parent company shares.

## Use of the internal systems (AIRBA)

With regard to the use of internal models for the calculation of the capital requirement for Credit Risk, during the fourth quarter of 2019 the Company managed the validation activities by the Supervisor, the results of which are expected by the first half of 2020, enabling the switch to the advanced approach by the end of the year.

## Supervisory review process

The enforcement of Circular No. 288 "Regulatory provisions for financial intermediaries" dated 3 April 2015 repealed Circular No. 216 and led to a harmonisation with the Banking Supervision rules and with the European legislation disciplined by Regulation (EU) no. 575/2013 (known as CRR) and directive 2013/36/EU (known as CRD IV).

As illustrated in Circular no. 228, the Supervisory Review Process (SRP) is divided into two integrated phases. The first is represented by the internal process for determining capital adequacy (Internal Capital Adequacy Assessment Process - ICAAP) and refers to the intermediaries, which carry out an independent assessment of their capital adequacy, current and forecast, in relation to the risks undertaken and the business strategies.
The second involves the Supervisory Review and Evaluation Process (SREP) and is the responsibility of the regulatory authority, which, also via the ICAAP review, formulates an overall opinion on the intermediary and activates, if necessary, corrective measures.

In line with the matters laid down by the Legislation, Ifitalia prepared the ICAAP document with reference to 31 December 2018 and is about to prepare the new ICAAP as at 31 December 2019 by 30 April 2020.

## Business targets and policies regarding the handling of risks and the related hedging policies

Information concerning the policies for the handling of the risks and the related hedging policies has been dealt with in Part D: Other Information - Section 3 of the Notes to the Accounts.

## The internal control system in relation to the financial disclosure process (Article 123-bis, Paragraph 2 b of the Consolidated Finance Act (TUF)

Article 123-bis of Legislative Decree no. 58 of 24 February 1998, (Consolidated Finance Act or TUF), amended and supplemented by Article 5 of Legislative Decree no. 173 of 3 November 2008, introduced, under paragraph 2, letter b, the obligation to describe the main characteristics of existing risk management and internal control systems in relation to the financial disclosure process.
The purpose of the internal accounting control system is to verify the completeness and correctness of accounting records, prevent and locate any errors as well as the quality of the data to be used to prepare the financial statements, produce supervisory reports and all other accounting and financial disclosure. The system complies with the standards set by the Parent Company BNP Paribas.
The methodological approach is based on ascertaining the existence of suitable governance systems, standards of conduct inspired to corporate ethics and integrity, disciplinary systems for the personnel, suitable organisational structures, a clear structure of delegations and responsibilities, effective codes of conduct and fraud prevention systems. It is consistent with the standards envisaged by the Parent Company BNP Paribas and was implemented with the preparation of appropriate internal procedures for an effective and efficient monitoring of accounting risks and financial disclosure.

Accounting risk monitoring is included in the broader context of permanent control, based on the continuous monitoring of risk identification and assessment, procedures and controls.

Checks reflect the current definition prescribed in the company's internal control system. Checks are classified as "first level" (carried out by operating personnel and hierarchical managers) and "second level" (carried out by specialised departments). The periodic auditing of the system is carried out by the Group Inspection Générale Department (third level check).

In assessing the accounting internal control system, special attention was devoted to verifying the adequacy and actual application of the accounting and administrative procedures as well as the rules of correct management of the technological infrastructure, applications and operating systems. Analyses were carried out with specific methodologies monitored through the Finance Division. Monitoring the accounting and financial reporting quality focuses on examining the organisational settings and the functionality of the internal controls through a test plan that continuously assesses the adequacy and actual application of the accounting and administrative procedures that play a role in preparing the accounting documents and any other financial communication.
The quality of the accounting reporting and the effectiveness of the related internal control system are formalised by issuing a Group Certificate every three months.

## Business Continuity

**Ifitalia** defined a **Business Continuity** system to guarantee the continuity of the company's critical services.
In line with regulatory and BNP Paribas Group provisions, Ifitalia's **Business Continuity Management** system is comprised of:

- ✓ **a Governance organisation** to manage crisis scenarios;
- ✓ **a Business Continuity Plan** (BCP) for operational management of crisis scenarios.

During 2019, Ifitalia outsourced the management of the Business Continuity framework to BNL SpA; in this context, the Company retains, also through the figure of the Business Continuity Manager who remains appointed to it, overall responsibility for the Business Continuity arrangements; the Company also maintains at its own expense, through the Permanent Control Coordinator/Operational Risk (PCC/OR) structure, the carrying-out of specific permanent controls on the CB within its scope.

The Corporate Regulations specific of the Company include references to the responsibilities pertaining to the process of implementation, maintenance and governance of Business Continuity.

Particularly:

- **A Business Continuity Manager**, in charge of preparing and maintaining the Business Continuity system;
- **Corporate Functions**, which contribute to finding, sharing and validating the information required to guarantee the effectiveness and efficiency of the continuity solutions established in the BCP;
- **Crisis Committee**, which guarantees the management of particularly serious crisis situations that require immediate co-ordination to define continuity solutions;
- **Risk Monitoring Committee:** Supports the Business Continuity Manager in identifying, sharing and validating the information and initiatives designed to maintain the Business Continuity solutions.

**Ifitalia's Business Continuity Plan** is developed over a period comprising a timeframe of **3 weeks** starting from the occurrence of the crisis event. In this reference timeframe, the goal is to guarantee the continuity of the services indicated as indispensable for the survival of the Business.

In order to guarantee the rapid implementation of the business continuity plans, the Company identified 71 resources who are assigned the responsibility, under the BCP, to reactivate the critical processes in emergency situations. These resources are part of the Critical Emergency Teams. The team is composed of about 26% of total resources.

In 2019, Business Continuity (BC) actions in Ifitalia were carried out in compliance with the main activities planned, which regarded:

- Review of the internal reference regulations for BC, consistent with the updates of the Parent Company's regulations (BCP and BCM update);
- Annual verification and update of the BIAs;
- Update of target sites for the critical team;
- Handling of "key" suppliers mapped for BC purposes;
- Acquisition of results of the related audit tests performed by critical suppliers;
- Update of the permanent controls plan consistent with the Group's Generic Control Plan
- Execution of the operating continuity simulation tests;
- Reporting – BC Monitor;
- Delivery of BC training.

### Financial Security – Anti-Money Laundering, Terrorism Funding Prevention, Economic and Financial Sanctions and Embargoes Unit

As part of the more general process that began in 2015 of centralising the Compliance function of Companies in the operational perimeter of the BNL Banking Group, during the fourth quarter of 2016, Ifitalia assigned the formal responsibility of the Anti-Money Laundering Department to the Head of the Financial Security Department within the BNL Compliance Division, which took charge of the full perimeter related to Financial Security. Also In 2019, the organisational model envisaged the presence of a Single Point of Contact (SPOC) who is part of the same Division, dedicated to ensuring the proper and timely provision of the services defined in the outsourcing contract. Again with the aim of monitoring the correct provision of services, a member of the Board of Directors was appointed as Outsourced Service Representative (RPE).

Thus, the BNL Anti-Money Laundering Department operationally coordinated or implemented the entire scope of activities, which include:

- Due diligence and profiling of customers/intermediaries;
- Checking the proper AUI registrations and bookkeeping;
- Identification, analysis and reporting of potentially suspicious transactions;
- Management of advisory and authorisation activities related to international sanctions and embargoes, combating the financing of terrorism and the proliferation of weapons of mass destruction.

For all these areas, the BNL Anti-Money Laundering Department, in addition to directly managing certain operational processes (e.g., reporting of suspicious transactions to the Supervisory Authority) has:

- ensured specialised advisory services on financial security issues;
- provided the necessary contributions in the Committees tasked with validating the Company's new measures;
- monitored the evolution of national and EU legislation on Financial Security, assessing its impact on operating processes and developing appropriate updates to ensure its full compliance;
- drafted or updated the body of procedures of the Policies relating to the scope, consistent with the provisions of the Parent Company and in compliance with current legislation;
- implemented a second-level control plan aimed at monitoring the proper performance of all relevant operational processes;
- monitored any operational risk incidents as part of the Financial Security;
- completed the annual self-assessment of anti-money laundering risk, as well as the quarterly monitoring required by the Group model, analysing the results and defining the subsequent action plans for the areas for improvement that emerged;
- defined the specific training plan in the field of Financial Security and monitored the correct and complete use by impacted colleagues;
- monitored the proper registration of data into the Consolidated IT Archive (AUI) and ensured the timely delivery of information in SARA reports.

The scope of the Anti-Money Laundering Department has also formally included the monitoring of the risks of abuse of office and corruption, preparing a model that will be completed in the coming years.

In 2019, the Group's Factoring Chain launched a project to implement the new model for managing unexpected behaviour (AML Target Operating Model); currently the target platform, which may or may not coincide with the one selected by the Group, is being analysed.

In 2019, no inspections of the areas covered by Financial Security were carried out by BNPP Group bodies or external to the Group itself. However, it should be noted that in September of the same year the French Parent Company launched on various Group entities, including Ifitalia, an assessment of existing activities related to the Democratic People's Republic of Korea: the final report following this check has not yet been made available.

Finally, note that there were no operational incidents with anti-money laundering impacts.

## Protection of Customers' Interests (PIC)

The Company's PIC risk profile was low in 2019. The "Compliance and Reputational Risk" was modest, thanks to the implemented control Framework and the generally satisfactory results of the controls themselves, even in a context characterised by a renewed attention of the Supervisory Authority to customer protection issues and an increasing trend in customer complaints.

The Risk Assessment on PIC issues that obtained a Low Residual Risk was assessed on the basis of four statements:
- adequacy/appropriateness: the products and services offered must conform to the needs and profile of the customer;
- customer disclosure: the information provided to the customer must be clear, accurate and not misleading and the price of products and services must be transparent and fair;
- conflicts of interest: any conflict of interest must be identified, managed and disclosed, where necessary, in order not to harm the customer;
- complaint management: adequate communication must be provided regarding the way in which the complaint is opened and the process for handling it; complaints must be handled effectively and at no cost to the customer and it is also necessary that Management and Control Functions are adequately informed about the causes of customer dissatisfaction.

During 2019, the Company carried out further actions to strengthen the dedicated devices and the related control processes following the issue of the Generic Plan of PIC Controls in accordance with the PIC and Factoring Chain Guidelines based on the principles of proportionality (risk-based approach) and compliance with European and local regulatory requirements, the purpose of which is to verify on an ongoing basis that the Company's procedures are consistent with the objective of monitoring the inherent or potential risk that could affect the relationship with customers and the protection of their interests. Moreover, the specialist "Protection of Customers' Interests" function focused on the implementation and carrying-out of the PIC Generic Control Plan, structured on 5 fundamental control points, corresponding to the main risks that characterise it (Organisational issues, Adequacy/Appropriateness, Customer Disclosure, Conflicts of interest, Complaints).

During the year, then, as far as applicable to the Company, some interventions of the Bank of Italy in terms of customer protection became important. In particular, with Measure dated 19 March 2019, the Bank of Italy made some amendments to the provisions regarding "Transparency of banking and financial transactions and services. Correctness of relations between intermediaries and customers" (known as Provisions on Transparency and Correctness), aiming mainly at adapting national rules to the European regulatory framework while simplifying the duties of disclosure in the pre-contractual phase, limited to the Practical Guides and specifically offering the Company a simplification of disclosure for customers by limiting the obligation to make available to the latter only the Guide on the Financial and Banking Arbitrator, requiring intermediaries to disseminate on their website or by other means deemed most appropriate further disclosure documents to promote the financial education of their customer.

Policy no. 36 of 25 October 2017, "Policy for the Protection of Customers' Interests - Guidelines for the Protection of Customers in Sales Transactions", was updated during the year to ensure that the Parent Bank's principles were promptly implemented, and the Company updated the "Organisational Procedure - Com 01 Management of Disputes" implementing the indications that emerged during second-level controls.

Moreover, during 2019, as envisaged in the Training Plan for PIC issues, training activities were provided to employees identified as "target" with the support of the My Development platform.

Finally, note that in 2019 there were no incidents concerning issues related to the Protection of Customers' Interests.

## Market Integrity & Professional Ethics

With regard to issues of Market Integrity & Professional Ethics, note that during 2019, continuing the activities carried out in previous months, the Company's internal body of regulations was kept updated, to ensure that it is aligned with the Group's procedural structure. These activities concerned both processes in the area of Professional Ethics and of Market Integrity although, in this last area, the adopted procedural and control system is simplified due to the limited exposure to these risks. With specific regard to issues of professional ethics, the following regulations were issued/updated:

- the "Operating Guide on the Ethical Alert Device - Whistleblowing" (implementation), which regulates the Internal Reporting Systems (known as Ethical Alert Device or Whistleblowing) adopted by the Company to allow employees to report acts or facts that may constitute a violation of external rules or ethical principles. The directive supplements the Whistleblowing Policy (called "Whistleblowing Procedure") already introduced last year;

- the "Reputational Risk Management" Policy (extension), which defines the organisation and standards required to manage reputational risk in the BNP Paribas Group Entities;
- Policy on "Appointments and Personal Activities of Collaborators" (extension), which defines the process of authorising the appointments and activities compatible with the position of bank employee and office duties that Collaborators wish to carry out in a personal capacity outside working hours;
- the "Group Social Media Policy" (extension), which regulates the general use of social media by BNP Paribas Group employees, such as the publication of opinions, comments, status updates, pictures, posts or statements. The Policy introduces a distinction between "professional use" and "personal use" of Social Media;
- the Policy on "Handling of personal transactions of relevant parties" (update), which defines, from a strictly operational point of view, the procedures for the management and analysis of transactions in financial instruments (known as Personal Transactions) carried out by Relevant Parties in order to highlight any unauthorised practices.

On the other hand, with reference to the issues of market integrity - but which also covers transversally the areas of professional ethics - the following regulations were implemented:
- the "Global Policy on Conflict of Interest" (implementation) which covers Market Integrity & Professional Ethics issues across the board and describes the Company's framework for the management of conflicts of interest consistent with those of the Group.

As regards Market Integrity & Professional Ethics, ongoing consultancy was guaranteed to support Ifitalia's Structures/Divisions.

During 2019, the Compliance Division ensured the usual second-level oversight of ethics risks, as envisaged by the "Global Control Plan Professional Ethics" issued by the Company.
With reference, in particular, to ethical and deontological behaviour, the Division ensured the oversight of adopted systems and monitored compliance with policies.
Moreover, with reference to the ethical alert system, permanent monitoring of the overall regulatory plan adopted by the Parent Company was ensured and the system was strengthened by appointing a Whistleblowing Point of Contact to manage and monitor its correct operation, providing periodic reporting to the Parent Company.
Additional control regarding the supervision of gifts and invitations received/provided by collaborators, while, concerning conflicts of interest between collaborators and customers and/or collaborators and the Company, during the year there were no critical issues regarding any non-compliance conduct by collaborators.
Following the launch of the Sapin II Law in France, which provides that businesses define an anti-corruption programme to identify and mitigate corruption risks, BNP Paribas Group renewed the risk assessment process in all entities in France to identify emerging risks in this area.
In fact, the Compliance Risk Assessment created by the BNP Paribas Group was carried out on the Company in order to identify the risks of non-compliance relating to Compliance issues, with a special reference to the mapping of the risk of corruption within the Company related to different areas (Gifts, Suppliers, Customers). The assessment results showed, in relation to Inherent Risk and Control Environment, a "Low" Residual Risk for Professional Ethics areas. As regards Market Integrity, the Group considered that the Compliance Risk Assessment was not applicable, having assessed the Company as not being exposed to the risks in this regard.

During 2019, no incidents occurred pertaining to issues of market integrity or professional ethics.

Also for the year 2019, a specific annual report was prepared by the Head of Internal Reporting Systems to illustrate the progress of the Company's ethical alert system (known as whistleblowing).

Finally, specific training activities on Professional Ethics topics were carried out in e-learning mode for "newcomers" and awareness/communication activities regarding Gifts and Invitations of Personal Transactions carried out by Relevant Parties were carried out for all Collaborators.
With regard to Market Integrity, a course to develop awareness on market abuse was provided through e-learning to exposed staff not yet trained

## Banking Laws

With reference to Banking Laws, note that during the year, continuing the activities carried out in previous months, the Company - with the support of BNL Compliance - checked the updating of its internal body of regulations to ensure that it is aligned with the Group's procedural structure.
In particular, the activity concerned the preparation of customised texts for subsequent implementation and the request for exemption - by forwarding them to the Group Compliance Advisory Domain - in relation to certain procedures in the Volcker Rule and French Banking Law areas considered not applicable at local level.

As regards Banking Laws, ongoing consultancy was guaranteed by the Compliance division of BNL to support Ifitalia's Structures/Divisions. With specific reference to Banking Laws, support was provided to the Company for the drafting of the document set required by the Volcker Rule and French Banking Law (desk package and trader mandate).
Note that the Company carried out the annual Volcker Rule Compliance Certification, which highlighted the compliance of internal processes with the Volcker Rule Compliance Programme.

An assessment was also carried out on the applicability of the Group's second-level Generic Control Plan, which showed that it was not applicable due to the "immateriality" of the Volcker Rule and French Banking Law activities carried out by the Company.

During 2019, no incidents occurred pertaining to issues of Banking Laws.

With reference to Volcker Rule, training activities have been provided in e-learning mode according to the target identified following the instructions of the Parent Company.

## Organisational measures

### Introduction

During 2019, the activities planned as part of the Ifitalia 2020 Business Plan continued, with the cross-functional objective of improving the efficiency of the Company and its processes and greater commercial competitiveness. The efficiencies obtained through the individual projects were reused in business development activities.

In particular, the main projects with the greatest impact on internal operations and on customers carried out during the year or in the course of completion are reported below.

### Mediana Portal

The complete overhaul of the home-factoring platform, which involved major implementations aimed at allowing customers greater autonomy in daily operations and internal operators a more efficient use of the platform, was the project that engaged the Company most during the year.

The development of the Mediana Internet portal towards a customer-centric platform, with more operational and reporting features available online, accompanied by modern tools for directly interacting with Ifitalia, ensures better usability by customers and aims to achieve, in the medium term, positive impacts in terms of customer satisfaction and customer loyalty.

The new portal went live in May, followed by progressive releases of new features during the second half of 2019. Further new features already implemented and positively verified are being activated in the first quarter of this year, including the release of new operating sections dedicated to the IAS compliant transactions in January 2020.

A further investment already defined in the plan for the years from 2020 to 2022 is also planned.

### Assessment of debtors without recourse for a reduced amount

In the context of lending processes, mention should be made of the IT/organisation project dedicated to the implementation of the new credit risk scoring process to support the process of assessing the limits of debtors without recourse for a reduced amount (Small Mid Corporate and Sme Retail segments).

The project that was developed in 2019 by the Risk Function, as regards the methodological component, and by the IT Function, as regards the technological component, introduces greater sophistication of the scoring calculation mechanisms and an extension of the scope of application with respect to the criteria previously in use. The new mechanism that intervenes in the process of analysing and deciding on credit risk without recourse, integrates and completes the investigation and assessment framework to support analysts and decision-makers and is designed to improve the "time to market" and the management of a large and highly fragmented credit portfolio.

The roll out of the new scoring engines and their operating methods took place in the first weeks of 2020.

### IRBA project

As part of its credit risk management activities, the Company continued to implement the new rating system with the aim of requesting the validation of internal models for the purpose of calculating capital absorption using the advanced approach (known as IRBA method) for credit exposures to "Central Administrations and Central Banks" (known as Sovereign), to the Corporate segment and to the Retail segment. Therefore, during 2019, Ifitalia completed its work on the development of corporate governance, the methodological framework, processes and control mechanisms supporting the Internal Rating System, submitting the evidence to the Bank of Italy during the validation visit that took place in the fourth quarter of the year. The results of the Bank of Italy's inspection activities are expected in the first half of 2020 with the aim of making the transition to the advanced approach for the calculation of credit risk for the Sovereign and Corporate portfolios during the same year. With reference to exposures classified in the "Retail" portfolio, the methodological developments for calculating the capital requirement according to the IRBA method will be subject to subsequent release in line with the progressive roll-out plan communicated to the Supervisor.

## Research & development activities

The following IT projects were implemented in **2019**:

1. *Update of IT Governance procedures* (Armonia, Financial Mng) following the introduction of new Group policies and controls
2. *Basel 2:* new Data Quality and Data Integrity controls were implemented; the procedures for the management of the new definition of default, foreign financial statements and the accounting of approved PNU credit facilities were implemented.
3. *European default (past due):* the following procedures have been carried out
   - the procedures for the calculation of the elementary data for checking the past due situation;
   - the procedures for the identification of amounts for the purpose of allocating the daily 'past due' status,
   - the procedures for the management of the BIC (counter for allocating the "Past DUE" status)

   in order to allow, as from 30 June 2020, a parallel between the current definition of default in use at Ifitalia and that envisaged by the EBA/GL/2016/07 regulation and by the Commission Delegated Regulation (EU) 2018/171 of 19 October 2017, which will enter into force as from 1 January 2021.
4. *Gianos 4D:* Following the end of support of the product, a study was carried out for the migration from Gianos 3D to the new version of the Gianos 4D product (Anomaly Index Generator for Suspicious Transactions).
5. *Minerva Suite (Supervisory Reports):* Following the obsolescence of the version of the product currently in use at Ifitalia, the upgrade project was launched in collaboration with BNL, which already uses the new version.

6. *KyC (Know your Customer)*: The study for the use of an automatic workflow by means of the SICRAT tool already in use at some Group companies was carried out.
7. *Anaconda (Anti-fraud tool)*: Following the decision of the factoring métier to adopt a single anti-fraud tool to be integrated with the core systems used by the individual BNPP Group Factoring Companies (FIS for Ifitalia), a study was carried out to identify the interventions and the implementation phases were started.
8. *Mediana 2020:* the project for the creation of new functions of the web factoring portal based on the needs collected from customers was implemented. The project is part of the Ifitalia Business Plan.
9. *Starting new customers:* the FIS core system was set up to welcome new customers.
10. *Standardisation of debtor assessment*: implementation of the scoring system for approval, new requests for limits and renewals, both for automatic approvals as well as to support decisions with the aim of allowing a "rapid" evaluation of the loan requests was completed. The project is part of the Ifitalia Business Plan.
11. *By instalments (SIRAT system):* the main activities for the porting of the "By instalments" sales information system to the FIS (core) information system were completed.
12. *DB2 DataSharing:* adoption of IBM data sharing feature (Mainframe) for the integrated sharing of a single copy of data and the related metadata catalogue by several DB2 subsystems operating on the same operating system or on separate z/OS systems with the aim of ensuring high scalability, service continuity and best recovery times in case of Disaster Recovery.
13. *Data logging on FIS:* logging procedures for obsolete data in the accounting movement tables used by the OFS system (One Financial System) were implemented.
14. *Revision and optimisation of MS Access applications (PAC Division - Production Commercial Assistance):* study, conversion, optimisation (in terms of use and unification of features) of the procedures used by the PAC Division from DB Access to the FIS and/or Mediana system.
15. *CyberSecurity*: in line with BNPP Group, the activities envisaged by the long-term Strategic Plan that will result in an adequate level of maturity in 2020 for all cyber areas identified as critical by the BNPP Group.
16. *WorkSpace 2020:* launch of the WorkSpace 2020 programme, assisted by the parent company BNPP (mandatory), concerning End User Computing (EUC) architectures. The programme consists of creating a common workspace for all BNP employees worldwide. As requested by BNP, the project is carried out in collaboration with BNL (identified as focal point country Italy) and concerns the insourcing in BNL of the workstations and the related authentication domain (active directory).

## Securitisation transactions

Starting in 2016, Ifitalia began a programme of securitisation operations through the collaboration and coordination of BNPP CIB of Milan. As at 31 December 2019, there were 6 securitisations in place.
These multi-year transactions (with a duration of 5 years with a renewable commitment each year) allow the company to hold long-term relationships with the customer while maintaining satisfactory margins and, at the same time, providing the customer a more stable and structured working capital loan.
The transactions, structured by BNPP CIB of Milan, are developed as described below.
Trade receivables, originated by primary customers of Ifitalia, are sold by Ifitalia without recourse, pursuant to the Italian Factoring Law (Law 52/91). At the time of purchase, Ifitalia sells the entire portfolio of receivables, with recourse, to the vehicle company Tierre Securitization s.r.l. (SPV) based on the Italian Securitisation Law (Law 130/1999). The transaction is conducted on a revolving basis, i.e. on collection of the receivables, which have an average duration of 60 days, new receivables are gradually sold.
The trade receivables are sold (Ifitalia customer to Ifitalia and Ifitalia to the SPV) at a price equal to their nominal value (sale at par) or discount.
The SPV finances the purchase of the receivables through the issue of two classes of short-term ABS Notes - Class A1 and Class A2 - which have a different amortisation profile, but the same rights (pari passu rank). Class A1 Notes are subscribed by third parties, while Class A2 Notes are subscribed by Ifitalia.

Ifitalia fully guarantees the credit risk of the transaction through the mechanism of purchasing the receivables without recourse and selling them to the SPV with recourse. From an operational point of view, this occurs through Ifitalia's commitment to buy the unpaid receivable back from the SPV after a certain number of days of delay in payment. In turn, Ifitalia protects itself from credit risk by stipulating an insurance policy on debtor risk or by benefiting from existing policies on debtor risk on the securitised portfolio.
The transaction structured as above provides customers with a committed source of financing for working capital, while keeping its relationships with customers unchanged, and allows Ifitalia to construct a significant transaction with satisfactory profitability, whose funding may be allocated with third parties. It also increases the loyalty of a customer of high standing.
The transaction, as devised, does not add any specific risk for Ifitalia compared to a normal without recourse factoring transaction.
From an accounting/financial statements point of view, for the mechanism of purchasing without recourse receivables and their resale with recourse (which effectively keeps the credit risk on the entire portfolio with Ifitalia), at the time of the sale by Ifitalia to the SPV, the receivables are not derecognised from Ifitalia's financial statements, but continue to be represented under balance sheet assets. At the time of sale of the receivables by Ifitalia to SPV, instead of derecognising the receivables, an item is recorded under payables in liabilities, limited to the portion not financed by Ifitalia.

## Main aggregates for outstanding securitisation transactions as at 31 December 2019

As at 31 December 2019, Ifitalia had 6 securitisations in place, the main balance sheet aggregates of which are shown below:

*(thousands of €)*

| Item | Balance 31/12/201 | Balance 31/12/2018 |
|---|---|---|
| Loans in portfolio (included in Balance Sheet item | 579,314 | 693,425 |
| Other Debts (included in Balance Sheet item 10: funding of the third-party operation) | - | - |
| Other Debts | - | - |
| **Securitization portfolio share financed by equal to the value of securities subscribed by Ifitalia** | **292,298** | **346,326** |

## Significant events after year end

When drawing up the financial statements as at 31 December 2019, Ifitalia considered all the events after the reporting period up until the date of approval of the financial statements by the Board of Directors and no corporate events occurred such as to have a significant impact on the balance sheet and income statement results represented (IAS 10 § 8).

However, it is noted that at the date of preparation of these financial statements, the evolution of some instability factors that have recently emerged is being monitored, such as the emergence of Covid 19 (hereinafter "Coronavirus") that, in the first weeks of 2020, initially impacted economic activity in China and then spread to other countries, whose consequences on the economic side are currently difficult to quantify and assess.
These factors have therefore been considered as events that do not involve adjustments to the balances in the financial statements, in accordance with IAS 10 § 21, since, although the Coronavirus phenomenon began to manifest itself in China just before the end of the reporting period, it is only from the end of January that the existence of a real international emergency phenomenon was declared.
However, it is noted that if these factors were to materialise significantly, they could also have a significant impact on the prospect of future growth, having an impact on the general economy and the financial markets.

At this stage, once the necessary assessments have been made, it is not possible to foresee the evolution that this phenomenon may have, also in Italy, and, consequently, the impact it will have on the economy and, consequently, it is not possible to determine any negative financial and economic impacts that may initially affect the first quarter of 2020.
Therefore, this circumstance does not represent an impact on the estimation process with reference to the financial statements for the year ended 31 December 2019.

## Business outlook

In 2019, average loans from active customers increased by 3.10% compared to the previous year, EUR 160.5 million more than in 2018. This growth was largely supported by reverse factoring operations, which alone recorded an increase of more than EUR 228 million, thanks both to new operations launched in 2019 and to the performance of some of the most important existing agreements.

The year 2019 was also marked by an increase in the number of active customers, thanks to intense commercial development activities carried out in partnership with the commercial network of BNL and the BNP Paribas Group, which enabled the company to enter into relations with more than 420 new companies.

The development of the customer base, through the acquisition of new relationships in all market segments, is one of the pillars of the company's growth plan. In fact, a more diversified mix of customers and a reduction in the concentration on the Large Customers segment are essential elements for giving greater stability and sustainability to the company's development.

For the SME segment, which was launched in 2017, standardised transactions related to with-recourse and without-recourse transactions were consolidated in the last two years, favouring, in the latter case, intervention on public and private debtors with high creditworthiness.

It is also important to focus on solutions with a high level of customisation and structuring according to customer needs. In a highly competitive environment, being able to interpret customer requirements in the best possible way represents an instrument for customer loyalty and diversification with respect to the rest of the market. In this area, reverse factoring, financial support to exporting and multi-localised companies, also thanks to the network of European Factoring companies of the BNPP Group, and securitisation solutions can constitute an important added value.

In terms of business, Ifitalia expects to continue to increase its turnover and average employment volumes by around 7% in 2020. The average level of spreads is estimated to be almost in line with 2019.

The company has long adopted a system for recording the recommendation index by its customers (Net Promoter Score - NPS). In this regard, initiatives have been taken to progressively improve the indicator, by constantly listening to feedback from customers, which has led to action plans aimed at constantly improving the service. Ifitalia believes that the excellence of its relationships with its customers is the main element on which to base its evolutionary path. The NPS figure recorded in 2019 showed an improvement of 18 points compared to that recorded in the previous analysis. This result shows a constant improvement in customer relations and the level of satisfaction, confirmed by a growing degree of recommendation.

With the aim of optimising the use of capital and directing the development of credit assets and, therefore, the quality of the company's assets with ever greater efficiency, the Bank of Italy's supervisor was asked - during 2019 - to validate the internal rating system, preparatory to their adoption for the purposes of calculating the capital requirement for Credit Risk.

For what concerns operating costs, the company will continue to manage them carefully in order to obtain their stabilisation/containment to guarantee the continuity of investments associated with developing new relationships, new projects, organisational developments and changes in the reference regulations.

Commercial and credit development policies will continue to be directed towards the selectivity of credit and operational risks; the company also strengthened its insurance coverage for the risk of its domestic and foreign debtors portfolio, with a view to both risk mitigation and business development.

The trend in admissions to NPL in 2020 will continue to be limited, confirming the trend already recorded in 2018 and 2019.

Growth forecasts in volumes and trends in admissions to NPL made in terms of budget and forecast may be negatively affected by the impact of the "coronavirus" on the economy.

Business outlook in 2020 remains affected by various elements of uncertainty and risk factors. The performance of Italian banks and financial companies seems likely to be negatively affected both by unfavourable market conditions - where the risks of the economic slowdown recorded in Italy and Europe and the tensions on international trade are further amplified by the probable but still indefinite impact of the recent spread of Covid-19 - and by political pressures concerning Europe in particular (management of Brexit, military tensions in the Mediterranean and the Middle East).

Dear Shareholders,

The financial statements that we submit for your attention closed with net profit of EUR 50,205,539.

We propose that you approve the financial statements in their entirety, as presented to you, as well as allocate the profit for the year as follows:

| | |
|---|---|
| to the Statutory reserve | EUR 50,205,539 |

The statutory reserve shall, therefore, change in this way:

**Statutory reserve**

| | |
|---|---|
| **Opening balance** | **EUR 584,238,239** |
| 2019 profit | EUR 50,205,539 |
| **Closing balance** | **EUR 634,443,778** |

We would like to thank you for the confidence placed in us and for the support provided during the year; we would also like to thank the Board of Statutory Auditors for the support given to the Company during the year. In conclusion, particular thanks go to all the staff for the dedication, the acknowledged commitment and the valuable work carried out to achieve the Company's objectives, as well as, to the Parent Company BNP Paribas S.A. for the collaboration and assistance provided.

Milan, Italy, 25 March 2020

On behalf of the Board of Directors

# IFITALIA FINANCIAL STATEMENT

IFITALIA GRUPPO BNP PARIBAS

# Ifitalia Financial Statements as at 31 December 2019

## Mandatory financial statements:



## Notes to the accounts:

## MANDATORY FINANCIAL STATEMENTS

### Balance Sheet

*(euro)*

| | ASSETS | 31/12/2019 | 31/12/2018 |
|---|---|---|---|
| **10** | Cash and cash equivalents | 1,138 | 5,869 |
| **20** | Financial assets at fair value through profit or loss: | 4,565,961 | 5,180,892 |
| | *a) financial assets held for trading* | - | - |
| | *b) financial assets designated at fair value* | - | - |
| | *c) other financial assets mandatorily measured at fair value* | 4,565,961 | 5,180,892 |
| **30** | Financial assets at fair value through other comprehensive income | - | - |
| **40** | Financial assets measured at amortised cost: | 7,523,185,311 | 7,747,181,143 |
| | *a) loans to banks* | 77,139,087 | 21,892,128 |
| | *b) loans to financial company* | 21,087,283 | 62,912,285 |
| | *c) loans to customers* | 7,424,958,941 | 7,662,376,730 |
| **50** | Hedging derivatives | - | - |
| **60** | Change in fair value of portfolio hedged items (+/-) | - | - |
| **70** | Equity investments | - | - |
| **80** | Property, plant and equipment | 3,906,078 | 20,784,817 |
| **90** | Intangible assets | 11,263,580 | 10,520,048 |
| | *of which: goodwill* | - | - |
| **100** | Tax assets | 62,415,022 | 63,190,435 |
| | *a) current* | *14,909,963* | *14,268,939* |
| | *b) deferred* | *47,505,059* | *48,921,496* |
| **110** | Non-current assets and disposal groups held for sale | - | - |
| **120** | Other assets | 56,569,540 | 49,113,585 |
| | **Total assets** | **7,661,906,630** | **7,895,976,789** |

(euro)

| | LIABILITIES AND SHAREHOLDERS' EQUITY | 31/12/2019 | 31/12/2018 |
|---|---|---|---|
| **10** | Financial liabilities measured at amortised cost: | 6,652,937,074 | 6,969,462,465 |
| | *a) Deposits* | 6,652,937,074 | 6,969,462,465 |
| | *b) Debt securities issued* | - | - |
| **20** | Financial liabilities held for trading | 72,180 | 142,263 |
| **30** | Financial liabilities designated at fair value | - | - |
| **40** | Hedging derivatives | - | - |
| **50** | Change in fair value of portfolio hedged items (+/-) | - | - |
| **60** | Tax liabilities | 23,589,191 | 15,707,521 |
| | *a) current* | *23,056,101* | *13,314,597* |
| | *b) deferred* | *533,090* | *2,392,924* |
| **70** | Liabilities associated with discontinued operations | - | - |
| **80** | Other liabilities | 210,911,678 | 180,840,526 |
| **90** | Post-employment benefits | 4,698,739 | 4,072,739 |
| **100** | Provisions for risks and charges: | 8,549,123 | 14,703,045 |
| | *a) commitments and guarantees issued* | *1,613,217* | 1,647,176 |
| | *a) post-retirement benefit and similar obligations* | - | - |
| | *b) other provisions for risks and charges* | *6,935,906* | *13,055,869* |
| **110** | Equity | 55,900,000 | 55,900,000 |
| **120** | Treasury shares (-) | - | - |
| **130** | Equity instruments | - | - |
| **140** | Share premium | 61,798,643 | 6 1.798.643 |
| **150** | Reserves | 594,259,866 | 555,288,570 |
| **160** | Valuation reserves | (1,015,403) | 4,959,850 |
| **170** | Profit (loss) for the year | 50,205,539 | 3 3.101.167 |
| | **Total Liabilities and Shareholders' equity** | **7,661,906,630** | **7,895,976,789** |

IFITALIA
GRUPPO BNP PARIBAS

## Income Statement

(euro)

| | P&L | Year 2019 | Year 2018 |
|---|---|---|---|
| 10 | Interest and similar income | 77,630,154 | 71,784,000 |
| | *of which: interest income calculated using the effective interest rate method* | 73,202,394 | 68,933,505 |
| 20 | Interest and similar expense | (7,584,232) | (6,249,375) |
| 30 | **Net interest income** | **70,045,922** | **65,534,625** |
| 40 | Fee and commission income | 55,314,731 | 53,707,487 |
| 50 | Fee and commission expense | (13,006,876) | (13,545,038) |
| 60 | **Net fee and commission income** | **42,307,855** | **40,162,449** |
| 70 | Dividends and similar income | 37,800 | 58,949 |
| 80 | Net result from trading | 5,186 | 53,717 |
| 90 | Net result from hedging | - | - |
| 100 | Profit (loss) from disposal or repurchase of: | - | - |
| | *a) financial assets measured at amortised cost* | - | - |
| | *b) financial assets at fair value through other comprehensive income* | - | - |
| | *c) financial liabilities* | - | - |
| 110 | Net result of other financial assets/liabilities at fair value through profit or loss: | **1,053** | **(367,780)** |
| | *a) financial assets and liabilities designated at fair value* | - | - |
| | *b) other financial assets mandatorily measured at fair value* | 1,053 | (367,780) |
| 120 | **Net banking income** | **112,397,816** | **105,441,960** |
| 130 | Net value adjustments/write-backs for credit risk relating to: | (12,338,209) | (9,881,958) |
| | *a) financial assets measured at amortised cost* | (12,338,209) | (9,881,958) |
| | *b) financial assets at fair value through other comprehensive income* | - | - |
| 140 | Gains/losses on contract modifications without eliminations | - | - |
| 150 | **Net result of financial management** | **100,059,607** | **95,560,002** |
| 160 | Administrative expenses: | (45,218,901) | (45,712,607) |
| | *a) personnel expenses* | *(23,103,558)* | (19,420,281) |
| | *b) other administrative expenses* | *(22,115,343)* | (26,292,326) |
| 170 | Net provisions for risks and charges | 3,128,864 | (1,448,237) |
| | *a) commitments and guarantees issued* | *34,324* | 22,104 |
| | *b) other net provisions* | *3,094,540* | (1,470,341) |
| 180 | Net value adjustments/write-backs on property, plant and equipment | (1,181,099) | (933,604) |
| 190 | Net value adjustments/write-backs on intangible assets | (3,662,955) | (2,555,867) |
| 200 | Other operating expenses/income | 2,486,573 | 2,544,344 |
| 210 | **Operating expenses** | **(44,447,518)** | **(48,105,971)** |
| 220 | Profit (Loss) from equity investments | - | - |
| 230 | Net result of valuation at fair value of property, plant and equipment and intangible assets | - | - |
| 240 | Value adjustments to goodwill | - | - |
| 250 | Gains (Losses) on sale of investments | *17,756,956* | - |
| 260 | **Operating profit (loss) before taxes** | **73,369,045** | **47,454,031** |
| 270 | Income taxes for the year | (23,163,506) | (14,352,864) |
| | **Operating profit (loss) net of taxes** | **50,205,539** | **33,101,167** |
| 290 | Profit (Loss) of discontinued operations, net of taxes | - | - |
| 300 | **Profit (loss) for the year** | **50,205,539** | **33,101,167** |

## Statement of Comprehensive Income

*(euro)*

| | Items | Year 2019 | Year 2018 |
|---|---|---|---|
| 10 | **Profit (loss) for the year** | **50,205,539** | **33,101,167** |
| | **Other income components net of taxes without reversal to income statement connected with:** | | |
| 20 | Equity instruments measured at fair value through other comprehensive income | | |
| 30 | Financial liabilities designated at fair value through profit or loss (change in the creditworthiness) | | |
| 40 | Hedging of equity instruments measured at fair value through other comprehensive income | | |
| 50 | Property, plant and equipment | | |
| 60 | Intangible assets | | |
| 70 | Defined benefit plans | (105,125) | 104,794 |
| 80 | Non-current assets held for sale | | |
| 90 | Share of reserves from valuation of investments carried at equity | | |
| | **Other income components net of taxes with reversal to income statement connected with:** | | |
| 100 | Hedging of foreign investments | | |
| 110 | Exchange rate differences | | |
| 120 | Cash flow hedges | | |
| 130 | Hedging instruments [not-designated elements] | | |
| 140 | Financial assets (other than equity instruments) at fair value through other comprehensive income | | |
| 150 | Non-current assets and disposal groups held for sale | | |
| 160 | Share of reserves from valuation of investments carried at equity | | |
| 170 | **Total other income components net of taxes** | | |
| 180 | **Comprehensive income (Item 10+170)** | **50,100,414** | **33,205,961** |

## Statement of Changes in Equity as at 31 December 2019

*(Euro)*

| | Balances as at 31.12.2018 | Change in opening balances | Balances as at 01.01.2019 | Allocation of profit from previous year | | Changes for the year | | | | | | | Shareholders' Equity 31.12.2019 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Equity transactions | | | | | | |
| | | | | Reserves | Dividends and other uses | Changes in reserves | Issue of new shares | Purchase of treasury shares | Extraordinary distribution of dividends | Change in equity instruments | Other changes | Comprehensive income for the year 2019 | |
| **Share capital:** | **55,900,000** | **-** | **55,900,000** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **55,900,000** |
| a) ordinary shares | 55,900,000 | - | 55,900,000 | - | - | - | - | - | - | - | - | - | 55,900,000 |
| b) other shares | | | | | | | | | | | | | |
| **Share premium** | **61,798,643** | **-** | **61,798,643** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **61,798,643** |
| **Reserves:** | **555,288,570** | **-** | **555,288,570** | **33,101,167** | **-** | **5,870,128** | **-** | **-** | **-** | **-** | **-** | **-** | **594,259,866** |
| a) profit-related | 562,317,072 | - | 562,317,072 | 33,101,167 | - | - | - | - | - | - | - | - | 595,418,239 |
| b) other | (7,028,501) | - | (7,028,501) | - | - | 5,870,128 | - | - | - | - | - | - | (1,158,373) |
| **Valuation reserves** | **4,959,850** | **-** | **4,959,850** | **-** | **-** | **(5,870,128)** | **-** | **-** | **-** | **-** | **-** | **(105,125)** | **(1,015,403)** |
| **Equity instruments** | | | | | | | | | | | | | |
| **Treasury shares** | | | | | | | | | | | | | |
| **Profit (loss) for the year** | **33,101,167** | **-** | **33,101,167** | **(33,101,167)** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **50,205,539** | **50,205,539** |
| **Shareholders' Equity** | **711,048,231** | **-** | **711,048,231** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **50,100,414** | **761,148,645** |

## Statement of Changes in Equity as at 31 December 2018

*(Euro)*

| | Balances as at 31.12.2017 | Change in opening balances | Balances as at 01.01.2018 | Allocation of profit from previous year | | Changes during the year | | | | | | Comprehensive income as at 2018 | Shareholders' Equity 31.12.2018 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Equity transactions | | | | | | |
| | | | | Reserves | Dividends and other uses | Changes in reserves | Issue of new shares | Purchase of treasury shares | Extraordinary distribution of dividends | Changes in equity instruments | Other changes | | |
| **Share capital:** | **55,900,000** | | **55,900,000** | | | | | | | | | | **55,900,000** |
| a) ordinary shares | 55,900,000 | | 55,900,000 | | | | | | | | | | 55,900,000 |
| b) other shares | | | | | | | | | | | | | |
| **Share premium** | **61,798,643** | | **61,798,643** | | | | | | | | | | **61,798,643** |
| **Reserves:** | **539,689,750** | **(18,601,286)** | **521,088,464** | **34,200,107** | | | | | | | **-** | | **555,288,570** |
| a) profit-related | 528,116,965 | | 528,116,965 | 34,200,107 | | | | | | | | | 562,317,072 |
| b) other | 11,572,785 | (18,601,286) | (7,028,501) | | | | | | | | - | | (7,028,501) |
| **Valuation reserves** | **8,176,590** | **(3,321,534)** | **4,855,056** | | | | | | | | | **104,794** | **4,959,850** |
| **Equity instruments** | | | | | | | | | | | | | |
| **Treasury shares** | | | | | | | | | | | | | |
| **Profit (loss) for the year** | **34,200,107** | | **34,200,107** | **(34,200,107)** | | | | | | | | **33,101,167** | **33,101,167** |
| **Shareholders' Equity** | **699,765,090** | | **93,825,304** | | | | | | | | **-** | **33,205,961** | **711,048,231** |

IFITALIA GRUPPO BNP PARIBAS

## Statement of Cash Flows prepared using the indirect method

| A. OPERATING ACTIVITIES | 31/12/2019 | 31/12/2018 |
|---|---|---|
| **1. Management** | **84,661,766** | **55,061,695** |
| - profit (loss) for the year (+/-) | 50,205,539 | 33,101,167 |
| - gains/losses on financial assets held for trading and on financial assets/liabilities at fair value through profit or loss (+/-) | (71,136) | 277,771 |
| - gains/losses on hedging (+/-) | - | - |
| - net value adjustments/write-backs for credit risk (+/-) | 8,729,887 | 3,231,326 |
| - net value adjustments/write-backs on property, plant and equipment and and intangible a | *4,844,054* | 3,489,471 |
| - net allowances to provisions for risks and charges and other costs/revenues(+/-) | (2,613,607) | 1,829,126 |
| - taxes not settled (+/-) | 23,567,029 | 13,132,834 |
| - net value adjustments/write-backs on discontinued operations, net of taxes (+/-) | | |
| - other adjustments (+/) | - | - |
| **2. Cash flow generated/absorbed by financial assets** | **209,201,387** | **(434,146,560)** |
| - financial assets held for trading | - | - |
| - financial assets designated at fair value | - | - |
| - other financial assets mandatorily measured at fair value | 615,984 | 372,111 |
| - financial assets at fair value through other comprehensive income | - | - |
| - financial assets measured at amortised cost | 215,265,945 | (401,804,725) |
| - other assets | (6,680,542) | (32,713,946) |
| **3. Cash flow generated/absorbed by financial liabilities** | **(305,159,037)** | **383,190,898** |
| - financial liabilities measured at amortised cost | (316,525,391) | 390,399,797 |
| - financial liabilities held for trading | - | - |
| - financial liabilities designated at fair value | - | - |
| - other liabilities | 11,366,354 | (7,208,899) |
| **Cash flow generated/absorbed by operating activities** | **(11,295,884)** | **4,106,032** |
| **B. INVESTING ACTIVITIES** | | |
| **1. Cash flow generated by:** | 35,940,252 | **176,598** |
| - sale of equity investments | - | - |
| - dividends collected on equity investments | - | - |
| - sale of property, plant and equipment | 33,255,131 | 863 |
| - sale of intangible assets | 2,685,121 | 175,735 |
| - sale of subsidiaries and businesses | - | - |
| **2. Cash flow absorbed by:** | (24,649,099) | **(4,285,720)** |
| - purchase of equity investments | - | - |
| - purchase of property, plant and equipment | (17,557,491) | (1,019,280) |
| - purchase of intangible assets | (7,091,608) | (3,266,440) |
| - purchase of subsidiaries and businesses | - | - |
| **Net cash flow generated/absorbed by investing activities** | **11,291,153** | **(4,109,122)** |
| **C. FUNDING ACTIVITIES** | | |
| - issue/purchase of treasury shares | - | - |
| - issue/purchase of equity instruments | - | - |
| - distribution of dividends and other uses | - | - |
| **Net cash flow generated/absorbed by funding activities** | - | **-** |
| **NET CASH FLOW GENERATED/ABSORBED DURING THE YEAR** | **(4,731)** | **(3,090)** |

The approach used generated liquidity equal to item 10 Cash and cash equivalents.

**Reconciliation**

*(euro)*

| Financial statement items | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Cash and cash equivalents at the beginning of the year | 5,869 | 8,959 |
| Total net cash flow generated/absorbed during the year | (4,731) | (3,090) |
| Cash and cash equivalents: effect of changes in exchange rates | - | - |
| Cash and cash equivalents at the end of the year | 1,138 | 5,869 |

# Notes to the accounts

**INTRODUCTION**

The notes to the accounts are divided into the following parts:
1) Part A – Accounting Policies;
2) Part B – Information on the Balance Sheet;
3) Part C – Information on the Income Statement;
4) Part D – Other Information.
Each part of the notes is divided into sections, each of which illustrates an individual aspect of the business operations. The sections contain both qualitative and quantitative information.
As a rule, the quantitative information comprises items and tables.

## *PART A – ACCOUNTING POLICIES*

### A. 1 – GENERAL SECTION

**Section 1 – Declaration of compliance with international accounting standards**
Ifitalia S.p.A.'s financial statements as at 31 December 2019 comply with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board – IASB, adopted by the European Commission, as well as the measures issued in implementation of Article 9 of Italian Legislative Decree 38/2005.
With regard to the layouts and the technical forms, the statutory financial statements have been drawn up in accordance with the Circular "IFRS Financial Statements of Brokers other than Banking Intermediaries", whose updated text was issued by the Bank of Italy on 30 November 2018 for financial statements starting from those closed or current on 31 December 2019 and revised with subsequent updates, and in accordance with Article 9 of Italian Legislative Decree no. 38/2005.
In order to guide the application and interpretation of the international accounting standards more clearly, reference was also made to the following sources:
- ✓ Framework for the Preparation and Presentation of Financial Statements issued by the IASB;
- ✓ Implementation Guidance, Basis for Conclusions and other interpretative documents for IAS/IFRS adopted by IASB or IFRIC (International Financial Reporting Standard Interpretations Committee);
- ✓ documents drawn up by the Italian Chartered Accountants Association (Assirevi).
- ✓ documents drawn up by the Italian Standard Setter (OIC) and the Italian Banking Association (ABI);
- ✓ ESMA (European Securities and Markets Authority) and CONSOB documents that refer to the application of specific provisions in the IFRS.

**Section 2 – General basis of presentation**
The statutory financial statements, accompanied by the related Report on Operations, comprise:
- ✓ Balance Sheet and Income Statement;
- ✓ Statement of Comprehensive Income;
- ✓ Statement of Changes in Equity;
- ✓ Statement of Cash Flows;
- ✓ Notes to the Accounts.

The financial statements were prepared with a view to the business as a going concern, taking into account the current and projected profitability and the ease of access to financial resources. The Directors considered the going concern assumption appropriate because, in their judgement, no uncertainties linked to events or circumstances have emerged that, considered individually or as a whole, may lead to doubts about the viability of the business.
The accounting policies comply with the principles of accruals, relevance and significance of the accounting information and predominance of economic substance over legal form.
The financial statement accounts are consistent with the company's accounting records; furthermore, in compliance with the provisions of Article 5, Paragraph 2 of Italian Legislative Decree no. 38 dated 28 February 2005, the financial statements have been drawn up using the Euro as the reporting currency. Specifically, in line with the instructions issued by the Bank of Italy, the statements have been drawn up in units of Euro without decimal figures, the notes to the accounts are drawn up in thousands of Euro, and the Report on Operations is drawn up in millions of Euro.
As from 1 January 2019, the new international accounting standard IFRS 16 – Leases came into force; it defines the

accounting treatment of lease contracts. Moreover, the Company made use of the "transitional relief" and therefore the figures compared are those prepared in previous years without taking into account the introduction of the new standard.

**Section 3 – Events after the reporting period**

When drawing up the financial statements as at 31 December 2019, Ifitalia considered all the events after the reporting period up until the date of approval of the financial statements by the Board of Directors and no corporate events occurred such as to have a significant impact on the balance sheet and income statement results represented (IAS 10 § 8).

However, it is noted that at the date of preparation of these financial statements, the evolution of some instability factors that have recently emerged is being monitored, such as the emergence of Covid 19 (hereinafter "Coronavirus") that, in the first weeks of 2020, initially impacted economic activity in China and then spread to other countries, whose consequences on the economic side are currently difficult to quantify and assess.
These factors have therefore been considered as events that do not involve adjustments to the balances in the financial statements, in accordance with IAS 10 § 21, since, although the Coronavirus phenomenon began to manifest itself in China just before the end of the reporting period, it is only from the end of January that the existence of a real international emergency phenomenon was declared.
However, it is noted that if these factors were to materialise significantly, they could also have a significant impact on the prospect of future growth, having an impact on the general economy and the financial markets.
At this stage, once the necessary assessments have been made, it is not possible to foresee the evolution that this phenomenon may have, also in Italy, and, consequently, the impact it will have on the economy and, consequently, it is not possible to determine any negative financial and economic impacts that may initially affect the first quarter of 2020.
Therefore, this circumstance does not represent an impact on the estimation process with reference to the financial statements for the year ended 31 December 2019.

**Section 4 – Other aspects**

The Ifitalia financial statements have been audited by the auditing firm Mazars Italia S.p.A., which was granted the appointment for the period 2015 – 2023 by the Shareholders' Meeting held on 24 November 2015 in accordance with Legislative Decree no. 39 of 27 January 2010.

*Legislative changes*

As from 1 January 2019, IFRS 16 "Leases" came into force, replacing the previous standard IAS 17 – Leases, as well as interpretations IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC-15 "Operating Leases—Incentives" and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". In this regard, reference should be made to what is shown later in this Report.
The additional IAS/IFRS accounting standards and related SIC/IFRIC interpretations, the mandatory application of which has not had a significant impact, are shown below, effective from 1 January 2019.
The interpretation "IFRIC 23 - Uncertainty over income tax treatments", published with Regulation (EU) no. 2018/1595 of 24 October 2018, clarifies how to apply the measurement and recognition requirements of IAS 12 when there is uncertainty about the treatment to be applied to income taxes.
The document "Amendments to IFRS 9 - Prepayment features with Negative Compensation", published by Regulation (EU) No. 2018/498 on 26 March 2018, clarifies the classification of certain financial assets eligible for early repayment when IFRS 9 is applied. In particular, loans that require payment by the lessor in the event of early repayment (negative compensation payment) can be measured at amortised cost or at fair value through other comprehensive income, depending on the business model. Moreover, for financial liabilities measured at amortised cost, the document establishes that changes that do not result in the cancellation of the liability are recognised in the income statement for the amount equal to the difference between the original contractual cash flows and the modified cash flows discounted at the effective interest rate.
The document "Annual Improvements to IFRSs 2015-2017 Cycle", published with Regulation (EU) No. 2019/412 of 14 March 2019, introduces some marginal amendments to IAS 12 "Income Taxes", IAS 23 "Borrowing Costs", IFRS 3 "Business Combinations" and IFRS 11 "Joint Arrangements". Particularly:

- the entity must recognise all income tax consequences of dividends in profit or loss, other comprehensive income or equity depending on the recognition of the transactions or past events that gave rise to distributable profits (IAS 12);
- if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings (IAS 23);

- when an entity obtains control of a business, formerly a joint operation, it restates its interest in that business (IFRS 3);
- when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business (IFRS 11).

On 13 March 2019, the document "Amendments to IAS 19 - Plan Amendment, Curtailment or Settlement" was published by Regulation (EU) No. 2019/402. This document clarifies that, after the amendment, curtailment or settlement of the defined benefit plan, the entity should apply the assumptions updated by the remeasurement of its net defined benefit liability (asset) for the remainder of the reporting period.
The document "Amendments to IAS 28 - Long-term Interests in Associates and Joint Ventures", published by Regulation (EU) No. 2019/237 of 8 February 2019, clarifies that the impairment requirements of IFRS 9 apply to long-term receivables from an associate or joint venture that, in substance, are part of the net investment in the associate or joint venture (for which the entity does not use the equity method).

Impacts of First-Time Adoption for the new IFRS 16 standard applied from 1 January 2019

As mentioned above, from 1 January 2019, the new accounting standard IFRS 16, which amends the current set of international accounting standards and interpretations on leases and, in particular, IAS 17, came into force.
The new standard introduces a new definition of leases and confirms the current distinction between the two types of leases (operating and financial) in reference to the accounting model that the lessor must apply. With reference to the accounting model to be applied by the lessee, the new standard requires that, for all types of leases, an asset must be recognised representing the right of use of the leased asset and, at the same time, the liability relating to the lease payments.
At the time of initial recognition, the asset is measured on the basis of the cash flows associated with the lease, including, in addition to the present value of the lease payments, the initial direct costs associated with the lease and any costs necessary to restore the asset at the end of the lease. After initial recognition, this asset will be measured on the same basis as tangible assets and therefore at cost net of depreciation and any impairment, at "restated value" or at fair value in accordance with IAS 16 or IAS 40.
For the recognition in the financial statements of the accounting impacts deriving from the application of the new standard, the Company adopted the "Modified Retrospective Approach", which envisages that the right-of-use asset is measured as if the Standard had been applied from the effective date but discounted using the entity's incremental borrowing rate at the date of initial application (IFRS 16.C8. b. i)
The Group did not record any impact from the first-time adoption of the new accounting standard.

Foreign currency transactions

Assets and liabilities denominated in foreign currency (these being understood to be currencies other than the Euro, also including the transactions that envisage index-linking clauses to these currencies) are converted on the basis of the exchange rate as at year end.

Payment agreements based on own equity instruments

The Company has not put in place payment agreements based on own equity instruments.

Use of estimates in financial statements

The preparation of the financial statements required the use of estimates and assumptions that can have effects on the amounts in the balance sheet and income statement. The calculation of these estimates involves the use of the information available as of the date of preparation of the financial statements and the adoption of subjective evaluations, based also on historical experience, used to formulate reasonable assumptions in order to record management events.
The main cases for which the use of subjective evaluations is required the most by the company's management are:

- ✓ the losses due to impairment of receivables and, generally, of other financial assets;
- ✓ the fair value of financial instruments to be used for the purpose of financial statement disclosure;
- ✓ the provisions for risks and charges;
- ✓ the recoverability of deferred tax assets;
- ✓ the portion of property held for investment purposes.

Impairment tests

As regards the tests provided for by IAS 36, no impairment indicators were found in the valuations made, in consideration of the book values and the specific nature of the assets in the accounts.

Important opinions formulated for the application of IFRS 15

Performance obligations (explicit or implicit promises to transfer distinct goods or services to the customer) are identified at the time of inception of the contract based on the contractual terms and usual business practices

For determining the consideration that the Bank expects to receive for the supply of goods or services to the counterparty ("transaction price"), the following are considered:

- the effect of any reductions and discounts;
- the time value of money if significant terms of deferment are agreed;
- the variable price component.

The transaction price of each contract is allocated to each performance obligation on the basis of the relative stand-alone selling prices of the performance obligations.

Therefore, revenues are recorded in the income statement when the performance obligations are met through the transfer of the goods or services to the counterparty, which obtains control. In particular, revenue was recognised over time when the services are provided by the Bank throughout the term of the contract and at a point in time when the performance obligation is met at a given time

.

The following costs incurred to obtain the contracts and to provide the expected services are capitalised and amortised over the life of the reference contract if recovery is expected:

- incremental costs that the Bank would not have incurred if the contract had not been signed
- costs that refer to a specific contract that generate resources that will be used to meet the performance obligation.

The residual amount of these costs recognised in the financial statements is periodically tested for impairment.

## A.2 – SECTION REGARDING THE MAIN FINANCIAL STATEMENT AGGREGATES

The accounting standards adopted for Ifitalia's 2019 financial statements are the same as those used for the 2018 financial statements, with the exception of those impacted by the introduction of IFRS 16 as from 1 January 2019.

Therefore, please find below:

a) the standards used for the preparation of the 2019 financial statements;

b) the standards used for the preparation of the comparative results as at 31 December 2018 (only for the items impacted by the new standard).

## A) THE STANDARDS USED FOR THE PREPARATION OF THE 2019 FINANCIAL STATEMENTS

### 1. Financial assets at fair value through profit or loss

This item includes all financial assets not classified in the portfolio of financial assets at fair value through other comprehensive income and in the portfolio of financial assets at amortised cost.

More specifically, this item includes:

a) financial assets held for trading (debt securities, equities, loans, UCI units and derivatives);

b) assets mandatorily at fair value (debt securities and loans) with the valuation results recognised in the income statement on the basis of the option granted to companies (fair value option) by IFRS 9;

c) other financial assets mandatorily at fair value (debt securities, equities, UCI units and loans), i.e. financial assets, other than those designated at fair value through profit or loss, which do not meet the requirements for classification at amortised cost, at fair value through other comprehensive income or that are not held for trading.

The initial recognition takes place on the trading date for all financial assets. The initial recognition value is the fair value. Subsequent to initial recognition, the portfolio is measured at fair value, with the exception of equity instruments not listed on an active market and whose fair value cannot be reliably determined.

If the fair value of a financial asset becomes negative, this asset is recorded as a financial trading liability.

Financial assets at fair value through profit or loss conventionally include the balance arising from the offsetting of derivative contracts allocated to the trading portfolio and hedging derivatives in accordance with IAS 32, paragraph 42, if the absolute value of the fair value of the derivatives allocated to the trading portfolio is greater than the absolute value of the fair value of the hedging derivatives and is positive. This offset is recognised if the Group:

(a) currently has an exercisable right to offset the recognised amounts; and
(b) intends to pay the net amounts or to realise the asset and settle the liability at the same time.
Accrued interest is recorded in item 10 Interest income or 20 Interest expense, with the exception of differentials on non-hedging derivatives, which are recorded in net trading profit (loss).
Realised gains and losses on sales or reimbursements and unrealised gains and losses deriving from fair value changes in the portfolio at issue are recorded in item “80. Net trading profit (loss)” with regard to financial assets held for trading and in item “110. Net result of other financial assets and liabilities at fair value through profit or loss” for assets at fair value and other financial assets mandatorily at fair value.
The determination of the fair value of trading assets is based on the prices struck on active markets, on prices provided by the operators or on internal appraisal models used in financial practice.
In relation to the provisions of the joint Bank of Italy/Consob/IVASS document of 8 March 2013 on the accounting treatment of "long-term structured repos", it should be noted that the Group does not carry out such transactions.

**2. Financial assets at fair value through other comprehensive income**

All financial assets that passed the SPPI test and may be sold for any reason, such as liquidity requirements or changes in interest rates, exchange rates or share prices, are classified as "Financial assets at fair value through other comprehensive income"; as well as equities that are held for strategic reasons or that are not contestable on the market.
Initial recognition takes place, for financial assets whose delivery is regulated on the basis of agreements envisaged by the reference market (regular way contracts), as of the settlement date, while the trading date is applied for the others.
The initial recognition value for all the assets is the fair value, inclusive of the transaction costs or income directly attributable to said instrument.
The Company measures these financial instruments at fair value, with the exception of investments in equity instruments not listed on active markets for which it is not possible to measure fair value reliably.
The determination of the fair value of securities measured at fair value through other comprehensive income is based on the prices struck on active markets, on prices provided by the operators or on internal appraisal models used in financial practice.
The expected loss recognised in the income statement under item "130. Net value adjustments due to credit risk of: b) measured at fair value through other comprehensive income" is calculated on the non-equity instruments that have passed the SPPI test. Any value write-backs are recorded with a matching balance in the income statement.
The value of unlisted share investments is determined by applying recognised measurement techniques, including the method based on multiple market observations of similar companies. The value of listed share investments is determined based on the market price.
For investments in equity instruments, all positive and negative changes in fair value, even if the latter are significant or prolonged below cost, are recorded with a matching balance under equity.
Financial assets are cancelled when the asset is sold, transferring the essential nature of the associated risks and benefits, or when the contractual rights on the financial flows deriving from said assets cease.
Following the derecognition of an investment in bonds, the related cumulative and unrealised change in value recognised in equity is transferred to item "100. Gain/loss on disposal or repurchase of: b) financial assets at fair value through other comprehensive income" in the income statement.
In the case of derecognition of an equity instrument, the related cumulative and unrealised change in value is reclassified to an available reserve within shareholders' equity.
Gains and losses on disposals are determined using the average cost method.

**3. Financial assets at amortised cost**

This item includes debt securities and loans allocated to the portfolio measured at amortised cost. Due from banks, including also due from central banks other than demand deposits included in "Cash and cash equivalents" and due from customers, including due from Post Offices and Cassa Depositi e Prestiti, as well as operating loans related to the provision of financial assets and services as defined by the consolidation act of banking and lending laws (TUB) and the Consolidated Finance Act (TUF) (e.g. servicing activities) are recognised.
Loans/receivables are recognised in the financial statements when the Company becomes a party to the contract and acquires unconditionally a right to payment of the agreed amounts and are initially recognised at their fair value, corresponding to the amount disbursed, including transaction costs and initial revenues directly attributable. Where the net amount disbursed does not refer to its fair value, due to the lower interest rate applied compared to that of the reference market or to that normally applied to loans with similar characteristics, the initial recognition is made for an amount equal to the discounting of future cash flows at an appropriate rate.
After initial recognition, financial assets classified in the loans portfolio are recognised at amortised cost, using the effective

interest method. The effective interest method is used to calculate the amortised cost and interest income of the loan over its entire duration. The effective interest rate is the rate that discounts the flow of estimated future payments over the expected life of the loan so as to obtain the net book value at initial recognition. Interest on loans/receivables is classified under interest and similar income deriving from amounts due from banks and loans to customers, and is recorded on an accrual basis.
In particular, with regard to factoring transactions, the transferee company can recognise a financial asset in its financial statements if and only if:

a) the financial asset is transferred along with essentially all the risks and contractual rights to the correlated cash flows (the transferor may maintain the rights to receive the cash flows of the asset but must have the obligation to pay the same to the transferee, and cannot sell or commit the financial asset);

b) the benefits associated with its ownership cease with regard to the transferor when transferred to the transferee.

The forms of transfer for loans/receivables subject to factoring can be broken down as follows:

- ✓ without recourse: a transaction that, irrespective of the contractual form, provides the factor with the full transfer of the risks and benefits associated with the assets forming the subject matter of the transaction as per IFRS 9;
- ✓ with recourse: a transaction that, irrespective of the contractual form, does not provide the factor with the full transfer of the risks and benefits associated with the assets forming the subject matter of the transaction as per IFRS 9.
- ✓ Ifitalia recorded the following in the financial statements, under item 40 of the balance sheet assets, “Financial assets at amortised cost”, and in line with the afore-mentioned criteria:
- ✓ loans/receivables acquired without recourse. Classification envisages the recording of the loans/receivable due from the debtors for the portion of the amount paid (cash risk) and for the portion still to be paid (endorsement risk) net of impairment. In this case, the amount due to the transferor, for the portion of the amounts still to be paid, is recorded under Balance Sheet liability item 10. “Payables”;
- ✓ advances paid to the transferors for loans/receivables acquired with recourse, inclusive of the interest and other amounts accrued, and net of impairment;
- ✓ advances paid to the transferors for loans/receivables acquired without recourse with contractual clauses (as defined below) that limit the essential transfer of all the risks and benefits (formal without recourse);
- ✓ advances paid to the transferors for future loan/receivable factoring transactions, inclusive of the interest and other amounts accrued;
- ✓ advances paid to the transferors exceeding the total loans/receivables inclusive of the interest and other amounts accrued;
- ✓ exposure to the factored debtors in just guarantee-related without recourse transactions when on occurrence of default the payment is made under guarantee of said loan/receivable;
- ✓ amounts due for late payments;
- ✓ exposures to the factored debtors for payment extensions granted.
- ✓ Ifitalia recorded the following amounts under guarantees and commitments, in line with the above criteria:
- ✓ both the value of the loans/receivables acquired without recourse (just guarantee) and the guarantees given accessory to the factoring transactions;
- ✓ the value of the endorsement risk for the loans/receivables acquired without formal recourse and the value of the exposure for the unused amount of the committed credit facilities.

In order to assess whether transfer of the essential nature of the risks and benefits has taken place in acquiring the loans/receivables factored without recourse, it is necessary to identify and analyse, using qualitative and quantitative criteria, the contractual clauses capable of affecting the expected variability of the cash flows of the factored loans/receivables
. For such purposes, the most common contractual clauses in Ifitalia transactions have been stated below, analysed with a view to application of the recognition/derecognition rules.

a) Maximum payable

This category of clauses is key for the purposes of the recognition/derecognition since it limits the undertaking of the credit risk by the Factor. In essence, while the “initial loss” remains the Factor’s, the losses exceeding the ceiling are the transferor’s.

In the presence of this clause, it is necessary to quantify and compare the amount of the ceiling with the risk exposure. If the maximum payable essentially covers the credit risk, then it means that the afore-mentioned risk has been transferred by the Transferor to the Factor.

With regard to the outstanding contracts, the latter point has been confirmed, therefore the clauses have not been considered as an impediment to recognition of the individual loans/receivables in the financial statements.

b) Malus clause

The commission linked to the portfolio's performance, with retroactive application (losses deriving from default of the factored debtors, with regard to principal and/or interest), can be critical for the purpose of recognition/derecognition since it can indicate a limitation or an exclusion of the transfer of the risks by the transferor to the factor.

In the presence of quantitative and qualitative analysis carried out, the loans/receivables assisted by this clause in certain specific cases led to the retention of the credit risk by the transferor to an extent considered to be significant on the basis of materiality

. In such cases, the clause was considered an impediment to recognition of the individual loans/receivables in the financial statements.

For the purpose of calculating the return within the sphere of factoring transactions, it is possible to identify, with regard to the nature, three categories of remuneration:

- ✓ Management commission

  This commission takes the form of a fee for the provision of a plurality of services (for example, the dunning of the debtor, debt collection, etc.) provided by means of an unspecified number of activities within a specific time span. With regard to this type of commission, recognised irrespective of the duration of the loan/receivable, IAS 18 was applied, re-discounting the portion of commission relating to loans/receivables not expired to be credited as a matching balance to the item “other liabilities”.
- ✓ Guarantee commission (costs/revenues directly attributable to the transaction)

  This commission takes the form of a fee for the undertaking by the Factor of all or part of the risk element inherent in the financial asset forming the subject matter of the transaction. With regard to this type of commission, steps were taken to apply IAS 39, spreading the revenue equally over the duration of the loan/receivable and for loans/receivables due beyond 12 months deducting the unaccrued amount (deferred income) from said loan/receivable.
- ✓ Other types of commission

  This category includes those cost/revenue items not falling within the above two categories and includes on-going, one-off commission recorded at the time when the one-off service is completed (very often coinciding with collection of the commission).

Loans/receivables are in turn classified as performing and impaired (non-performing). According to the Bank of Italy instructions, impaired assets are as follows:

- ✓ Non-performing loans: positions vis-à-vis parties in a state of insolvency (even if not legally ascertained) or in essentially equivalent situations, irrespective of any loss forecasts made by the company. Therefore, the existence of any guarantees (secured or unsecured) to cover the receivables is left aside.
- ✓ Unlikely to pay: the classification in this category takes place on the basis of the improbability that, without recourse to action such as enforcement of the guarantees, the debtor fully meets his/her credit obligations (in terms of principal and/or interest). This assessment is made independently from the presence of any amounts (or instalments) past due and not paid.

  Therefore, it is not necessary to await the explicit symptom of anomaly (non-payment), if elements exist that imply a situation of debtor default risk (for example, a crisis in the industrial sector in which the debtor operates).
- ✓ Impaired past due positions: cash credit exposures other than those classified as non-performing or unlikely to pay, which are past due as at the reporting reference date.

  a) Past due positions with respect to individuals: exposures other than those classified as non-performing or unlikely to pay, which are past due by more than 90 days as at the reporting reference date. Based on the Bank of Italy legislation, Ifitalia applies the notion of past due exposure at counterparty level.

  The position is past due if there is at least one invoice past due by more than 90 days and the total of the past due invoices (including those by less than 90 days) exceeds 5 percent of the total loans/receivables.

  b) Past due positions with respect to Public Administration parties: in accordance with a conservative interpretation of the Bank of Italy regulations the definition of “past due” includes those exposures for which the following conditions are met:

  1) they have been past due on a continual basis for more than:
     - 90 days in the case of exposures to central administrations, central banks, and local authorities;
     - 180 days in the case of exposures to government agencies;

  2) the total amount of the exposures indicated above and the other portions due by less than 90 or 180 days are at least equal to 5 percent of the entire exposure to this debtor.

  3) they are different from exposures to the Tax Authorities deriving from sales of tax credits (VAT, IRPEG, etc.). These loans and receivables have an undetermined maturity, as there is a minimum time before which they cannot be liquidated but not a maximum term by which they must be paid.

     For these exposures, where the notion of past due receivable is applied at the counterparty level, the continual nature of the past due receivable is interrupted when the debtor has made a payment for at least one of the positions that became past due in the previous 90 days.

The classification of exposures subject to concession (forborne exposures) includes exposures that have been subject to concession vis-à-vis a debtor who is dealing with difficulties or is close to dealing with difficulties in terms of meeting its financial commitments. These exposures can be classified either as impaired assets ("non-performing exposures") or as performing loans ("performing exposures"). As regards the measurement and provisions for exposures subject to concessions, accounting policies follow the general criterion, in line with the provisions of IFRS 9.

Staging rules

*Performing positions*

The Stage classification for performing facilities is based on the outcome of the assessment of "significant increase in credit risk" (or "significant impairment").

The "significant increase in credit risk" is assessed at the individual facility level by comparing the rating determined at the reporting date with the rating in effect at the origination date (recognition date).

The rating, monitored and updated periodically according to Ifitalia's policies, represents the main parameter for expressing creditworthiness.

For the assessment of "significant impairment", Ifitalia uses the absolute and relative criteria defined at Group level.

- ✓ Absolute criteria:
  The absolute criteria (or backstop) used to classify performing facilities in Stages 1 and 2 are based on the information available at the reporting date (e.g., rating, days past due). The thresholds used reflect absolute levels of high or low credit quality in order to classify:
  • in Stage 1, all facilities that have a low credit risk;
  • in Stage 2, all facilities that have a high underlying risk.
  The absolute criteria (or backstop) defined are based on the assessment of the rating at the reporting date.
  Furthermore, as required by the accounting standard and Group policy, Ifitalia adopts the "Rebuttable Presumption", according to which all facilities with contractual payments past due for more than 30 days are classified in Stage 2.
- ✓ Relative criteria:
  For all performing facilities, which do not fall within the scope of the absolute criteria, relative criteria are applied, expressed in terms of the difference between ratings (known as the "delta notch").

*Non-Performing Perimeter*

All facilities that at the reporting date have a rating of 11 12 are classified in Stage 3.

Impairment rules

Following the classification in Stages, Ifitalia calculates the provisions, at the individual facility level, consistent with regulatory principles and Group guidelines.

The provision amount corresponds to the expected loss differentiated by Stage in order to take into account the different levels of risks:

- ✓ For facilities classified in Stage 1, an expected loss in relation to the maturity is calculated with a maximum value of one year;
- ✓ For facilities classified in Stage 2, a lifetime expected loss (EL Lifetime) is calculated, that is, until the facility's maturity date;
- ✓ For facilities classified in Stage 3, specific provisions are calculated, corresponding to an expected lifetime loss.

*Performing positions*

The impairment calculation is based on risk parameters (PD, LGD and EAD) consistent with the duration of the transaction.

The expected loss in Stage 1 represents the expected loss deriving from the possible occurrence of a facility entering default within one year of the reporting date.

The expected loss in Stage 2 is the present value of expected losses due to a facility entering default in the period between the reporting date and the facility's maturity.

To calculate the expected lifetime loss, cumulative PDs are therefore used.

For the portion of the portfolio for which the rating models are not available at the BNP Group level, Ifitalia, in line with Group guidelines, calculates the expected loss, at one year or over the lifetime, using a simplified method based on historical loss data (EL ratio).

In accordance with IFRS 9, the PD, LGD and EAD parameters used to calculate impairment are consistent with regulatory values (those used to calculate the IRBA capital requirements), in particular for the LGD parameter, the value is net of conservative margins, regulatory penalties, and downturn margins.

In addition, IFRS 9 provides for the adoption of a forward-looking, multi-scenario approach to risk parameters in order to incorporate current conditions as well as expectations for possible future events and conditions in the impairment calculation.

*Non-Performing Perimeter*

For facilities classified in Stage 3, Ifitalia calculates the expected lifetime loss through a forward-looking approach that incorporates future expectations of possible collections and losses, including possible sales scenarios.

For non-performing exposures, Ifitalia has adopted a unique, precise analytical valuation model for individual positions; thus, for these positions Ifitalia adopts a "Judgemental Approach";

The Judgemental Approach incorporates both the collection strategy and the expected value deriving from a possible sale of the portfolio.

The determination of the recoverable value of receivables takes into account the time value of money and any guarantees supporting the positions; for the purpose of calculating the current value of the flows, the fundamental elements are represented by the identification of estimated recoveries, the related timescales and the discount rate to be applied. For an estimate of the amount and the recovery timescale of the afore-mentioned problem loans/receivables, reference is made to specific calculations and, in the absence thereof, to estimated and forfeit values. These estimates are made taking into account both the specific solvency situation of debtors with payment difficulties and any difficulties in servicing debt by individual segments.

The write-down of problem loans/receivables is subsequently written back only when the quality of the amount due has improved to such an extent that reasonable certainty exists of a greater recovery of the principal and the interest and/or amounts have been collected to an extent greater than the value of the receivables recorded in the previous financial statements.

Recoveries of part or entire loans/receivables previously written down are booked to reduce the value of item “130. Net value adjustments/write-backs due to credit risk of: a) financial assets at amortised cost”.

A derecognition occurs when there is no longer a reasonable likelihood of recovery. The amount of the losses is recorded in the income statement net of the write-down allowances previously provided.

The Company writes off both partial and total credit. The timing of the write off takes account of the legal and judicial system, the different types of receivables and the average recovery times as well as the timing required for the full allocation of the receivables.

**4. Tangible assets**

Tangible assets are initially stated at cost, inclusive of all the charges directly associated with bringing the asset onto stream.

Item (80) “Tangible assets” includes land and buildings used for business purposes, land and buildings for investment purposes, furniture, electronic systems and other tangible assets.

Assets used for business purposes are those held for the supply of services or for administrative purposes, while investment properties are those held for the purpose of collecting lease payments and/or held for appreciating the invested capital or in any event not occupied by the company or when they become as such.

Subsequent to initial recognition, tangible assets are recorded at cost net of accumulated depreciation and impairment losses.

With reference to properties held for investment, the valuation at cost was opted for, providing the disclosure envisaged by IAS 40.

The depreciable value, equating to cost less the residual value (or rather the amount that is expected to be obtained from the asset at the end of its useful life, usually zero, after having deducted the sale costs), is divided up systematically over the useful life of the tangible asset, adopting a straight-line depreciation approach

.

The residual value and the useful life of properties, plant and machinery is reviewed at least once a year for financial statement purposes

and, if the expectations differ from the previous estimates, the depreciation charge for the current and subsequent years is adjusted.

The useful life, subject to periodic review for the purpose of recording any estimates significantly different from the previous ones, is defined as:

– the period of time during which it is expected that an asset can be used by the company, or,

– the quantity of products or similar units that the company expects to obtain from the use of said asset.

In the property category, land and buildings are considered to be separable assets and treated independently for accounting purposes, even when acquired together, but only if the entire building is owned (detached property). As a rule, land has an unlimited life and therefore is not depreciated. Buildings have a limited life and, therefore, are depreciated. An increase in the value of the land on which a building stands does not influence the determination of the building’s useful life.

If there is objective evidence that an individual asset has suffered impairment, steps are taken to compare the book value of

the asset with its recoverable value, equating to the greater between the fair value, less sales costs, and the related value in use, understood to be the current value of the future cash flows that are expected to derive from the asset. Any value adjustments are recorded under item 180. “Net value adjustments/write-backs on tangible assets” in the income statement.
If the value of an asset previously written down is reinstated, the new book value cannot exceed the net book value that would have been determined if no impairment loss on the asset had been recorded in previous years.

Depreciation is recorded in the income statement in item 180, “Net value adjustments/write-backs on tangible assets”.
The costs incurred subsequent to purchase are added to the book value of the assets or recorded as a separate asset if it is probable that future economic benefits exceeding those initially estimated will be achieved and the cost can be reliably determined. All the other costs incurred subsequently (e.g. ordinary maintenance measures) are recorded in the income statement, in the year they are incurred, under item: 160.b) “Other administrative expenses”, if they refer to assets for business use, or item 200. “Other operating income/expenses”, if referring to properties held for investment.
Tangible assets are cancelled from the balance sheet when disposed of or when the asset is permanently withdrawn from use and future profits are not expected from its disposal and future economic benefits are not expected from its use. Any difference between the disposal value and the book value is recorded in the income statement under the item 250. Profit/loss on disposal of investments.

In case of leases, the lease liability is recognised under the balance sheet liabilities, which consists of the present value of the payments that, at the valuation date, still have to be made to the lessor, while the Right of Use Asset (also known as "RoU Asset"), obtained as the sum of the following components, is recognised under the balance sheet assets:
- lease liability;
- initial direct costs;
- payments made at or before the commencement of the lease (less any lease incentives received);
- dismantling and restoring costs.

The term of the lease, the basis for calculating the Right of Use, is determined by taking into account the economic duration and not the legal duration, and also includes any renewal or early termination options if the exercise of such options is reasonably certain.
The asset recognised is subject to straight-line depreciation and the new liability is discounted using a discount rate defined at the effective date of the lease contract and reduced to the payment of the lease instalments. Interest expense accrued on the lease liability is recorded under "Interest and similar expense" and the depreciation charges of the right of use are recognised under "Net value adjustments/write-backs on tangible/intangible assets".
For contracts involving low-value assets (less than EUR 5,000) and for short-term leases with a duration of equal to or less than 12 months, the introduction of IFRS 16 does not require the recognition of the financial liability and the related right of use, but lease payments continue to be recognised in the income statement on a straight-line basis for the term of the respective contracts.

**5. Intangible assets**

The Company made use of the option envisaged by the standard not to apply IFRS 16 to intangible assets.
An intangible asset is a non-monetary asset, identifiable even if lacking physical appearance, from which it is probable that future economic benefits will originate. The asset is identifiable if:
– it can be separated or spun-off and sold, transferred, granted under licence, leased or exchanged;
– it derives from contractual rights or other legal rights irrespective of the fact that these rights are transferable or separable from other rights or obligations.
The asset is controlled by the company if the company has the power to avail itself of the economic future benefits deriving from the resource in question and can, also, limit access by third parties to said benefits. They are therefore recorded among the balance sheet assets only if:
(a) future economic benefits attributable to the asset in question are likely to emerge; (b) the cost of the assets can be reliably measured.
If the conditions described above should occur, intangible assets are included among the balance sheet assets and recorded at cost, adjusted for any accessory charges. Otherwise, the cost of intangible assets is recorded in the income statement related to the year in which the cost was borne.
Intangible assets recorded in the financial statements are essentially represented by software. Furthermore, in accordance with the Group accounting standards and IAS/IFRS, the Company adopted the policy of capitalising the IT costs attributable to software development projects.

After initial recognition, software is recorded in the financial statements at cost net of total amortisation and accumulated losses in value.
The cost includes:
- the purchase price less trade discounts and allowances;
- any direct cost for preparing the asset for use.
Any expenses, determined and attributable to the asset reliably, subsequent to initial recognition, are capitalised only if they are able to generate future economic benefits.
Intangible assets with a definite useful life are amortised on the basis of the estimate made of their residual useful life and recorded at cost net of total amortisation (using the straight-line method) and any impairment losses applicable. At the end of each accounting period, this residual useful life is subject to appraisal so as to ascertain the adequacy of the estimate. If there is objective evidence that an individual asset has suffered impairment, steps are taken to compare the book value of the asset and its recoverable value, equating to the greater between the fair value, less sales costs, and the related value in use, understood to be the current value of the future cash flows that are expected to derive from the asset.
In the event that the book value is greater than the recoverable value, a loss equating to the difference between the two values is recorded under item 190. “Net value adjustments/write-backs on intangible assets”.
If the value of a previously written down intangible asset, other than goodwill, is reinstated, the new amounts cannot exceed the net book value that would have been determined if no loss had been recorded for the impairment of the asset in previous years.
Amortisation is recorded in the income statement in item 190. “Net value adjustments/write-backs on intangible assets”.
Intangible assets are eliminated from the balance sheet at the time of disposal or when future economic benefits from their use or disposal are no longer expected, and any difference between the disposal value and the book value is recorded in income statement item 250. Profit/loss on disposal of investments.

**6. Tax assets and liabilities**

Income taxes are calculated in observance of current tax legislation. The tax liability (return) is the total amount of the current and deferred taxes included in the calculation of the net profit or loss for the year. Current taxes represent the amount of the income taxes payable (recoverable) referring to the taxable income (tax loss) for a year. Deferred taxes represent the amounts of the income taxes payable (recoverable) in future years, referable to taxable (deductible) timing differences.
Current tax assets include the advance payments and other tax credits for withholdings made or for tax credits for which a rebate has been requested from the competent tax authorities. By contrast, tax liabilities reflect the provisions necessary for covering the tax charges for taxation on the basis of current legislation. Deferred taxation is calculated by applying the “balance sheet liability method”, taking into account the tax effects associated with the timing differences between the book value of the assets and the liabilities and their value for tax purposes, which determine taxable or deductible amounts in future periods.
Timing differences can be:

- ✓ taxable, i.e. timing differences that, when determining the taxable income (tax loss) for future years, will translate into taxable amounts when the book value of the asset or the liability will be realised or discharged; a deferred tax liability is recorded for these differences.
- ✓ deductible, in other words timing differences that, when determining the taxable income (tax loss) for future years, will translate into deductible amounts when the book value of the asset or the liability will be realised or discharged.

A deferred tax asset is recorded for all the deductible timing differences if it will be probable that taxable income will be generated against which the deductible timing difference can be used.
Deferred tax assets and liabilities are calculated using the tax rate envisaged in the periods when the assets will be realised or the liability will be discharged and will be offset when they are due to the same tax authority and when the right to offsetting is recognised by law.
Current and deferred taxes are recorded in the income statement with the exception of those relating to items whose value adjustment is recorded as a matching balance to the equity and for which the tax effects are also recorded among the equity reserves. Deferred tax assets and deferred tax liabilities are not discounted back or offset.

## 7. Financial liabilities at amortised cost

Initial recognition takes place at the fair value of the liabilities, equating to the face value increased by any additional costs/income directly attributable to the individual transaction and not reimbursed by the creditor. Internal administrative costs are excluded.
Financial liabilities at amortised cost (item 10) include all the forms of funding vis-à-vis the system as well as amounts due to transferors. Payables include all the debt liabilities, other than trading liabilities.
The item mainly comprises payables due to banks for loans received, current account overdrafts and payables to transferors for loans/receivables acquired without recourse, in relation to the portion for which the price has not been paid to the transferor or all the risks and benefits have not been transferred.
After initial recognition, subsequent measurement follows the amortised cost approach, using the effective interest rate method.
The related interest is recorded in the income statement under item 20. “Interest and similar expense”.
Payables are cancelled from the financial statements when the related contractual obligations expire or are discharged.

## 8. Employee termination benefits

Employee Termination Benefits, disbursed by the employer to the employee when the employment relationship terminates, are one of the worker’s rights regulated by Article 2120 of the Italian Civil Code and by Italian Laws no. 297/1982 and 296/2006. The provision has been recorded as a benefit subsequent to the employment relationship with defined benefits. The related liability is recorded in the financial statements on the basis of the amount to be paid to each employee and is valued using the actuarial method as a “defined benefit obligation”, taking into account future due dates when the financial disbursement will actually occur.
In particular, following Italian Law no. 296/2006 (2007 Budget Act), the amount recorded under the item “Employee termination benefits” refers solely to the defined benefit obligations connected with the benefits accrued up to a specific date within the first half of 2007, which may be different for every employee, valued by an independent actuary without applying the “pro-rata” of the service supplied. As a result, costs relating to work performed after said date are not considered for valuation purposes.
The actuarial method for calculating the Employee Termination Benefits starts from the detailed situation, at the moment of recording, of each worker and envisages year after year, for each individual worker up until his/her departure, the development of this situation due to:

- ✓ the expected date of termination of the employment relationship, resignation, redundancy, death, inability to work or retirement (once the requirements have been met);
- ✓ for each worker that remains within the workforce, potential requests for advance salary payments are also taken into account.

## 9. Provision for risks and charges

A provision is recorded under “Provisions for risks and charges” (item 100) only when:

- a current obligation (legal or implicit) exists as the result of a past event;
- it is probable that the use of resources will be necessary for meeting the obligation;
- a reliable estimate can be made of the amount of the obligation.

The provision is represented by the liabilities that are expected to be incurred in order to discharge the obligation.
The provisions for risks and charges include:

- provisions for revocation disputes and third party disputes (including therein those made by staff and former employees);
- any other provision with a specific purpose;
- the provision for the 25th year of service bonus for employees;
- provision for a redundancy incentive for employees.

No provision is made against potential and improbable liabilities.
The amount set aside to the provision for risks and charges is recorded in the income statement under item 170 “Net provisions for risks and charges”.
The aforementioned item includes the balance, positive or negative, between the provisions and any re-allocations to the income statement of the provisions deemed in excess.
If the provisions concern charges for employees, the income statement item concerned is item 160.a) “Administrative expenses: personnel expenses”.

The provisions made are reviewed at the end of each reporting period and adjusted to reflect the best current estimate. If it is no longer likely that the use of resources for producing economic benefits will be necessary to meet the obligation, the provision is reversed.

## B) THE STANDARDS USED FOR THE PREPARATION OF THE COMPARATIVE RESULTS AS AT 31 DECEMBER 2018 (ONLY FOR THE ITEMS IMPACTED BY THE NEW STANDARD).

### Tangible assets

Tangible assets are initially stated at cost, inclusive of all the charges directly associated with bringing the asset onto stream.
Item (80) "Tangible assets" includes land and buildings used for business purposes, land and buildings for investment purposes, furniture, electronic systems and other tangible assets.
Assets used for business purposes are those held for the supply of services or for administrative purposes, while investment properties are those held for the purpose of collecting lease payments and/or held for appreciating the invested capital or in any event not occupied by the company or when they become as such.
Subsequent to initial recognition, tangible assets are recorded at cost net of accumulated depreciation and impairment losses.
With reference to properties held for investment, the valuation at cost was opted for, providing the disclosure envisaged by IAS 40.
The depreciable value, equating to cost less the residual value (or rather the amount that is expected to be obtained from the asset at the end of its useful life, usually zero, after having deducted the sale costs), is divided up systematically over the useful life of the tangible asset, adopting a straight-line depreciation approach.
The residual value and the useful life of properties, plant and machinery is reviewed at least once a year for financial statement purposes and, if the expectations differ from the previous estimates, the depreciation charge for the current and subsequent years is adjusted.
The useful life, subject to periodic review for the purpose of recording any estimates significantly different from the previous ones, is defined as:
– the period of time during which it is expected that an asset can be used by the company, or,
– the quantity of products or similar units that the company expects to obtain from the use of said asset.
In the property category, land and buildings are considered to be separable assets and treated independently for accounting purposes, even when acquired together, but only if the entire building is owned (detached property). As a rule, land has an unlimited life and therefore is not depreciated. Buildings have a limited life and, therefore, are depreciated. An increase in the value of the land on which a building stands does not influence the determination of the building's useful life.
If there is objective evidence that an individual asset has suffered impairment, steps are taken to compare the book value of the asset with its recoverable value, equating to the greater between the fair value, less sales costs, and the related value in use, understood to be the current value of the future cash flows that are expected to derive from the asset. Any value adjustments are recorded under item 180. "Net value adjustments/write-backs on tangible assets" in the income statement.
If the value of an asset previously written down is reinstated, the new book value cannot exceed the net book value that would have been determined if no impairment loss on the asset had been recorded in previous years.

Depreciation is recorded in the income statement in item 180, "Net value adjustments/write-backs on tangible assets".
The costs incurred subsequent to purchase are added to the book value of the assets or recorded as a separate asset if it is probable that future economic benefits exceeding those initially estimated will be achieved and the cost can be reliably determined. All the other costs incurred subsequently (e.g. ordinary maintenance measures) are recorded in the income statement, in the year they are incurred, under item: 160.b) "Other administrative expenses", if they refer to assets for business use, or item 200. "Other operating income/expenses", if referring to properties held for investment.
Tangible assets are cancelled from the balance sheet when disposed of or when the asset is permanently withdrawn from use and future profits are not expected from its disposal and future economic benefits are not expected from its use. Any difference between the disposal value and the book value is recorded in the income statement under the item 250. Profit/loss on disposal of investments.

**A.3 – DISCLOSURE ON THE TRANSFERS BETWEEN FINANCIAL ASSET PORTFOLIOS**
The company has not carried out any portfolio transfers during 2019.

**A.4 – FAIR VALUE DISCLOSURE**

**Qualitative information**

**A.4.1 Fair value levels 2 and 3: measurement techniques and input used**
The fair value is the price that would be perceived for the sale of an asset, or that would be paid for the transfer of a liability in a regular transaction between market operators as of the measurements date (*IFRS 13; § 9*). In the event of financial instruments listed on active markets (fair value level 1), the fair value is determined as from the official prices of the most advantageous market to which the Company has access (Mark to Market). A financial instrument is considered as listed on an active market if the listed prices are readily and duly available in a price list and these prices represent effective market transactions that regularly take place in normal transactions.
For the purpose of classification in fair value level 2, if the official listing on an active market does not exist for a financial instrument in its entirety, but active markets exist for the parts it is comprised of, the fair value is determined on the basis of the pertinent market prices for the parts it is comprised of. If the market listings are not available, the Company resorts to measurement models (Mark to Model) in line with the methods generally accepted and used by the market. The measurement models include techniques based on the discounting of the future cash flows and on the estimate of the volatility and are subject to review both during their development and periodically, for the purpose of ensuring their full coherence with the objectives of the measurement.
These methods use inputs based on prices formed in recent transactions in the instrument subject to measurement and/or prices/listings of instruments with similar features in terms of risk profile. These prices/listings are, in fact, important for the purpose of determining the significant parameters, in terms of credit risk, liquidity risk, price risk and any other significant risk, relating to the instrument being measured.
The reference to these “market” parameters makes it possible to limit the discretion used in the measurement, at the same time ensuring the verifiability of the resulting fair value.
If, due to one or more risk factors, it is not possible to refer to market data, and therefore the financial instruments are classified in fair value level 3, the measurement models employed use estimates based on historical data as inputs.
The parameters that cannot be observed on the markets used for the measurement of the equity instruments that give rise to FV adjustments in the determination of the estimates, refer to the Net Asset Value (with the exclusion of any intangible fixed assets) whose calculation is based on data communicated directly by the Company (financial statements, reports, etc.).
Specifically, as at 31 December 2019, the Company recorded both unlisted equity investments that are carried at cost, since these are capital instruments whose fair value cannot be measured reliably, as well as unlisted equity investments measured at fair value on equity figures under “Financial assets mandatorily at fair value”.
During 2019, no changes took place in the measurement techniques used for estimating the fair value of Levels 2 and 3 of the financial assets and liabilities measured at fair value.
With regard to the financial instruments recognised at amortised cost, with regard to the estimate of the fair value indicated in the Notes to the accounts, the following methods and assumptions have been applied:
- for cash and cash equivalents, the fair value is represented by the nominal or face value;
- for properties, the fair value is determined on the basis of the analysis of the market values of similar properties;
- with regard to the impaired financial assets, the fair value was adopted as equal to the estimated realisable value used for financial statement purposes;
- with regard to financial assets, as well as for other asset and liability items without a specific maturity, the book value essentially approximates the fair value.

**A.4.2 Processes and sensitivity of the measurements**
The unobservable parameters capable of influencing the measurement of the instruments classified as level 3 are represented by the estimates and the assumptions underlying the models used for measuring the investments in equities.
With regard to these investments, no quantitative sensitivity analysis of the fair value with respect to the change in the non-observable inputs has been drawn up, since either the fair value has been obtained from third party sources without making any adjustment or it is the result of a model whose inputs are specific to the entity subject to measurements (e.g., equity values of the company) and in relation to which it is not reasonably possible to hypothesise alternative values.

### A.4.3 Fair value hierarchy

IFRS 13 establishes a fair value hierarchy in relation to the degree of observability of the inputs of the valuation techniques adopted. In detail, the following levels are identified:
Level 1: valuations (without adjustments) taken from the active markets of the listings;
Level 2: inputs other than the listed prices as per the previous point, but in any event referring to parameters or prices that can be observed directly or indirectly on the market;
Level 3: inputs that are not based on market observations.
The classification of financial instruments measured at fair value and assets and liabilities not measured at fair value or valued at fair value on a non-current basis is carried out with reference to the aforementioned indications. These parameters are also used for the transfer between the various levels that might become necessary during the year.
There were no transfers between the fair value levels during 2019.

### A.4.4 Other information

The Company has not availed itself of the possibility envisaged by IFRS 13, § 48 that makes it possible to "measure the fair value of a group of financial assets and liabilities based on the price that would be received from the sale of a long net position (or rather an asset) for a specific exposure to risk or from a transfer of a short net position (or rather a liability) for a particular exposure to risk in a regular transaction between market operators as of the measurement date, under current market conditions."

### Quantitative information

### A.4.5 Fair value hierarchy

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

(thousands of €)

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| **Financial assets/liabilities measured at fair value** | L1 | L2 | L3 | L1 | L2 | L3 |
| 1. Financial assets at fair value through profit or loss | - | - | - | - | - | - |
| *a) financial assets held for trading* | - | - | - | - | - | - |
| *b) financial assets designated at fair value* | - | - | - | - | - | - |
| *c) other financial assets mandatorily measured at fair value* | - | - | 4,566 | - | - | 5,181 |
| 2. Financial assets at fair value through other comprehensive income | - | - | - | - | - | - |
| 3. Hedging derivatives | - | - | - | - | - | - |
| 4. Property, plant and equipment | - | - | - | - | - | - |
| 5. Intangible assets | - | - | - | - | - | - |
| **Total** | **-** | **-** | **4,566** | **-** | **-** | **5,181** |
| 1. Financial liabilities held for trading | - | 72 | - | - | 142 | - |
| 2. Financial liabilities designated at fair value | - | - | - | - | - | - |
| 3. Hedging derivatives | - | - | - | - | - | - |
| **Total** | **-** | **72** | **-** | **-** | **142** | **-** |

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

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

(thousands of €)

| | Financial assets at fair value through profit or loss | | | | Financial assets at fair value through comprehensive income | Hedging derivatives | Property, plant and equipment | Intangible assets |
|---|---|---|---|---|---|---|---|---|
| | **Total** | of which: a) financial assets held for trading | of which: b) financial assets designated at fair value | of which: c) other financial assets mandatorily measured at fair value | | | | |
| **1. Opening balance** | **5,181** | **-** | **-** | **5,181** | **-** | **-** | **-** | **-** |
| **2. Increases** | **1** | **-** | **-** | **1** | **-** | **-** | **-** | **-** |
| 2.1. Purchases | - | - | - | - | - | - | - | - |
| 2.2. Profits charged to: | 1 | - | - | 1 | - | - | - | - |
| 2.2.1 Income statement | 1 | - | - | 1 | - | - | - | - |
| - of which gains | 1 | - | - | 1 | - | - | - | - |
| 2.2.2. Shareholders' equity | - | X | X | X | - | - | - | - |
| 2.3 Transfers to other levels | - | - | - | - | - | - | - | - |
| 2.4. Other increases | - | - | - | - | - | - | - | - |
| **3. Decreases** | **616** | **-** | **-** | **616** | **-** | **-** | **-** | **-** |
| 3.1 Sales | - | - | - | - | - | - | - | - |
| 3.2 Reimbursements | 616 | - | - | 616 | - | - | - | - |
| 3.3 Losses charged to: | - | - | - | - | - | - | - | - |
| 3.3.1 Income statement | - | - | - | - | - | - | - | - |
| - of which losses | - | - | - | - | - | - | - | - |
| 3.3.2 Shareholders' Equity | - | X | X | X | - | - | - | - |
| 3.4 Transfers to other levels | - | - | - | - | - | - | - | - |
| 3.5 Other decreases | - | - | - | - | - | - | - | - |
| **4. Closing balance** | **4,566** | **-** | **-** | **4,566** | **-** | **-** | **-** | **-** |

### A.4.5.3 Annual changes in liabilities measured at fair value on a recurring basis (level 3)

There were no amounts in this section.

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

(thousands of €)

| Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis | 2019 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | VB | L1 | L2 | L3 | VB | L1 | L2 | L3 |
| 1. Financial assets measured at amortised cost | 7,523,185 | - | - | 7,523,185 | 7,747,181 | - | - | 7,747,181 |
| 2. Property, plant and equipment held for investment purposes | 1,285 | - | 1,285 | - | 2,596 | - | 2,596 | - |
| 3. Non-current assets and disposal groups held for sale | - | - | - | - | - | - | - | - |
| **Total** | **7,524,470** | **-** | **1,285** | **7,523,185** | **7,749,777** | **-** | **2,596** | **7,747,181** |
| 1. Financial liabilities measured at amortised cost | 6,652,937 | - | - | 6,652,937 | 6,969,462 | - | - | 6,969,462 |
| 2. Liabilities associated with discontinued operations | - | - | - | - | - | - | - | - |
| **Total** | **6,652,937** | **-** | **-** | **6,652,937** | **6,969,462** | **-** | **-** | **6,969,462** |

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

### A.5 DISCLOSURE ON "DAY ONE PROFIT/LOSS"

The company did not carry out any transactions that generated the “day one profit/loss”.

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## *PART B – INFORMATION ON THE BALANCE SHEET*

### ASSETS

### Section 1 – Cash and cash equivalents – Item 10

*(thousands of €)*

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| a) Cash | 1 | 6 |
| b) Demand deposits with Central Banks | - | - |
| **Total** | **1** | **6** |

The item comprises cash and cash equivalents and revenue stamps at company headquarters.

### Section 2 – Financial assets at fair value through profit or loss – Item 20

**2.1 Financial assets held for trading: breakdown by product**

There were no amounts in this section.

**2.2 Derivative financial instruments**

There were no amounts in this section.

**2.3 Financial assets held for trading: breakdown by debtor/issuer/counterparties**

There were no amounts in this section.

**2.4 Financial assets at fair value: breakdown by product**

There were no amounts in this section.

**2.5 Financial assets at fair value: breakdown by debtor/issuer**

There were no amounts in this section.

**2.6 Other financial assets mandatorily at fair value: breakdown by product**

*(thousands of €)*

| | Total 31/12/2019 | | | Total 31/12/2018 | | |
|---|---|---|---|---|---|---|
| | L1 | L2 | L3 | L1 | L2 | L3 |
| **1. Debt securities** | **-** | **-** | **-** | **-** | **-** | **-** |
| 1.1 Structured securities | - | - | - | - | - | - |
| 1.2 Others debt securities | - | - | - | - | - | - |
| **2. Equity instruments** | **-** | **-** | **4,566** | **-** | **-** | **5,181** |
| **3. UCI units** | **-** | **-** | **-** | **-** | **-** | **-** |
| **4. Loans** | **-** | **-** | **-** | **-** | **-** | **-** |
| 4.1 Repurchase agreements | - | - | - | - | - | - |
| 4.2 Other | - | - | - | - | - | - |
| **Total** | **-** | **-** | **4,566** | **-** | **-** | **5,181** |

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

## 2.7 Other financial assets mandatorily at fair value: breakdown by debtor/issuer

*(thousands of €)*

| | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|
| **1. Equity instruments** | **4,566** | **5,181** |
| *of which: banks* | - | - |
| *of which: other financial companies* | 4,240 | 4,239 |
| *of which: non-financial companies* | 326 | 942 |
| **2. Debt securities** | **-** | **-** |
| a) Public administration | - | - |
| b) Banks | - | - |
| c) Other financial companies | - | - |
| *of which: insurance companies* | - | - |
| d) Non-financial companies | - | - |
| **3. UCI units** | **-** | **-** |
| **4. Loans** | **-** | **-** |
| a) Public administration | - | - |
| b) Banks | - | - |
| c) Other financial companies | - | - |
| *of which: insurance companies* | - | - |
| d) Non-financial companies | - | - |
| e) Household | - | - |
| **Total** | **4,566** | **5,181** |

## Section 3 – Financial assets at fair value through other comprehensive income – Item 30

There were no amounts in this section.

## Section 4 – Financial assets at amortised cost – Item 40

### 4.1 Financial assets at amortised cost: breakdown by product of due from banks

*(thousands of €)*

| Breakdown | Total 31/12/2019 | | | | | | Total 31/12/2018 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Book value | | | Fair value | | | Book value | | | Fair value | | |
| | First and second level | Third level | of which: impaired financial assets purchased or originated | L1 | L2 | L3 | First and second level | Third level | of which: impaired financial assets purchased or originated | L1 | L2 | L3 |
| **1. Deposits and current accounts** | 704 | | | | | 704 | 2 | | | | | 2 |
| **2. Loans** | 76,415 | 20 | - | - | - | 76,435 | 21,178 | 712 | - | - | - | 21,890 |
| 2.1 Repurchase agreements | | | | | | | | | | | | |
| 2.2 Financial leasing | | | | | | | | | | | | |
| 2.3 Factoring | 76,415 | 20 | - | - | - | 76,435 | 21,178 | 712 | - | - | - | 21,890 |
| - with recourse | 60,022 | | | | | 60,022 | 281 | | | | | 281 |
| - without recourse | 16,393 | 20 | | | | 16,413 | 20,897 | 712 | | | | 21,609 |
| 2.4 Other loans | | | | | | | | | | | | |
| **3. Debt securities** | - | - | - | - | - | - | - | - | - | - | - | - |
| - structured securities | | | | | | | | | | | | |
| - other debt securities | | | | | | | | | | | | |
| **4. Other assets** | | | | | | | | | | | | |
| **Total** | **77,119** | **20** | **-** | **-** | **-** | **77,139** | **21,180** | **712** | **-** | **-** | **-** | **21,892** |

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

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### 4.2 Financial assets at amortised cost: breakdown by product of due from financial companies

*(thousands of €)*

| Breakdown | Total 31/12/2019 | | | | | | Total 31/12/2018 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Book value | | | Fair Value | | | Book value | | | Fair Value | | |
| | First and second level | Third level | of which: impaired financial assets purchased or originated | L 1 | L 2 | L 3 | First and second level | Third level | of which: impaired financial assets purchased or originated | L 1 | L 2 | L 3 |
| **1. Loans** | **21,087** | **-** | **-** | **-** | **-** | **21,087** | **62,912** | **-** | **-** | **-** | **-** | **62,912** |
| 1.1 Repurchase agreement | | | | | | | | | | | | |
| 1.2 Financial Leasing | | | | | | | | | | | | |
| 1.3 Factoring | 21,087 | - | - | - | - | 21,087 | 62,912 | - | - | - | - | 62,912 |
| - with recourse | 6,794 | | | | | 6,794 | 30,776 | | | | | 30,776 |
| - without recourse | 14,293 | | | | | 14,293 | 32,136 | | | | | 32,136 |
| 1.4 Other loans | | | | | | | | | | | | |
| **2. Debt securities** | - | - | - | - | - | - | - | - | - | - | - | - |
| 2.1 Structured securities | | | | | | | | | | | | |
| 2.2 other debt securities | | | | | | | | | | | | |
| **3. Other assets** | | | | | | | | | | | | |
| **Total** | **21,087** | **-** | **-** | **-** | **-** | **21,087** | **62,912** | **-** | **-** | **-** | **-** | **62,912** |

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

### 4.3 Financial assets at amortised cost: breakdown by product of due from customers

*(thousands of €)*

| Breakdown | Total 31/12/2019 | | | | | | Total 31/12/2018 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Book value | | | Fair value | | | Book value | | | Fair value | | |
| | First and second level | Third level | of which: impaired financial assets purchased or originated | L1 | L2 | L3 | First and second level | Third level | of which: impaired financial assets purchased or originated | L1 | L2 | L3 |
| **1. Loans** | 7,298,876 | 126,083 | - | - | - | 7,424,959 | 7,520,823 | 141,554 | - | - | - | 7,662,377 |
| 1.1 Financial leasing | | | | | | | | | | | | |
| *of which: without final purchase option* | | | | | | | | | | | | |
| 1.2 Factoring | 6,848,555 | 110,973 | - | - | - | 6,959,528 | 6,829,807 | 141,554 | - | - | - | 6,971,361 |
| - with recourse | 755,535 | 57,391 | | | | 812,926 | 853,583 | 86,638 | | | | 940,221 |
| - without recourse | 6,093,020 | 53,582 | | | | 6,146,602 | 5,976,224 | 54,916 | | | | 6,031,140 |
| 1.3 Consumer credit | | | | | | | | | | | | |
| 1.4 Credit cards | | | | | | | | | | | | |
| 1.5 Loans on pledge | | | | | | | | | | | | |
| 1.6. Loans granted in relation to the payment services performed | | | | | | | | | | | | |
| 1.7 Other loans | 450,321 | 15,110 | | | | 465,431 | 691,016 | | | | | 691,016 |
| *of which: from enforcement of guarantees and commitments* | | | | | | | | | | | | |
| **2. Debt securities** | - | - | - | - | - | - | - | - | - | - | - | - |
| 2.1 structured securities | | | | | | | | | | | | |
| 2.2 other debt securities | | | | | | | | | | | | |
| **3. Other assets** | | | | | | | | | | | | |
| **Total** | **7,298,876** | **126,083** | **-** | **-** | **-** | **7,424,959** | **7,520,823** | **141,554** | **-** | **-** | **-** | **7,662,377** |

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

The item "Financial assets at amortised cost" includes deferred income relating to the spreading of revenue, falling within the scope of IFRS 9, in line with the duration of the credit to which they refer.
Deferred income relating to guarantee commissions within the scope of IFRS 9 amounted to EUR 24,059 as at 31 December 2019, while the same item as at 31 December 2018 amounted to EUR 48,488.

### 4.4 Financial assets at amortised cost: breakdown by debtor/issuer of due from customers

(thousands of €)

| Breakdown | Total 31/12/2019 | | | Total 31/12/2018 | | |
|---|---|---|---|---|---|---|
| | First and second level | Third level | of which: impaired financial assets purchased or originated | First and second level | Third level | of which: impaired financial assets purchased or originated |
| **1. Debt securities** | - | - | - | - | - | |
| a) Public Administration | | | | | | |
| b) Non-financial companies | | | | | | |
| **2. Loans to:** | 7,298,876 | 126,083 | - | 7,520,823 | 141,554 | - |
| a) Public Administration | 931,261 | 34,972 | | 1,504,982 | 39,183 | |
| b) Non-financial companies | 6,222,947 | 88,910 | | 5,951,238 | 100,136 | |
| c) Households | 144,668 | 2,201 | | 64,603 | 2,235 | |
| **3. Other assets** | | | | | | |
| **Total** | **7,298,876** | **126,083** | **-** | **7,520,823** | **141,554** | **-** |

### 4.5 Financial assets at amortised cost: gross value and total value adjustments

(thousands of €)

| | Gross value | | | | Value adjustments | | | Overall partial write-off * |
|---|---|---|---|---|---|---|---|---|
| | First level | *of which: instruments with low credit risk* | Second stage | Third stage | First level | Second level | Third level | |
| **Debt securities** | | | | | | | | |
| **Loans** | 6,489,013 | | 919,815 | 410,494 | 6,933 | 4,812 | 284,392 | |
| **Other assets** | | | | | | | | |
| **Total 2019** | **6,489,013** | **-** | **919,815** | **410,494** | **6,933** | **4,812** | **284,392** | - |
| **Total 2018** | **6,684,666** | **-** | **931,142** | **437,027** | **4,392** | **6,501** | **294,761** | - |
| *of which: impaired financial assets purchased or originated* | X | X | | | X | | | |

* Value to be shown for information purposes

### 4.6 Financial assets at amortised cost: guaranteed assets

*(thousands of €)*

| Breakdown | Total 31/12/2019 | | | | | | Total 31/12/2018 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Due from banks | | Due from financial companies | | Due from customers | | Due from banks | | Due from financial companies | | Due from customers | |
| | VE | VG | VE | VG | VE | VG | VE | VG | VE | VG | VE | VG |
| **1. Performing assets guaranteed by:** | 59,636 | 59,635 | - | - | 2,458,423 | 2,098,115 | 4 | 4 | 28,851 | 25,171 | 1,908,896 | 1,341,527 |
| - Leased assets | | | | | | | | | | | | |
| - Factoring receivables | 59,636 | 59,635 | | | 942,482 | 852,767 | 4 | 4 | 28,851 | 25,171 | 1,052,653 | 947,080 |
| - Mortgages | | | | | | | | | | | | |
| - Pledges | | | | | | | | | | | | |
| - Unsecured guarantees | | | | | 1,515,941 | 1,245,348 | | | | | 856,243 | 394,447 |
| - Derivatives on receivables | | | | | | | | | | | | |
| **2. Impaired assets guaranteed by:** | - | - | - | - | 72,700 | 67,455 | - | - | - | - | 81,716 | 80,701 |
| - Leased assets | | | | | | | | | | | | |
| - Factoring receivables | | | | | 72,328 | 67,206 | | | | | 80,815 | 80,251 |
| - Mortgages | | | | | | | | | | | | |
| - Pledges | | | | | | | | | | | | |
| - Unsecured guarantees | | | | | 372 | 249 | | | | | 901 | 450 |
| - Derivatives on receivables | | | | | | | | | | | | |
| **Total** | **59,636** | **59,635** | **-** | **-** | **2,531,123** | **2,165,570** | **4** | **4** | **28,851** | **25,171** | **1,990,612** | **1,422,228** |

VE = book value of exposures
VG = fair value of the guarantees

## Section 5 – Hedging derivatives – Item 50

There were no amounts in this section.

## Section 6 – Change in value of financial assets recorded as part of a generic hedge - Item 60

There were no amounts in this section.

## Section 7 – Equity investments – Item 70

There were no amounts in this section.

## Section 8 – Tangible assets – Item 80

### 8.1 Tangible assets for business use: breakdown of assets valued at cost

*(thousands of €)*

| Assets/Balances | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|
| **1. Assets owned** | **374** | **18,188** |
| a) land | - | 13,186 |
| b) buildings | - | 3,617 |
| c) furniture | 15 | 36 |
| d) IT equipment | 359 | 419 |
| e) other | - | 930 |
| **2. Assets purchased under financial lease** | **2,247** | **-** |
| a) land | - | - |
| b) buildings | 2,247 | - |
| c) furniture | - | - |
| d) IT equipment | - | - |
| e) other | - | - |
| **Total** | **2,621** | **18,188** |
| *of which: obtained through enforcement of guarantees received* | - | - |

The decrease of 15,567 is mainly due to the sale of the property located in Via Vittor Pisani 15 in Milan during 2019.

### 8.2 Tangible assets held for investment: breakdown of assets valued at cost

*(thousands of €)*

| Assets/Balances | Total 31/12/2019 | | | | Total 31/12/2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | Book Value | Fair Value | | | Book Value | Fair Value | | |
| | | L1 | L2 | L3 | | L1 | L2 | L3 |
| **1. Assets owned** | **1,286** | **-** | **1,286** | **-** | **2,597** | **-** | **2,597** | **-** |
| a) land | | - | | - | 1,030 | - | 1,030 | - |
| b) buildings | 1,286 | - | 1,286 | - | 1,567 | - | 1,567 | - |
| **2. Assets purchased under financial lease** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| a) land | - | - | - | - | - | - | - | - |
| b) buildings | - | - | - | - | - | - | - | - |
| **Total** | **1,286** | **-** | **1,286** | **-** | **2,597** | **-** | **2,597** | **-** |
| *of which: obtained through enforcement of guarantees received* | - | - | - | - | - | - | - | - |

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

"Assets held for investment" are represented by the building in Rome, via Vittorio Veneto 7, entirely leased to third parties.

### 8.3 Tangible assets for business use: breakdown of revalued assets

There were no amounts in this section.

### 8.4 Tangible assets held for investment: breakdown of assets measured at fair value

There were no amounts in this section.

### 8.5 Inventories of tangible assets regulated by IAS 2: breakdown

There were no amounts in this section.

### 8.6 Tangible assets for business use: changes during the year

*(thousands of €)*

| | | Land | Buildings | Furniture | IT equipment | Other | **Total** |
|---|---|---|---|---|---|---|---|
| **A.** | **Gross opening balance** | **13,186** | **12,459** | **1,762** | **6,206** | **930** | **34,543** |
| A.1 | Net reductions in total amounts | - | (8,842) | (1,726) | (5,787) | - | (16,354) |
| A.2 | **Net opening balances** | **13,186** | **3,617** | **36** | **419** | **930** | **18,188** |
| **B.** | **Increases** | **-** | **12,606** | **16** | **4,259** | | **16,881** |
| B.1 | Purchases | | 3,608 | 5 | 262 | | **3,875** |
| B.2 | Capitalized improvement expenses | | | | | | **-** |
| B.3 | Write-backs | | | | | | **-** |
| B.4 | Positive fair value changes booked to: | - | | | | | **-** |
| | a) equity | | | | | | **-** |
| | b) income statement | | | | | | **-** |
| B.5 | Exchange gains | | | | | | **-** |
| B.6 | Transfer from properties held for investment purposes | | | X | X | X | **-** |
| B.7 | Other changes | | 8,998 | 11 | 3,997 | | **13,006** |
| **C.** | **Decreases** | **13,186** | **13,976** | **37** | **4,319** | **930** | **32,448** |
| C.1 | Sales | 13,186 | 13,165 | 11 | 4,079 | | **30,441** |
| C.2 | Depreciation | | 811 | 26 | 240 | | **1,077** |
| C.3 | Impairment charges booked to: | - | - | - | - | - | **-** |
| | a) equity | | | | | | **-** |
| | b) income statement | | | | | | **-** |
| C.4 | Negative fair value changes booked to: | - | - | - | - | - | **-** |
| | a) equity | | | | | | **-** |
| | b) income statement | | | | | | **-** |
| C.5 | Exchange losses | | | | | | **-** |
| C.6 | Transfer to: | - | - | - | - | - | **-** |
| | a) property, plant and equipment held for investments purposes | | | X | X | X | **-** |
| | b) non-current assets and disposal groups held for sale | | | | | | **-** |
| C.7 | Other decreases | | | | | 930 | **930** |
| **D.** | **Net closing balances** | **- 0** | **2,247** | **15** | **359** | **- 0** | **2,621** |
| D.1 | Net reductions in total amounts | - | - 655 | (1,741) | (2,030) | - | (4,425) |
| D.2 | **Gross closing balance** | **- 0** | **2,902** | **1,756** | **2,389** | **- 0** | **7,047** |
| E. | Valuation at cost | **- 0** | **2,247** | **15** | **359** | **- 0** | **2,621** |

The tangible assets for business use of the company are all measured at cost.

A table showing the rights of use acquired in the lease of tangible assets is shown below.

*(thousands of €)*

| | | Land | Buildings | Furniture | IT equipment | Other | **Total** |
|---|---|---|---|---|---|---|---|
| **A.** | **Gross opening balance** | | | | | | |
| A.1 | Net reductions in total amounts | | | | | | |
| A.2 | **Net opening balances** | | | | | | |
| **B.** | **Increases** | **-** | **2,902** | | | | **2,902** |
| B.1 | Purchases | | 2,902 | | | | **2,902** |
| B.2 | Capitalized improvement expenses | | | | | | **-** |
| B.3 | Write-backs | | | | | | **-** |
| B.4 | Positive fair value changes booked to: | - | | | | | **-** |
| | a) equity | | | | | | **-** |
| | b) income statement | | | | | | **-** |
| B.5 | Exchange gains | | | | | | **-** |
| B.6 | Transfer from properties held for investment purposes | | | X | X | X | **-** |
| B.7 | Other changes | | | | | | **-** |
| **C.** | **Decreases** | **-** | **655** | | | **-** | **655** |
| C.1 | Sales | | | | | | **-** |
| C.2 | Depreciation | | 655 | | | | **655** |
| C.3 | Impairment charges booked to: | - | - | - | - | - | **-** |
| | a) equity | | | | | | **-** |
| | b) income statement | | | | | | **-** |
| C.4 | Negative fair value changes booked to: | - | - | - | - | - | **-** |
| | a) equity | | | | | | **-** |
| | b) income statement | | | | | | **-** |
| C.5 | Exchange losses | | | | | | **-** |
| C.6 | Transfer to: | - | - | - | - | - | **-** |
| | a) property, plant and equipment held for investments purposes | | | X | X | X | **-** |
| | b) non-current assets and disposal groups held for sale | | | | | | **-** |
| C.7 | Other decreases | | | | | | **-** |
| **D.** | **Net closing balances** | **-** | **2,247** | **-** | **-** | **-** | **2,247** |
| D.1 | Net reductions in total amounts | - | (655) | 0 | 0 | - | (655) |
| D.2 | **Gross closing balance** | **-** | **2,902** | **-** | **-** | **-** | **2,902** |
| E. | Valuation at cost | **-** | **2,247** | **-** | **-** | **-** | **2,247** |

The rights of use acquired in a finance lease refer to the lease contracts of the properties located in Via Deruta and Corso Italia in Milan, which are used by the company as work premises. The contracts are signed with the company BNL Spa.

### 8.7 Tangible assets held for investment: changes during the year

*(thousands of €)*

| | | | Total | |
|---|---|---|---|---|
| | | | Land | Buildings |
| **A.** | **Opening balance** | | **1,030** | **1,567** |
| **B.** | **Increases** | | **-** | **677** |
| | B.1 | Purchases | | |
| | B.2 | Capitalized improvement expenses | | |
| | B.3 | Net positive fair value changes | | |
| | B.4 | Value adjustments for impairment | | |
| | B.5 | Exchange losses | | |
| | B.6 | Transfers from properties for business use | | |
| | B.7 | Other changes | | |
| **C.** | **Decreases** | | **1,030** | **958** |
| | C.1 | Sales | 1,030 | 855 |
| | C.2 | Depreciation | | 103 |
| | C.3 | Net negative fair value changes | | |
| | C.4 | Value adjustments for impairment | | |
| | C.5 | Exchange losses | | |
| | C.6 | Transfers from: | | |
| | | a) properties for business use | | |
| | | b) non-current assets and disposal groups held for sale | | |
| | C.7 | Other changes | | |
| **D** | **Closing balance** | | **-** | **1,286** |
| E. | Measurement at fair value | | | **1,286** |

The tangible assets held for investment of the company are all measured at cost.
The value of the land for the property located in Rome (Via V. Veneto) has not been spun-off, since Ifitalia does not own the entire building.

### 8.7.1 Tangible assets held for investment for rights of use acquired: changes during the year
There were no amounts in this section.

### 8.8 Inventories of tangible assets regulated by IAS 2: changes during the year
There were no amounts in this section.

### 8.9 Commitments to purchase tangible assets
There were no amounts in this section.

### Tangible assets: depreciation

| Category | Depreciation percentage |
|---|---|
| Land | no depreciation |
| Buildings | from 1.25% to 10% |
| Furniture | 12% |
| IT equipment | from 11.11% to 33.33% |
| Other | from 14.29% to 25% |
| Other : works of art | no depreciation |

## Section 9 – Intangible assets – Item 90

### 9.1 Intangible assets: breakdown

(thousands of €)

| Items/Amounts | Total 31/12/2019 | | Total 31/12/2018 | |
|---|---|---|---|---|
| | Assets valued at cost | Assets valued at fair value | Assets valued at cost | Assets valued at fair value |
| **1. Goodwill** | | | - | - |
| **2. Other intangible assets:** | | | | |
| 2.1 owned | **11,264** | **-** | **10,520** | - |
| - generated internally | 1,879 | | 1,949 | - |
| - other | 9,385 | | 8,571 | - |
| 2.2 acquired under financial lease | | | **-** | - |
| **Total 2** | **11,264** | - | **10,520** | - |
| **3. Assets pertaining to financial lease:** | | | | |
| 3.1 unopted assets | | | **-** | - |
| 3.2 assets withdrawn following termination | | | **-** | - |
| 3.3 other assets | | | - | - |
| **Total 3** | **-** | - | **-** | - |
| **4. Assets granted under operating lease** | | | **-** | - |
| **Total (1+2+3+4)** | **11,264** | **-** | **10,520** | **-** |
| **Total 31/12/2018** | **11,264** | **-** | **10,520** | **-** |

The IT costs attributable to internal software development projects amount to EUR 1,879 thousand.

The intangible fixed assets also include “software licenses” for EUR 1,689 thousand (EUR 458 thousand in 2018) and “software development” for EUR 7,696 thousand (EUR 8,113 thousand in 2018).

### 9.2 Intangible assets: changes during the year

*(thousands of €)*

| | | | Total |
|---|---|---|---|
| **A.** | **Opening balances** | | **10,520** |
| **B.** | **Increases** | | **4,407** |
| | B.1 | Purchases | 4,407 |
| | B.2 | Write-backs | |
| | B.3 | Fair value positive changes | - |
| | | - equity | |
| | | - income statement | |
| | B.4 | Other changes | |
| **C.** | **Decreases** | | **3,663** |
| | C.1 | Sales | |
| | C.2 | Depreciation | **3,663** |
| | C.3 | Value adjustments | - |
| | | - equity | |
| | | - income statement | |
| | C.4 | Negative fair value changes | - |
| | | - equity | |
| | | - income statement | |
| | C.5 | Other decreases | - |
| **D.** | **Net closing balances** | | **11,264** |

KEY
DEF: with definite life
INDEF: with indefinite life

The purchases during the year, amounting to EUR 4,407 thousand, refer to capitalisations of IT costs, of which EUR 670 thousand (673 thousand in 2018) referring to capitalisation of internal effort.

### 9.3 Intangible assets: other information

There were no amounts in this section.

### Value adjustments to intangible assets: amortisation

| Category | Amortisation percentage |
|---|---|
| Software | from 12.5% to 33.3% |
| Costs of conversion | 12.5% |
| Cost of implementation | 33.3% |
| Costs for regulatory constraints | directly charged to the income statement |

## Section 10 – Tax assets and tax liabilities - Asset item 100 and liability item 60

### 10.1 Tax assets: current and deferred: breakdown

*(thousands of €)*

| | 31/12/2019 | | | | 31/12/2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | IRES | IRAP | OTHER | TOTAL | IRES | IRAP | OTHER | TOTAL |
| **Current tax assets:** | | | | | | | | |
| - Tax advances | 11,113 | 2,703 | 12 | 13,828 | 9,386 | 2,653 | | 12,039 |
| - Amounts withheld | 4 | | | 4 | 15 | - | - | 15 |
| - Tax credits pending rebate by the tax authorities | 1,078 | | | 1,078 | 2,215 | - | - | 2,215 |
| | **12,195** | **2,703** | **12** | **14,910** | **11,616** | **2,653** | **-** | **14,269** |
| **Prepaid tax assets:** | | | | | | | | |
| - Writedowns of credits exceeding the deductible portion for the year | 39,173 | 5,007 | | 44,180 | 39,166 | 5,006 | - | 44,172 |
| - Provisions for risks and charges | 2,864 | 76 | | 2,940 | 4,331 | 73 | - | 4,404 |
| - Other | 385 | | | 385 | 345 | - | - | 345 |
| | **42,422** | **5,083** | **-** | **47,505** | **43,842** | **5,079** | **-** | **48,921** |
| | | | | | | | | |
| **Total** | **54,617** | **7,786** | **12** | **62,415** | **55,458** | **7,732** | **-** | **63,190** |

### 10.2 Tax liabilities: current and deferred: breakdown

*(thousands of €)*

| | 31/12/2019 | | | 31/12/2018 | | |
|---|---|---|---|---|---|---|
| | IRES | IRAP | TOTAL | IRES | IRAP | TOTAL |
| **Current tax liabilities:** | | | | | | |
| - Taxes for the year | 18,642 | 4,414 | 23,056 | 10,626 | 2,689 | 13,315 |
| | **18,642** | **4,414** | **23,056** | **10,626** | **2,689** | **13,315** |
| **Deferred tax liabilities:** | | | | | | |
| - Depreciation of tangible fixed assets | - | - | - | 1,548 | 312 | 1,860 |
| - Capital Gain on participations | 44 | 198 | 242 | 49 | 198 | 247 |
| - Others | 291 | - | 291 | 286 | - | 286 |
| | **335** | **198** | **533** | **1,883** | **510** | **2,393** |
| | | | | | | |
| **Total** | **18,977** | **4,612** | **23,589** | **12,509** | **3,199** | **15,708** |

### 10.3 Change in deferred tax assets (matching balance in income statement)

*(thousands of €)*

| | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|
| **1. Opening balance** | **48,576** | **38,940** |
| **2. Increases** | **963** | **11,560** |
| 2.1 Deferred tax assets recognized during the year | 963 | 11,533 |
| a) related to previous years | 380 | - |
| b) due to change in accounting policies | - | 10,810 |
| c) write-backs | | |
| d) other | 583 | 723 |
| 2.2 New taxes or increases in tax rates | | |
| 2.3 Other increases | - | 27 |
| **3. Decreases** | **2,419** | **1,924** |
| 3.1 Deferred tax assets eliminated during the year | 2,419 | 1,924 |
| a) reversals | 2,419 | 1,924 |
| b) written down as now considered irrecoverable | | |
| 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 214/2011 | | |
| b) other | - | - |
| **4. Closing balance** | **47,120** | **48,576** |

Deferred tax assets have been recorded in the financial statements based on the assumption that taxable income will be generated against which the deductible timing differences can be used.

The increase of EUR 963 thousand refers almost entirely to the allocation to the provisions for risks and charges for the year; the reduction of EUR 2,419 thousand relating to the use of the provisions for risks and charges.

### 10.3.1 Change in deferred tax assets pursuant to Law 214/2011 (matching balance in income statement)

*(thousands of €)*

| | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|
| **1. Opening balance** | **34,478** | **34,478** |
| **2. Increases** | | **-** |
| **3. Decreases** | **-** | **-** |
| 3.1 Amounts reversed | | - |
| 3.2 Transformation into tax credits | - | - |
| a) from losses for the year | | |
| b) from tax losses | | |
| 3.3 Other decreases | - | - |
| **4. Closing balance** | **34,478** | **34,478** |

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### 10.4 Changes in deferred tax liabilities (matching balance in income statement)

*(thousands of €)*

| | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|
| **1. Opening balances** | **2,393** | **1,860** |
| **2. Increases** | **5** | **533** |
| 2.1 Deferred taxes recognized during the year | 5 | 293 |
| a) related to previous years | | - |
| b) due to change in accounting policies | - | 247 |
| c) other | 5 | 46 |
| 2.2 New taxes or increases in tax rates | | - |
| 2.3 Other increases | - | 240 |
| **3. Decreases** | **1,865** | **-** |
| 3.1 Deferred tax liabilities eliminated during the year | 1,865 | - |
| a) reversals | 1,860 | - |
| b) due to change in accounting policies | | - |
| c) other | 5 | - |
| 3.2 Reductions in tax rates | | - |
| 3.3 Other decreases | | - |
| **4. Closing balance** | **533** | **2,393** |

### 10.5 Changes in deferred tax assets (matching balance under equity)

*(thousands of €)*

| | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|
| **1. Opening balance** | **345** | **145** |
| **2. Increases** | **40** | **240** |
| 2.1 Deferred tax assets recognized during the year | 40 | - |
| a) related to previous years | | - |
| b) due to changes in accounting policies | | - |
| c) other | 40 | - |
| 2.2 New taxes or increases in tax rates | | - |
| 2.3 Other increases | - | 240 |
| **3. Decreases** | - | 40 |
| 3.1 Deferred tax assets eliminated during the year | - | 40 |
| a) reversals | - | 40 |
| b) written down as now considered irrecoverable | | - |
| c) due to changes in accounting policies | | - |
| d) other | | - |
| 3.2 Reductions in tax rates | | - |
| 3.3 Other decreases | | - |
| **4. Closing balance** | **385** | **345** |

### 10.6 Changes in deferred tax liabilities (matching balance under equity)

*(thousands of €)*

| | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|
| **1. Opening balance** | **-** | **247** |
| **2. Increases** | **-** | |
| 2.1 Deferred tax liabilities recognized during the year | - | |
| a) related 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 | | |
| **3. Decreases** | **-** | **247** |
| 3.1 Deferred taxes cancelled during the year | - | 247 |
| a) reversals | | |
| b) due to change in accounting policies | - | 247 |
| c) other | | - |
| 3.2 Reductions in tax rates | | |
| 3.3 Other decreases | | - |
| **4. Closing balance** | **-** | **-** |

### Section 11 – Non-current assets and groups of assets undergoing disposal and associated liabilities – Asset item 110 and liability item 70

There were no amounts in this section.

### Section 12 – Other assets – Item 120

### 12.1 Other assets: breakdown

*(thousand of €)*

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Guarantee deposits | 3 | 8 |
| Amounts receivable for supply of services/advance payments | 22 | 70 |
| Items in transit | 178 | 349 |
| Securities credited to customers subject to collection services awaiting c | 47,698 | 36,978 |
| Other amounts receivable | 8,669 | 11,709 |
| **Total** | **56,570** | **49,114** |

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## LIABILITIES

### Section 1 – Financial liabilities at amortised cost - Item 10

### 1.1 Financial liabilities at amortised cost: breakdown by product of payables

*(thousands of €)*

| Items | Total 31/12/2019 | | | Total 31/12/2018 | | |
|---|---|---|---|---|---|---|
| | due to banks | due to financial institutions | due to customers | due to banks | due to financial institutions | due to customers |
| **1. Loans** | 5,790,566 | 401 | - | 5,905,597 | 836 | - |
| 1.1. Reverse repurchase agreements | | | | | | |
| 1.2 other | 5,790,566 | 401 | | 5,905,597 | 836 | |
| **2. Leasing payables** | 2,323 | | | | | |
| **3. Other payables** | 267,163 | 1,366 | 305,010 | 400,692 | | 315,797 |
| **Total** | **6,060,052** | **1,767** | **305,010** | **6,306,289** | **836** | **315,797** |
| **Fair value - level 1** | | | | | | |
| **Fair value - level 2** | | | | | | |
| **Fair value - level 3** | 6,060,052 | 1,767 | 305,010 | 6,306,289 | 836 | 315,797 |
| ***Total fair value*** | 6,060,052 | 1,767 | 305,010 | 6,306,289 | 836 | 315,797 |

### 1.2 Financial liabilities at amortised cost: breakdown by product of securities issued

There were no amounts in this section.

### 1.3 Subordinated payables and securities

There were no amounts in this section.

### 1.4 Structured securities

There were no amounts in this section.

### 1.5 Lease payables

Cash outflows for leases are shown in the table below.

*(thousands of €)*

| | Leasing cash flow maturity bands | | | | |
|---|---|---|---|---|---|
| | within 1 month | from 1 month to 6 months | from 6 months to 1 year | from one year to 2 years | **Total** |
| Lease liabilities | 291 | 289 | 580 | 1163 | **2323** |
| **Total** | **291** | **289** | **580** | **1163** | **2323** |

The duration of the payables derives from the term of the lease contracts for the premises in Via Deruta and Corso Italia, which are likely to expire early on 31 December 2021 due to the relocation of the offices to another building. Given the limited term of this financial liability, no specific hedging has been activated.

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## Section 2 – Financial liabilities held for trading – Item 20

### 2.1 Financial liabilities held for trading: breakdown by product

*(thousands of €)*

| Liabilities | Total 31/12/2019 | | | | | Total 31/12/2018 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | NV | Fair value | | | Fair value* | NV | Fair value | | | Fair value* |
| | | L1 | L2 | L3 | | | L1 | L2 | L3 | |
| **A. Cash liabilities** | | | | | | | | | | |
| 1. Deposits | | | | | | | | | | |
| 2. Debt securities | - | - | - | - | - | - | - | - | - | - |
| 2.1 Bonds | - | - | - | - | - | - | - | - | - | - |
| 2.1.1 Structured | | | | | X | | | | | X |
| 2.1.2 Other bonds | | | | | X | | | | | X |
| 2.2 Other securities | - | - | - | - | - | - | - | - | - | - |
| 2.2.1 Structured | | | | | X | | | | | X |
| 2.2.2 Other | | | | | X | | | | | X |
| **Total A** | - | - | - | - | - | - | - | - | - | - |
| **B. Derivative instruments** | | | | | | | | | | |
| 1. Financial derivatives | - | - | - | 72 | - | - | - | - | 142 | - |
| 1.1 Trading | X | | | 72 | X | X | | | 142 | X |
| 1.2 Fair value option | X | | | | X | X | | | | X |
| 1.3 Other | X | | | | X | X | | | | X |
| 2. Credit derivatives | - | - | - | - | - | - | - | - | - | - |
| 2.1 Trading | X | | | | X | X | | | | X |
| 2.2 Fair value option | X | | | | X | X | | | | X |
| 2.3 Other | X | | | | X | X | | | | X |
| **Total B** | X | - | - | 72 | X | X | - | - | 142 | X |
| **Total (A + B)** | X | - | - | 72 | X | X | - | - | 142 | X |

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3
NV = Nominal/notional value
FV* = Fair value calculated excluding the changes on variation of the creditworthiness of the issuer with respect to the issue date

### 2.2 Breakdown of financial liabilities held for trading: subordinated liabilities

There were no amounts in this section.

### 2.3 Breakdown of financial liabilities held for trading: structured securities

There were no amounts in this section.

### 2.4 Breakdown of financial liabilities held for trading: derivative financial instruments

*(thousands of €)*

| Underlying assets/Derivatives Type | Total 2019 | | | | Total 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | Over the counter | | | Organised Markets | Over the counter | | | Organised Markets |
| | Central counterparts | without central counterparts | | | Central counterparts | without central counterparts | | |
| | | with compensatory agreements | without compensatory agreements | | | with compensatory agreements | without compensatory agreements | |
| **1. Debt securities and interest rates** | | | | | | | | |
| - Nominal value | | | 1,319 | | - | - | 1,893 | - |
| - Fair value | | | 72 | | - | - | 142 | - |
| **2. Equity securities and financial indices** | | | | | | | | |
| - Nominal value | | | | | - | - | - | - |
| - Fair value | | | | | - | - | - | - |
| **3. Currency and gold** | | | | | | | | |
| - Nominal value | | | | | - | - | - | - |
| - Fair value | | | | | - | - | - | - |
| **4. Loans** | | | | | | | | |
| - Nominal value | | | | | - | - | - | - |
| - Fair value | | | | | - | - | - | - |
| **5. Goods** | | | | | | | | |
| - Nominal value | | | | | - | - | - | - |
| - Fair value | | | | | - | - | - | - |
| **6. Others** | | | | | | | | |
| - Nominal value | | | | | - | - | - | - |
| - Fair value | | | | | - | - | | - |
| **Total** | - | - | 72 | - | - | - | 142 | - |

**Section 3 – Financial liabilities at fair value – Item 30**
There were no amounts in this section.

**Section 4 – Hedging derivatives – Item 40**
There were no amounts in this section.

**Section 5 – Change in value of financial liabilities recorded as part of a generic hedge – Item 50**
There were no amounts in this section.

**Section 6 – Tax liabilities – Item 60**
See section 10 under assets

**Section 7 – Liabilities associated with assets undergoing disposal – Item 70**
See section 11 under assets

**Section 8 – Other liabilities – Item 80**

**8.1 Other liabilities: breakdown**

*(thousands of €)*

| Description | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|
| Collections being registered | 104,035 | 110,628 |
| Amounts due to employees | 1,811 | 1,804 |
| Amounts due to the tax authorities | 642 | 662 |
| Amounts due to social security and welfare institutions | 1,238 | 1,120 |
| Payables and invoices to be received from suppliers and professionals | 21,027 | 21,463 |
| Liabilities due to transferors | 5,853 | 6,221 |
| Other payables | 4,444 | 3,988 |
| Advances from customers | 71,388 | 34,657 |
| Residual holiday entitlement fund | 473 | 297 |
| **Total** | **210,912** | **180,841** |

**Section 9 − Employee termination benefits − Item 90**

**9.1 "Employee termination benefits": changes during the year**

*(thousands of €)*

| | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|
| **A. Opening balance** | **4,073** | **4,740** |
| **B. Increases** | **1,445** | **44** |
| B.1 Provision for the year | 51 | 36 |
| B.2 Other changes | 1,394 | 8 |
| **C. Decreases** | **819** | **711** |
| C.1 Liquidations | 427 | 566 |
| C.2 Other changes | 392 | 145 |
| **D. Closing balance** | **4,699** | **4,073** |

(*) The provision for employment termination benefits calculated in compliance with Article 2120 of the Italian Civil Code equals EUR 4,261,833 and represents the effective obligation towards employees. The allocation for the year is EUR 70,801.

**9.2 Other information**

**9.2.1 Description of the provision and related risks**

Employee termination benefits, disbursed by the employer to the employee when the employment relationship terminates, are one of the worker's rights regulated by Article 2120 of the Italian Civil Code and by Italian Laws no. 297/1982 and 296/2006. The provision has been recorded as a benefit subsequent to the employment relationship with defined benefits. The related liability is recorded in financial statements based on the amount to be paid to each employee and is valued using the actuarial method as a "defined benefit obligation", taking into account future due dates when the financial disbursement will actually occur.

More specifically, Italian Law No. 296/2006 (2007 Budget Act) essentially states that the portion of employee termination benefits:

- accrued through the beginning of 2007 will remain in-house and must be disbursed to employees in accordance with statutory regulations, creating a liability to be recorded in the financial statements;
- accrued from the beginning of 2007 must, according to the employee's choice: a) be transferred to supplementary welfare funds; or b) be transferred to the INPS Treasury Fund.

Therefore, the amount recorded under the item "Employee termination benefits" refers solely to the defined benefit obligations connected with the benefits accrued up to a specific date within the first half of 2007 that is different for every employee, valued by an independent actuary without applying the "pro-rata" of the service supplied. As a result, costs relating to future work provided are not considered for valuation purposes.

The current method for calculating employee termination benefits starts from the detailed situation, at the moment of entry, of each worker and envisages each year, for each individual worker up until his/her departure, the development of the provision due to:

1. the expected date of termination of the employment relationship, resignation, redundancy, death, inability to work or retirement (once the requirements have been met);
2. for each worker that remains within the workforce, potential requests for advance salary payments are also taken into account.

**9.2.2 Changes during the year of net defined benefit liabilities (assets) and reimbursement rights**

The change in the provision for employee termination benefits is shown in Section 9 "Employee termination benefits - Item 90 - table 9.1 "Employee termination benefits: changes during the year". The allocation for the year represents the change due to the passage of time and is equivalent to EUR 51 thousand.

The social security cost related to employment benefits, as illustrated above, is not set aside, but recorded directly in the income statement following the supplementary welfare reform, which provides for the allocation of accrued employee termination benefits to supplementary funds or the INPS Treasury Fund (Legislative Decree no. 252/2005 and Law no. 296/2006). The allocation for the year is recorded in the income statement under personnel costs.

### 9.2.3 Information on the fair value of assets serving the plan
Employee termination benefits are fully paid by the Company and there are no assets serving the plan.

### 9.2.4 Description of the principal actuarial assumptions
The liability recognised in the balance sheet is equal to the present value of the defined benefit obligations accrued as at 31 December 2019 estimated by an independent actuary.
The benefits owed by the Company were estimated based on developmental assumptions for the population of relevant personnel (forecast of length of employment with company, probability of early disbursements), in addition to the use of appropriate demographic and economic financial bases (mortality tables, monetary inflation). For 2019, the following parameters were used: discount rate of 1.5%; inflation rate of 1.5%; 2% salary increase; estimated employment duration of 10 years.

## Section 10 – Provisions for risks and charges − Item 100

### 10.1 Provisions for risks and charges: breakdown

*(thousands of €)*

| Items | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|
| 1. Provisions for credit risk relating to commitments and guarantees issued | 1,613 | 1,647 |
| 2. Provisions on other commitments and other guarantees issued | | - |
| 3. Post retirement benefit obligations | | - |
| 4. Other provisions for risks and charges | 6,936 | 13,056 |
| 4.1 legal and tax disputes | 4,508 | 10,700 |
| 4.2 personnel expenses | 2,428 | 2,356 |
| 4.3 other | | |
| **Total** | **8,549** | **14,703** |

### 10.2 Provisions for risks and charges: changes during the year

*(thousands of €)*

| | | Provisions on other commitments and other guarantees issued | Post retirement benefit obligations | Other provisions for risks and charges | Total |
|---|---|---|---|---|---|
| A. | **Opening balance** | - | - | **13,056** | **13,056** |
| B. | **Increases** | - | - | **1,855** | **1,855** |
| B.1 | Provision for the year | | | 1,852 | 1,852 |
| B.2 | Changes due to the passing of time | | | - | - |
| B.3 | Changes due to the changes in the discount rate | | | - | - |
| B.4 | Other changes | | | 3 | 3 |
| C. | **Decreases** | - | - | **7,975** | **7,975** |
| C.1 | Utilisations for the year | | | 7,970 | 7,970 |
| C.2 | Changes due to the changes in the discount rate | | | - | - |
| C.3 | Other changes | | | 5 | 5 |
| D. | **Closing balance** | - | - | **6,936** | **6,936** |

### 10.3 Provisions for credit risk related to commitments and financial guarantees given

*(thousands of €)*

| | Provisions for credit risk relating to commitments and guarantees issued | | | |
|---|---|---|---|---|
| | First level | Second level | Third Level | **Total** |
| 1. Commitments to disburse funds | | | | **-** |
| 2. Financial guarantees issued | 273 | 78 | 1262 | **1,613** |
| **Total** | **273** | **78** | **1,262** | **1,613** |

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### 10.4 Provisions on other commitments and other guarantees given

There were no amounts in this section.

### 10.5 Defined benefit in-house pension funds

There were no amounts in this section.

### 10.6 Provisions for risks and charges - other provisions

*(thousands of €)*

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Personnel provisions: | | |
| - redundancy incentive | - | - |
| - other employee benefits | 2,428 | 2,356 |
| **Total** | **2,428** | **2,356** |

Provisions for employee benefits, referred to as "other employee benefits", represent the provisions that the Company has recorded in the financial statements in relation to employee incentive plans.
These plans are related to the achievement of results both at company level and at the level of the individual employee, therefore the related provisions reflect the estimate that management has prepared on the basis of the company's strategic objectives for the year 2019.

## Section 11 – Equity – Items 110, 120, 130, 140, 150, 160 and 170

### Summary

*(thousands of €)*

| SHAREHOLDERS' EQUITY | | 31/12/2019 | 31/12/2018 |
|---|---|---|---|
| **110.** | Share capital | 55,900 | 55,900 |
| **140.** | Share premium | 61,799 | 61,799 |
| **150.** | Reserves | 594,260 | 555,288 |
| | *a) income reserves* | 595,418 | 562,317 |
| | *b) other reserves* | - 1,158 | - 7,029 |
| **160.** | Valuation reserves | - 1,015 | 4 .960 |
| ***180*** | *Profit (loss) for the year* | 50,206 | 33,101 |
| | **Total shareholders' equity** | **761,149** | **711,048** |

### 11.1 Share Capital: breakdown

*(thousands of €)*

| Type | Amount |
|---|---|
| 1. Share capital | |
| 1.1 Ordinary shares | 55,900 |
| 1.2 Other shares | - |

The share capital amounts to EUR 55,900 thousand and is made up of 55,900,000 shares with a par value of EUR 1 each. The ordinary shares totalling 55,900,000 have been fully subscribed and paid up.

### 11.2 Treasury shares: breakdown

There were no amounts in this section.

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### 11.3 Equity instruments: breakdown

There were no amounts in this section.

### 11.4 Share Premium: breakdown

*(thousands of €)*

| Type | Amount |
|---|---|
| **Share premium** | |
| Share premium from ordinary shares | 61,799 |

The share premium has not changed with respect to 31 December 2018.

### 11.5 Other information

#### Breakdown and changes in Reserves

*(thousands of €)*

| | Legal reserve | Statutory reserve | Other | Total |
|---|---|---|---|---|
| **A. Opening balance** | **11,180** | **551,137** | **(7,029)** | **555,288** |
| **B. Increases** | **-** | **33,101** | **5,870** | **38,971** |
| B.1 Allocations of profits | | 33,101 | | 33,101 |
| B.2 Other changes | | | 5,870 | 5,870 |
| **C. Decreases** | **-** | **-** | **-** | **-** |
| C.1 Utilisations | - | - | - | - |
| hedging of losses | | | | - |
| distribution | | | | - |
| transfer to capital | | | | - |
| C.1 Other changes | | | - | - |
| **D. Closing balance** | **11,180** | **584,238** | **(1,158)** | **594,260** |

The increase in other reserves of EUR 5,870 thousand is due to the reclassification of the revaluation reserve for the property in Via Pisani, Milan sold during 2019.

#### Breakdown and changes in Valuation reserves

*(thousands of €)*

| | Financial assets at fair value through other comprehensive income | Tangible assets | Intangible assets | Hedging of financial flows | Special revaluation laws | Financial liabilities at fair value with an impact on income statement (changes of creditworthiness) | Other | **Total** |
|---|---|---|---|---|---|---|---|---|
| **A. Opening balances** | - | - | - | - | 5,870 | - | (910) | 4,960 |
| **B. Increases** | - | - | - | - | - | - | - | - |
| B.1 Positive fair value changes | | | | | - | | - | - |
| B.2 Other increases | - | | | | - | | - | - |
| **C. Decreases** | - | - | - | - | 5,870 | - | 105 | 5,975 |
| C.1 Negative fair value changes | | | | | - | | - | - |
| C.1 Other decreases | - | | | | 5,870 | | 105 | 5,975 |
| **D. Closing balances** | - | - | - | - | - | - | (1,015) | (1,015) |

With regards to the provisions of Article 2427 no. 7-bis of the Italian Civil Code, the following table provides an analytical breakdown of equity items by origin, potential use and distributable nature.

No use was made in the last three years.

*(thousands of €)*

| Ifitalia S.p.A. - Financial Statements as at 31 December 2019 | | | |
|---|---|---|---|
| | **Amount** | **Potential use** | **Amount available** |
| **Share capital** | 55,900 | - | - |
| **Capital reserve:** | | | |
| Share premium reserve | 61,799 | A-B-C | 61,799 |
| **Profit reserve:** | | | |
| Legal reserve | 11,180 | B | |
| Statutory reserve | 584,238 | A-B-C | 584,238 |
| **Other reserve:** | | | |
| Stock options/Dspp/Freeshares reserve | 102 | A-B-C | 102 |
| FTA Reserve and Goodwill | (8,159) | A-B-C | (8,159) |
| Merger surplus | 1,029 | A-B-C | 1,029 |
| Property revaluation reserve | 5,870 | A-B-C | 5,870 |
| **Valuation reserve** | (1,015) | - (1) | - |
| **Profit for the year** | 50,206 | A-B-C | 50,206 |
| **Total** | **761,149** | **-** | **695,085** |
| **Non-distributable share** | **66,065** | | |
| **Residual distributable share** | **695,084** | | **695,085** |

Key:

A: share capital increase

B: coverage of losses

C: distribution to shareholders

(1) As provided for by art. 6 of Legislative Decree no. 38 of 28 February 2005, the valuation reserves formed in accordance with IAS cannot be distributed and are unavailable for allocation to capital, coverage of losses and the uses provided for by articles 2350 third section, 2357 first section, 2358 third section, 2359-bis first section, 2342,2478-bis fourth section of the Italian Civil Code

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## Other information

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

(thousand of €)

| | Notional value on commitments and financial guarantees issued | | | Total 2018 | Total 2017 |
|---|---|---|---|---|---|
| | First stage | Second stage | Third stage | | |
| **1. Commitments to disburse funds** | **181,880** | **-** | **-** | **181,880** | **267,231** |
| a) Public Administrations | - | - | - | - | - |
| b) Banks | - | - | - | - | - |
| c) Other financial institutions | - | - | - | - | - |
| d) Non-financial institutions | 181,880 | - | - | 181,880 | 267,231 |
| e) Families | - | - | - | - | - |
| **2. Financial guarantees issued** | **108,021** | **7,015** | **3,895** | **118,931** | **157,295** |
| a) Public Administrations | 6 | - | - | 6 | 18 |
| b) Banks | 4,715 | 1 | - | 4,716 | 8,293 |
| c) Other financial institutions | | | | - | 6 |
| d) Non-financial institutions | 100,910 | 6,645 | 3,865 | 111,420 | 143,252 |
| e) Families | 2,390 | 369 | 30 | 2,789 | 5,726 |

### 2. Other commitments and other guarantees given

There were no amounts in this section.

### 3. Financial assets subject to offsetting in financial statements, or subject to framework offsetting agreements or similar agreements

There were no amounts in this section.

### 4. Financial liabilities subject to offsetting in financial statements, or subject to framework offsetting agreements or similar agreements

There were no amounts in this section.

### 5. Securities lending

There were no amounts in this section.

### 6. Information on joint control assets

There were no amounts in this section.

## PART C – INFORMATION ON THE INCOME STATEMENT

### Section 1 – Interest – Items 10 and 20

### 1.1 Interest and similar income: breakdown

(thousands of €)

| Items/Technical forms | Debt securities | Loans | Other transactions | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|---|---|---|
| **1. Financial assets at fair value through profit or loss:** | - | - | - | - | - |
| 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 | | | | - | - |
| **2. Financial assets at fair value through other comprehensive income:** | | | X | - | |
| **3. Financial assets measured at amortised cost:** | - | **67,532** | **-** | **67,532** | **60,625** |
| 3.1 Loans to banks | | 536 | X | 536 | 322 |
| 3.2 Loans to financial companies | | 3,490 | X | 3,490 | 3,369 |
| 3.2 Loans to customers | | 63,506 | X | 63,506 | 56,934 |
| **4. Hedging derivatives** | X | X | | - | - |
| **5. Other assets** | X | X | | - | - |
| **6. Financial liabilities** | X | X | X | **10,098** | **11,159** |
| **Total** | **-** | **67,532** | | **77,630** | **71,784** |
| *of which: interest income on impaired financial assets* | | 3,575 | | | 4,608 |
| *of which: interest income on leases* | | | | | |

### 1.2 Interest and similar income: other information

The interest in item "3. Financial assets at amortised cost" essentially refers to interest accrued for factoring activities on payments, advances to transferors and on extensions granted to factored debtors.
Interest income also includes any interest contractually charged to Ifitalia that, due to the application of negative funding rates, showed an accounting sign of revenue. As at 31 December 2019, this item amounted to EUR 10,098 thousand.

### 1.2.1 Interest income on foreign currency financial assets

Interest income on foreign currency financial assets totalled EUR 6,052 thousand and refers to loans to customers.

## 1.3 Interest and similar expense: breakdown

*(thousands of €)*

| Items/Technical forms | Deposits | Securities | Other transactions | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|---|---|---|
| 1. Financial liabilities measured at amortised cost: | 7,584 | - | - | 7,584 | 6,249 |
| 1.1 Deposits from banks | 5,063 | X | X | 5,063 | 3,787 |
| 1.2 Deposits from financial companies | 2,521 | X | X | 2,521 | 2,462 |
| 1.3 Deposits from customers | | X | X | - | - |
| 1.4 Securities issued | X | | X | - | |
| 2. Financial liabilities held for trading | | | | - | |
| 3. Financial liabilities designated at fair value | | | | - | |
| 4. Other liabilities | X | X | - | - | |
| 5. Hedging derivatives | X | X | - | - | |
| 6. Financial assets | X | X | X | - | |
| **Total** | **7,584** | **-** | **-** | **7,584** | **6,249** |
| *of which: interest expense relating to lease payables* | 4 | | | | |

## 1.4 Interest and similar expense: other information

Interest paid to banks consists of interest paid on funding received.
Interest paid to financial businesses is related to securitisation activities.

### 1.4.1 Interest expense on foreign currency liabilities

Interest expense on foreign currency liabilities amounted to EUR 4.5 million and refers mainly to foreign currency funding transactions.

## Section 2 – Commissions – Items 40 and 50

## 2.1 Commission income: breakdown

*(thousands of €)*

| Types of service/Amounts | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|
| a) financial lease transactions | - | - |
| b) factoring transactions | 55,315 | 53,707 |
| c) consumer credit | - | - |
| d) guarantees given | - | - |
| e) services: | - | - |
| - fund management for third parties | - | - |
| - exchange brokerage | - | - |
| - distribution of products | - | - |
| - other | - | - |
| f) collection and payment services | - | - |
| g) servicing in securitisation transactions | - | - |
| h) other commission | - | - |
| Total | 55,315 | 53,707 |

## 2.2 Commission expense: breakdown

*(thousands of €)*

| Detail/Sectors | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|
| a) guarantees received | 882 | 1,181 |
| b) distribution of services to third parties | - | - |
| c) collection and payment services | 645 | 795 |
| d) other commissions of brokerage | 11,480 | 11,569 |
| **Total** | **13,007** | **13,545** |

## Section 3 – Dividends and similar income – Item 70

## 3.1 Dividends and similar income: breakdown

(thousands of €)

| Items/Income | Total 31/12/2019 | | Total 31/12/2018 | |
|---|---|---|---|---|
| | Dividends | Similar Income | Dividends | Similar Income |
| A. Financial assets held for trading | | | | |
| B. Other financial assets mandatorily measured at fair value | 38 | | 59 | |
| C. Financial assets at fair value through other comprehensive income | | | | |
| D. Equity investments | | | | |
| **Total** | **38** | **-** | **59** | **-** |

## Section 4 – Net trading profit (loss) – Item 80

### 4.1 Net trading profit (loss): breakdown

(thousands of €)

| Transactions/Income components | Capital gains (A) | Profit on trade (B) | Capital losses (C) | Loss on trade (D) | **Net result** [(A+B) - (C+D)] |
|---|---|---|---|---|---|
| **1. Financial assets held for trading** | - | - | - | - | - |
| 1.1 Debt securities | | | | | - |
| 1.2 Equity instruments | | | | | - |
| 1.3 UCI units | | | | | - |
| 1.4 Loans | | | | | - |
| 1.5 Other | | | | | - |
| **2. Financial liabilities held for trading** | - | - | - | - | - |
| 2.1 Debt securities | | | | | - |
| 2.2 Deposits | | | | | - |
| 2.3 Other | | | | | - |
| **3. Financial assets and liabilities: exchange differences** | X | X | X | X | (65) |
| **4. Derivative instruments** | **70** | - | - | - | **70** |
| 4.1 Financial derivatives | 70 | | | | 70 |
| 4.2 Credit derivatives | | | | | - |
| *of which: natural hedging related to the fair value option* | X | X | X | X | |
| **Total** | **70** | **-** | **-** | **-** | **5** |

## Section 5 – Net result from hedging activities – Item 90

There were no amounts in this section.

## Section 6 – Gain (loss) on disposal or repurchase – Item 100

There were no amounts in this section

## Section 7 – Net result of other financial assets and liabilities at fair value through profit or loss – Item 110

### 7.1 Net change in value of other financial assets and liabilities at fair value through profit or loss: breakdown of financial assets and liabilities at fair value

There were no amounts in this section.

### 7.2 Net change in value of other financial assets and liabilities at fair value through profit or loss: breakdown of other financial assets mandatorily at fair value

*(Thousands of €)*

| Transactions/Income components | Capital Gains (A) | Gains on disposal (B) | Capital Losses (C) | Losses on disposal (D) | **Net Result [(A+B) − (C+D)]** |
|---|---|---|---|---|---|
| **1. Financial assets** | **1** | **-** | **-** | **-** | **1** |
| 1.1 Debt securities | | | | | **-** |
| 1.2 Equity instruments | **1** | | | | **1** |
| 1.3 UCI units | | | | | **-** |
| 1.4 Loans | | | | | **-** |
| **2. Financial assets in currency: foreign exchange differences** | X | X | X | X | |
| **Total** | 1 | - | - | - | 1 |

## Section 8 – Net value adjustments/write-backs due to credit risk - Item 130

### 8.1 Net value adjustments/write-backs due to credit risk relating to financial assets at amortised cost: breakdown

*(thousands of €)*

| Transactions/Income components | Value adjustments (1) | | | Writebacks (2) | | Total | Total |
|---|---|---|---|---|---|---|---|
| | First and second level | Third level | | First and second level | Third level | 31/12/2019 | 31/12/2018 |
| | | Write-off | Other | | | | |
| **1. Loans to banks** | - | - | - | 135 | - | 135 | **(12)** |
| impaired loans acquired or originated | - | - | - | - | - | - | - |
| - for leasing | | | | | | - | - |
| - for factoring | | | | | | - | - |
| - other loans | | | | | | - | - |
| Other loans | - | - | - | 135 | - | 135 | (12) |
| - for leasing | | | | | | - | - |
| - for factoring | | - | - | 135 | - | 135 | (12) |
| - other loans | - | - | - | - | - | - | - |
| **2. Loans to financial companies** | (122) | (16) | - | - | - | (138) | **(12)** |
| impaired loans acquired or originated | - | - | - | - | - | - | - |
| - for leasing | | | | | | - | - |
| - for factoring | | | | | | - | - |
| - other loans | | | | | | - | - |
| Other loans | (122) | (16) | - | - | - | (138) | (12) |
| - for leasing | | | | | | - | - |
| - for factoring | (122) | (16) | - | - | - | (138) | (12) |
| - other loans | - | - | - | - | - | - | - |
| **3. Loans to consumers** | (726) | (1,399) | (18,171) | - | 7,961 | (12,335) | **(9,858)** |
| impaired loans acquired or originated | - | - | - | - | - | - | - |
| - for leasing | | | | | | - | - |
| - for factoring | | | | | | - | - |
| - for consumer credit | | | | | | - | - |
| - other loans | | | | | | - | - |
| Other loans | (726) | (1,399) | (18,171) | - | 7,961 | (12,335) | (9,858) |
| - for leasing | | | | | | - | - |
| - for factoring | (726) | (1,399) | (18,171) | | 7,961 | (12,335) | (9,858) |
| - for consumer credit | | | | | | - | - |
| - loans on pledge | | | | | | - | - |
| - other loans | - | - | - | - | - | - | - |
| **Total** | (848) | (1,415) | (18,171) | 135 | 7,961 | (12,338) | (9,882) |

### 8.2 Net value adjustments/write-backs due to credit risk relating to financial assets at fair value through other comprehensive income: breakdown

There were no amounts in this section.

## Section 9 – Gains/losses from amendments to contracts without derecognition – Item 140

### 9.1 Gains (losses) from amendments to contracts: breakdown

There were no amounts in this section.

## Section 10 – Administrative expenses – Item 160

### 10.1 Personnel expenses: breakdown

*(thousands of €)*

| Type of expense/Amounts | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|
| 1) Employees | 18,656 | 16,642 |
| a) salaries and wages | 13,064 | 11,314 |
| b) social security contributions | 3,616 | 3,431 |
| c) leaving indemnity | - | - |
| d) social security and welfare costs | - | - |
| e) provision for termination benefits | 51 | 36 |
| f) provisions for post-retirement benefits and similar obligations: | 465 | 433 |
| - defined contribution | 465 | 433 |
| - defined benefit | - | - |
| g) payments to external supplementary pension funds: | 809 | 756 |
| - defined contribution | 809 | 756 |
| - defined benefit | - | - |
| h) other expenses (net) | 651 | 672 |
| 2) Other active employees | 369 | 123 |
| 3) Directors and Statutory Auditors | 141 | 143 |
| 4) Staff retirement | - | - |
| 5) Recovery of expenses for employees seconded to other companies | (150) | (374) |
| 6) Expense reimbursements for employees of third parties seconded to the company | 4,088 | 2,886 |
| **Total** | **23,104** | **19,420** |

### 10.2 Average number of employees by category

| | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|
| **a) Employees** | **236** | **215** |
| 1) Managers | 5 | 7 |
| 2) Middle managers | 127 | 120 |
| 3) Remaining employees | 104 | 88 |
| **b) Other personnel** | **40** | **21** |
| **Total** | **276** | **236** |

### 10.3 Other administrative expenses: breakdown

*(thousands of €)*

| Type of expense/Balances | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|
| Indirect duties and taxes | 1,016 | 1,255 |
| Sundry services rendered by third parties | 9,267 | 9,179 |
| Sundry services rendered by third parties (IT ) | 8,932 | 8,829 |
| Sundry services rendered by third parties (Internal Auditing) | 335 | 350 |
| Fees for professionals | 3,523 | 3,483 |
| Fees for consultancy | 733 | 661 |
| Fees for legal and notarial costs | 2,282 | 2,115 |
| Fees for debt collection | 387 | 572 |
| Compensation to independent Auditors | 121 | 135 |
| Costs relating to properties/furniture | 871 | 566 |
| Postal, printed matter, surveillance of premises and stock values | 1,409 | 1,457 |
| Management expenses GFCC | 527 | 484 |
| Advertising and entertainment | 231 | 249 |
| Searches and information | 1,262 | 1,337 |
| Other expenses | 4,009 | 8,282 |
| **TOTAL** | **22,115** | **26,292** |

The compensation for services rendered by the audit company in 2019, net of VAT, is EUR 75 thousand (EUR 75,000 thousand in 2018).

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## Section 11 – Net provisions for risks and charges – Item 170

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

*(thousands of €)*

| Operations/Income components | Value adjustments | | Writebacks | | Total | Total |
|---|---|---|---|---|---|---|
| | Specific | Portfolio | Specific | Portfolio | 31/12/2019 | 31/12/2018 |
| A. Guarantees issued | (58) | 18 | 75 | | **35** | **22** |
| B. Derivatives on receivables | | | | | **-** | |
| C. Commitments to grant loans | | | | | **-** | |
| D. Other transactions | | | | | **-** | |
| **E. Total** | **(58)** | **18** | **75** | | **35** | **22** |

### 11.2 Net provisions relating to other commitments and other guarantees given: breakdown

There were no amounts in this section.

### 11.3 Other net provisions for risks and charges: breakdown

*(thousands of €)*

| Analysis | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|
| **PROVISIONS** | **(480)** | **(1,886)** |
| **Legal disputes** | **(480)** | **(1,886)** |
| Revocation actions | - | (1,036) |
| Pending disputes | (480) | (850) |
| **Personnel charges** | - | **-** |
| **Other provisions** | **-** | **-** |
| **USES** | **3,570** | **421** |
| **Legal disputes** | **3,570** | **421** |
| Revocation actions | 2,500 | 122 |
| Pending disputes | 1,070 | 299 |
| **Personnel charges** | - | **-** |
| **Other uses** | **-** | **-** |
| **INTEREST FROM DISCOUNTING BACK** | **5** | **(5)** |
| **Legal disputes** | **5** | **(5)** |
| Revocation actions | 1 | (1) |
| Pending disputes | 4 | (4) |
| **Total** | **3,095** | **(1,470)** |

## Section 12 – Net value adjustments/write-backs on tangible assets – Item 180

### 12.1 Net value adjustments/write-backs on tangible assets: breakdown

*(thousands of €)*

| Assets/Income component | Depreciation (A) | Value adjustments for impairment (B) | Write-backs (C) | **Net result (A+B)-C** |
|---|---|---|---|---|
| A. Property, plant and equipment | | | | |
| A.1 Owned | **1,078** | **-** | **-** | **1,078** |
| - for business use | **423** | **-** | **-** | **423** |
| - for investment | **655** | **-** | **-** | **655** |
| - Inventories | **-** | **-** | **-** | **-** |
| A.2 Acquired under financial lease | **103** | **-** | **-** | **103** |
| - for business use | 103 | | | 103 |
| - for investment | | | | - |
| A.3 Granted under operating lease | X | | | - |
| **Total** | **1,181** | **-** | **-** | **1,181** |

## Section 13 – Net value adjustments/write-backs on intangible assets – Item 190

### 13.1 Net value adjustments/write-backs on intangible assets: breakdown

*(thousands of €)*

| Assets/Income components | Depreciation (A) | Value adjustments for impairment (B) | Write-backs (C) | **Net result (A)+(B)-(C)** |
|---|---|---|---|---|
| **1. Intangible assets different from goodwill:** | 3,663 | - | - | 3,663 |
| 1.1 owned | 3,663 | | | 3,663 |
| 1.2 acquired under financial lease | | | | - |
| **2. Assets pertaining to financial lease** | | | | - |
| **3. Assets granted under operating lease** | | | | - |
| **Total** | **3,663** | **-** | **-** | **3,663** |

## Section 14 – Other operating income and expenses – Item 200

### 14.1 Other operating expenses: breakdown

*(thousands of €)*

| Analysys | **Total 31/12/2019** | **Total 31/12/2018** |
|---|---|---|
| **Other charges** | | |
| Losses for sundry causes | | |
| Other charges | (1,269) | (550) |
| **Total** | **(1,269)** | **(550)** |

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### 14.2 Other operating income: breakdown

*(thousands of €)*

| Analysys | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|
| **Other income** | | |
| Rental income | 370 | 401 |
| Other income | 3,386 | 2,694 |
| **Total** | **3,756** | **3,095** |

### Section 15 – Profit (Loss) from equity investments - Item 220

There were no amounts in this section.

### Section 16 – Net result of fair value measurement of tangible and intangible assets - Item 230

There were no amounts in this section.

### Section 17 – Goodwill impairment – Item 240

There were no amounts in this section.

### Section 18 – Profit/loss on disposal of investments - Item 250

### 18.1 Profit/loss on disposal of investments: breakdown

*(thousands of €)*

| Income component/value | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|
| **A. Proprieties** | **17,757** | **-** |
| - Gains on disposal | 17,757 | |
| - Losses from sale | | |
| **B. Other activities** | **-** | **-** |
| - Gains on disposal | | |
| - Losses from sale | | |
| **Net result** | **17,757** | **-** |

### Section 19 – Income taxes for the year on current operations – Item 270

### 19.1 Income taxes for the year on current operations: breakdown

*(thousands of €)*

| | | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|---|
| 1. | Current taxes (-) | (23,062) | (13,315) |
| 2. | Changes in current taxes of previous years (+/-) | (505) | 34 |
| 3. | Reduction in current taxes for the year (+) | | 148 |
| 3.bis | Reduction in current taxes for the year for tax credits | - | - |
| | of which under Law no. 214/2011 (+) | - | - |
| 4. | Change in deferred taxes (+/-) | (1,457) | (1,174) |
| 5. | Change in deferred taxes (+/-) | 1,860 | (46) |
| | **Taxes for the year (-) (-1+/-2+3+3bis+/-4+/-5)** | **(23,164)** | **(14,353)** |

### 19.2 Reconciliation between the theoretical tax liability and the effective tax liability in the financial statements

*(thousands of €)*

| Analysis | Ires | Irap |
|---|---|---|
| Economic result useful for calculating taxation | 73,369 | 73,369 |
| Permanent, undeductible differences | 995 | 18,995 |
| Permanent, untaxable differences | (5,470) | (18,526) |
| Total taxable income | 68,894 | 73,838 |
| Theoretical tax rate | 27.50% | 5.55% |
| Theoretical tax liability/recovery | (18,946) | (4,098) |
| Other differences | (106) | (15) |
| **Effective tax liability as per financial statements** | **(19,052)** | **(4,113)** |

### Section 20 – Profit (loss) from discontinued operations after taxes - Item 290

There were no amounts in this section.

### Section 21 – Income statement: other information

### 21.1 - Detailed breakdown of interest income and commission income

(thousands of €)

| Transactions/Income components | Interest income | | | Commission income | | | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|---|---|---|---|---|---|
| | Banks | Financial institutions | Customers | Banks | Financial institutions | Customers | | |
| **1. Financial leasing** | - | - | - | - | - | - | - | - |
| - property assets | | | | | | | - | - |
| - movable assets | | | | | | | - | - |
| - operating assets | | | | | | | - | - |
| - intangible assets | | | | | | | - | - |
| **2. Factoring** | **356** | **4,870** | **62,306** | **3** | **1,367** | **53,945** | **122,847** | **114,332** |
| - on current receivables | *356* | *4,746* | *63,584* | *3* | *1,367* | *53,879* | 123,935 | 113,409 |
| - on future receivables | | | *287* | | | *66* | 353 | 425 |
| - on receivables acquired definitely | | | | | | | - | - |
| - on receivables acquired under nominal value | | | | | | | - | - |
| - for other loans | | *124* | *(1,565)* | | | | (1,441) | 498 |
| **3. Consumer credit** | - | - | - | - | - | - | - | - |
| - personal loans | | | | | | | - | - |
| - targeted finance | | | | | | | - | - |
| - loans on salaries | | | | | | | - | - |
| **4. Loans on pledge** | | | | | | | - | - |
| **5. Guarantees and commitments** | - | - | - | - | - | - | - | - |
| - commercial | | | | | | | - | - |
| - financial | | | | | | | - | - |
| **Total** | **356** | **4,870** | **62,306** | **3** | **1,367** | **53,945** | **122,847** | **114,332** |

### 21.2 - Other information

There were no amounts in this section.

## *PART D – OTHER INFORMATION*

### Section 1 – Specific references to transactions carried out

**A. LEASES (LESSOR)**
There were no amounts in this section.

### B. B. FACTORING AND TRANSFER OF LOANS/RECEIVABLES

### B.1 Gross and book values

### B.1.1 Factoring transactions

*(thousands of €)*

| Items/Amount | Total 31/12/2019 | | | Total 31/12/2018 | | |
|---|---|---|---|---|---|---|
| | Gross value | Value adjustments | Net value | Gross value | Value adjustments | Net value |
| **1. Performing assets** | **6,957,802** | **11,745** | **6,946,057** | **6,924,791** | **10,893** | **6,913,898** |
| - exposures to transferors (with recourse): | 825,967 | 3,616 | 822,351 | 890,150 | 5,510 | 884,640 |
| *- factoring of future receivables* | 25,142 | 62 | 25,080 | 19,604 | 25 | 19,579 |
| *- other* | 800,825 | 3,554 | 797,271 | 870,546 | 5,485 | 865,061 |
| - exposures to transferred debtors transferors (without recours | 6,131,835 | 8,129 | 6,123,706 | 6,034,641 | 5,383 | 6,029,258 |
| **2. Impaired assets** | **395,384** | **284,391** | **110,993** | **437,028** | **294,763** | **142,265** |
| **2.1 Non-performing** | **291,249** | **2 36.198** | **55,051** | **304,501** | **243,253** | **61,248** |
| - exposures to transferors (with recourse) | 183,439 | 1 43.207 | 4 0.232 | 188,990 | 141,741 | 47,249 |
| *- factoring of future receivables* | 10,732 | 6,462 | 4,270 | 10,408 | 6,507 | 3,901 |
| *- other* | 172,707 | 1 36.745 | 3 5.962 | 178,582 | 135,234 | 43,348 |
| - exposures to transferred debtors (without recourse) | 107,810 | 92,991 | 14,819 | 115,511 | 101,512 | 13,999 |
| *- purchases below nominal value* | | | - | - | - | - |
| *- other* | 107,810 | 92,991 | 14,819 | 115,511 | 101,512 | 13,999 |
| **2.2 Unlikely to pay** | **83,653** | **39,804** | **4 4.643** | **104,270** | **49,129** | **55,141** |
| - exposures to transferors (with recourse) | 42,056 | 20,998 | 2 1.058 | 64,612 | 30,065 | 34,547 |
| *- factoring of future receivables* | - | - | - | - | - | - |
| *- other* | 42,056 | 20,998 | 2 1.058 | 64,612 | 30,065 | 34,547 |
| - exposures to transferred debtors (without recourse) | 41,597 | 18,012 | 23,585 | 39,658 | 19,064 | 20,594 |
| *- purchases below nominal value* | | | - | - | - | - |
| *- other* | 41,597 | 18,012 | 23,585 | 39,658 | 19,064 | 20,594 |
| **2.3 Past due positions** | **20,482** | **2,500** | **17,982** | **28,257** | **2,381** | **25,876** |
| - exposures to transferors (with recourse) | 2,961 | 178 | 2,783 | 5,060 | 219 | 4,841 |
| *- factoring of future receivables* | - | - | - | - | - | - |
| *- other* | 2,961 | 178 | 2,783 | 5,060 | 219 | 4,841 |
| - exposures to transferred debtors (without recourse) | 17,521 | 2,322 | 15,199 | 23,197 | 2,162 | 21,035 |
| *- purchases below nominal value* | | | - | - | - | - |
| *- other* | 17,521 | 2,322 | 15,199 | 23,197 | 2,162 | 21,035 |
| **Total** | **7,353,186** | **289,441** | **7,063,745** | **7,361,819** | **305,656** | **7,056,163** |

### B.1.2 Purchase transactions for impaired receivables other than factoring
There were no amounts in this section.

### B.2 – Breakdown by residual life

### B.2.1 – With recourse factoring transactions: advances and "total loans/receivables"

*(thousands of €)*

| Maturity | Advances | | Total loans/receivables | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| - on demand | 160,007 | 189,587 | 1,867,216 | 2,515,157 |
| - up to 3 months | 370,375 | 398,552 | 4,940,195 | 4,686,481 |
| - 3 to 6 months | 83,001 | 89,315 | 1,164,825 | 1,172,590 |
| - 6 months to 1 year | 74,817 | 60,063 | 478,499 | 684,044 |
| - beyond 1 year | 198,234 | 233,761 | 246,599 | 260,155 |
| - unspecified duration | - | - | - | - |
| **Total** | **886,434** | **971,278** | **8,697,334** | **9,318,427** |

### B.2.2 – Without recourse factoring transactions: exposures

*(thousands of €)*

| Maturity | Exposures | |
|---|---|---|
| | 2019 | 2018 |
| - on demand | 448,084 | 597,523 |
| - up to 3 months | 4,125,563 | 3,803,116 |
| - 3 to 6 months | 987,069 | 929,924 |
| - 6 months to 1 year | 357,664 | 429,433 |
| - beyond 1 year | 2,945 | 1,970 |
| - unspecified duration | 255,983 | 322,920 |
| **Total** | 6,177,308 | 6,084,886 |

### B.2.3 – Purchase transactions for impaired receivables other than factoring

There were no amounts in this section.

### B.3 – Other information

### B.3.1 – Turnover of factored loans/receivables

*(thousands of €)*

| Items | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|
| ***1. Without-recourse transactions*** | 29,627,602 | 26,355,047 |
| *of which: purchases below the nominal value* | - | - |
| ***2. With-recourse transactions*** | 2,706,404 | 3,232,562 |
| **Total** | **32,334,007** | **29,587,609** |

The table was drawn up in accordance with the standards illustrated in section A.2.3. "Loans/receivables – Classification".

### B.3.2 – Collection services

*(thousands of €)*

| Items | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|
| *Loans and receivables collected in the year* | 408,316 | 434,734 |
| *Amount of loans and receivables at year end* | 116,904 | 124,310 |

### B.3.3 – Nominal value of factoring contracts for future loans/receivables

*(thousands of €)*

| Items | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|
| *Flow of factoring contracts for future in the year* | 46,326 | 89,653 |
| *Amount of the contracts at year end* | 305,833 | 372,870 |

The unused margin intended as the difference between the maximum amount of loans/receivables that can be purchased and the amount of loans/receivables purchased, as at 31 December 2019, amounted to EUR 7,358 thousand (EUR 13,132 thousand at the end of 2018).

### C. CONSUMER CREDIT

There were no amounts in this section.

### D. GUARANTEES GIVEN AND COMMITMENTS

### D.1 Value of guarantees (secured or unsecured) given and commitments

*(thousands of €)*

| | Transactions | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|---|
| 1) | Financial guarantees given upon first request | **118,931** | **157,295** |
| | a) Banks | 4,716 | 8,293 |
| | b) Financial Companies | - | 6 |
| | c) Costumers | 114,215 | 148,996 |
| 2) | Other financial guarantees given | **-** | **-** |
| | a) Banks | - | - |
| | b) Financial Companies | - | - |
| | c) Costumers | - | - |
| 3) | Commercial guarantees issued | **-** | **-** |
| | a) Banks | - | - |
| | b) Financial Companies | - | - |
| | c) Costumers | - | - |
| 4) | Irrevocable commitments to reimburse funds | **181,880** | **267,231** |
| | a) Banks | - | - |
| | i) certain to be called on | - | - |
| | ii) uncertain to be called on | - | - |
| | b) Financial Companies | - | - |
| | i) certain to be called on | - | - |
| | ii) uncertain to be called on | - | - |
| | c) Costumers | 181,880 | 267,231 |
| | i) certain to be called on | - | - |
| | ii) uncertain to be called on | 181,880 | 267,231 |
| 5) | Commitments underlying credit derivatives: protection sales | - | - |
| 6) | Assets made to guarantee third party obligations | - | - |
| 7) | Other irrevocable commitments | - | - |
| | a) to give guarantees | - | - |
| | b) others | - | - |
| | **Total** | **300,811** | **424,526** |

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### D.2 Loans recorded in the financial statements due to enforcement

*(thousands of €)*

| Exposures | 31/12/2019 | | | 31/12/2018 | | |
|---|---|---|---|---|---|---|
| | Gross value | Value adjustments | Net value | Gross value | Value adjustments | Net value |
| **1. Performing assets** | | | | | | |
| - from guarantees | **-** | **-** | **-** | **-** | **-** | **-** |
| - commercial | - | - | - | - | - | - |
| -financial | - | - | - | - | - | - |
| **2. Impaired assets** | | | | | | |
| - from guarantees | **144,344** | **(103,784)** | **40,560** | **159,743** | **(113,251)** | **46,491** |
| - commercial | - | - | - | - | - | - |
| -financial | 144,344 | (103,784) | 40,560 | 159,743 | (113,251) | 46,491 |
| **Total** | **144,344** | **(103,784)** | **40,560** | **159,743** | **(113,251)** | **46,491** |

### D.3 Guarantees given (secured or unsecured): status of risk undertaken and quality

*(thousands of €)*

| Type of assumed risk | Not impaired guarantees issued | | | | Impaired guarantees issued: non-performing | | | | Other impaired guarantees | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Counterguaranteed | | Other | | Counterguaranteed | | Other | | Counterguaranteed | | Other | |
| | Gross value | Total Provisions | Gross value | Total Provisions | Gross value | Total Provisions | Gross value | Total Provisions | Gross value | Total Provisions | Gross value | Total Provisions |
| Guarantees issued with assumption of risk of initial loss | - | - | - | - | - | - | - | - | - | - | - | - |
| - financial guarantees upon first request | - | - | - | - | - | - | - | - | - | - | - | - |
| - other financial guarantees | - | - | - | - | - | - | - | - | - | - | - | - |
| - commercial guarantees | - | - | - | - | - | - | - | - | - | - | - | - |
| Guarantees issued with assumption of mezzanine type risk | - | - | - | - | - | - | - | - | - | - | - | - |
| - financial guarantees upon first request | - | - | - | - | - | - | - | - | - | - | - | - |
| - other financial guarantees | - | - | - | - | - | - | - | - | - | - | - | - |
| - commercial guarantees | - | - | - | - | - | - | - | - | - | - | - | - |
| Pro rata guarantees issued | - | - | **115,036** | **(339)** | - | - | - | - | - | - | **3,895** | **(1,262)** |
| - financial guarantees upon first request | - | - | 115,036 | (339) | | | | | | | 3,895 | (1,262) |
| - other financial guarantees | - | - | - | - | - | - | - | - | - | - | - | - |
| - commercial guarantees | - | - | - | - | - | - | - | - | - | - | - | - |
| Total | - | - | 115,036 | (339) | - | - | - | - | - | - | 3,895 | (1,262) |

### D.4 Guarantees given (secured or unsecured): amount of counter-guarantees

There were no amounts in this section.

### D.5 Number of guarantees given (secured or unsecured): status of risk undertaken

There were no amounts in this section.

### D.6 Guarantees given (secured or unsecured): with risk-taking on the first losses and mezzanine type: amount of underlying assets

There were no amounts in this section.

## D.7 Guarantees given (secured or unsecured) in the process of being enforced: stock data
There were no amounts in this section.

## D.8 Guarantees given (secured or unsecured) in the process of being enforced: flow data
There were no amounts in this section.

## D.9 Changes in impaired guarantees given (secured or unsecured): non-performing
There were no amounts in this section.

## D.10 Changes in impaired guarantees given (secured or unsecured): other

*(thousands of €)*

| Amount of the changes | Financial guarantees upon first request | | Other financial guarantees | | Commercial guarantees | |
|---|---|---|---|---|---|---|
| | Counterguaranteed | Other | Counterguaranteed | Other | Counterguaranteed | Other |
| **(A) Initial gross value** | - | 385 | - | - | - | - |
| **(B) Increases:** | - | 3,915 | - | - | - | - |
| - (b1) transfers from performing guarantees | - | 159 | - | - | - | - |
| - (b2) transfers from other impaired guarantees | - | - | - | - | - | - |
| - (b3) other increases | - | 3,756 | - | - | - | - |
| **(C) Decreases:** | - | (405) | - | - | - | - |
| - (c1) outgoings to performing guarantees | - | (152) | - | - | - | - |
| - (c2) outgoings from other impaired guarantees | - | - | - | - | - | - |
| - (c3) enforcement | - | - | - | - | - | - |
| - (c4) other decreases | - | (253) | - | - | - | - |
| **(D) Gross final value** | - | 3,895 | - | - | - | - |

## D.11 Changes in unimpaired guarantees given (secured or unsecured)

*(thousands of €)*

| Amount of the changes | Financial guarantees upon first request | | Other financial guarantees | | Commercial guarantees | |
|---|---|---|---|---|---|---|
| | Counterguaranteed | Other | Counterguaranteed | Other | Counterguaranteed | Other |
| **(A) Initial gross value** | - | 156,910 | - | - | - | - |
| **(B) Increases:** | - | 37,952 | - | - | - | - |
| - (b1) Guarantees given | - | 10,502 | - | - | - | - |
| - (b2) other increases | - | 27,450 | - | - | - | - |
| **(C) Decreases:** | - | (79,826) | - | - | - | - |
| - (c1) Guarantees not enforced | - | - | - | - | - | - |
| - (c2) transfers to impaired guarantees | - | (159) | - | - | - | - |
| - (c3) other decreases | - | (79,667) | - | - | - | - |
| **(D) Gross final value** | - | 115,036 | - | - | - | - |

## D.12 Changes in value adjustments / total provisions
There were no amounts in this section.

## D.13 Assets pledged as guarantee for own liabilities and commitments
There were no amounts in this section.

## D.14 Commission income and expenses on guarantees given (secured or unsecured) during the year: total value
There were no amounts in this section.

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**D.15 Distribution of guarantees (secured or unsecured) given by sector of economic activities of the guaranteed debtors (amount guaranteed and underlying asset)**

*(thousands of €)*

| Type of risk assumed | Given guarantees with first loss risk-taking | | Given guarantees with mezzanine risk-taking | | Given guarantees pro-quota |
|---|---|---|---|---|---|
| | Amount guaranteed | Underlying asset | Amount guaranteed | Underlying asset | Amount guaranteed |
| - Subgroup 1: SAE 430 - Non financial institutions - Production companies | - | - | - | - | 101,696 |
| - Subgroup 2: SAE 245 - Banking system | - | - | - | - | 4,716 |
| - Subgroup 3: SAE 492 - Other non financial institutions | - | - | - | - | 4,779 |
| - Subgroup : Others | - | - | - | - | 7,740 |
| **Total** | **-** | **-** | **-** | **-** | **118,931** |

**D.16 Geographic distribution of guarantees (secured or unsecured) given by region of residence of the guaranteed debtors (amount guaranteed and underlying asset)**

*(thousands of €)*

| Type of risk assumed | | Given guarantees with first loss risk-taking | | Given guarantees with mezzanine risk-taking | | Given guarantees pro-quota |
|---|---|---|---|---|---|---|
| | | Amount guaranteed | Underlying asset | Amount guaranteed | Underlying asset | Amount guaranteed |
| - 'Region 1 | North-West Italy | - | - | - | - | 54,327 |
| - 'Region 2 | Centre Italy | - | - | - | - | 18,244 |
| - 'Region 3 | North-East Italy | - | - | - | - | 29,491 |
| - 'Region 4 | South Italy and islands | - | - | - | - | 16,552 |
| - 'Region 5 | Others | - | - | - | - | 317 |
| **Total** | | **-** | **-** | **-** | **-** | **118,931** |

**D.17 Geographic distribution of guarantees (secured or unsecured) given by sector of economic activities of the guaranteed debtors (number of guaranteed entities)**

There were no amounts in this section.

**D.18 Geographic distribution of guarantees (secured or unsecured) given by region of residence of the guaranteed debtors (number of guaranteed entities)**

There were no amounts in this section.

**D.19 Stock and trend of the number of associates**

There were no amounts in this section.

**E. PAYMENT SERVICES AND ISSUING OF ELECTRONIC MONEY**

There were no amounts in this section.

**F. OPERATIONS WITH THIRD-PARTY FUNDS**

There were no amounts in this section.

**G. LOAN TRANSACTIONS SECURED BY PLEDGE**
There were no amounts in this section.

**H. COVERED BONDS**
There were no amounts in this section.

**I. OTHER ASSETS**
There were no amounts in this section.

**Section 2 – Securitisation transactions, disclosure on the structured entities not consolidated in the accounts (other than vehicle companies not for securitisations) and sales of assets.**

**A. Securitisation transactions**
There were no amounts in this section.

**B. Disclosure on the structured entities not consolidated in the accounts (other than vehicle companies for securitisations)**
There were no amounts in this section.

**C. Sale transactions**
There were no amounts in this section.

Section 3 – Information on risks and related hedging policies

## 3.1 CREDIT RISK

### *QUALITATIVE INFORMATION*

### 1. General aspects

Factoring activities involve numerous services that can be structured in various ways by means of the with- and without-recourse factoring of commercial loans and receivables.
A peculiar feature of factoring transactions is the correlated involvement for various reasons of three parties, which can be classified, in brief, as:

- The Factor (transferee);
- The Client (transferor);
- The Debtor (transferred party).

If observed from the standpoint of the underlying services, it is therefore a composite product, where the credit management, the guarantee of the debtor's solvency and the disbursement of advances on loans/receivables accepted under factoring can be combined in various ways.
Therefore, the risk assessment of factoring transactions must be carried out by means of preliminary analysis of numerous factors such as: the solvency of the transferred debtors, the degree of fragmentation of the risk, the characteristics of the underlying commercial relationship, the transferor's ability to repay – in the event of disbursement of advances – also in light of the figures of the Bank of Italy's Credit Reference Bureau and the financial statements, ratings – internal or ECAI – on the party and/or associated companies, connections or simple dependence on Groups, supply difficulties, technological innovation that could place a product out of the market, etc.
Clearly, these are appraisals that can only partly overlap with lending activities carried out by banks, indispensable for permitting an adequate control of the credit risk that partly expresses itself in aspects[1] not present in banking activities.
With regard to the provision of the above services, the factor may undertake the credit risks in different ways, which can be, in turn, broken down into certain elementary types:

- credit risk in the strictest sense, represented by the risk of loss due to default of the debtors[2];

[1] Measurement of the asset risk: a wider concept of the measurement of creditworthiness of the individual debtors factored, since it refers to the interaction of the individual names within the factored portfolio, whose risk profile is determined by the concentration of the debtors and their domestic-export nature, the ageing, DSO and payments terms, payment methods, statistics on bad debt, etc.;
Measurements of the "factorability" risk, associated with the nature and the characteristics of the supply relationship being factored, which influences the tendency of the transferred receivables to self-liquidate, especially with reference to a hypothetical terminal phase of said relationship. This risk is appreciable from the analysis of the subject matter of the supply and the type of debtors involved, the invoicing process and the statistics relating to the invoices (number, amounts...), the contracts, etc.
Measurement of the concentration risk of the relationship, falls between the asset risk and the factorability risk, since in the factoring transaction one of the most significant risk mitigation factors is represented by the large number of commercial relationships with the party granted credit that can be placed under observation and on which it is possible to intervene. In fact, adequate diversification not only permits the portfolio factored to "survive" the default of one or more debtors, but also contributes towards isolating and containing any problematic issues linked to the commercial transactions underlying the factored receivables and limits the impact of potential fraud.
Measurement of the facility risk, associated with the contractual and operating features of the factoring transaction that contribute to determining the related risk profile. It requires the assessment of the reason for the technical form proposed and the opinion on the ongoing operations (e.g., global transfer vs. spot transfer, confidential vs. disclosed, QN vs. recognition, invoice forwarding method, accompanying documents, dunning).
Where several products are offered and/or several transactions for which the customer undertakes the dual role of transferor and transferred debtor, these situations may give rise - from a conceptual standpoint - to a correlation risk between the transactions, understood as the possibility of unexpected changes in the overall risk of the transaction due to correlation between the risks deriving from the characteristics of the various transactions offered to the customer (the latter being particularly complex to identify and quantify).

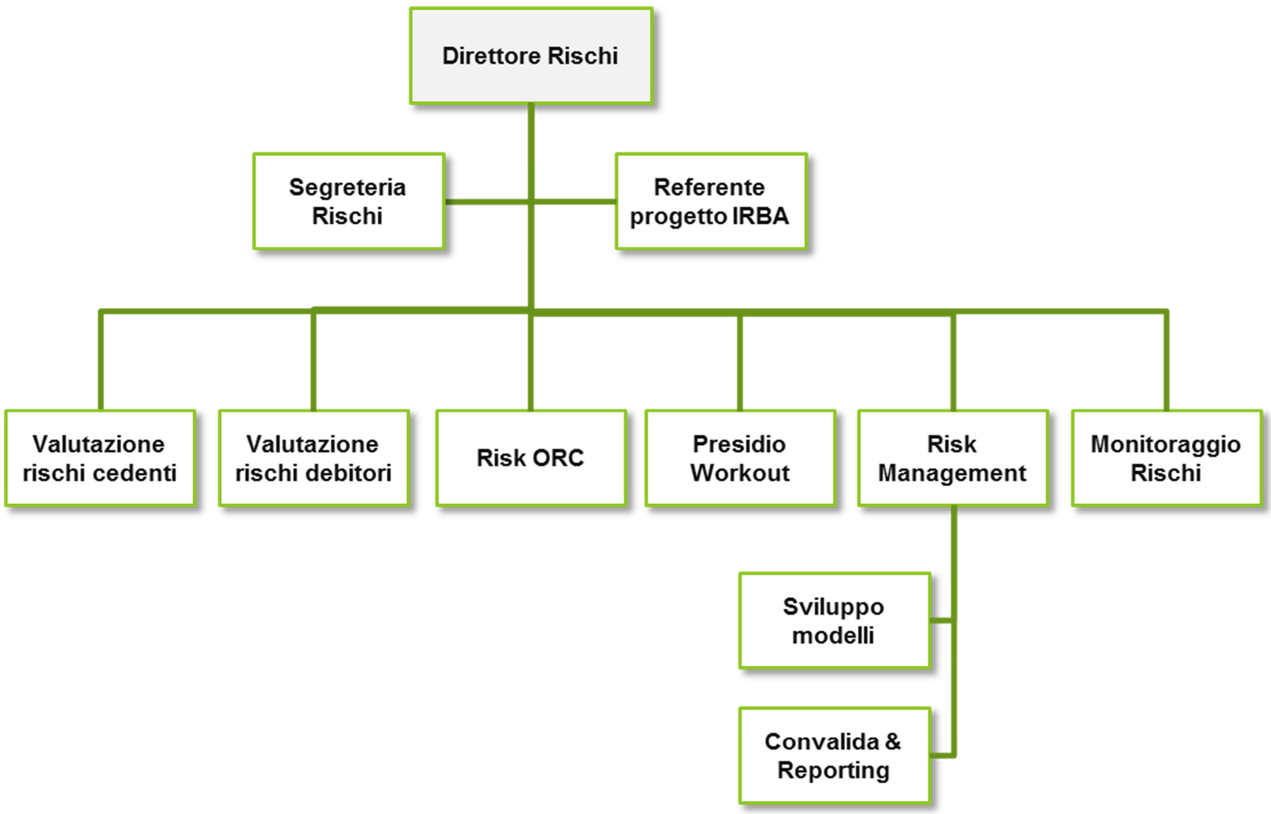
[2] I.e., those with whom the factor has risks that must be discharged by those counterparties; therefore, these also include transferors for advances received.

- dilution risk is the risk that the amount of a receivable decreases through the granting of receivables, in cash or another form, in favour of the debtor;
- commingling risk, which emerges in loan/receivable acquisition transactions each time the funds due to the factor may be confused with those of the transferor;
- late payment risk, which may occur if the without-recourse guarantee is also extended to the payment by the debtor as at a pre-established date (known as conventional expiry).

The internal control system set up by the company proposes to mitigate the manifestation of the above risks, which could lead to losses should they arise.
The planned progressive integration towards the Parent Company's credit risk control model, in addition to the scenario, in recent years, of exceptional macro-economic factors that have required and will require measures to be taken, including legislative, by the Regulators, who have facilitated the introduction of a gradual implementation of the credit risk control process.

## 2. Credit risk management policies

2.1 Organisational aspects
The Division's organisational structure is as follows:




The Head of the Risk Division holds the position of Head of the Risk Control Unit and, in this capacity, reports hierarchically to the Board of Directors; the Risk Division is integrated into the RISK organisational model of the BNP Paribas Group, with the consequent close link and reporting of the Head to the Factoring Global CRO of BNPP, with which it acts in close coordination.
The Head of the Division is the Point of Contact for outsourced services in the Internal Audit area of the Internal Rating System.
The Operational Risk Point of Contact functionally reports to the Head of the Risk Division, to whom he/she sends suitable information flows on pertinent risks, their recording and periodic monitoring and the mitigation actions implemented with the related Risk Owners.
The Permanent Controls are present in three units and are carried out by RISK ORC, the Risk Monitoring Department and the Risk Management Department. The Risk Division Office unit gathers together the secretarial activities, in the Risk Manager's staff. The remaining units of the Division are at line level.

Risk Division

- oversees the processes relating to the assumption of credit risk and ensures the maintenance of the customer portfolio quality over time in keeping with the corporate and BNP Paribas Group objectives and strategies.
- handles the doubtful positions, co-ordinating at BNP Paribas Group level.
- ensures constant monitoring of credit risks and those envisaged as part of the ICAAP process for the relevant areas of responsibility.
- ensures, in co-ordination with the competent BNP Paribas Group Units, the definition and maintenance of the methods and instruments aimed at identifying, measuring, assessing and handling the credit risks.
- ensures, in coordination with the responsible Units of the BNP Paribas Group, the monitoring of the Company's operational risks in its role as second line of defence and the coordination of the activities carried out by the first line of defence.
- It oversees the internal audit activities outsourced of the Internal Rating System, carried out in outsourcing by BNL SpA – DR – B2C

As a result of the outsourcing to BNL SpA – Special Loans Division of Workout activities, the Workout Activities Oversight Unit performs the role of Point of Contact for the Workout services outsourced (Problem asset management; Servicing on behalf of third parties and government authorities management; Revocation management, Lawsuit management of parties in Arrears Unlikely to Pay – Agreed Unlikely to Pay and Non-Performing statuses and of any positions subject to Complaints; Planning, operational management and monitoring; Analysis and Reporting).
The general mission is established by means of the Business Units indicated above, whose missions are summarised below.

Risk Division Office

- supports the Sales Division, the Transferor Risk Assessment and the Debtor Risk Assessment service in handling the transferor and debtor approval procedures for the Credit Committee (Ordinary and Integrated sessions) and BoD. Fulfils the obligations set forth by the Committee and forwards the documentation for which the opinion of the competent units of other Entities of BNP Paribas Group has been requested and performs any follow-up for the outcome, seeing to any changes set forth;
- ensures, for all paper files, the correct insertion in FIS of the limits without recourse of debtors approved by the Monocratic Bodies;
- oversees the preparation of the Default Committees in the envisaged Judgemental Impairment and Stock Sessions, supporting the Risk Manager in administering the resolutions taken by the Committee, receiving the opinion of BNL where required;
- it sees to the formalisation of risk measures, inputting in the information system the results of the resolutions of the statistical rating override process and judgemental assignment of the risk measures;
- oversees the process of publishing ratings in FIS attributed at the end of the quarter in application of the simplified valuation process (known as Sme Policy Performance);
- handles requests from Debtor Assessment to enter data in the master file for foreign parties and enter limits in Mediana/FIS, directly or through the use of services, for the assessment of the corresponding risks by the appointed requesting units (Val.DE);
- manages the flow of requests from the potential clients resulting from approval of without-recourse Feasibility Reports (opinions), ensuring, directly or through the use of the service, the correct entry of the reports and the related assignment to the units assigned to assess the corresponding risks;
- handles the safekeeping of the documents acquired at the approval stage (paper and/or online archiving);
- supervises the service relating to document archiving insofar as it is responsible;
- ensures for the approved limits, the control of the correctness of the data input in FIS, by means of a comparison between the data input and the original resolutions received from the Debtor Assessment service if on paper or the extracts produced by PEF (Electronic loan application) processed by IT on a daily basis;
- it sees to the handling of the restrictive measures resolved with reference to risks without recourse (revocations/reductions both PEF and on paper) by performing the related tasks (registration in FIS, etc.);
- ensures the adjustment of any errors detected in the FIS company information system relating to the processing of without-recourse limits.

Risk Operational Risk & Control / RISK ORC

The function was established as an internal structure in the last quarter of 2018.
The Risk Division is responsible for defining and supervising the overall operational risk management framework in its role as "second line of defence" together with Compliance, Legal, Tax and Finance to the extent of their direct concern.

Risk ORC is the structure in charge of this role that is carried out, in summary, in the following activities:

- ensure the dissemination and monitoring of compliance with the regulations, directives and methods of the Group in the field of Operational Risks, the assessment of the consequent choices regarding the methods and tools used and the assistance/consultancy on the matter to all company structures;
- supervise the qualification/quantification of historical operational risk incidents (HI Quality Review) by proposing any mitigation actions;
- ensure the definition of the mapping of the Company's operational risks (RCSA Risk & Control Self-Assessment), by supervising the activities carried out by OPC (Operational Permanent Controllers) and by Divisions/Structures for the relevant areas of responsibility and guaranteeing methodological support;
- ensure the definition of the Company's control plan, by supervising the activities carried out by the Risk Owner Company Structures for the relevant areas of responsibility and guaranteeing methodological support;
- ensure the supervision of the finding monitoring activities and recommendations issued by the periodic inspections (Inspection Générale), by the Regulator, by the Control Bodies and of the relevant corrective actions;
- ensure the effective implementation of strategies, frameworks and risk mitigation actions with the 1st line of defence, through the follow-up of action plans and the independent control of the activities carried out, either through tests of the controls carried out by the first line of defence or, if deemed relevant, any other type of controls;
- contribute to the dissemination of the culture and awareness of operational risk and to the formation of the risk mitigation framework;
- express an independent and alert view of the level of risk and the status of the operational risk mitigation framework;
- ensure internal management reporting to the Company's Control Bodies, to BNL SpA and to the Parent Company for matters falling within its competence;
- ensure the implementation of the outsourcing device by taking care of the implementation of the first line of defence on it;
- ensure, for the part of any activities allocated to BNL, the definition of Service Level Agreement/SLA and monitoring of the activities carried out.
- With reference to the internal and external fraud protection device:
    - ensure, in accordance with the Group guidelines, the coordination of initiatives for the management of fraud reports as well as assistance/consultancy on the matter;
    - ensure the implementation of the systems required for the prevention, identification, control and monitoring of the internal and external fraud protection system, as well as the coordination or direct management of investigations;
    - contribute, together with the first line of defence, to the training of personnel on the culture of prevention and defence against the risk of fraud.

<u>Risk Monitoring Department</u>

The purpose of the structure is to see to the definition, planning and implementation of controls aimed at monitoring credit risk. Specifically:

1) it defines, plans and implements credit control activities. In this area, the Department:

- carries out checks regarding the lending process and the management of the relationship and collections based on internal regulations;
- monitors the process and the merits of the assignment and revisions of ratings and reports periodic worsening in statistical ratings for the purpose of suitable management/review of the positions;
- makes sure that the facilities granted are regularly used with respect to the resolution reached at the time and the progression of the risk elements expressed by the development of the relationship;
- checks the process of allocating for impaired accounts; monitors the achievement of lending objectives in the activities of disbursement and management of lending positions, reporting any critical issue to the Divisions concerned;
- controls the consistency of the risk status classifications of the positions according to the guidelines of BNP Paribas Group and the Banking System, reporting any misalignment to the competent Divisions;

2) it ensures, working with the Business Lines, the effectiveness of the process of watchlist management to define and implement the corrective actions on positions subject to systematic supervision;

3) it contributes, in line with the rules of the BNP Paribas Group and together with the competent Divisions, to the planning, application and maintenance of the procedures aimed at overseeing the credit risks;

4) it ensures a periodic flow of information towards BNL to allow the consolidation - at BNP Paribas Group level - of the data regarding credit monitoring;

5) it ensures that specific reports regarding the results of the control activities carried out and the corrective actions for the identified anomalies are prepared for the Senior Management and/or the boards;

6) it reports any operational risk found as part of its permanent control activities to the Operational Risks Department and PCC.
The structure carries out these activities on a monthly or quarterly basis, based on the type of control to be carried out.
The activities are carried out based on the Operational Plan of Controls (OPC), which includes both controls on performance and on merits and correctness of form, broken down by type of process:

- Assumption and Review of credit risk;
- Credit risk management;
- Collection of impaired loans.

Risk Management Department
The organisational unit is divided up into two spheres with separate teams and responsibilities.
The Pillar 2 Product and Controls / Models Development Sphere sees to the activities associated with the development of the risk measures (PD, LGD, Dilution) and support in the implementation of models with regard to Ifitalia while, for the part developed by the BNL skill centre, it performs a support function for the implementation, application, applicative monitoring and periodic updating of said analysis as well as support for the issue of the regulations relating to its sphere.
This sphere's mission also includes the control on the Second Pillar risks, where considered significant by Senior Management, as well as the analysis with regard to the development on new products in terms of impact on the level of risk and support for the achievement insofar as it is responsible.
In conclusion, it works together with the Finance Division in the ICAAP process insofar as this falls under the responsibility of the Risk Division.
The Reporting and Models Validation Sphere, in co-ordination with the corresponding units of DR BNL,

- with regard to Model Validation, defines the validation guidelines for the credit risk models on a consistent basis with the guidelines of the BNP Paribas Group, follows the development of analysis methods for the validation of the aforementioned models and performs the second level validation/qualification (initial and periodic) of the local/central risk parameters for the purpose of checking the reliability of the results and the persistence of the consistency with legislative requirements and changes in the reference market. It ensures the monitoring of performance and the accuracy of estimates produced by local models following the resolution of any critical aspects found within its activities. A specific periodic disclosure is prepared to report on these activities to the Company's Governance and Control Bodies. In conclusion, it collaborates within the sphere of the above activities for the correct implementation of the algebra underlying the local estimation models with respect to the validated versions. Lastly, it oversees data quality control in the area of models, to the extent of its remit.
- with regard to reporting activities, it implements a control reporting system intended for Senior and Top Management on the performance of asset quality (e.g. changes in asset quality, shortcuts/excesses on LGD with respect to the coverages in NPL, changes in the distribution of EL by product/responsibility centre, significant changes in the granularity of the portfolio risk, analysis with focus on the change of significant sector risks, drafting of information sent to the Risk Policy Committees, etc.), provides the necessary disclosure support to management so that it can carry out its functions as part of the budgeting and periodic audit process (forecast), as well as disclosure support for the performance of the risk cost control activities carried out by management (Action Plan), performs second-level data quality controls for its area of responsibility on the internal rating system and on the information forwarded to central application software for calculating requirements, and, in conclusion, ensures its support for the consolidation process for the country risk limits of BNP Paribas in co-ordination with the Brussels GFCC.

Both the spheres of activities direct and collaborate with the IT Division, insofar as they are responsible, in relation to the development and maintenance of the databases necessary for the implementation of their analysis objectives.

Risk Assessment

- analyses the transferor and related with-recourse debtor approval procedures established by the Sales Division according to the methods envisaged by the "4Eyes" process, in particular:
- provides risk opinions on the without recourse debtor and transferor risks assessing the consistency with the lending policies of the Company and the BNP Paribas Group, as well as with the internal regulations in force;
- expresses a fairness opinion on the rating automatically calculated by the software as part of the transferor credit proposals;
- validates the changes in the without-recourse transferor and debtor ratings triggered by the override requests submitted by the Sales Division or the Debtor Assessment Department of the statistical ratings automatically assigned by the system (local models);
- validates the risk measures (rating and GRR) assigned in judgemental mode (central models) for both without-recourse transferors and debtors;

- validates the rating values calculated by the engines as part of the process of renewing debtors without recourse for a reduced amount
- supports the Default Committee in applying deviations from the Company Allocation Standards, expressing the Risk Opinion on the departure proposals put forward.

Debtor Assessment

- prepares and assesses without-recourse Debtor files and oversees the quality of these risks over time, in particular:
  - resolves within the authorised limits or submits without-recourse risks to the competent bodies;
  - assesses the consistency of the rating assigned by the software with the general risk profiles of the without-recourse Debtor, activating override processes, if necessary;
  - formulates proposals for assigning risk measures (rating and GRR SU) in judgemental mode for without-recourse debtors and submits them for validation to the Risk Assessment Department.
  - sees to, directly or via the use of services, the entry of the results of the resolutions relating to without-recourse limits and any reinsurance of the same in the Electronic Procedure or in the FIS company information system;
  - manages, with the credit insurance companies, the requests for granting, renewal or revocation of the individual insurance coverage;
  - sees to the review of outstanding without-recourse risks;
  - manages the limits subordinated to the acquisition of accessory guarantees in co-ordination with the Management Division (responsibility of VAL.DE)
  - examines the prepayment plans proposed or the requests for related extensions, submitting them to the competent bodies for authorisation;
  - adopts restrictive measures aimed at safeguarding the risk undertaken by means of decreases, changes and revocations of without-recourse limits;
  - handles the updates of the map of the Associated Customer Groups and their composition in a co-ordinated manner with the other company structures and the other entities of BNP Paribas Group;
  - sees to the main without-recourse debtor risk concentration, including by assigning portions of Major Debtor Limits or Debtor Group Limits, entering in the FIS company information system the results of the related resolutions and carrying out the appropriate controls in observance of the limits approved;
  - analyses the periodic downgrades of internal ratings of risks under its responsibility for case-by-case decisions;
- as part of managing counterparty risk:
  - supports the Head of the Division in identifying new credit insurance policies or reviewing the ones in place;
  - verifies the calculation and authorises the payment of the reassurance policy premiums, the services provided by external providers and information agencies
  - draws up suitable disclosure for the Owners with regard to the requirements of pro tempore policies in force so as to permit the correct operational handling; monitors the suitability of the CPAs resolved for foreign correspondents and insurance companies, handling the Annual Review process in collaboration with GFCC.

Workout Activities Unit

It oversees the Workout activities outsourced, periodically monitoring the observance of the service levels/execution times, the trend in the relationships with third parties, any problematic aspects emerging, and the identification of the appropriate solutions.
This unit draws up the reporting on all disputes and revocation actions for parties managed by the Workout unit of BPI.
For “legal deeds”, it manages acceptance and activates the Workout unit of BPI for parties with the status Non-Performing – Arrears Unlikely to Pay – Agreed Unlikely to Pay.
It collects the proposals for reclassification of status of without-recourse transferors and debtors and submits them for the review and authorisation of the decision-making bodies, handling the entry in the company information system of the change of status resolved with regard to without-recourse debtors.

The point of contact of the IRBA project coordinates and supports the programme activities aimed at implementing the advanced risk calculation approach. In this context, it also follows the communications to the Supervisor and the "on site" validation activities.

2.2 Management, Measurement and Control Systems

Internal Rating System (IRS)
The Ifitalia IRS, established since 2005, underwent a progressive change. The Probability of Default (PD) models that apply to the Large Corporate and Small Mid Corporate segments adopt a methodology that is in line with Group standards for the portion locally implemented. The Large Corporate portion uses a process implemented by the parent company BNP Paribas and applied on a transnational basis to determine the value of the internal rating and the GRR (Global Recovery Rate=1-LGD). The Small Mid Corporate section applies the rating models developed internally by the BNL domestic bank to ensure consistency in the assignment of risk parameters. On the other hand, based on the peculiarities of the factoring product, Ifitalia developed its own internal models for the estimation of the Loss Given Default and the observation of the Dilution risk.
All releases safeguard the principle of the uniqueness of the rating value by supplementing these values with those expressed by the BNP Paribas banking network, which are used, each time they are present, as a driver in the loan process. In line with the other entities of BNP Paribas Group, a single master scale is used to assess the one-year PD of counterparties included in the application scope of the models.
In addition to being a management control instrument and compliant with IFRS 9 requirements, the PD models in use were implemented as part of regulatory provisions to determine supervisory capital requirements, since our Company is a credit institution that plans to migrate to the internal rating application method using the advanced approach. The existing Ifitalia IRS is based on statistical models estimated by BNL and applied to our population. These consider, for their operation, pertinent financial, qualitative and performance variables. The probabilities of default obtained are corrected to consider the influence of the economic cycle in a way to reduce its influence and cyclicality.
The estimate of the exposure at default (EAD) and the risk parameters for the SME Retail perimeter are part of the Roll Out plan with a release expected during 2021. Therefore, for these components, Ifitalia adopts the Standard approach on a transitional basis. For portfolios belonging to the "Financial Institutions/Supervised Intermediaries and Local Authorities" asset classes, the Standard approach will be permanently applied. Therefore, there are no plans to develop internal models for measuring credit risk.
The internal rating system as a whole is subject to a general governance process and a set of application rules that guarantee the utmost reliability over time of the process to estimate and input the risk measures and their correct application in company processes.
The master scale adopted ranks the customers into 10 classes for the performing part and two classes for the default part, which includes past due, unlikely to pay and non-performing positions.
The risk managers and the principals of the approval process are allowed to request a review of the internal rating in accordance with a regulated process that entrusts the risk department with the authority to accept or refuse the related requests, each of which must be duly and promptly justified. The rating value is updated at the time the approval process begins and periodically, on the occurrence of specific events or at deadlines defined by the risk department.
The statuses expressed by the Parent Company on shared customers have direct effects on the internal classification, with particular reference to the various degrees of impairment. As regards other risk measures, which, together with the PD, make up the IRS, note that the Loss Given Default (LGD) is used in management reporting, particularly in reference to analyses highlighting the distribution of expected loss and consistency with coverage levels (shortcut/excess), as well as for IFRS 9 purposes.

2.3 Credit risk management policies

Reporting
The reporting process drawn up by the Risk Management Dept. takes the form of periodic disclosure to the Risk Policy Committee (RPC)[3] of BNP Paribas Group, Senior Management, and the first level of responsibility of business management, and contains, among other things, qualitative-quantitative information on portfolio risk and the level of sector concentration. In compliance with the credit policies expressed by the Group, periodic disclosure has also been prepared for the process Owners, with the aim of facilitating observance of the indicated limits and permitting periodic reporting. Additional reports are drawn up by the Risk Monitoring Dept. and intended for Senior Management – subject to discussion if necessary with the process Owners – with the aim of informing Senior Management on observance of certain aspects of the credit process deemed to be particularly critical, also in relation to the indications received from the Parent Company.
The reporting process was further enhanced as a result of the gradual expansion of the use of risk measures with views dedicated to the trend of coverage, the distribution of ratings and the related migration matrices, as well as a better visibility of

[3] Credit Policy Committee

capital absorption and expected loss / RWA on credit risk, both for the performing and non-performing components, with a focus on the impact of dilution risk.

Delegation system

The system of lending powers systematically supplements the use of the rating in the credit authorisation process with depth in the structure for exercising the authorisation in relation to the expected loss levels.

The decision-making process, taking into account Ifitalia's merger within the BNP Paribas Group, has adopted the Group model. This model entails the involvement of two organisation chains in the credit granting process: a "commercial chain[4]" and a "risk chain[5]". According to this process, all lending resolutions relating to the transferor and debtor risk are made by the commercial chain, which avails itself of the support of a team of specialised credit risk analysts, who express credit opinions (known as risk opinions) on the credit proposals developed.

By means of this constant and joint assessment of the transferor proposal, by the commercial chain and the risk chain, the credit process has been defined as "4 Eyes".

The 4 Eyes organisational process applies at every decision-making level, from the lowest (Local areas) up to the General Management and, in the event of disagreement between the commercial opinion and the risk opinion, the concept of resolution escalation applies at all levels, on the basis of which the decision is referred to the higher decision-making body.

Resolution escalation applies each time the risk opinions express a more restrictive (or negative) lending opinion with respect to the proposed transaction and the decision-making body identified by the lending powers does not intend to comply with the risk opinion expressed.

For both the without-recourse debtor and transferor role, the power delegations take into account not only the absolute amounts but also the internal rating values expressed by the Group and by the internal rating system for the customers and debtors that are not shared.

The presence of insurance coverage on without-recourse debtor risk influences the lending process and the application of the delegation system.

In any event, the collective Decision-Making Bodies (Credit Committee and Board of Directors) are entrusted all the risks involving greater amounts, which are also subject to review by the Parent Company for the largest amounts or that, due to lender type, are reserved for the exclusive competence of the Board of Directors.

Lending policies

A set of "Specific Credit Policies", approved by the Board of Directors, supplements the strategic guidelines formulated by the Parent Company's Risk Policy Committee (RPC) as regards specific local aspects, aimed at supporting and guiding the factoring activities at Group level.

The "Specific Credit Policies" concern aspects such as:

- coordination at Group level of the risk assumption methods, taking account of sector performance, default risk of the counterparty, and the aspects inherent in managing the relationship;
- methods of assumption and review of without-recourse debtor risk for specific brackets of amounts and segments;
- methods of assumption of transferor risk with regard to specific types of products and/or credit underlyings.

The implementation of strategies as well as the implementation of the "Specific Credit Policies" are subject to verification and reporting to the company governance bodies, according to specifically defined processes.

Supervision of performing and past due loans/receivables

The systematic supervision system takes and adapts to the factoring context the "IPEG" and "Watch List" procedure already in use at BNL, known as "IFIPEG".

"Systematic Supervision" is the set of management rules and processes for the individual risk positions of transferor and debtor counterparties, hereinafter referred to as "customers", aimed at ensuring constant reporting and assessment of risk, the consequent classification and the timely and effective application of management strategies designed to minimise the impact from risk increase, with a view to preserving the quality of these credit assets. Anticipatory management is envisaged, both in Basel regulations and in Bank of Italy supervisory instructions, as one of the fundamental principles of prudential control, where the focus is on the need for banks and financial brokers to set up a suitable system of monitoring and reporting risk exposures, which also assesses the manner in which the changing risk profile of the institution could influence its capital requirements.

[4] "Commercial chain" means the business units of the Sales Division tasked with initial approval/decision-making activities.
[5] "Risk chain" means the business units of the Risk Division tasked with credit risk assessment activities in the initial approval process.

These rules promote the constant strengthening of the ability to prospectively assess risk profiles, defining the following, inter alia:

- Measurement criteria based on “internal ratings" as the predictive nature of those models allows for the definition of guidelines for governing credit risk, for the purpose of managing in advance possible impairment of assets;
- The fundamental principles of prudential control, where the focus is on the need for banks and financial brokers to set up a suitable system of monitoring and reporting of risk exposures, which also assessed the way in which the changing risk profile of the institution could influence its need for capital.

The Systematic Supervision process is organised into 3 pillars:

- On-going classification of Customers, by virtue of which the customer base must be permanently classified in relation to the current and forecast risk, making a distinction between low risk customers and high risk ones;
- Focus on customers subject to increasing risk, whose main objective is the early management of the deterioration of loan quality as well as its permanent and on-going monitoring;
- Action plans, focused on the reduction/reclassification of the risk vis-à-vis high risk customers.

These pillars are strictly linked to the Monitoring process, which constitutes the final phase of the broader process of Systematic Supervision and Monitoring. The Customer enters the Systematic Supervision process when:

- it is possible to apply a risk assessment and consequent management action to the same;
- a limit is granted or resolved or when an exposure emerges;
- the Customer is reclassified as performing or Restructured Unlikely to Pay, Automatic Unlikely to Pay, or Management Unlikely to Pay from a status of Arrears Unlikely to Pay, Non-Performing or Agreed Unlikely to Pay.

Conversely, the Customer leaves the process when:

- he/she no longer has dealings with Ifitalia;
- the position is classified as Arrears Unlikely to Pay, Non-Performing or Agreed Unlikely to Pay.

Positions that, due to the significance of the level of risk and/or performance or management anomalies detected, must be subject to specific monitoring, are classified as Watch List and periodically subject to examination by the Risk Monitoring Committee.

The Watchlist is broken down into:

- Ordinary: includes all positions in accounting status Performing, Past Due and those in accounting status Unlikely to Pay but defined as Automatic, Non-Arrears Unlikely to Pay without forborne flag in the management accounts, which have a counterparty risk higher than or equal to the threshold of EUR 200,000 and are marked red or orange.
- Doubtful: includes all positions in management status Management Unlikely to Pay, Restructured Unlikely to Pay or Automatic, Non-Arrears Unlikely to Pay with forborne flag, with counterparty risk >0 and/or transferor credit line and/or debtor credit limit.

The process is being fully reviewed as part of the process to implement the new IFIPEG 2.0 tool. -

<u>Organisation of the Committees</u>

For the purpose of ensuring an integrated management of the processes, the Company has established an organisational structure that envisages the meeting of Committees where the relevant business units are occasionally called to provide their contribution through an integrated approach.

In particular:

<u>Credit Committee</u>

It decides on the granting of loans and authorises their disbursements, within the limits of the powers granted.

It expresses opinions regarding lending in line with the delegated powers and approves, upon the proposal of the General Manager and within the maximum limits established by the Board of Directors, the decision-making and administrative sub-delegation and use of the credit facilities, including registered by name, to be assigned to certain defined business roles.

The Credit Committee meets in "ordinary" and "integrated" sessions. In the "integrated" session, the Credit Committee resolves solely on granting loans that exceed the powers of the "ordinary" session, without prejudice to the powers reserved exclusively to the Board of Directors.

<u>Non-Standard Product Validation Committee</u>

It authorises all the “non-standard products”, understood as those that cannot be activated, marketed, controlled, handled or registered for reputational, accounting, tax-related, supervisory and risk and management control purposes, in accordance with current practices and legislation.
The name of the Committee was changed to Product, Activities, Exceptional Transactions (COPAT) Committee as from December 2018 together with the entry of RISK ORC as a reference on aspects related to operational risk.
The Committee is responsible for assessing the impacts:

- on the components of credit risk, operational risk, market risk, ALM risk (interest rate risk and liquidity risk), risk of non-compliance, reputation risk and image risk;
- on the control system;
- on accounting and administrative processes/systems and on commercial, financial and supervisory reporting;
- on tax aspects;
- on legal aspects;
- on IT systems and/or infrastructure components;
- on distribution processes;
- on organisational aspects;
- on data, in terms of their quality compared to the different purposes of use.

Risk Monitoring Committee
The Risk Monitoring Committee, consistent with the Group model, is an analysis and decision-making body that ensures the integrated supervision of significant risks, also with a view to valuation of the level of adequacy of the available capital.
This Committee is the venue in which business management discusses the valuation of risks carried out by the competent units and assesses the mitigation action proposed by the responsible units, individually or jointly.
Furthermore, the company control units share the results of the respective activities within said Committee.
The Committee therefore represents one of the main venues in which - for its areas of responsibility - control is exercised by the Risk Control Units and represents a point of business synthesis that ensures a single view of risks.
The Committee is organised in multiple issue-based sessions, and its composition varies in relation to the issues handled in each session.
Specifically, the Committee is responsible for:

- examining the trends in impairment on the performing portfolio;
- validating the Operational Plans for Control of the risks, prepared by the responsible units, to be submitted for the approval of the Board of Directors;
- assessing the corrective action plans proposed by the competent units for the positions included on the watchlists, consistent with the processes defined at BNP Paribas Group level;
- directly downgrading, if necessary, the rating assigned to the customer;
- assessing the action/initiatives to mitigate risks and modify developmental trends in activities to contain risks and RWAs;
- providing a global and systematic vision of the situation within the sphere of the permanent control system and operational risk;
- intervening, in a dedicated session and in an anticipatory logic, on relations that present a relevant fraud scoring with decisions that can lead
  - to the maintenance of the relationship without any change compared to the existing situation;
  - to the maintenance of the relationship with a restructuring of the operations where necessary, also requiring the activation of a new investigation process;
  - to the inclusion of the name in the Watchlist;
  - to the request for an amicable exit from the relationship;
  - to status changeover, referring the valuation of the relevant provisions to the competent bodies.
- analysing and acquiring collective decisions with regard to the permanent control system and operational risks;
- supporting the Business Continuity manager in reporting, sharing and validating the information and initiatives aimed at maintaining Business Continuity solutions;
- in implementation of the governance of Internal Rating System:
  - ensuring a joint examination on initial application, as well as in the subsequent evolutions of risk measures that are applied in the business;
  - ensuring a joint examination on initial application, as well as in the subsequent evolutions of the tools for using the risk measures to govern credit and dilution risk;

- o ensuring an integrated view of the results of data quality and data integrity controls relating to the use of the internal rating system;
- ensuring an integrated communication flow on significant risks: collecting and reviewing reports on trends in the adequacy of the available capital (ICAAP) and of the significant risks drawn up by the competent business units; communicating the outcome of the discussions to the BoD, formalised in specific reports;
- supervising, in an integrated manner, the current and forecast trend of the risk profile and the level of capital adequacy of the Company, assessing the action/initiatives to mitigate risks and modify developmental trends in activities to contain risks and the RWAs;
- ensuring the supervision of supplier risk so as to efficiently manage any issues deriving from the commercial dealings with suppliers, ensuring the quality and continuity of the related activities.

Default Committee

The Default Committee is the body that analyses and resolves on lending disputes and the collection or loss forecasts.
This Committee works through two internal sessions: *Ordinary* (assesses and resolves the reclassification of risks exceeding EUR 3 million from performing and non-performing, assesses any deviation from the global Past Due and Unlikely to Pay provision determined by the level of the past due positions (Automatic IPA/IP), assesses and resolves allocations to provisions for risk starting from EUR 600 thousand) and *Stock* (assesses the management activity of risk positions with the Debt Collection Dept. with financial exposure starting from EUR 3 million). Promptly reports its decisions to the Risk Division of BNL.

Techniques for mitigating the credit risk

The mitigation of credit risk in the factoring transaction is essentially entrusted to an efficient and effective process for checking the ability of the debtor to pay the trade receivable acquired on maturity, which, since 2016 has been increasingly accompanied by insurance on without-recourse debtor risk, previously contracted essentially on foreign transactions and for transactions with specific customers. This choice is consistent with the strategies implemented within the factoring hub of BNP Paribas Group, where normally the assumption of without-recourse debtor risk is accompanied by an insurance guarantee or a guarantee from a foreign correspondent.
The compliance of correspondents and insurers is subject to periodic assessment.
Nevertheless, as regards unsecured and secured guarantees, the Company has already organised itself, defining tasks and responsibilities inherent to the definition of:

- standard forms for the types of guarantees normally assumed;
- processes for gathering the subscription of guarantees;
- processes for the control, custody and registration of the guarantees.

The organisational and technological processes take into due account the necessary functional distinction that must be assigned among the party that defines the standard texts, the party that collects the guarantees, and the party that checks/holds/validates them.
The credit protection usually undertaken is unsecured (unfunded), while the use of secured (funded) credit protection instruments is typically associated with protection of already non-performing loans/receivables and, therefore – contrary to banking activities - is more of an exception than a usual risk mitigation instrument.

2.4 Projects underway that will be realised as from 2020

The project entitled “Basel II Programme” to adopt the IRB Advanced approach for the calculation of the credit risk capital requirement has currently reached a very advanced stage, having managed during the last quarter of 2019 the access to on-site validation by the Supervisor. In relation to the process of completing the Bank of Italy's approval process, formal feedback is expected by the first half of 2020, with the aim of finalising the transition to the advanced approach during the year.
Along with these developments, the revision of the scoring system already in place has been finalised to extend its application and to increase its ability to classify even more selectively, consistent with the pro tempore risk objectives defined by the business.
A further strengthening of the framework for preventing the risk of external fraud is envisaged with the implementation of the "*ex-ante* fraud score" mentioned above, with reference to:

- o the activation of the Audit process on transferors;
- o the activation of a tool point in time with the aim of reporting attempted frauds already at the time of the transfer;
- o a training and awareness-raising programme on the risk of fraud in general and with a particular focus on external factoring fraud.

### 3. Impaired credit exposures

Classification of impaired assets
The definition of impaired credit exposures is described by the company in a procedure that identifies the detection methods/criteria of the status of the counterparty.
This identification may be automatic (subjects in impaired past due status) or evaluated (arrears unlikely to pay and non-performing loans).

Subjects defined in past due/impaired status
Given that the past due must be on-going, as part of factoring transactions the continuity of the past due is recorded as follows:

- in case of "with recourse" transactions, the past due exposure, other than that related to the future loan/receivable factoring transaction, is determined exclusively upon the fulfilment of both of the following conditions:
  − the advance is for an amount equal to or greater than the total loans/receivables yet to fall due;
  − there is at least one invoice past due by more than 90 days and the total of the past due invoices (including those by less than 90 days) exceeds 5 percent of the total loans/receivables.
- in case of transactions "without recourse", for each transferred debtor, reference must be made to the individual invoice with the longest delay.

Therefore, for factoring transactions, the exposures recognised on parties pursuant to IAS/IFRS are "past due assets" when both conditions of persistence and materiality are met at the same time.

Subjects defined as arrears unlikely to pay and non-performing loans

- Unlikely to pay: the classification of counterparties in this category is the result of the company's opinion as to the unlikelihood that, without recourse to actions such as enforcement of the guarantees, the debtor/transferor fully meets his/her credit obligations (in terms of principal and/or interest). This assessment is made independently from the presence of any amounts (or instalments) past due and not paid. Therefore, it is not necessary to await the explicit symptom of anomaly (non-payment), if elements exist that imply a situation of counterparty default risk (for example, a crisis in the industrial sector in which it operates). All cash and off-balance-sheet exposures to a counterparty in this situation are referred to as "unlikely to pay", unless the conditions for classification as non-performing are met.
- Non-performing loans: this category includes all cash and off-balance-sheet exposures vis-à-vis a party in a state of insolvency (even if not legally ascertained) or in essentially equivalent situations, irrespective of any loss forecasts made by the company. The exposures whose anomalous situation is attributable to profiles pertaining to country risk are excluded.

Return to performing
The counterparty can leave the non-performing status:

- when the exposures are fully discharged, including interest on arrears;
- if, once the conditions for maintaining the position as Non-performing no longer exist, it is returned to performing/Unlikely to pay by means of a specific resolution passed by the Positions delegated for this purpose;
- in case of full loss transfer of the position not recovered in whole or in part.

The counterparty can leave the unlikely to pay status:

- when the entire exposure classified as Unlikely to pay has been discharged;
- if the status of Unlikely to Pay is among those that required an automatic placement, the position can be relocated to a different status only by resolution of the decision-making body granted the right to do so.

The counterparty can leave the impaired past due status:

- the automatic positions do not require a resolution for the return to performing (BON/Bonis), in that the exit from this status is managed directly by the information system that checks on a monthly basis the absence of the conditions of materiality and persistence of the past due positions that determined the placement or the end of the "cure period".

Procedures for defining, managing and controlling anomalous items at Group level
The status coordination activity is transversal to all the entities of the BNPP group in order to achieve a homogeneous reclassification of the status of the customer. Alignment is a process that needs to be coordinated from the moment the state changeover is prepared for all the statuses being assessed. The status alignment process is not automatic but always subject to coordinated evaluation by the Group entities.

<u>Management and recovery process for non-performing loans not yet due</u>
The supervision of the collection process for impaired positions – other than past due and some of the unlikely to pay and restructured positions – is entrusted to the Special Loans - Workout Division of BNL SpA that, as mentioned previously, is an outsourced unit and followed internally by the Workout Activities Unit.
As part of this process, the Unit implements collection strategies that consider:

- the status of the position and counterparties resulting from the data in its possession at the time the documentation is received and subsequently acquired;
- the effective amount to be collected and economic advantages of possible actions to be carried out;
- the presence of any guarantee that can be usefully enforced.

In relation to the above, it periodically takes steps to formulate collection forecasts and to quantify the amount of provisions deemed adequate in light of the status of the position when the forecasts are formulated and each time there are new elements that allow to change it.
In relation to the unlikely to pay/non-performing positions with contained risk amounts, external servicers are used, whose activities and efficiency is accurately monitored.
The Group methodology, shared with BNL, was introduced in 2012 with regard to the definition of the scope of impaired receivables and the rules to quantify the provisions to the performing portfolio (known as Collective Write-down) and non-performing receivables (known as Global impairment and analytic impairment). The process for provisioning and status changeover is co-ordinated by the Default Committee referred to above.
During 2019, the Company defined and submitted to the Board of Directors for approval both the "Non Performing Exposure - NPE" management strategy and the internal policy describing the guidelines for the activation of a write off process on non-performing loans.

**4. Financial assets subject to commercial renegotiations and exposures subject to concession**

Exposures falling under the categories of "Non-performing exposures with forbearance measures" and "Forborne performing exposures" as defined in the ITS are credit exposures subject to concessions (forbearance).
Credit exposures subject to concessions (forbearance) can fall both under the categories of "Non-performing forborne exposures (with forbearance measures)" and "Performing forborne exposures" as defined in the ITS.
Forbearance measures are represented by concessions/rescheduling with counterparties that are, or are expected to be, in difficulty in meeting the originally agreed deadlines (financial difficulties).
Exposures must not be treated as forborne when the debtor is not in financial difficulty (no subjective requirement).
The valuation component from which the opinion of state of difficulty at the time of the request for concession/rescheduling arises is necessary to determine whether the measures put in place are to be understood as forbearance measures.
A concession/rescheduling can be referred to any of the following actions:
a) a change in the previous contractual terms and conditions that the counterparty had to comply with and that counterparty is considered unable to comply with in the absence of the previous contractual terms and conditions due to financial difficulties (debt management problems) and that would not have been granted had the counterparty not been in such difficulties;
b) a total or partial refinancing/rescheduling of debt that would not have been granted had the counterparty not been in financial difficulty.
A concession/rescheduling can result in a loss for the bank/intermediary but this is not an absolute precondition. Therefore, a forbearance measure does not necessarily involve a loss.
In the business application, the focus is placed on the subjective assessment of the state of difficulty of the counterparty requesting the changes in due dates (forbearance measures) from which can derive - together with the existence of certain objective assumptions - the requirement of placing the counterparty among the NPE forborne exposures.
In particular, to ensure the above, the following guidelines are defined:
1 Changes in deadlines must be due to two distinct and alternative circumstances:

    1.1 commercial reasons (trade concessions), i.e. problems related to the underlying supply and/or commercial policies of the purchaser and/or sector specificity in the absence of a state of difficulty and therefore of the counterparty;
    1.2 change in deadlines resulting from a lack of funds in the presence of a state of difficulty of the counterparty (non-commercial concessions).

2 Some reasons constitute rebuttable presumption or absolute presumption of the case under 1.2.
3 The treatment must be differentiated between the debtor role (without recourse) and the transferor role (with recourse), meaning that

3.1 the debtor role without recourse is a debtor counterparty where there are receivables without recourse;
3.2 the transferor role with recourse is a transferor counterparty where there are exposures with recourse.

## QUANTITATIVE INFORMATION

### 1. Distribution of financial assets by portfolio and loan quality (book values)

*(thousands of €)*

| Portfolios/quality | Non-performing | Unlikely to pay | Past due positions | Performing Past due positions | Other Assets | **Total** |
|---|---|---|---|---|---|---|
| 1. Financial assets measured at amortised cost | 62,992 | 45,129 | 17,981 | 1,102,515 | 6,294,568 | **7,523,185** |
| 2. Financial assets at fair value through other comprehensive income | | | | | | **-** |
| 3. Financial assets designated at fair value | | | | | | **-** |
| 4. Other financial assets mandatorily measured at fair value | | | | | 4,566 | **4,566** |
| 5. Discontinues operations | | | | | | **-** |
| **Total 31/12/2019** | 62,992 | 45,129 | 17,981 | 1,102,515 | 6,299,134 | 7,527,751 |
| **Total 31/12/2018** | 61,248 | 55,142 | 25,875 | 1,326,108 | 6,283,989 | 7,752,362 |

### 2. Distribution of financial assets by portfolio and loan quality (gross and net values)

*(thousands of €)*

| **Portfolios/quality** | **Impaired** | | | | **Performing** | | | **Total (net exposure)** |
|---|---|---|---|---|---|---|---|---|
| | Gross Exposure | Total value adjustment | Net exposure | Overall partial write-off* | Gross Exposure | Total value adjustment | Net exposure | |
| 1. Financial assets measured at amortised cost | 410,494 | (284,392) | 126,102 | | 7,408,828 | (11,745) | 7,397,083 | 7,523,185 |
| 2. Financial assets at fair value through other comprehensive income | | | - | | | | - | - |
| 3. Financial assets designated at fair value | | | - | | X | X | - | - |
| 4. Other financial assets mandatorily measured at fair value | | | - | | X | X | 4,566 | 4,566 |
| 5. Discontinued operations | | | - | | | | - | - |
| **TOTAL (2019)** | **410,494** | **(284,392)** | **126,102** | **-** | **7,408,828** | **(11,745)** | **7,401,649** | **7,527,751** |
| **TOTAL (2018)** | **437,026** | **(294,761)** | **142,265** | **-** | **7,615,809** | **(10,893)** | **7,610,097** | **7,752,362** |

*(thousands of €)*

| Portfolios/quality | **Low creditworthiness assets** | | **Other assets** |
|---|---|---|---|
| | Capital Losses Cumulative | Net exposure | Net exposure |
| 1. Financial assets held for trading | - | - | - |
| 2. Hedging derivatives | - | - | - |
| **Total (2019)** | - | - | - |
| **Total (2018)** | - | - | - |

* Value to be shown for information purposes

## 3. Distribution of financial assets by maturity brackets (book values)

*(thousands of €)*

| Portfolios/quality | First level | | | Second level | | | Third level | | |
|---|---|---|---|---|---|---|---|---|---|
| | Up to 30 days | From 30 days to 90 | Over 90 days | Up to 30 days | From 30 days to 90 | Over 90 days | Up to 30 days | From 30 days to 90 | Over 90 days |
| 1. Financial assets measured at amortised cost | 552,065 | 108,966 | 249,696 | 108,930 | 20,878 | 61,980 | 1,863 | 662 | 407,970 |
| 2. Financial assets at fair value through other comprehensive income | | | | | | | | | |
| 3. Discontinued operations | | | | | | | | | |
| **Total (2019)** | 552,065 | 108,966 | 249,696 | 108,930 | 20,878 | 61,980 | 1,863 | 662 | 407,970 |
| **Total (2018)** | 457,064 | 114,299 | 650,456 | 45,359 | 15,177 | 43,752 | 1,404 | 2,930 | 432,693 |

## 4. Financial assets, commitments to grant funds and financial guarantees given: changes in total value adjustments and in total provisions

*(thousands of €)*

| Causes/Risk status | **Total value adjustments** | | | | | | | | | | | | | **Total provisions on commitments to disburse funds and financial guarantees given** | | | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Assets in the first status | | | | Assets in the second status | | | | Assets in the third status | | | | | | | | |
| | Financial assets measured at amortised cost | Financial assets at fair value through other comprehensive income | of which: single write-downs | of which: collective write-downs | Financial assets measured at amortised cost | Financial assets at fair value through other comprehensive income | of which: single write-downs | of which: collective write-downs | Financial assets measured at amortised cost | Financial assets at fair value through other comprehensive income | of which: single write-downs | of which: collective write-downs | of which: impaired financial assets acquired or originated | First Level | Second Level | Third Level | |
| **Opening Balance** | 4,392 | | | 4,392 | 6,501 | | | 6,501 | 294,761 | | 294,761 | | | 232 | 132 | 1,283 | 307,301 |
| Increases in financial assets acquired or originated | | | | | | | | | | | | | | | | | - |
| Eliminations other than write-offs | | | | | | | | | | | | | | | | | - |
| Net value adjustments/writebacks for credit risk (+/-) | 3,683 | | | 3,683 | 2,202 | | | 2,202 | 10,974 | | 10,974 | | | 51 | 19 | 66 | 16,995 |
| Contract modifications without eliminations | | | | | | | | | | | | | | | | | - |
| Changes in estimation method | | | | | | | | | | | | | | | | | - |
| Write-off | | | | | | | | | (18,261) | | | | | | | | (18,261) |
| Other changes | (1,141) | | | (1,141) | (3,892) | | | (3,892) | (3,082) | | (3,082) | | | (10) | (73) | (87) | (8,285) |
| **Closing balance** | 6,934 | | | 6,934 | 4,811 | | | 4,811 | 284,392 | | 302,653 | | | 273 | 78 | 1,262 | 297,750 |
| Recoveries from collections on financial assets written off | | | | | | | | | 230 | | 230 | | | | | | 230 |
| Write-offs recognised directly to the income statement | | | | | | | | | (1,415) | | (1,415) | | | | | | (1,415) |

## 5. Financial assets, commitments to grant funds and financial guarantees given: transfers between different stages of credit risk (gross and nominal values)

*(thousands of €)*

| Portfolios/quality | **Gross Value / Nominal Value** | | | | | |
|---|---|---|---|---|---|---|
| | Transfer from first stage to second stage | | Transfer from first stage to third stage | | Transfer from second stage to third stage | |
| | From first status to second status | From second status to first status | From second status to third status | From third status to second status | From first status to third status | From third status to first status |
| 1. Financial assets measured at amortised cost | 934,046 | 563,964 | 9,417 | 4,079 | 23,578 | 20,811 |
| 2. Financial assets at fair value through other comprehensive income | | | | | | |
| 3. Commitments to grant loans and financial guarantees issued | 10,513 | 10,302 | 1,084 | 52 | 1,157 | 11 |
| **Total 31/12/2019** | 944,559 | 574,266 | 10,501 | 4,131 | 24,735 | 20,822 |
| **Total 31/12/2018** | 93,640 | 1,771,605 | 20,451 | 26,114 | 37,928 | 40,778 |

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## 6. Credit exposures to customers, banks and financial businesses

### 6.1 Off-balance sheet credit exposures to banks and financial businesses: gross and net values

(thousands of €)

| Types of exposures/Amounts | Gross Exposure | | Total value adjustments and total provisions | Net Exposure | Overall partial write-off* |
|---|---|---|---|---|---|
| | Impaired | Performing | | | |
| **A. CASH EXPOSURES** | | | | | |
| a) Doubtful loans | 1,648 | X | (1,648) | - | |
| -of which forborne exposures | | X | | - | |
| b) Unlikely to pay | 19 | X | | 19 | |
| -of which forborne exposures | | X | | - | |
| c) Impaired past due loans | - | X | - | - | |
| -of which forborne exposures | - | X | | - | |
| d) Performing Past due loans | X | 10,069 | (3) | 10,066 | |
| -of which forborne exposures | X | | | - | |
| e) Other Performing Assets | X | 88,302 | (161) | 88,141 | |
| -of which forborne exposures | X | | | - | |
| **TOTAL A** | **1,667** | **98,371** | **(1,812)** | **98,226** | **-** |
| **B. OFF BALANCE SHEET EXPOSURES** | | | | | |
| a) Impaired assets | | | | - | |
| b) Performing assets | X | 4,716 | - | 4,716 | |
| **TOTAL B** | **-** | **4,716** | **-** | **4,716** | **-** |
| **TOTAL (A+)B** | **1,667** | **103,087** | **(1,812)** | **102,942** | **-** |

* Value to be shown for information purposes

### 6.2 Cash credit exposures to banks and financial businesses: changes in gross non-performing exposures

(thousands of €

| | Cause/Categories | Doubtful loans | Unlikely to pay | Impaired past due loans |
|---|---|---|---|---|
| ***A.*** | ***Starting gross exposure*** | **1,646** | **19** | **693** |
| | - of which: exposures sold, but not eliminated | | | |
| ***B.*** | ***Increases*** | **2** | **-** | **-** |
| B.1 | entries from performing exposures | | | |
| B.2 | entries from impaired financial assets acquired or originated | | | |
| B.3 | transfers from other categories of impaired exposure | | | |
| B.4 | contract modifications without eliminations | | | |
| B.5 | other increases | 2 | | |
| ***C.*** | ***Decreases*** | **-** | **-** | **(693)** |
| C.1 | exits to performing exposures | | | |
| C.2 | write-offs | | | |
| C.3 | collections | | | |
| C.4 | sale proceeds | | | |
| C.5 | losses on sale | | | |
| C.6 | transfers from other categories of impaired exposures | | | |
| C.7 | contract modifications without eliminations | | | |
| C.8 | other decreases | | | (693) |
| ***D.*** | ***Gross final exposure*** | **1,648** | **19** | **-** |
| | of which: exposures sold, but not eliminated | | | |

### 6.2bis Cash credit exposures to banks and financial businesses: changes in gross forborne exposures broken down by credit quality

There were no amounts in this section.

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## 6.3 Impaired cash credit exposures to banks and financial businesses: changes in total value adjustments

(thousands of €)

| Cause/Categories | | Doubtful loans | | Unlikely to pay | | Impaired past due loans | |
|---|---|---|---|---|---|---|---|
| | | Total | of which: forborne exposures | Total | of which: forborne exposures | Total | of which: forborne exposures |
| ***A.*** | ***Initial total adjustments*** | **1,646** | **-** | **-** | **-** | **1** | **-** |
| | - of which: exposures sold, but not eliminated | | | | | | |
| ***B.*** | ***Increases*** | **2** | **-** | **-** | **-** | **-** | **-** |
| B.1 | value adjustments from impaired financial assets acquired or | - | X | - | X | - | X |
| B.2 | other value adjustments | 2 | - | - | - | | - |
| B.3 | losses on sale | - | - | - | - | - | - |
| B.4 | transfers from other categories of impaired exposures | - | - | - | - | - | - |
| B.5 | contract modifications without eliminations | | X | | X | | X |
| B.6 | other increases | - | - | - | - | - | - |
| ***C.*** | ***Decreases*** | **-** | **-** | **-** | **-** | **(1)** | **-** |
| C.1 | write-backs from valuation | | | | | (1) | |
| C.2 | write-backs from collection | - | - | - | - | - | - |
| C.3 | gains on sale | - | - | - | - | - | - |
| C.4 | write-offs | - | - | - | - | - | - |
| C.5 | transfers from other categories of impaired exposures | - | - | - | - | - | - |
| C.6 | contract modifications without eliminations | - | X | | X | | X |
| C.7 | other decreases | - | - | - | - | - | - |
| ***D.*** | ***Final total adjustments*** | **1,648** | **-** | **-** | **-** | **-** | **-** |
| | - of which: exposures sold, but not eliminated | | | | | | |

## 6.4 Off-balance sheet credit exposures to customers: gross and net values

(thousands of €)

| Types of exposures/Amounts | Gross Exposure | | Total value adjustments and total provisions | Net Exposure | Overall partial write-off* |
|---|---|---|---|---|---|
| | Impaired | Performing | | | |
| **A. CASH EXPOSURES** | | | | | |
| a) Doubtful loans | 303,431 | X | (240,439) | 62,992 | |
| -of which forborne exposures | 20,789 | X | (18,313) | 2,476 | |
| b) Unlikely to pay | 84,914 | X | (39,804) | 45,110 | |
| -of which forborne exposures | 22,899 | X | (10,728) | 12,170 | |
| c) Impaired past due loans | 20,482 | X | (2,501) | 17,981 | |
| -of which forborne exposures | - | X | - | | |
| d) Performing Past due loans | X | 1,092,446 | (1,164) | 1,091,282 | |
| -of which forborne exposures | X | 271 | 1 | 272 | |
| e) Other Performing Assets | X | 6,218,011 | (10,417) | 6,207,594 | |
| -of which forborne exposures | X | 91 | (3) | 88 | |
| **TOTAL A** | **408,827** | **7,310,457** | **(294,325)** | **7,424,959** | **-** |
| **B. OFF BALANCE SHEET EXPOSURES** | | | | | |
| a) Impaired assets | 3,895 | | (1,262) | 2,633 | |
| b) Performing assets | X | 292,200 | (351) | 291,849 | |
| **TOTAL B** | **3,895** | **292,200** | **(1,613)** | **294,482** | **-** |
| **TOTAL A+B** | **412,722** | **7,602,657** | **(295,938)** | **7,719,441** | **-** |

* Value to be shown for information purposes.

### 6.5 Credit exposures to customers: changes in gross impaired exposures

(thousands of €)

| | Cause/Categories | Doubtful loans | Unlikely to pay | Impaired past due loans |
|---|---|---|---|---|
| ***A.*** | ***Starting gross exposure*** | **302,854** | **104,251** | **27,563** |
| | - of which: exposures sold, but not eliminated | | | |
| ***B.*** | ***Increases*** | **25,388** | **17,452** | **4,260** |
| B.1 | entries from performing exposures | 1,744 | 16,091 | 2,502 |
| B.2 | entries from impaired financial assets acquired or originated | | | |
| B.3 | transfers from other categories of impaired exposure | 23,612 | | |
| B.4 | contract modifications without eliminations | | | |
| B.5 | other increases | 32 | 1,361 | 1,758 |
| ***C.*** | ***Decreases*** | **(24,811)** | **(36,789)** | **(11,341)** |
| C.1 | exits to performing exposures | (6,894) | (9,303) | (6,510) |
| C.2 | write-offs | (16,549) | (2,287) | (3) |
| C.3 | collections | (1,368) | (1,587) | |
| C.4 | sale proceeds | | | - |
| C.5 | losses on sale | | | - |
| C.6 | transfers from other categories of impaired exposures | | (23,612) | (3,539) |
| C.7 | contract modifications without eliminations | | | - |
| C.8 | other decreases | | | (1,289) |
| ***D.*** | ***Gross final exposure*** | **303,431** | **84,914** | **20,482** |
| | of which: exposures sold, but not eliminated | | | |

### 6.5bis Cash credit exposures to customers: changes in gross forborne exposures broken down by credit quality

(thousands of €)

| | Cause/Categories | Forborne exposures: impaired | Forborne exposures: performing |
|---|---|---|---|
| ***A.*** | ***Starting gross exposure*** | **32,356** | **952** |
| | of which: exposures sold, but not eliminated | | |
| ***B.*** | ***Increases*** | **19,168** | **79** |
| B.1 | entries from performing not forborne exposures | 2,575 | |
| B.2 | entries from performing forborne exposures | 7 | X |
| B.3 | entries from impaired forborne exposures | X | 79 |
| B.4 | entries from non impaired forborne | 14,684 | - |
| B.5 | other increases | 1,902 | |
| ***C.*** | ***Decreases*** | (7,837) | - |
| C.1 | exits to performing not forborne exposures | (23) | (669) |
| C.2 | exits to performing forborne exposures | (81) | X |
| C.3 | exits to impaired forborne exposures | X | (30) |
| C.4 | write-offs | (3,499) | - |
| C.5 | collections | - | - |
| C.6 | sale proceeds | - | - |
| C.7 | losses on sale | - | - |
| C.8 | other decreases | (4,234) | (639) |
| ***D.*** | ***Gross final exposure*** | **43,687** | **362** |
| | of which: exposures sold, but not eliminated | - | - |

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## 6.6 Impaired cash credit exposures to customers: changes in total value adjustments

*(thousands of €)*

| | Cause/Categories | Doubtful loans | | Unlikely to pay | | Impaired past due loans | |
|---|---|---|---|---|---|---|---|
| | | Total | of which: forborne exposures | Total | of which: forborne exposures | Total | of which: forborne exposures |
| ***A.*** | ***Initial total adjustments*** | **241,606** | **16,326** | **49,128** | **3,838** | **2,380** | **-** |
| | - of which: exposures sold, but not eliminated | | | | | | |
| ***B.*** | ***Increases*** | **23,351** | **5,822** | **5,770** | **8,515** | **166** | **-** |
| B.1 | value adjustments from impaired financial assets acquired or originated | - | X | - | X | - | X |
| B.2 | other value adjustments | 11,440 | 2,392 | 5,770 | 1,885 | 166 | |
| B.3 | losses on sale | - | - | - | - | - | - |
| B.4 | transfers from other categories of impaired exposures | 11,911 | 730 | | - | - | - |
| B.5 | contract modifications without eliminations | - | X | - | X | - | X |
| B.6 | other increases | | 2,700 | | 6,630 | - | - |
| ***C.*** | ***Decreases*** | **(24,518)** | **(3,835)** | **(15,094)** | **(1,625)** | **(45)** | **-** |
| C.1 | write-backs from valuation | (4,321) | (405) | (2,125) | (339) | (45) | |
| C.2 | write-backs from collection | (2,504) | (31) | (491) | (390) | - | |
| C.3 | gains on sale | | | | | - | - |
| C.4 | write-offs | (17,693) | (3,342) | (567) | (100) | - | |
| C.5 | transfers from other categories of impaired exposures | | | (11,911) | (730) | | |
| C.6 | contract modifications without eliminations | - | X | - | X | - | X |
| C.7 | other decreases | | (57) | | (66) | | |
| ***D.*** | ***Final total adjustments*** | **240,439** | **18,313** | **39,804** | **10,728** | **2,501** | **-** |
| | - of which: exposures sold, but not eliminated | | | | | | |

## 7. Classification of financial assets, commitments to grant funds and financial guarantees given based on internal and external ratings

### 7.1 Breakdown of financial assets, commitments to grant funds and financial guarantees given by external rating classes (gross values)

*(thousands of €)*

| Exposures | External rating classes | | | | | | Unrated | Total |
|---|---|---|---|---|---|---|---|---|
| | Class 1 | Class 2 | Class 3 | Class 4 | Class 5 | Class 6 | | |
| **A. Financial assets measured at amortised cost** | **427,504** | **1,694,599** | **1,138,265** | **476,941** | **85,327** | **415** | **3,996,271** | **7,819,322** |
| - First level | 424,439 | 1,471,286 | 1,106,902 | 443,462 | 75,469 | - | 2,967,456 | **6,489,014** |
| - Second level | 3,065 | 221,829 | 31,363 | 21,409 | 9,858 | 415 | 631,875 | **919,814** |
| - Third level | - | 1,484 | - | 12,070 | - | - | 396,940 | **410,494** |
| **B. Financial assets at fair value through other comprehensive** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| - First level | | | | | | | | **-** |
| - Second level | | | | | | | | **-** |
| - Third level | | | | | | | | **-** |
| **C. Discontinued operations** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| - First level | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| - Second level | - | - | - | - | - | - | - | **-** |
| - Third level | - | - | - | - | - | - | - | **-** |
| **Total (A + B + C)** | **427,504** | **1,694,599** | **1,138,265** | **476,941** | **85,327** | **415** | **3,996,271** | **7,819,322** |
| *of which: impaired financial assets acquired or originated* | | | | | | | | |
| **D. Commitments to disburse funds and financial guarantees issued** | **5,469** | **131,931** | **63,837** | **13,281** | **86,293** | **-** | **300,812** | **601,623** |
| - First level | 5,456 | 131,655 | 63,745 | 13,238 | 75,806 | - | 289,901 | **579,801** |
| - Second level | 13 | 276 | 92 | 43 | 6,592 | - | 7,016 | **14,032** |
| - Third level | - | - | - | - | 3,895 | - | 3,895 | **7,790** |
| **Total (D)** | **5,469** | **131,931** | **63,837** | **13,281** | **86,293** | **-** | **300,812** | **601,623** |
| **Total (A + B + C + D)** | **432,973** | **1,826,530** | **1,202,102** | **490,222** | **171,620** | **415** | **4,297,083** | **8,420,945** |

Ifitalia, for the Exposures in the Central Administrations and Central Banks portfolio, uses the external ratings of the following ECAI:

| | 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|
| CERVED | A1.1, A1.2, A.1.3 | A.2.1, A.2.2, A.3.1 | B.1.1, B.1.2 | B.2.1, B.2.2 | C.1.1 | C.1.2, C.2.1 |

## 7.2 Distribution of financial assets, commitments to grant funds and financial guarantees given by internal rating class (gross values)

There were no amounts in this section.

## 8. Financial and non-financial assets obtained through the enforcement of guarantees received

There were no amounts in this section.

## 9. Lending concentration

### 9.1 Distribution of cash and off-balance sheet credit exposures by sector of economic activities of the counterparty

*(thousands of €)*

| Exposure types/Balances | Public administration | | Financial companies and banks | | Non financial companies | | Households | |
|---|---|---|---|---|---|---|---|---|
| | Net exposure | Total value adjustments | Net exposure | Total value adjustments | Net exposure | Total value adjustments | Net exposure | Total value adjustments |
| **A. CASH EXPOSURES** | | | | | | | | |
| A.1 Doubtful loans | 8,959 | (5,736) | | (1,648) | 53,376 | (227,719) | 657 | (6,984) |
| -of which forborne exposures | 639 | (362) | | | 1,759 | (17,509) | 78 | (442) |
| A.2 Unlikely to pay | 11,984 | (1,022) | 19 | - | 31,670 | (36,611) | 1,456 | (2,171) |
| -of which forborne exposures | 923 | (69) | | | 10,778 | (10,443) | 469 | (216) |
| A.3 Impaired past due positions | 14,029 | (2,012) | | - | 3,864 | (435) | 88 | (54) |
| -of which forborne exposures | | | | | | | | |
| A.4 Performing exposures | 931,261 | (327) | 98,207 | (164) | 6,222,947 | (10,844) | 144,668 | (410) |
| -of which forborne exposures | 196 | | | | 134 | (2) | 30 | - |
| **TOTAL A** | **966,233** | **(9,097)** | **98,226** | **(1,812)** | **6,311,857** | **(275,609)** | **146,869** | **(9,619)** |
| **B. OFF BALANCE SHEET EXPOSURES** | | | | | | | | |
| B.1 Impaired assets | - | - | | - | 2,609 | (1,255) | 24 | (6) |
| B.2 Performing assets | 6 | | 4,716 | - | 289,099 | (337) | 2,744 | - 15 |
| **TOTAL B** | **6** | **-** | **4,716** | **-** | **291,708** | **- 1,592** | **2,768** | **(21)** |
| **TOTAL (A+B) (31.12.2019)** | **966,239** | **(9,097)** | **102,942** | **(1,812)** | **6,603,565** | **(277,201)** | **149,637** | **(9,640)** |
| **TOTAL (A+B) (31.12.2018)** | **1,544,182** | **(6,138)** | **93,103** | **(1,824)** | **6,460,255** | **(288,492)** | **72,520** | **(10,847)** |

### 9.2 Distribution of cash and off-balance sheet credit exposures by counterparty's geographic area

*(thousands of €)*

| | Exposure types/Balances | ITALY | | OTHER EUROPEAN COUNTRIES | | AMERICA | | ASIA | | REST OF THE WORLD | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Net exposure | Total value adjustments | Net exposure | Total value adjustments | Net exposure | Total value adjustments | Net exposure | Total value adjustments | Net exposure | Total value adjustments |
| **A.** | **CASH EXPOSURES** | | | | | | | | | | |
| A.1 | Non performing | 62,756 | (238,785) | 236 | (3,302) | - | - | - | - | - | - |
| A.2 | Unlikely to pay | 42,798 | (36,593) | 2,150 | (3,129) | - | - | - | - | 181 | (82) |
| A.3 | Past due positions | 17,979 | (2,500) | 2 | (1) | - | - | - | - | - | - |
| A.4 | Performing positions | 5,898,377 | (10,257) | 1,088,799 | (964) | 300,130 | (252) | 84,976 | (244) | 24,801 | (28) |
| | **TOTAL (A)** | **6,021,910** | **(288,135)** | **1,091,187** | **(7,396)** | **300,130** | **(252)** | **84,976** | **(244)** | **24,982** | **(110)** |
| **B.** | **OFF BALANCE SHEET EXPOSURES** | | | | | | | | | | |
| B.1 | Impaired assets | 2,633 | (1,262) | - | - | - | - | - | - | - | - |
| B.2 | Performing positions | 294,372 | (350) | 2,041 | - 1 | 45 | - | 107 | | - | - |
| | **TOTAL (B)** | **297,005** | **(1,612)** | **2,041** | **(1)** | **45** | **-** | **107** | **-** | **-** | **-** |
| | **TOTAL (A + B) (31/12/2019)** | **6,318,915** | **(289,747)** | **1,093,228** | **(7,397)** | **300,175** | **(252)** | **85,083** | **(244)** | **24,982** | **(110)** |
| | **TOTAL (A + B) (31/12/2018)** | **6,867,667** | **(299,602)** | **980,284** | **(7,058)** | **194,533** | **(403)** | **87,311** | **(128)** | **40,265** | **(110)** |

IFITALIA
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### 9.2.1 Distribution of cash and off-balance sheet credit exposures by geographic area of counterparty resident in Italy

*(thousands of €)*

| Exposure types/Balances | | North-West | | North-East | | Centre | | South and Islands | |
|---|---|---|---|---|---|---|---|---|---|
| | | Net exposure | Total value adjustments | Net exposure | Total value adjustments | Net exposure | Total value adjustments | Net exposure | Total value adjustments |
| **A.** | **CASH EXPOSURES** | | | | | | | | |
| A.1 | Non performing | 11,564 | (63,986) | 6,893 | (33,674) | 24,777 | (69,558) | 19,522 | (71,567) |
| A.2 | Unlikely to pay | 4,075 | (8,942) | 3,933 | (4,853) | 14,013 | (11,086) | 20,777 | (11,712) |
| A.3 | Past due positions | 3,209 | (73) | 664 | (31) | 2,946 | (203) | 11,160 | (2,193) |
| A.4 | Performing positions | 2,261,588 | (4,268) | 1,062,166 | (2,276) | 1,903,416 | (1,324) | 671,207 | (2,389) |
| | **TOTAL (A)** | **2,280,436** | **- 77,269** | **1,073,656** | **- 40,834** | **1,945,152** | **- 82,171** | **722,666** | **- 87,861** |
| **B.** | **OFF BALANCE SHEET EXPOSURES** | | | | | | | | |
| B.1 | Impaired assets | 2,430 | - 1,210 | 74 | - 19 | 8 | - 2 | 121 | - 31 |
| B.2 | Performing positions | 227,304 | (162) | 28,015 | - 51 | 22,867 | - 81 | 16,186 | - 56 |
| | **TOTAL (B)** | **229,734** | **- 1,372** | **28,089** | **- 70** | **22,875** | **- 83** | **16,307** | **- 87** |
| | **TOTAL (A + B) (31/12/2019)** | **2,510,170** | **- 78,641** | **1,101,745** | **- 40,904** | **1,968,027** | **- 82,254** | **738,973** | **- 87,948** |
| | **TOTAL (A + B) (31/12/2018)** | **2,444,101** | **(81,949)** | **1,169,801** | **(41,372)** | **2,488,232** | **(89,114)** | **765,534** | **(87,167)** |

### 9.3 Significant exposures

*(thousands of €)*

| SIGNIFICANT EXPOSURES | | Book value | Weighted value |
|---|---|---|---|
| a | Amount | 2,857,415 | 1,622,738 |
| b | Number | 19 | 19 |

### 10. Models and other methods for gauging and handling the credit risk

The company does not use internal models for gauging credit risk

### 11. Other quantitative information

Not applicable to the company

## 3.2 MARKET RISK

### 3.2.1 INTEREST RATE RISK

***QUALITATIVE INFORMATION***

### 1. General aspects

The interest rate risk deriving from the timing mismatch between asset and liability items associated with funding and lending transactions is handled by the Finance Division.

As part of its core activities, due to company policy, funding reflects the same market parameters to which the structure of the loans is linked.

In consideration of the types of lending and funding that characterise Ifitalia's activities, the risk of a change in the market rates has a marginal impact on the value of assets and liabilities.

### QUANTITATIVE INFORMATION

Given that all funding is currently provided to the company by the Parent Company, the mismatch by maturity bracket with respect to the amount of the funding is marginal as at 31 December 2019.

### 1. Distribution by residual maturity (re-pricing date) of financial assets and liabilities

Currency: euro *(thousand of €)*

| Item/residual life | On demand | Until 3 months | From 3 to 6 months | From 6 months to 1 year | From 1 year to 5 years | From 5 year to 10 years | Beyond 10 years | Unspecified life |
|---|---|---|---|---|---|---|---|---|
| **1. Assets** | **1,110,956** | **4,866,329** | **582,621** | **186,497** | **112,349** | **11,183** | **-** | **255,983** |
| 1.1 Debt securities | | | | | | | | |
| 1.2 Loans | 1,110,956 | 4,866,329 | 582,621 | 186,497 | 112,349 | 11,183 | | 255,983 |
| 1.3 Other assets | | | | | | | | |
| **2. Liabilities** | **152,526** | **5,737,512** | **12,733** | **7,266** | **40,616** | **-** | **-** | **308,998** |
| 2.1 Payables | 152,526 | 5,737,512 | 12,733 | 7,266 | 40,616 | - | | 308,998 |
| 2.2 Securities issued | | | | | | | | |
| 2.3 Other liabilities | | | | | | | | |
| **3. Derivatives** | **-** | **-** | **-** | **-** | **-** | **-** | | **72** |
| **Options** | - | - | - | - | - | - | - | - |
| 3.1 Long positions | | | | | | | | |
| 3.2 Short positions | | | | | | | | |
| **Other derivatives** | - | - | - | - | - | - | | 72 |
| 3.1 Long positions | | | | | | | | 72 |
| 3.2 Short positions | | | | | | | | |

Currency: other currencies *(thousand of €)*

| Item/residual life | On demand | Until 3 months | From 3 to 6 months | From 6 months to 1 year | From 1 year to 5 years | From 5 year to 10 years | Beyond 10 years | Unspecified life |
|---|---|---|---|---|---|---|---|---|
| **1. Assets** | **33,537** | **342,085** | **20,947** | **698** | **-** | **-** | **-** | **-** |
| 1.1 Debt securities | | | | | | | | |
| 1.2 Loans | 33,537 | 342,085 | 20,947 | 698 | - | | | |
| 1.3 Other assets | | | | | | | | |
| **2. Liabilities** | **178,380** | **214,906** | **-** | **-** | **-** | **-** | **-** | **-** |
| 2.1 Payables | 178,380 | 214,906 | | | | | | |
| 2.2 Securities issued | | | | | | | | |
| 2.3 Other liabilities | | | | | | | | |
| **3. Derivatives** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Options** | - | - | - | - | - | - | - | - |
| 3.1 Long positions | | | | | | | | |
| 3.2 Short positions | | | | | | | | |
| **Other derivatives** | - | - | - | - | - | - | - | - |
| 3.1 Long positions | | | | | | | | |
| 3.2 Short positions | | | | | | | | |

### 2. Models and other methods for gauging and handling the interest rate risk

The interest rate risk is monitored on a quarterly basis by the Finance Division – Treasury Dept. The model used by Ifitalia to monitor interest rate risk is that indicated in the provisions contained in Bank of Italy Circular no. 288, whose model is based on the principle of a 200 bp shock

At the end of 2019, the portfolio's sensitivity to interest rate risk for Ifitalia amounted to EUR 9,543 million, equal to 1.364% of the supervisory capital, below the 20% threshold.

### 3. Other quantitative information on interest rate risk

There were no amounts in this section.

IFITALIA GRUPPO BNP PARIBAS

### 3.2.2 PRICE RISK

The Company does not purchase or sell financial instruments other than trade receivables and therefore is not exposed to the market risks associated with the price volatility of said instruments.

### 3.2.3 EXCHANGE RISK

***QUALITATIVE INFORMATION***

**1. General aspects**

Exchange risk is negligible within the scope of core business activities since all assets acquired are matched by identical liabilities in the same currency and with the same duration features.

**QUANTITATIVE INFORMATION**

**1. Distribution by currency of assets, liabilities and derivatives**

*(thousand of €)*

| Items | | Currency | | | | | |
|---|---|---|---|---|---|---|---|
| | | USA dollars | Pounds | Yen | Canadian dollars | Swiss franc | Other currencies |
| **1.** | **Financial assets** | **333,164** | **15,114** | **2** | **20,442** | **97** | **37,960** |
| 1.1 | Debt securities | - | - | - | - | - | - |
| 1.2 | Capital securities | - | - | - | - | - | - |
| 1.3 | Loans | 333,164 | 15,114 | 2 | 20,442 | 97 | 37,960 |
| 1.4 | Other financial assets | - | - | - | - | - | - |
| **2.** | **Other assets** | - | - | - | - | - | - |
| **3.** | **Financial liabilities** | **332,444** | **15,083** | 2 | 20,419 | 97 | **37,797** |
| 3.1 | Payables | 332,444 | 15,083 | 2 | 20,419 | 97 | 37,797 |
| 3.2 | Debt securities | - | - | - | - | - | - |
| 3.3 | Other financial liabilities | - | - | - | - | - | - |
| **4.** | **Other liabilities** | - | - | - | - | - | - |
| **5.** | **Derivatives** | - | - | - | - | - | - |
| 5.1 | Long position | - | - | - | - | - | - |
| 5.2 | Short position | - | - | - | - | - | - |
| | **Total assets** | 333,164 | 15,114 | 2 | 20,442 | 97 | 37,960 |
| | **Total liabilities** | 332,444 | 15,083 | 2 | 20,419 | 97 | 37,797 |
| | **Imbalance (-/+)** | 720 | 31 | - | 23 | - | 163 |

**2. Models and other methods for gauging and handling the exchange risk**

As stated above, exchange risk is negligible since all assets acquired are matched by identical liabilities in the same currency and with the same duration features.

**3. Other quantitative information on exchange risk**

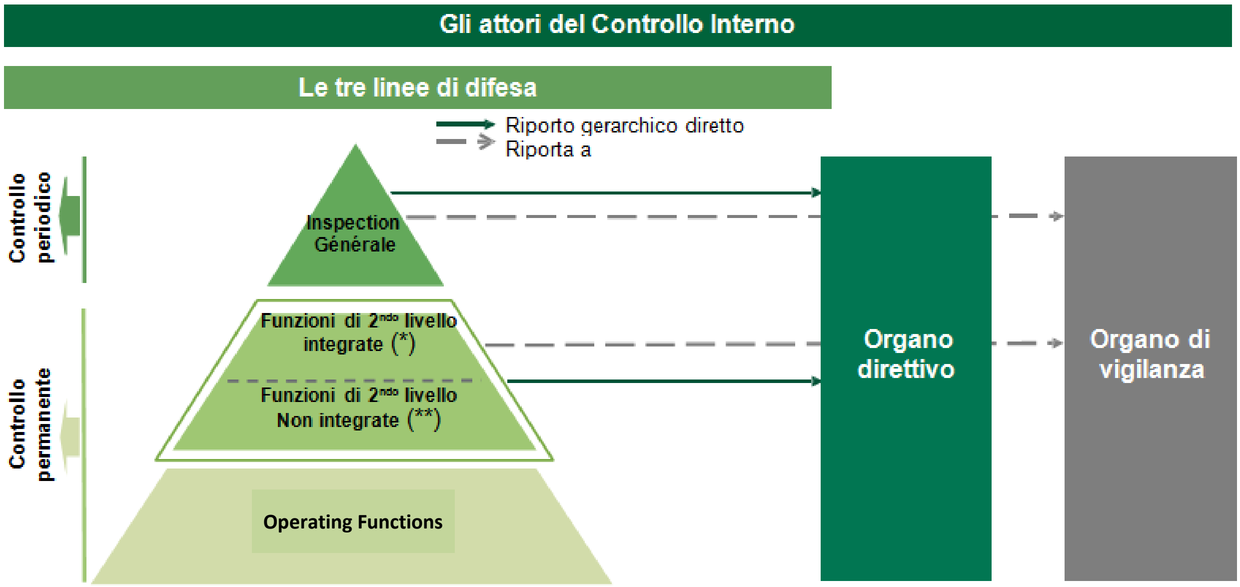
There were no amounts in this section.

### *3.3 OPERATIONAL RISK*

### *QUALITATIVE INFORMATION*

**1. General aspects, management processes and methods for gauging the operational risk**

The control model defined by the BNP Paribas Group allocates the Operational Risk tasks among three lines of defence and, limited to Permanent Controls, between the first and second lines of defence as summarised below.




*(*) Compliance, LEGAL, RISK*
*(**) Group Tax and Group Finance for the purposes of organisational responsibilities and supervision of the risk management framework for accounting and financial reporting*

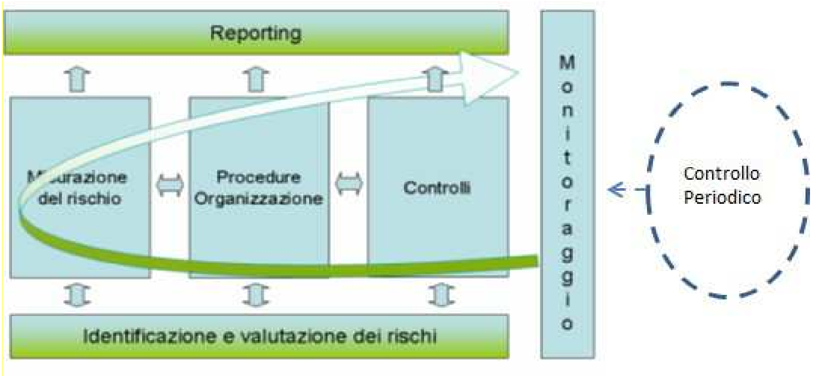
The distinction, operational since 2018, gives a general supervisory role to the Risk Division (RISK in the synthetic nomenclature of the BNP Paribas Group) which is part of the permanent second level control functions (second line of defence) with a special reference to operational risk; the first level is represented by the operating functions (entities) that carry out line activities and hierarchical controls and by the OPC structure that carries out the role of permanent first level control (first line of defence). OPC is represented by the Operational Risk and Permanent Controls Department.

The permanent controls of the first line of defence are entrusted to the structure called **"Operational Permanent Control" / OPC** that consists in Ifitalia of personnel independent of the operating functions that are responsible for:

- identifying and assessing the risks to which the assets are exposed;
- defining adequate control methods and ensuring their execution;
- identifying and implementing risk mitigation actions.

The **permanent control system,** whose framework is defined by the Risk Division that contributes to its application through its role of permanent second-level control, implements continuous risk control and monitoring of the effective implementation of strategic actions. The regulatory part is based on procedures that apply the Group's framework at the local level and are translated into policies, operational implementation procedures, control plans and a reporting system for appropriate internal and Group stakeholders in coordination with the Group functions of the Business Line Factoring.

The diagram below represents the overall breakdown of the components of the permanent monitoring device:




Within the Ifitalia internal control framework, the follow-up of corrective actions resulting from audit missions carried out by Inspection Générale is the responsibility of the Operational Risk and Permanent Controls Department, due to its proximity to operational processes, with periodic reporting of its results to the RISK function as the second line of defence. Inspection Générale is responsible for the final decision on the correct implementation of the corrective action resulting from the issue of specific recommendations.
OPC oversees the operational risk management system in coordination with the Head of the Risk Division through the latter's second line of defence, RISK ORC (RISK Operational Risk & Controls).

The supervision, management and monitoring activities (also with reference to the ICAAP process) are carried out by the already mentioned Operational Risks and Permanent Controls Department (OPC) in coordination with the Risk Division in accordance with the operational risk governance model defined by the Parent Company BNP Paribas. OPC is part of the Operational Management Division.
The complementariness of the "Operational Risks" and "Permanent Controls" areas carries out its synergistic action in the identification, assessment and monitoring phase of the actual risk (the risk that takes into account the coverage of the procedures and the effectiveness of the controls) and in the definition phase of the corrective actions and the relative priorities, following the adoption of shared and common metrics and measurements.
The staff of the OPC Unit, who do not participate in specific operating activities of the other departments, are dedicated to executing Permanent Controls according to the formalities and the deadlines defined in the Plan of Controls and prepared “day by day” operational disclosure on the checks carried out, emerging issues, and any mitigation activities carried out. This information is sent to the operational management (Head of the Units).

The Risk Division, in line with the guidelines of the BNP Paribas Group, is responsible for organising and supervising the global risk management system to which Ifitalia is exposed and, more specifically, the following risks: credit, dilution, counterparty, market, financing and liquidity, interest rate and exchange rate in the banking book, insurance and operational.
The RISK manager is also responsible for the Permanent control system and for the consistency and operation of the RISK manager in accordance with the Group's permanent control device.
In this way, RISK guarantees Ifitalia a single and integrated view of the various types of risk.

The second line of defence in the Risk Management area implemented by *RISK ORC*, on the Risk Manager's recommendation, has the mission of ensuring the correct application at local level of the Group's framework with reference to regulations, the way in which the risks to which the company is exposed are assessed (through the **Check & Challenge process on RCSA/Risk Control & Self Assessment**), the way in which the control plan is implemented (through the **Independent Testing** process), the examination (through the **Quality Review** process) of the way in which operational incidents are assessed by the first line of defence and, last but not least, the effectiveness of the system of defence against the risk of fraud.

The Operational Risk and Permanent Controls Department (OPC) operates based on the guidelines defined by the Risk Division and coordinates for this purpose with RISK ORC.

Information and coordination with management at the corporate level is carried out through Inter-functional Committees, the main one being the Risk Monitoring Committee during the Operational Risk and Permanent Controls session and that are envisaged by the pro tempore Company Regulations in force.

More in detail, always with regard to 2019, the organisation was completed by:

- ✓ **Risk Monitoring Committee - Permanent Control Operational Risk Session** that, consistently with the Parent Company model, assures the coordination and decision-making process supporting the permanent control and operational risk organisation. The Committee is responsible for:
  - o approving the Operational Plans for Permanent Control of risks, prepared by the responsible divisions;
  - o providing a global, organic vision of the permanent control and operational risk system;
  - o analysing and acquiring collective decisions on the permanent control and operational risk framework;
  - o generating an alarm and escalation level on recurring critical issues;
  - o determining the involvement of operational units responsible for managing these issues and activating the monitoring of mitigating actions.

  Committee meetings, organised by RISK ORC, are attended by the Heads of the Company Divisions identified, for each session, in relation to the topics discussed and to their respective responsibilities. Moreover, the Contact Persons for Essential Outsourced Services and the relevant BNL SpA functions (Compliance and RISK ORC Division to the extent of their authority) and BNL Spa - Inspection Générale Hub Italy (as a permanent guest) participate in the meetings.

- ✓ Finance Division, which is responsible for ensuring that incidents generating a significant financial impact are properly reported in the Company’s financial documents; this Division also works with the Operational Risks and Permanent Control Unit to perform an accounting reconciliation of operating incidents. It is also responsible for calculating the capital requirements to be established in relation to the operational risks.

**Method**

Management of operational risk, in the definition adopted by BNP Paribas, is based on an alignment of cause analysis (internal process or external fact), event (incident), and effect (risk of economic loss). In particular, the BNP Group defined as an incident a real event that has actually taken place, of which it is possible to effectively describe the real causes and consequences, as well as to measure its economic impacts. Analysis of the frequency/impacts of the historic incidents and their evolution in perspective represents an underlying element for the development of the map of the risks.

The Operational Risk Management Model within Ifitalia concerns the following processes:

- o **Loss Data Collection Process**: activities for the identification, entry, and registration of historic incidents of Operational Risk through input to the BNP Group tool; FORECAST was the Group tool used until October, later replaced by the new RISK 360° application. The new tool was designed to allow the integrated management of all activities related to the operational risk framework and will gradually become available in all modules by 2021. The management of historical incidents has already been guaranteed after FORECAST has been discontinued from the 360°HI module.

  The process, implemented by the first line of defence, is subject to a second level control process called Quality Review with the aim of ascertaining the correct identification of the causes and effects of the incident and the adequacy of the action plans identified. The application of the second level control is implemented with a risk sensitive logic that takes into account the type of incident and its amount.

  Following the examination, if necessary, RISK ORC could agree with the first line of defence of the requests for correction.
- o **RCSA/Risk Control & Self Assessment Process**: valuation of the exposure to operational and non-compliance risks within Ifitalia; the mapping of the risks has been one of the qualifying elements for the adoption of the TSA model. It is essentially based on a self-assessment process to identify, classify and measure in advance the risks that business operations are potentially exposed to and as such, is a managerial operating tool useful for planning the most appropriate mitigation measures for said risk.

  The process, implemented by the first line of defence, is subject to a second level control process called Check&Challenge that aims to ensure the correct identification of the relevant risks, their relevance before and after the application of the control system, as well as the identification of action plans, where mandatory for the Group's control system, or where deemed appropriate in coordination with the management concerned. The process has its own formalised governance, coordinated by the Risk Division, and ends with final approval by the Board of Directors.

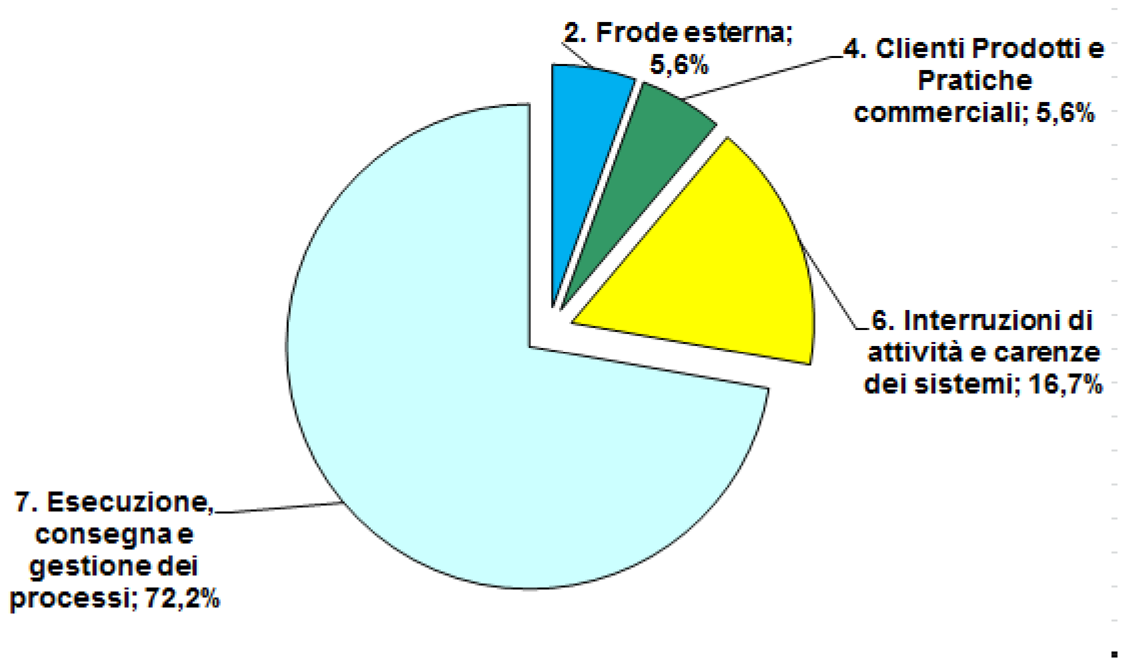
- **Permanent Control Plan**: activation of permanent control procedures on areas at greatest operational risk identified in the RCSA Process; the outcomes of the controls are reported through the Ve.Re.Co. (Control Reports) Group application.
  The process, implemented by the first line of defence, is subject to a second level control process called Independent Testing where the controls implemented are subject to controls according to a risk sensitive priority logic. The purpose of the second level control is to verify the consistency of the scope of application of each control, the way in which it is formalised and its reperformability. Following the examination, if necessary, RISK ORC could agree with the first line of defence of the requests for correction.
- **Issue Resolution Activities**: adoption of suitable corrective measures in relation to the critical areas indicated, to ensure the efficiency of the company procedures and processes (in terms of integration, variation or support).
  This action can be activated directly from the first line of defence (known as self-identified action plans) or derives from the activity carried out by the second line of defence as described above.
  The corrective actions are carried out according to two different operating methods: definition of short-term corrective actions and structuring of medium/long-term action plans.
  Actions to correct the most significant critical points identified by the controls and incident analysis are recorded and monitored through the Aurora application in order to give greater structuring to the interventions in terms of finding, corrective action, minimum evidence for the closure of the action, deadlines and exact identification of those responsible for the termination. The use of a Group application offers the possibility of visibility to the management concerned and, at the same time, to the Group.
- **Reporting**:
  Reporting activities assure operational risk monitoring and enable to assess the efficacy of the controls and hedging procedures.
  Reports are produced by the first and second lines of defence.
  With reference to the first line of defence, the main report produced, is the *Permanent Controls and Operational Risks Report* that guarantees the presence of information on the outcomes of the permanent controls and the results of the Loss Data Collection process. This report, on a quarterly basis, is intended for the management in the Risk Monitoring Committee and the Board of Directors.
  With reference to the second line of defence, the main report produced is the OR&C Report submitted for validation by the General Manager and Risk Manager, which guarantees the Board of Directors and, through the Business Line, the Group a general view of the company's internal control system. This is an annual report. Other reports of greater detail and frequency are intended for management in the Risk Monitoring Committee and the Board of Directors.

**QUANTITATIVE INFORMATION**

Assessment of the main sources and nature of risk events
The breakdown by percentage of operational risk events recorded in 2019 according to the type of loss event (Event Type) defined by the Basel II Committee is provided below. In 2019, 18 risk events occurred, involving:

- **phenomena related to the carrying-out, delivery and management of processes (ET 7**): these events are due to deficiencies in the completion of the transaction or in the management of the processes, as well as events deriving from transactions with commercial counterparties (sellers and suppliers); these events constitute the main source of operational risk, as they account for 72.2% of the total number of events occurred in 2019 (versus 63% in 2018);
- **phenomena related to interruptions of activities and system malfunctions (ET 6)**: these events derive from activity interruptions or from system malfunctions; they represent 16.7% of the total events recorded in 2019 (no event was recorded in 2018);
- **phenomena related to customers, products and business practices (ET 4)**: these are events deriving from breaches of professional obligations to customers or from the nature or characteristics of the product or of the service rendered; such phenomena are mainly represented by revocation actions and lawsuits, which account for 5.6% of the total events occurred in 2018 (versus 22.2% in 2018);
- **phenomena related to external frauds (ET 2):** these are events due to fraud, embezzlement or violation of laws by persons outside the Company and account for 5.6% of the total events in 2018 (versus 14.8% in 2018).

**Percentage composition by each type of event:**




## 3.4 LIQUIDITY RISK

***QUALITATIVE INFORMATION***

**1. General aspects, management processes and methods for gauging the liquidity risk**

The policies for managing liquidity risk, i.e. the ability to fulfil, at any time, one's payment obligations at the set due dates, are an expression of the strategy defined by the Parent Company BNP Paribas, which is essentially based on centralised liquidity management for all Group companies.

## QUANTITATIVE INFORMATION

## 1. Time distribution by residual maturity of financial assets and liabilities – Euro

Euro *(thousands of €)*

| Items/Timeframe | On demand | Within 7 days | From 7 to 15 days | From 15 days to 1 month | From 1 to 3 months | From 3 to 6 months | From 6 months to 1 year | From 1 to 5 years | Beyond 5 years | Unspecified life |
|---|---|---|---|---|---|---|---|---|---|---|
| **Cash assets** | **1,035,254** | **-** | **-** | **1,863,137** | **2,319,557** | **1,028,744** | **422,824** | **189,060** | **11,360** | **260,548** |
| A.1 Government bonds | | | | | | | | | | |
| A.2 Other debt securities | | | | | | | | | | |
| A.3 Loans | 1,035,254 | | | 1,863,137 | 2,319,557 | 1,028,744 | 422,824 | 189,060 | 11,360 | 255,982 |
| A.4 Other assets | | | | | | | | | | 4,566 |
| **Cash liabilities** | **152,526** | **952,587** | **795,682** | **1,597,992** | **522,283** | **381,702** | **1,507,266** | **40,616** | **-** | **308,997** |
| B.1 Deposits and current accounts | 152,526 | 952,587 | 795,682 | 1,597,992 | 522,283 | 381,702 | 1,507,266 | 40,616 | - | 308,997 |
| - Banks | 89,596 | 951,237 | 783,558 | 1,550,462 | 401,307 | 350,643 | 1,507,085 | 40,616 | | 3,987 |
| - Financial institutions | 62,930 | 1,350 | 12,124 | 47,530 | 120,976 | 31,059 | 181 | | | |
| - Customers | | | | | | | | | | 305,010 |
| B.2 Debt securities | | | | | | | | | | |
| B.3 Other liabilities | | | | | | | | | | |
| **Off balance sheet transactions** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **1,599** |
| C.1 Financial derivatives with capital exchange | - | - | - | - | - | - | - | - | - | - |
| - Long positions | | | | | | | | | | |
| - Short positions | | | | | | | | | | |
| C.2 Financial derivatives without capital exchange | - | - | - | - | - | - | - | - | - | - |
| Long positions | | | | | | | | | | |
| Short positions | | | | | | | | | | |
| C.3 Deposits and loans to be received | - | - | - | - | - | - | - | - | - | - |
| - Long positions | | | | | | | | | | |
| - Short positions | | | | | | | | | | |
| C.4 Irrevocable commitments to grant funds | - | - | - | - | - | - | - | - | - | - |
| - Long positions | | | | | | | | | | |
| - Short positions | | | | | | | | | | |
| C.5. Financial guarantees issued | | | | | | | | | | 1,599 |
| C.6 Financial guarantees received | | | | | | | | | | |

## 1. Time distribution by residual maturity of financial assets and liabilities – Other currencies

Other currencies *(thousands of €)*

| Items/Timeframe | On demand | Within 7 days | From 7 to 15 days | From 15 days to 1 month | From 1 to 3 months | From 3 to 6 months | From 6 months to 1 year | From 1 to 5 years | Beyond 5 years | Unspecified life |
|---|---|---|---|---|---|---|---|---|---|---|
| **Cash assets** | **32,280** | **-** | **-** | **57,441** | **255,803** | **41,327** | **9,657** | **759** | **-** | **-** |
| A.1 Government bonds | | | | | | | | | | |
| A.2 Other debt securities | | | | | | | | | | |
| A.3 Loans | 32,280 | | | 57,441 | 255,803 | 41,327 | 9,657 | 759 | | |
| A.4 Other assets | | | | | | | | | | |
| **Cash liabilities** | **178,380** | **-** | **1,300** | **14,890** | **198,716** | **-** | **-** | **-** | **-** | **-** |
| B.1 Deposits and current accounts | 178,380 | - | 1,300 | 14,890 | 198,716 | - | - | - | - | - |
| - Banks | 176,973 | - | - 1,800 | 11,285 | 196,977 | - | | | | |
| - Financial institutions | 1,407 | | 3,100 | 3,605 | 1,739 | | | | | |
| - Customers | | | | | | | | | | |
| B.2 Debt securities | | | | | | | | | | |
| B.3 Other liabilities | | | | | | | | | | |
| **Off balance sheet transactions** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **2** |
| C.1 Financial derivatives with capital exchange | - | - | - | - | - | - | - | - | - | - |
| - Long positions | | | | | | | | | | |
| - Short positions | | | | | | | | | | |
| C.2 Financial derivatives without capital exchange | - | - | - | - | - | - | - | - | - | - |
| Long positions | | | | | | | | | | |
| Short positions | | | | | | | | | | |
| C.3 Deposits and loans to be received | - | - | - | - | - | - | - | - | - | - |
| - Long positions | | | | | | | | | | |
| - Short positions | | | | | | | | | | |
| C.4 Irrevocable commitments to grant funds | - | - | - | - | - | - | - | - | - | - |
| - Long positions | | | | | | | | | | |
| - Short positions | | | | | | | | | | |
| C.5. Financial guarantees issued | | | | | | | | | | 2 |
| C.6 Financial guarantees received | | | | | | | | | | |

## 3.5 DERIVATIVE INSTRUMENTS AND HEDGING POLICIES

There were no amounts in this section.

**SECTION 4 EQUITY INFORMATION**

**4. 1 Company equity**

**4.1.1 Qualitative information**

The Company's equity is made up of the aggregation of share capital, share premium reserve, reserves, valuation reserves and profit for the period.
For supervisory purposes, the capital aggregate significant for this purpose is determined based on the current provisions envisaged by the Bank of Italy and represents the reference oversight for prudential supervisory provisions.
In accordance with said provisions, the Company is obliged to maintain a comprehensive capital requirement, which is calculated as the sum of the requirements relating to the single risk types (known as "building block").

**4.1.2 Quantitative information**

**4.1.2.1 Company equity: breakdown**

The Company's equity as at 31 December 2019 amounted to EUR 761,149 thousand.

*(thousands of €)*

| Items/Balances | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|
| 1. Share capital | 55,900 | 55,900 |
| 2. Share premium | 61,799 | 61,799 |
| 3. Reserves | 594,260 | 555,288 |
| - profit | 595,418 | 562,317 |
| a) legal reserve | 11,180 | 11,180 |
| b) statutory reserve | 584,238 | 551,137 |
| c) treasury shares | - | - |
| d) other | - | - |
| - other | (1,158) | (7,029) |
| 4. (Treasury shares) | - | - |
| 5. Valuation reserves | (1,015) | 4,960 |
| - Equity instruments measured at fair value through other comprehensive income | - | - |
| - Hedging of equity instruments measured at fair value through other comprehensive income | - | - |
| - Financial assets (other than equity securities) measured at fair value through other comprehensive income | - | - |
| - Financial assets available for sale | - | - |
| - Property, plant and equipment | - | - |
| - Intangible assets | - | - |
| - Hedging of foreign investments | - | - |
| - Cash flow hedges | - | - |
| - Hedging instruments (elements not designated) | - | - |
| - Exchange differences | - | - |
| - Non current assets and disposal group held for sale | - | - |
| - Financial liabilities designated at fair value through profit or loss (change in the Bank's creditworthiness) | - | - |
| - Special revaluation laws | | 5,870 |
| - Actuarial gains (losses) relating to defined benefit pension plans | (1,015) | (910) |
| - Quote of the valuation reserves relating at equity | - | - |
| 6. Equity instruments | | |
| 7. Profit (loss) for the year | 50,206 | 33,101 |
| **Total** | **761,149** | **711,048** |

**4.1.2.2 Valuation reserves of financial assets at fair value through other comprehensive income: breakdown**
There were no amounts in this section.

**4.1.2.3 Valuation reserves of financial assets at fair value through other comprehensive income: changes during the year**

There were no amounts in this section.

## 4.2 Own Funds and supervisory ratios

### 4.2.1 Own Funds

With the recent reform of Title V of the Consolidated Banking Law, which came into force on 11 July 2015, financial intermediaries are authorised by the Bank of Italy to carry out lending activities under any form and enrolled in the specific register envisaged by Article 106 of the CBL (known as "consolidated register", as amended by Italian Legislative Decree no. 141/2010).
These intermediaries are subject to a prudential supervisory regime equivalent to that of the banks, aimed at pursuing objectives of financial stability and safeguarding sound and prudent management, structured according to the principle of proportionality, so as to take into account the operational, size-related and organisational complexity of the operators as well as the nature of the activities carried out. The quantitative information on supervisory capital and risk assets presented below has been calculated based on instructions issued to take into account the application of IAS/IFRS accounting standards ("Prudential Filters" discipline).

#### 4.2.1.1 Qualitative information

On 1 January 2014, the revision of the agreements of the Basel Committee ("Basel 3") pertaining to strengthening the capacity of brokers to absorb the shocks deriving from financial tension and improving risk management and governance became operational. For this purpose, in maintaining the method based on the Three Pillars that was the foundation of the previous capital accord ("Basel 2"), the Committee supplemented it to increase the quantitative and qualitative characteristics of capital requirements, introduce anti-cyclical supervisory instruments, and regulations on liquidity risk and reducing leverage.
"Basel 3" was adopted through the issue of Regulation EU no. 575/2013 of 26 June 2013 (CRR), which governs prudential requirements for credit institutions and investment firms and disclosure to the public, and Directive 2013/36/EU of 26 June 2013 (CRD IV), which regards, inter alia, conditions for access to banking activity, the freedom of establishment and the freedom to provide services, the prudential control processes and additional capital reserves.
These provisions are supplemented at national level with those issued by the Bank of Italy with Circular no. 288 of 3 April 2015, which combines the prudential supervisory provisions applicable to financial brokers enrolled in the register set out in Article 106 of the consolidation act of the banking and lending laws (TUB). The main objectives of those provisions, in addition to ensuring risk measurement and capital that is strictly commensurate with their degree of exposure, include the creation for financial brokers of a supervisory regime featuring prudential requirements that are comparable in terms of robustness to those of banks, as amended since 1 January 2014 by the aforementioned CRD IV Directive and CRR Regulation, by extending banking regulations to brokers in order to strengthen the sound and prudent management and the stability of the financial sector as a whole.
The new regulatory structure requires that Own Funds (or Regulatory Capital) be comprised of the following levels of capital:

1. Tier 1 Capital, which, in turn, is composed of:

- Common Equity Tier 1 (CET1);
- Additional Tier 1 (AT1);

2. Tier 2 capital (T2).

The new regulatory framework was introduced gradually, through a transitional period (which orders the progressive entry into force of the rules, to be fully implemented in 2019 (2022 for the phase-out of certain instruments), during which some elements that can be calculated in or deducted fully from Common Equity on full application impacted Common Equity Tier 1 only by a percentage. Usually the residual percentage in relation to that applicable was calculated in/deducted from Additional Tier 1 (AT1) and Tier 2 (T2) or considered in risk-weighted assets.

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### 4.2.1.2 Quantitative information

*(thousands of €)*

| | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|
| **A. Tier 1 capital (Common Equity Tier 1) before application of prudential filters** | **699,675** | **667,427** |
| **B. Prudential filters applied to tier 1 capital:** | - | 170 |
| B.1 Positive prudential filters IAS/IFRS (+) | - | 170 |
| B.2 Negative prudential filters IAS/IFRS (-) | | - |
| **C. Tier 1 capital gross of elements to be deducted (A+B)** | **699,675** | **667,597** |
| **D. Elements to be deducted from Tier 1 capital** | | |
| **E. Tier 1 capital (C-D)** | **699,675** | **667,597** |
| **F. Additional Tier 1 capital (Additional Tier 1 - AT1) before application of prudential filters** | | |
| **G. Prudential filters applied to Additional Tier 1 capital:** | - | - |
| G.1 Positive prudential filters IAS/IFRS (+) | | - |
| G.1 Negative prudential filters IAS/IFRS (-) | | |
| **H. Additional Tier 1 capital (Additional Tier 1 - AT1) gross of elements to be deducted (F+G)** | **-** | **-** |
| **I. Elements to be deducted from Additional Tier 1 capital** | | |
| **L. Total Tier 2 (TIER 2) (H-I)** | **-** | **-** |
| **M. Elements to be deducted of T1 and T2** | | |
| **N. Regulatory Capital (E+L-M)** | **699,675** | **667,597** |
| **O. Third level capital (TIER 3)** | | |
| **P. Regulatory Capital included TIER 3 (N+O)** | | |

## 4.2.2 Capital adequacy

### 4.2.2.1 Qualitative information

Within the Company, the Finance Division carries out constant monitoring of the evolution of the aggregate useful for supervisory purposes with respect to the performance of the various risk profiles for the purpose of achieving an adequate balance in the overall structure, taking into account an effective composition between the components of Own Funds.

### 4.2.2.2 Quantitative information

The elements indicated above are subject to the following limits:

– Common Equity Tier 1 must be equal, at all times, to at least 4.5% of risk-weighted assets;

– Total Regulatory Capital (or Own Funds), equal to Tier 1 Capital plus Tier 2 Capital must be equal, at all times, to at least 6% of risk-weighted assets.

As at 31 December 2019, the company's capitalisation level was in line with the requirements:

- CET 1 and Tier 1 capital ratios equal 12.05%;
- Total capital ratio came to 12.05%.

*(thousands of €)*

| Categories/Balances | Unweighted amounts | | Weighted amounts / requirements | |
|---|---|---|---|---|
| | 31/12/2019 | 31/12/2018 | 31/12/2019 | 31/12/2018 |
| A. RISK ASSETS | | | | |
| A.1 Credit and counterpart risk | 7,805,181 | 8,107,384 | 5,547,446 | 5,698,094 |
| B. SUPERVISORY CAPITAL REQUIREMENTS | | | | |
| B.1 Credit and counterpart risk | | | 332,780 | 341,817 |
| B.2 Payment services requirement | | | - | - |
| B.3 Issuance of electronic money requirement | | | - | - |
| B.4 Specific prudential requirements | | | 15,636 | 15,399 |
| B.5 Total prudential requirements | | | 348,416 | 357,216 |
| C. RISK ASSETS AND SUPERVISORY RATIOS | | | | |
| C.1 Risk-weighted assets | | | 5,808,095 | 5,954,791 |
| C.2 Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio) | | | 12.05% | 11.21% |
| C.3 Capital/Risk-weighted assets (Total capital ratio) | | | 12.05% | 11.21% |

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# SECTION 5 – ANALYTICAL STATEMENT OF COMPREHENSIVE INCOME

(thousands of €)

| | ITEMS | Total (2019) | Total (2018) |
|---|---|---|---|
| 10. | **Profit (Loss) for the year** | 50,205 | 33,101 |
| | **Other income components without reversal to income statement connected with:** | | |
| 20. | Equity instruments measured at fair value through other comprehensive income: | - | - |
| | a) fair value changes | | |
| | b) transfer to other components of equity | | |
| 30. | Financial liabilities designated at fair value through profit or loss (change in the Bank's creditworthiness): | - | - |
| | a) fair value changes | | |
| | b) transfer to other components of equity | | |
| 40. | Hedging of equity instruments designated at fair value through other comprehensive income: | - | - |
| | a) fair value changes (hedge instrument) | | |
| | b) fair value changes (hedging instrument) | | |
| 50. | Property, plant and equipment | | |
| 60. | Intangible assets | | |
| 70. | Defined benefit plans | (105) | 145 |
| 80. | Non current assets held for sale | | |
| 90. | Share of reserves from valuation of investments carried at equity | | |
| 100. | Income taxes relating at other income components without reversal to profit or loss | | |
| | **Other income components with reversal to income statement connected with:** | | |
| 110. | Hedging of foreign investments: | - | - |
| | a) fair value changes | | |
| | b) transfer to income statement | | |
| | c) other changes | | |
| 120. | Exchange differences: | - | - |
| | a) value changes | | |
| | b) transfer to income statement | | |
| | c) other changes | | |
| 130. | Cash flows hedges: | - | - |
| | a) fair value changes | | |
| | b) transfer to income statement | | |
| | c) other changes | | |
| | of which: result of net positions | | |
| 140. | Hedging instruments (elements not designated): | - | - |
| | a) value changes | | |
| | b) transfer to income statement | | |
| | c) other changes | | |
| 150. | Financial assets (other then equity securities) at fair value through other comprehensive income: | - | - |
| | a) fair value changes | | |
| | b) transfer to income statement | - | - |
| | - adjustments from impairment | | |
| | - profit/ loss from realisation | | |
| | c) Other changes | | |
| 160. | Non current assets and disposal groups held for sale: | - | - |
| | a) fair value changes | | |
| | b) transfer to income statement | | |
| | c) other changes | | |
| 170. | Share of reserves from valuation of investments carried at equity | - | - |
| | a) fair value changes | | |
| | b) transfer to income statement | - | - |
| | - adjustments from impairment | | |
| | - profit/ loss from realisation | | |
| | c) Other changes | | |
| 180. | Income taxes relating at other income components with reversal to profit or loss | - | **(40)** |
| 190. | **Total other income components** | **(105)** | **105** |
| 200. | **Comprehensive income (Item 10+190)** | **50,100** | **33,206** |

## SECTION 6 – TRANSACTIONS WITH RELATED PARTIES

The introduction of the international accounting standards involves the application of the provisions relating to disclosure on transactions with related parties established by IAS 24.

### 6.1 Information on the remuneration of executives with strategic responsibilities

(thousands of €)

| | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|
| Directors | 46 | 46 |
| Auditors | 95 | 97 |
| **Total** | **141** | **143** |

### 6.2 Loans and guarantees given in favour of directors and statutory auditors

(thousands of €)

| | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|
| Directors | | - |
| Auditors | | - |
| **Total** | **-** | **-** |

### 6.3 Information on transactions with related parties

Reference should be made to the comments in the corresponding item of the Report on Operations – intercompany transactions and those with "related parties".

Income statement transactions for the period and balance sheet balances as at 31 December 2019 between the Parent Company and other BNPP Group companies, deriving from financial or trade transactions, are presented below.

*(thousands of €)*

| Counterpart | IFITALIA creditor | IFITALIA debtor | Factoring receivables | Guarantees received (*) | Guarantees given | Derivative liability |
|---|---|---|---|---|---|---|
| **A) PARENT COMPANY** | **9,896** | **5,509,495** | **8** | **430,144** | **-** | **-** |
| BNP PARIBAS PARIS | 9,896 | 5,507,621 | 8 | 430,144 | | |
| BNP PARIBAS SUCC. MILANO | | 1,874 | | | | |
| **B) BNPP GROUP COMPANIES** | **2,218** | **847,002** | **53,603** | **-** | **8,307** | **72** |
| ARTIGIANCASSA SPA | | | 7 | | | |
| ARVAL SERVICE LEASE | - | 193 | | | | |
| ARVAL SERVICE LEASE ITALIA SPA | - | 78 | 45,647 | | | |
| AXEPTA SPA (EX- BNL POSITIVITY SRL) | (6) | | 6 | | | |
| BANCA NAZIONALE DEL LAVORO SPA | 857 | 559,827 | 5,615 | | 8,307 | 72 |
| BANQUE MAROCAINE POUR LE COMMERCE ET L'INDUSTRIE | | | 4 | | | |
| BNL FINANCE SPA | | | 4 | | | |
| BNPP CARDIF VITA COMPAGNIA DI ASSICURAZIONE E RIASSICURAZIONE SPA | (2) | | | | | |
| BNPP FACTOR | | 249 | 237 | | | |
| BNPP FORTIS | 3 | 432 | | | | |
| BNPP REAL ESTATE | | | 4 | | | |
| BUSINESS PARTNER ITALIA SCPA | | | | | | |
| CARDIF ASSURANCES RISQUES DIVERS | | | 99 | | | |
| CNH INDUSTRIAL CAPITAL EUROPE | | | 10 | | | |
| FINDOMESTIC BANCA SPA | | | 1,519 | | | |
| SERFACTORING SPA | | | | | | |
| TIERRE SECURITISATION SRL | | 286,157 | | | | |
| TURK EKONOMI BANKASI AS | | | 1 | | | |
| BNPP REAL ESTATE ADVISORY ITALY SPA | | 31 | | | | |
| DIAMANTE RE SRL | | 35 | | | | |
| SVILUPPO HQ TIBURTINA SRL | 1,366 | | | | | |
| SNC NATIOCREDIMURS | | | 450 | | | |
| **C) ASSOCIATED COMPANIES** | **(2)** | **130** | **-** | **-** | **-** | **-** |
| INTERNATIONAL TRADE PARTNER | | 130 | | | | |
| BNP PARIBAS SGR SPA | (2) | | | | | |
| **Total** | **12,112** | **6,356,627** | **53,611** | **430,144** | **8,307** | **72** |

(*) Including guarantees provided to cover the exceeding of risk concentration limits.

*(thousands of €)*

| Counterpart | Interest and similar income | Interest and similar expense | Commission income | Commission expense | Dividends | Derivatives | Administrative expenses | Other operating income and charges |
|---|---|---|---|---|---|---|---|---|
| A) PARENT COMPANY | 10,098 | (364) | - | (418) | - | - | (956) | - |
| B) BNPP GROUP COMPANIES | 48 | (7,220) | 118 | (4,390) | 38 | 70 | (10,216) | (382) |
| C) ASSOCIATED COMPANIES | | | | | | | (768) | |
| **Total** | **10,146** | **(7,584)** | **118** | **(4,808)** | **38** | **70** | **(11,940)** | **(382)** |

## Section 7 – Leases (Lessee)

### Qualitative disclosure

Ifitalia considered IFRS 16 to be applicable only in relation to the lease contracts for the buildings located in Corso Italia and Via Deruta in Milan entered into with BNL Spa. These properties are used by the company as the premises of its business activities.

The lease contracts were signed in April 2019 and have a term of 6 years + 6. However, in order to correctly apply IFRS 16, the actual lease term was calculated on the basis of the presumed early release date for moving the company offices to a new building. The early release date of the properties is scheduled for December 2021.

Therefore, the right of use and the lease liabilities were calculated considering the period April 2019 and December 2021.

Ifitalia has other lease contracts in place with the company BNL Spa for the sales outlets located in the various Italian regions; however, in consideration of the insignificant amounts and ongoing organisational changes that require them to be closed or restructured, these contracts were excluded from IFRS 16.

Moreover, no FTA impacts were calculated on the two Corso Italia and De Ruta lease contracts because the assumptions of use at the time of the FTA calculation (1 January 2019) were of very short duration, in consideration of the assumption of relocating Ifitalia's premises to the property owned in Via Pisani after the restructuring, since it was not yet expected to be sold.

### Qualitative disclosure

### 1. Annual changes of rights of use for leases

*(thousands of €)*

| | Total |
|---|---|
| **A. Gross opening balances** | |
| A.1 Total net impairments | |
| A.2 Net opening balances | |
| Abis. First application IFRS 16 | |
| **B. Increases** | **2,902** |
| B.1 Purchases | 2,902 |
| B.2 Capitalised improvement expenditure | |
| B.3 Write-backs | |
| B.4 Positive changes in fair value booked to: | |
| B.5 Positive exchange rate differences | |
| B.6 Transfers from real estate held for investment purposes | |
| B.7 Other variations | |
| **C. Decreases** | **655** |
| C.1 Sales | |
| C.2 Depreciation | 655 |
| C.3 Impairment losses booked to: | |
| C.4 Negative changes in fair value booked to: | |
| C.5 Negative exchange rate differences | |
| C.6 Relocation to: | |
| C.7 Other variations | |
| **D. Net closing balances** | **2,247** |
| D.1 Net impairment | -655 |
| D.2 Gross closing balances | 2,902 |
| **E. Valuation at cost** | **2,247** |

## 2. Cash flows by maturity brackets of lease payables

*(thousands of €)*

| | Leasing cash flow maturity bands | | | | |
|---|---|---|---|---|---|
| | within 1 month | from 1 month to 6 months | from 6 months to 1 year | from one year to 2 years | **Total** |
| Lease liabilities | 291 | 289 | 580 | 1163 | **2323** |
| **Total** | **291** | **289** | **580** | **1163** | **2323** |

## SECTION 8 – OTHER DISCLOSURE

### 8.1 Contributions received from the Public Administration

Companies that receive grants, contributions, paid assignments and economic advantages of any kind from public administrations, or in any case from public resources, are required to publish these amounts in the notes to the accounts of the financial statements and consolidated financial statements, if any. This is what the annual law for the market and competition provides in compliance with a series of disclosure and transparency obligations (Article 1, paragraph 125 et seq., Law no. 124/2017).
Following the Assonime Circular of 11 February 2019, in particular, with reference to the type of disbursements covered by the obligation to publish them in the notes to the financial statements and the way in which they are reported, the Company decided to refer to the National Register of State aid, in the presence of numerous interpretational issues that lead to the conclusion that further action at the regulatory level is desirable.
Here is the web address to access the information:
https://www.rna.gov.it/RegistroNazionaleTrasparenza/faces/pages/TrasparenzaAiuto.jspx

As reported by the national register of State aid, in 2019 Ifitalia did not request contributions.
Ifitalia received reimbursements for financed training amounting to EUR 26,403.90.
It also had contributions in the field of human resources management amounting to EUR 89,162, broken down as follows:

- Contributions for new hires/stabilisations, introduced by the 2018 Stability Law (Law no. 205/2017) of EUR 5,750;
- Contributions for the Ordinary Section of the Solidarity Fund - benefits: Interministerial Decree 83486 of 28/07/2014 - article 10, paragraph 2 of EUR 24,338.29;
- Article 8 of Italian Law Decree no. 203 of 30 September 2005, converted, with amendments, by Italian Law no. 248 of 2 December 2005. Compensating measures for companies that contribute the Employment Termination Benefits to supplementary pensions of EUR 59,073.90.

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**7.2 Financial Statement Data for the Parent Company BNP Paribas**

With reference to the matters envisaged by Article 2497-bis, paragraph 4 of the Italian Civil Code, regarding disclosure on management and co-ordination activities, tables are presented below containing a summary of the highlights taken from the last set of financial statements approved on 31 December 2018 by BNP Paribas S.A. in its capacity as direct parent company.

# BNP Paribas Group

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2018

| In millions of euros | Notes | Year to 31 Dec. 2018 *IFRS 9 & IFRS 15* | Year to 31 Dec. 2017(1) *IAS 39* |
|---|---|---|---|
| Interest income | 3.a | 35,723 | 33,566 |
| Interest expense | 3.a | (14,661) | (12,375) |
| Commission income | 3.b | 12,925 | 12,943 |
| Commission expense | 3.b | (3,718) | (3,513) |
| Net gain on financial instruments at fair value through profit or loss | 3.c | 5,808 | 5,346 |
| Net gains on financial instruments at fair value through equity | 3.d | 315 | 1,711 |
| Net gains on derecognised financial assets at amortised cost | 3.d | (5) | 55 |
| Net income from insurance activities | 3.e | 4,064 | 3,813 |
| Income from other activities | 3.f | 12,324 | 11,697 |
| Expense on other activities | 3.f | (10,259) | (10,082) |
| **REVENUES** | | **42,516** | **43,161** |
| Salary and employee benefit expense | 7.a | (16,617) | (16.496) |
| Other operating expenses | 3.g | (12,290) | (11,729) |
| Depreciation, amortisation and impairment of property, plant and equipment and intangible assets | 5.n | (1,676) | (1,719) |
| **GROSS OPERATING INCOME** | | **11,933** | **13,217** |
| Cost of risk | 3.h | (2,764) | (2,907) |
| **OPERATING INCOME** | | **9,169** | **10,310** |
| Share of earnings of equity-method entities | 5.m | 628 | 713 |
| Net gain on non-current assets | | 358 | 488 |
| Goodwill | 5.o | 53 | (201) |
| **PRE-TAX INCOME** | | **10,208** | **11,310** |
| Corporate income tax | 3.i | (2,203) | (3,103) |
| **NET INCOME** | | **8,005** | **8,207** |
| Net income attributable to minority interests | | 479 | 448 |
| **NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS** | | **7,526** | **7,759** |
| Basic earnings per share | 8.a | 5.73 | 6.05 |
| Diluted earnings per share | 8.a | 5.73 | 6.05 |

(1) Revised presentation based on the reclassifications and the re-labelling within Net Banking Income described in note 2a: re-labelling of "net gains on available-for sale financial assets and other assets not measured at fair value" to "net gains on financial assets at fair value through equity" and "net gains on derecognised financial assets at amortised cost", reclassification of items related to insurance activities within "Net income from insurance activities" and reclassification of interest on trading instruments within "Net gains on financial instruments at fair value through profit or loss".

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BNP Paribas Group

# BALANCE SHEET AT 31 DECEMBER 2018

| In millions of euros | Note | 31 December 2018 IFRS 9 & IFRS 15 | 1 January 2018 (1) IFRS 9 & IFRS 15 | 31 December 2017(2) IAS 39 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and balances at central banks | | 185,119 | 178,433 | 178,446 |
| Financial instruments at fair value through profit or loss | | | | |
| Securities | 5.a | 121,954 | 130,326 | 122,964 |
| Loans and repurchase agreements | 5.a | 183,716 | 144,948 | 143,988 |
| Derivative financial instruments | 5.a | 232,895 | 229,896 | 229,897 |
| Derivatives used for hedging purposes | 5.b | 9,810 | 13,721 | 13,723 |
| Financial assets at fair value through equity | | | | |
| Debt securities | 5.c | 53,838 | 53,942 | 110,881 |
| Equity securities | 5.c | 2,151 | 2,330 | 6,928 |
| Financial assets at amortised cost | | | | |
| Loans and advances to credit institutions | 5.e | 19,556 | 20,356 | 20,405 |
| Loans and advances to customers | 5.e | 765,871 | 731,176 | 735,013 |
| Debt securities | 5.e | 75,073 | 69,426 | 15,378 |
| Remeasurement adjustment on interest-rate risk hedged portfolios | | 2,787 | 3,064 | 3,064 |
| Financial investments of insurance activities | 5.i | 232,308 | 227,712 | 227,712 |
| Current and deferred tax assets | 5.k | 7,220 | 7,368 | 6,568 |
| Accrued income and other assets | 5.l | 103,346 | 92,961 | 92.875 |
| Equity-method investments | 5.m | 5,772 | 6,221 | 6,426 |
| Property, plant and equipment and investment property | 5.n | 26,652 | 25,000 | 25,000 |
| Intangible assets | 5.n | 3,783 | 3,327 | 3,327 |
| Goodwill | 5.o | 8,487 | 9,571 | 9,571 |
| Non-current assets held for sale | 8.c | 498 | | |
| **TOTAL ASSETS** | | **2,040,836** | **1,949,778** | **1,952,166** |
| **LIABILITIES** | | | | |
| Deposits from central banks | | 1,354 | 1,471 | 1,471 |
| Financial instruments at fair value through profit or loss | | | | |
| Securities | 5.a | 75,189 | 67,087 | 67,087 |
| Deposits and repurchase agreements | 5.a | 204,039 | 174,645 | 174,645 |
| Issued debt securities | 5.a | 54,908 | 50,490 | 50,490 |
| Derivative financial instruments | 5.a | 225,804 | 227,644 | 227,644 |
| Derivatives used for hedging purposes | 5.b | 11,677 | 15,682 | 15,682 |
| Financial liabilities at amortised cost | | | | |
| Deposits from credit institutions | 5.g | 78,915 | 76,503 | 76,503 |
| Deposits from customers | 5.g | 796,548 | 760,941 | 760,941 |
| Debt securities | 5.h | 151,451 | 148,156 | 148,156 |
| Subordinated debt | 5.h | 17,627 | 15,951 | 15,951 |
| Remeasurement adjustment on interest-rate risk hedged portfolios | | 2,470 | 2,372 | 2,372 |
| Current and deferred tax liabilities | 5.k | 2,255 | 2,234 | 2,466 |
| Accrued expenses and other liabilities | 5.l | 89,562 | 80,472 | 79,994 |
| Technical reserves and other insurance liabilities | 5.j | 213,691 | 210,494 | 210,494 |
| Provisions for contingencies and charges | 5.p | 9,620 | 11,084 | 11,061 |
| **TOTAL LIABILITIES** | | **1,935,110** | **1,845,226** | **1,844,957** |
| **EQUITY** | | | | |
| *Share capital, additional paid-in capital and retained earnings* | | *93,431* | *89,880* | *91,026* |
| *Net income for the period attributable to shareholders* | | *7,526* | *7,759* | *7.759* |
| **Total capital, retained earnings and net income for the period attributable to shareholders** | | **100.957** | **97.639** | **98.785** |
| Changes in assets and liabilities recognised directly in equity | | 510 | 1,787 | 3,198 |
| **Shareholders' equity** | | **101,467** | **99,426** | **101,983** |
| **Minority interests** | 8.d | **4,259** | **5,126** | **5,226** |
| **TOTAL EQUITY** | | **105,726** | **104,552** | **107,209** |
| **TOTAL LIABILITIES AND EQUITY** | | **2,040,836** | **1,949,778** | **1,952,166** |

(1) As of 1 January 2018 after implementation of IFRS 9 and IFRS 15, as described in note 2.b.

(2) Revised presentation, based on reclassifications and adjustments detailed in note 2.a, mainly related to the re-labelling of financial instruments item headings, the reclassification of financial instruments of insurance activities into "Financial investments of insurance activities", and the impact of securities recognition at settlement date.

# IFITALIA CONSOLIDATED FINANCIAL STATEMENT

# Consolidated financial statements as at 31 December 2019

**Mandatory financial statements:**



**Notes to the accounts:**

IFITALIA
GRUPPO BNP PARIBAS

## MANDATORY FINANCIAL STATEMENTS

### Consolidated Balance Sheet

*(euro)*

| | ASSETS | 31/12/2019 | 31/12/2018 |
|---|---|---|---|
| 10 | Cash and cash equivalents | 1,138 | 5,869 |
| 20 | Financial assets at fair value through profit or loss: | 4,565,961 | 5,180,892 |
| | *a) financial assets held for trading* | - | - |
| | *b) financial assets designated at fair value* | - | - |
| | *c) other financial assets mandatorily measured at fair value* | *4,565,961* | *5,180,892* |
| 30 | Financial assets at fair value through other comprehensive income | - | - |
| 40 | Financial assets measured at amortised cost: | 7,523,545,444 | 7,747,495,257 |
| | *a) loans to banks* | *77,499,220* | *22,206,242* |
| | *b) loans to financial company* | *21,087,283* | *62,912,285* |
| | *c) loans to customers* | *7,424,958,941* | *7,662,376,730* |
| 50 | Hedging derivatives | - | - |
| 60 | Change in fair value of portfolio hedged items (+/-) | - | - |
| 70 | Equity investments | - | - |
| 80 | Property, plant and equipment | 3,906,078 | 20,784,817 |
| 90 | Intangible assets | *11,263,580* | *10,520,048* |
| | *of which: goodwill* | - | - |
| 100 | Tax assets | 62,415,202 | 63,190,607 |
| | *a) current* | *14,910,143* | *4,269,111* |
| | *b) deferred* | *47,505,059* | *48,921,496* |
| 110 | Non-current assets and disposal groups held for sale | - | - |
| 120 | Other assets | 56,574,383 | 49,115,812 |
| | **Total assets** | **7,662,271,786** | **7,896,293,302** |

(euro)

| | LIABILITIES AND SHAREHOLDERS' EQUITY | 31/12/2019 | 31/12/2018 |
|---|---|---|---|
| 10 | Financial liabilities measured at amortised cost: | 6,652,937,074 | 6,969,462,465 |
| | *a) Deposits* | *6,366,829,428* | *6,622,922,106* |
| | *b) Debt securities issued* | *286,107,646* | *346,540,359* |
| 20 | Financial liabilities held for trading | 72,180 | 142,263 |
| 30 | Financial liabilities designated at fair value | - | - |
| 40 | Hedging derivatives | - | - |
| 50 | Change in fair value of portfolio hedged items (+/-) | - | - |
| 60 | Tax liabilities | 23,589,191 | 15,707,530 |
| | *a) current* | *23,056,101* | *13,314,606* |
| | *b) deferred* | *533,090* | *2,392,924* |
| 70 | Liabilities associated with discontinued operations | - | - |
| 80 | Other liabilities | 210,036,091 | 180,290,388 |
| 90 | Post-employment benefits | 4,698,739 | 4,072,739 |
| 100 | Provisions for risks and charges: | 8,549,123 | 14,703,045 |
| | *a) commitments and guarantees issued* | *1,613,217* | *1,647,176* |
| | *a) post-retirement benefit and similar obligations* | - | - |
| | *b) other provisions for risks and charges* | *6,935,906* | *13,055,869* |
| 110 | Equity | 55,900,000 | 55,900,000 |
| 120 | Treasury shares (-) | - | - |
| 130 | Equity instruments | - | - |
| 140 | Share premium | 61,798,643 | 61,798,643 |
| 150 | Reserves | 595,116,508 | 555,673,147 |
| 160 | Valuation reserves | (1,015,403) | 4,959,850 |
| 170 | Profit (loss) for the year | 50,579,640 | 33,573,232 |
| 180 | Third party assets | 10,000 | 10,000 |
| | **Total Liabilities and Shareholders' equity** | **7,662,271,786** | **7,896,293,302** |

IFITALIA
GRUPPO BNP PARIBAS

## Consolidated Income Statement

*(euro)*
*(euro)*

| | P&L | Year 2019 | Year 2018 |
|---|---|---|---|
| **10** | Interest and similar income | 77,630,154 | 71,784,000 |
| | *of which: interest income calculated using the effective interest rate method* | 73,202,394 | 68,933,505 |
| **20** | Interest and similar expense | (7,149,977) | (5,774,590) |
| **30** | **Net interest income** | **70,480,815** | **66,009,432** |
| **40** | Fee and commission income | 55,298,631 | 53,692,192 |
| **50** | Fee and commission expense | (12,587,598) | (13,041,453) |
| **60** | **Net fee and commission income** | **42,711,033** | **40,650,739** |
| **70** | Dividends and similar income | 37,800 | 58,949 |
| **80** | Net result from trading | 5,186 | 53,717 |
| **90** | Net result from hedging | - | - |
| **100** | Profit (loss) from disposal or repurchase of: | - | - |
| | *a) financial assets measured at amortised cost* | - | - |
| | *b) financial assets at fair value through other comprehensive income* | - | - |
| | *c) financial liabilities* | - | - |
| **110** | Net result of other financial assets/liabilities at fair value through profit or loss: | 1,053 | (367,780) |
| | *a) financial assets and liabilities designated at fair value* | - | - |
| | *b) other financial assets mandatorily measured at fair value* | *1,053* | *(367,780)* |
| **120** | **Net banking income** | **113,235,887** | **106,405,057** |
| **130** | Net value adjustments/write-backs for credit risk relating to: | (12,338,209) | (9,881,958) |
| | *a) financial assets measured at amortised cost* | *(12,338,209)* | *(9,881,958)* |
| | *b) financial assets at fair value through other comprehensive income* | - | - |
| 140 | Gains/losses on contract modifications without eliminations | - | - |
| **150** | **Net result of financial management** | **100,897,678** | **96,523,099** |
| **160** | Administrative expenses: | (45,678,337) | (46,201,160) |
| | *a) personnel expenses* | *(23,109,053)* | *(19,425,400)* |
| | *b) other administrative expenses* | *(22,569,284)* | *(26,775,760)* |
| **170** | Net provisions for risks and charges | 3,128,864 | (1,448,237) |
| | *a) commitments and guarantees issued* | *34,324* | *22,104* |
| | *b) other net provisions* | *3,094,540* | *(1,470,341)* |
| **180** | Net value adjustments/write-backs on property, plant and equipment | (1,181,099) | (933,604) |
| **190** | Net value adjustments/write-backs on intangible assets | (3,662,955) | (2,555,867) |
| **200** | Other operating expenses/income | 2,486,573 | 2,544,344 |
| **210** | **Operating expenses** | **(44,906,954)** | **(48,594,524)** |
| **220** | Profit (Loss) from equity investments | - | - |
| **230** | Net result of valuation at fair value of property, plant and equipment and intangible assets | - | - |
| **240** | Value adjustments to goodwill | - | - |
| **250** | Gains (Losses) on sale of investments | 17,756,956 | - |
| **260** | **Operating profit (loss) before taxes** | **73,747,680** | **47,928,575** |
| **270** | Income taxes for the year | (23,168,039) | (14,355,344) |
| | **Operating profit (loss) net of taxes** | **50,579,641** | **33,573,232** |
| **290** | Profit (Loss) of discontinued operations, net of taxes | - | - |
| **300** | **Profit (loss) for the year** | **50,579,641** | **33,573,232** |
| **310** | Profit (loss) for the year third parties | | |
| **320** | **Profit (loss) for the year parent company** | **50,579,641** | **33,573,232** |

## Consolidated statement of comprehensive income

*(euro)*

| | Items | Year 2019 | Year 2018 |
|---|---|---|---|
| 10 | **Profit (loss) for the year** | **50,579,641** | **33,573,232** |
| | **Other income components net of taxes without reversal to income statement connected with:** | | |
| 20 | Equity instruments measured at fair value through other comprehensive income | | |
| 30 | Financial liabilities designated at fair value through profit or loss (change in the creditworthiness) | | |
| 40 | Hedging of equity instruments measured at fair value through other comprehensive income | | |
| 50 | Property, plant and equipment | | |
| 60 | Intangible assets | | |
| 70 | Defined benefit plans | (105,125) | 104,794 |
| 80 | Non-current assets held for sale | | |
| 90 | Share of reserves from valuation of investments carried at equity | | |
| | **Other income components net of taxes with reversal to income statement connected with:** | | |
| 100 | Hedging of foreign investments | | |
| 110 | Exchange rate differences | | |
| 120 | Cash flow hedges | | |
| 130 | Hedging instruments [not-designated elements] | | |
| 140 | Financial assets (other than equity instruments) at fair value through other comprehensive income | | |
| 150 | Non-current assets and disposal groups held for sale | | |
| 160 | Share of reserves from valuation of investments carried at equity | | |
| 170 | **Total other income components net of taxes** | (105,125) | 104,794 |
| 180 | **Comprehensive income (Item 10+170)** | **50,474,516** | **33,678,026** |
| 190 | Total consolidated profitability attributed to third parties | | |
| 200 | **Total consolidated profitability attributed to group leader** | **50,474,516** | **33,678,026** |

## Statement of Changes in Equity as at 31 December 2019

| | | | | Allocation of profit from previous year | | Changes for the year | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Equity transactions | | | | | | | |
| | Balances as at 31.12.2018 | Change in opening balances | Balances as at 01.01.2019 | Reserves | Dividends and other uses | Changes in reserves | Issue of new shares | Purchase of treasury shares | Extraordinary distribution of dividends | Change in equity instruments | Other changes | Comprehensive income for the year 2019 | Shareholders' Equity 31.12.2019 | Third parties Equity 31.12.2019 |
| **Share capital:** | **55,910,000** | **-** | **55,910,000** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **55,900,000** | **10,000** |
| a) ordinary shares | 55,910,000 | - | 55,910,000 | - | - | - | - | - | - | - | - | - | 55,900,000 | |
| b) other shares | | | | | | | | | | | | | | |
| **Share premium** | **61,798,643** | **-** | **61,798,643** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **61,798,643** | |
| **Reserves:** | **555,673,146** | **-** | **555,673,146** | **33,573,232** | **-** | **5,870,128** | **-** | **-** | **-** | **-** | **-** | **-** | **595,116,506** | |
| a) profit-related | 562,701,647 | - | 562,701,647 | 33,573,232 | - | - | - | - | - | - | - | - | 596,274,879 | |
| b) other | (7,028,501) | - | (7,028,501) | - | - | 5,870,128 | - | - | - | - | - | - | (1,158,373) | |
| **Valuation reserves** | **4,959,850** | **-** | **4,959,850** | **-** | **-** | **(5,870,128)** | **-** | **-** | **-** | **-** | **-** | **(105,125)** | **(1,015,403)** | |
| **Equity instruments** | | | | | | | | | | | | | | |
| **Treasury shares** | | | | | | | | | | | | | | |
| **Profit (loss) for the year** | **33,573,232** | **-** | **33,573,232** | **(33,573,232)** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **50,579,641** | **50,579,641** | |
| **Shareholders' Equity** | **711,914,871** | **-** | **711,914,871** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **50,474,516** | **762,379,387** | |
| **Third parties' Equity** | **10,000** | | **10,000** | | | | | | | | | | | **10,000** |

## Statement of Changes in Equity as at 31 December 2018

| | | | | Allocation of profit from previous year | | Changes during the year | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Equity transactions | | | | | | | |
| | Balances as at 31.12.2017 | Change in opening balances | Balances as at 01.01.2018 | Reserves | Dividends and other uses | Changes in reserves | Issue of new shares | Purchase of treasury shares | Extraordinary distribution of dividends | Changes in equity instruments | Other changes | Comprehensive income as at 2018 | Shareholders' Equity 31.12.2018 | Third parties' Equity 31.12.2018 |
| **Share capital:** | **55,910,000** | | **55,910,000** | | | | | | | | | | **55,900,000** | **10,000** |
| a) ordinary shares | 55,910,000 | | 55,910,000 | | | | | | | | | | 55,900,000 | |
| b) other shares | | | | | | | | | | | | | | |
| **Share premium** | **61,798,643** | | **61,798,643** | | | | | | | | | | **61,798,643** | |
| **Reserves:** | **539,695,144** | **(18,601,286)** | **521,088,464** | **34,579,288** | | | | | | | **-** | | **555,673,146** | |
| a) profit-related | 528,122,359 | | 528,116,965 | 34,579,288 | | | | | | | | | 562,317,072 | |
| b) other | 11,572,785 | (18,601,286) | (7,028,501) | | | | | | | | - | | (7,028,501) | |
| **Valuation reserves** | **8,176,590** | **(3,321,534)** | **4,855,056** | | | | | | | | | **104,794** | **4,959,850** | |
| **Equity instruments** | | | | | | | | | | | | | | |
| **Treasury shares** | | | | | | | | | | | | | | |
| **Profit (loss) for the year** | **34,579,288** | | **34,579,288** | **(34,579,288)** | | | | | | | | **33,573,232** | **33,573,232** | |
| **Shareholders' Equity** | **700,159,665** | | **700,159,665** | | | | | | | | **-** | **33,678,026** | **711,904,871** | |
| **Third parties' Equity** | **10,000** | | **10,000** | | | | | | | | | | | **10,000** |

## Statement of Cash Flows classified using the indirect method

(euro)

| A. OPERATING ACTIVITIES | 31/12/2019 | 31/12/2018 |
|---|---|---|
| **1. Management** | **85,035,868** | **55,395,354** |
| - profit (loss) for the year (+/-) | 50,579,641 | 33,573,232 |
| - gains/losses on financial assets held for trading and on financial assets/liabilities at fair value through profit or loss (+/-) | (71,136) | 277,771 |
| - gains/losses on hedging (+/-) | - | - |
| - net value adjustments/write-backs for credit risk (+/-) | 8,729,887 | 3,231,326 |
| - net value adjustments/write-backs on property, plant and equipment and and intangible a | 4,844,054 | 3,489,471 |
| - net allowances to provisions for risks and charges and other costs/revenues(+/-) | (2,613,607) | 1,690,721 |
| - taxes not settled (+/-) | 23,567,029 | 13,132,834 |
| - net value adjustments/write-backs on discontinued operations, net of taxes (+/-) | | |
| - other adjustments (+/) | | - |
| **2. Cash flow generated/absorbed by financial assets** | **209,152,743** | **(434,231,586)** |
| - financial assets held for trading | - | - |
| - financial assets designated at fair value | - | - |
| - other financial assets mandatorily measured at fair value | 615,984 | 372,111 |
| - financial assets at fair value through other comprehensive income | | - |
| - financial assets measured at amortised cost | 215,219,925 | (401,888,718) |
| - other assets | (6,683,166) | (32,714,979) |
| **3. Cash flow generated/absorbed by financial liabilities** | **(305,484,495)** | **382,942,264** |
| - financial liabilities measured at amortised cost | (316,525,391) | 390,399,797 |
| - financial liabilities held for trading | - | - |
| - financial liabilities designated at fair value | - | - |
| - other liabilities | 11,040,896 | (7,457,533) |
| **Cash flow generated/absorbed by operating activities** | **(11,295,884)** | **4,106,032** |
| **B. INVESTING ACTIVITIES** | | |
| **1. Cash flow generated by:** | **35,940,252** | **176,598** |
| - sale of equity investments | - | - |
| - dividends collected on equity investments | - | - |
| - sale of property, plant and equipment | 33,255,131 | 863 |
| - sale of intangible assets | 2,685,121 | 175,735 |
| - sale of subsidiaries and businesses | - | - |
| **2. Cash flow absorbed by:** | **(24,649,099)** | **(4,285,720)** |
| - purchase of equity investments | - | - |
| - purchase of property, plant and equipment | (17,557,491) | (1,019,280) |
| - purchase of intangible assets | (7,091,608) | (3,266,440) |
| - purchase of subsidiaries and businesses | - | - |
| **Net cash flow generated/absorbed by investing activities** | **11,291,153** | **(4,109,122)** |
| **C. FUNDING ACTIVITIES** | | |
| - issue/purchase of treasury shares | - | - |
| - issue/purchase of equity instruments | - | - |
| - distribution of dividends and other uses | - | - |
| **Net cash flow generated/absorbed by funding activities** | **-** | **-** |
| **NET CASH FLOW GENERATED/ABSORBED DURING THE YEAR** | **(4,731)** | **(3,090)** |

The approach used generated liquidity equal to item 10 Cash and cash equivalents.

## Reconciliation

*(euro)*

| Financial statement items | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Cash and cash equivalents at the beginning of the year | 5,869 | 8,959 |
| Total net cash flow generated/absorbed during the year | (4,731) | (3,090) |
| Cash and cash equivalents: effect of changes in exchange rates | - | - |
| Cash and cash equivalents at the end of the year | 1,138 | 5,869 |

# Notes to the accounts

**INTRODUCTION**
The notes to the accounts are divided into the following parts:
1) Part A – Accounting Policies;
2) Part B – Information on the Balance Sheet;
3) Part C – Information on the Income Statement;
4) Part D – Other Information.
Each part of the notes is divided into sections, each of which illustrates an individual aspect of the business operations. The sections contain both qualitative and quantitative information.
As a rule, the quantitative information comprises items and tables.

## PART A – ACCOUNTING POLICIES

### A. 1 – GENERAL SECTION

**Section 1 – Declaration of compliance with international accounting standards**
Ifitalia S.p.A.'s consolidated financial statements as at 31 December 2019 comply with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board – IASB, adopted by the European Commission, as well as the measures issued in implementation of Article 9 of Italian Legislative Decree 38/2005.
With regard to the layouts and the technical forms, the consolidated financial statements have been drawn up in accordance with the Circular "IFRS Financial Statements of Brokers other than Banking Intermediaries", whose updated text was issued by the Bank of Italy on 30 November 2018 for financial statements starting from those closed or current on 31 December 2019 and revised with subsequent updates, and in accordance with Article 9 of Italian Legislative Decree no. 38/2005.
In order to guide the application and interpretation of the international accounting standards more clearly, reference was also made to the following sources:
- ✓ Framework for the Preparation and Presentation of Financial Statements issued by the IASB;
- ✓ Implementation Guidance, Basis for Conclusions and other interpretative documents for IAS/IFRS adopted by IASB or IFRIC (International Financial Reporting Standard Interpretations Committee);
- ✓ documents drawn up by the Italian Chartered Accountants Association (Assirevi);
- ✓ documents drawn up by the Italian Standard Setter (OIC) and the Italian Banking Association (ABI);
- ✓ ESMA (European Securities and Markets Authority) and CONSOB documents that refer to the application of specific provisions in the IFRS.

**Section 2 – General basis of presentation**
The consolidated financial statements, accompanied by the related Report on Operations, comprise:
- ✓ Consolidated Balance Sheet and Consolidated Income Statement;
- ✓ Consolidated statement of comprehensive income;
- ✓ Consolidated Statement of changes in equity;
- ✓ Consolidated Statement of cash flows;
- ✓ Notes to the Accounts.

The financial statements were prepared with a view to the business as a going concern, taking into account the current and projected profitability and the ease of access to financial resources. The Directors considered the going concern assumption appropriate because, in their judgement, no uncertainties linked to events or circumstances have emerged that, considered individually or as a whole, may lead to doubts about the viability of the business.
The accounting policies comply with the principles of accruals, relevance and significance of the accounting information and predominance of economic substance over legal form.
The financial statement accounts are consistent with the company's accounting records; furthermore, in compliance with the provisions of Article 5, Paragraph 2 of Italian Legislative Decree no. 38 dated 28 February 2005, the financial statements have been drawn up using the Euro as the reporting currency. Specifically, in line with the instructions issued by the Bank of Italy, the statements have been drawn up in units of Euro without decimal figures, the notes to the accounts are drawn up in thousands of Euro, and the Report on Operations is drawn up in millions of Euro.

As from 1 January 2019, the new international accounting standard IFRS 16 – Leases came into force; it defines the accounting treatment of lease contracts. Moreover, the Group made use of the "transitional relief" and therefore the figures compared are those prepared in previous years without taking into account the introduction of the new standard.

**Section 3 – Events after the reporting period**

When drawing up the financial statements, Ifitalia considered all the events that had economic pertinence for the year ended as at 31 December 2019, even if after the reporting period, and which took place up until the date of approval of the financial statements by the Board of Directors.

However, it is noted that at the date of preparation of these financial statements, the evolution of some instability factors that have recently emerged is being monitored, such as the emergence of Covid 19 (hereinafter "Coronavirus") that, in the first weeks of 2020, initially impacted economic activity in China and then spread to other countries, whose consequences on the economic side are currently difficult to quantify and assess.
These factors have therefore been considered as events that do not involve adjustments to the balances in the financial statements, in accordance with IAS 10 § 21, since, although the Coronavirus phenomenon began to manifest itself in China just before the end of the reporting period, it is only from the end of January that the existence of a real international emergency phenomenon was declared.
However, it is noted that if these factors were to materialise significantly, they could also have a significant impact on the prospect of future growth, having an impact on the general economy and the financial markets.
At this stage, once the necessary assessments have been made, it is not possible to foresee the evolution that this phenomenon may have, also in Italy, and, consequently, the impact it will have on the economy and, consequently, it is not possible to determine any negative financial and economic impacts that may initially affect the first quarter of 2020.
Therefore, this circumstance does not represent an impact on the estimation process with reference to the financial statements for the year ended 31 December 2019.

**Section 4 – Other aspects**

The Ifitalia consolidated financial statements have been audited by the auditing firm Mazars Italia S.p.A., which was granted the appointment for the period 2015 – 2023 by the Shareholders' Meeting held on 24 November 2015 in accordance with Legislative Decree no. 39 of 27 January 2010.

*Legislative changes*

As from 1 January 2019, IFRS 16 "Leases" came into force, replacing the previous standard IAS 17 – Leases, as well as interpretations IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC-15 "Operating Leases—Incentives" and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". In this regard, reference should be made to what is shown later in this Report.
The additional IAS/IFRS accounting standards and related SIC/IFRIC interpretations, the mandatory application of which has not had a significant impact, are shown below, effective from 1 January 2019.
The interpretation "IFRIC 23 - Uncertainty over income tax treatments", published with Regulation (EU) no. 2018/1595 of 24 October 2018, clarifies how to apply the measurement and recognition requirements of IAS 12 when there is uncertainty about the treatment to be applied to income taxes.
The document "Amendments to IFRS 9 - Prepayment features with Negative Compensation", published by Regulation (EU) No. 2018/498 on 26 March 2018, clarifies the classification of certain financial assets eligible for early repayment when IFRS 9 is applied. In particular, loans that require payment by the lessor in the event of early repayment (negative compensation payment) can be measured at amortised cost or at fair value through other comprehensive income, depending on the business model. Moreover, for financial liabilities measured at amortised cost, the document establishes that changes that do not result in the cancellation of the liability are recognised in the income statement for the amount equal to the difference between the original contractual cash flows and the modified cash flows discounted at the effective interest rate.
The document "Annual Improvements to IFRSs 2015-2017 Cycle", published with Regulation (EU) No. 2019/412 of 14 March 2019, introduces some marginal amendments to IAS 12 "Income Taxes", IAS 23 "Borrowing Costs", IFRS 3 "Business Combinations" and IFRS 11 "Joint Arrangements". Particularly:
• the entity must recognise all income tax consequences of dividends in profit or loss, other comprehensive income or equity depending on the recognition of the transactions or past events that gave rise to distributable profits (IAS 12);

• if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings (IAS 23);
• when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business (IFRS 3);
• when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business (IFRS 11).

On 13 March 2019, the document "Amendments to IAS 19 - Plan Amendment, Curtailment or Settlement" was published by Regulation (EU) No. 2019/402. This document clarifies that, after the amendment, curtailment or settlement of the defined benefit plan, the entity should apply the assumptions updated by the remeasurement of its net defined benefit liability (asset) for the remainder of the reporting period.

The document "Amendments to IAS 28 - Long-term Interests in Associates and Joint Ventures", published by Regulation (EU) No. 2019/237 of 8 February 2019, clarifies that the impairment requirements of IFRS 9 apply to long-term receivables from an associate or joint venture that, in substance, are part of the net investment in the associate or joint venture (for which the entity does not use the equity method).

*Impacts of First-Time Adoption for the new IFRS 16 standard applied from 1 January 2019*

As mentioned above, from 1 January 2019, the new accounting standard IFRS 16, which amends the current set of international accounting standards and interpretations on leases and, in particular, IAS 17, came into force.

The new standard introduces a new definition of leases and confirms the current distinction between the two types of leases (operating and financial) in reference to the accounting model that the lessor must apply. With reference to the accounting model to be applied by the lessee, the new standard requires that, for all types of leases, an asset must be recognised representing the right of use of the leased asset and, at the same time, the liability relating to the lease payments.

At the time of initial recognition, the asset is measured on the basis of the cash flows associated with the lease, including, in addition to the present value of the lease payments, the initial direct costs associated with the lease and any costs necessary to restore the asset at the end of the lease. After initial recognition, this asset will be measured on the same basis as tangible assets and therefore at cost net of depreciation and any impairment, at "restated value" or at fair value in accordance with IAS 16 or IAS 40.

For the recognition in the financial statements of the accounting impacts deriving from the application of the new standard, the Group adopted the "Modified Retrospective Approach", which envisages that the right-of-use asset is measured as if the Standard had been applied from the effective date but discounted using the entity's incremental borrowing rate at the date of initial application (IFRS 16.C8. b. i)

The Group did not record any impact from the first-time adoption of the new accounting standard.

*Foreign currency transactions*

Assets and liabilities denominated in foreign currency (these being understood to be currencies other than the Euro, also including the transactions that envisage index-linking clauses to these currencies) are converted on the basis of the exchange rate as at year end.

*Payment agreements based on own equity instruments*

The Group has not put in place payment agreements based on own equity instruments.

*Use of estimates in financial statements*

The preparation of the financial statements required the use of estimates and assumptions that can have effects on the amounts in the balance sheet and income statement. The calculation of these estimates involves the use of the information available as of the date of preparation of the financial statements and the adoption of subjective evaluations, based also on historical experience, used to formulate reasonable assumptions in order to record management events.

The main cases for which the use of subjective evaluations is required the most by the company's management are:

- ✓ the losses due to impairment of receivables and, generally, of other financial assets;
- ✓ the fair value of financial instruments to be used for the purpose of financial statement disclosure;
- ✓ the provisions for risks and charges;
- ✓ the recoverability of deferred tax assets;
- ✓ the portion of property held for investment purposes.

*Impairment tests*

As regards the tests provided for by IAS 36, no impairment indicators were found in the valuations made, in consideration of the book values and the specific nature of the assets in the accounts.

*Important opinions formulated for the application of IFRS 15*

Performance obligations (explicit or implicit promises to transfer distinct goods or services to the customer) are identified at the time of inception of the contract based on the contractual terms and usual business practices. For determining the consideration that the Bank expects to receive for the supply of goods or services to the counterparty ("transaction price"), the following are considered:

- the effect of any reductions and discounts;
- the time value of money if significant terms of deferment are agreed;
- the variable price component.

The transaction price of each contract is allocated to each performance obligation on the basis of the relative stand-alone selling prices of the performance obligations.

Therefore, revenues are recorded in the income statement when the performance obligations are met through the transfer of the goods or services to the counterparty, which obtains control. In particular, revenue was recognised over time when the services are provided by the Bank throughout the term of the contract and at a point in time when the performance obligation is met at a given time.

The following costs incurred to obtain the contracts and to provide the expected services are capitalised and amortised over the life of the reference contract if recovery is expected:

- incremental costs that the Bank would not have incurred if the contract had not been signed;
- costs that refer to a specific contract that generate resources that will be used to meet the performance obligation.

The residual amount of these costs recognised in the financial statements is periodically tested for impairment.

**Section 5 - Scope and methods of consolidation**

The scope of line-by-line consolidation includes a vehicle company for which Ifitalia is exposed to the majority of risks and obtains the majority of benefits (SPE/SPV).

The financial statements used as the basis for the line-by-line consolidation process are those as at 31 December 2019, as approved by the competent bodies of the consolidated company.

**1. Equity investments in subsidiaries**

The scope of line-by-line consolidation includes the vehicle company Tierre Securitisation s.r.l. (SPV), with registered office in via V. Alfieri 1 Conegliano (TV).

Ifitalia holds no share in the capital of the SPV but, based on the reference accounting standards (IFRS 10), it can be deemed that it controls the vehicle as it is the main party that determines its flows and, furthermore, is exposed to the variable returns of the SPV (both as a result of data protection on credit risk and through the notes subscribed).

**2. Significant valuations and assumptions for determining the scope of consolidation**

The entities in which Ifitalia has direct or indirect control are subsidiaries. Control over an entity is shown by its ability to exercise power in order to influence the variable returns to which Ifitalia is exposed as a result of its relationship with it.

"Structured entities" (SPVs), for which voting rights are not significant for control assessment, are considered subsidiaries where:

- Ifitalia has power through contractual rights that allow it to control the relevant activities;
- Ifitalia is exposed to the variable returns resulting from these activities.

Assets and liabilities, off-balance sheet transactions, income and expenses, as well as profits and losses between entities included in the scope of consolidation are eliminated on a line-by-line basis.

The costs and revenues of a subsidiary are included in the consolidated financial statements as from the date of acquisition of control.

The portion of non-controlling interests is shown in the Balance sheet under item 180. "Non-controlling interests", separately from liabilities and shareholders' equity attributable to the Group. In the Income statement, the portion attributable to non-controlling interests is shown separately under item 310. “Profit (loss) for the year attributable to non-controlling interests”.

For companies included in the scope of consolidation for the first time, the fair value of the cost incurred to obtain control of this investment, including incidental expenses, is measured at the acquisition date.

The difference between the consideration for the sale of a stake held in a subsidiary and the related book value of the net assets is recorded as a matching balance in Shareholders' Equity, if the sale does not entail loss of control.

In this case, Ifitalia did not incur any cost to obtain control in that the production of the consolidated financial statements is determined by the fact that the requirements for exemption set out in the regulations no longer apply (Italian Legislative Decree 136 of 2015, Article 40).

**3. Equity investments in subsidiaries with significant minority interests**
The consolidated financial statements do not include subsidiaries with significant minority interests.

**4. Significant restrictions**
During 2019, Ifitalia was not significantly restricted in its capacity to access or use assets and extinguish Group liabilities.

**5. Other information**
The Group does not include Consolidated companies the separate financial statements of which refer to a date or period other than that of the consolidated financial statements.

## A.2 – SECTION REGARDING THE MAIN FINANCIAL STATEMENT AGGREGATES

The accounting standards adopted for Ifitalia's 2019 consolidated financial statements are the same as those used for the 2018 financial statements, with the exception of those impacted by the introduction of IFRS 16 as from 1 January 2019.

Therefore, please find below:

a) the standards used for the preparation of the 2019 financial statements;
b) the standards used for the preparation of the comparative results as at 31 December 2018 (only for the items impacted by the new standard).

### a) STANDARDS USED FOR THE PREPARATION OF THE 2019 FINANCIAL STATEMENTS

**1. Financial assets at fair value through profit or loss**
This item includes all financial assets not classified in the portfolio of financial assets at fair value through other comprehensive income and in the portfolio of financial assets at amortised cost.
More specifically, this item includes:
a) financial assets held for trading (debt securities, equities, loans, UCI units and derivatives);
b) assets mandatorily at fair value (debt securities and loans) with the valuation results recognised in the income statement on the basis of the option granted to companies (fair value option) by IFRS 9;
c) other financial assets mandatorily at fair value (debt securities, equities, UCI units and loans), i.e. financial assets, other than those designated at fair value through profit or loss, which do not meet the requirements for classification at amortised cost, at fair value through other comprehensive income or that are not held for trading.
The initial recognition takes place on the trading date for all financial assets. The initial recognition value is the fair value.
Subsequent to initial recognition, the portfolio is measured at fair value, with the exception of equity instruments not listed on an active market and whose fair value cannot be reliably determined.
If the fair value of a financial asset becomes negative, this asset is recorded as a financial trading liability.
Financial assets at fair value through profit or loss conventionally include the balance arising from the offsetting of derivative contracts allocated to the trading portfolio and hedging derivatives in accordance with IAS 32, paragraph 42, if the absolute value of the fair value of the derivatives allocated to the trading portfolio is greater than the absolute value of the fair value of the hedging derivatives and is positive. This offset is recognised if the Group:
(a) currently has an exercisable right to offset the recognised amounts; and b) intends to pay the net amounts or to realise the asset and settle the liability at the same time.
Accrued interest is recorded in item 10 Interest income or 20 Interest expense, with the exception of differentials on non-hedging derivatives, which are recorded in net trading profit (loss).
Realised gains and losses on sales or reimbursements and unrealised gains and losses deriving from fair value changes in the portfolio at issue are recorded in item “80. Net trading profit (loss)” with regard to financial assets held for trading and in item “110. Net result of other financial assets and liabilities at fair value through profit or loss” for assets at fair value and other financial assets mandatorily at fair value.

The determination of the fair value of trading assets is based on the prices struck on active markets, on prices provided by the operators or on internal appraisal models used in financial practice.
In relation to the provisions of the joint Bank of Italy/Consob/IVASS document of 8 March 2013 on the accounting treatment of "long-term structured repos", it should be noted that the Group does not carry out such transactions.

**2. Financial assets at fair value through other comprehensive income**
All financial assets that passed the SPPI test and may be sold for any reason, such as liquidity requirements or changes in interest rates, exchange rates or share prices, are classified as "Financial assets at fair value through other comprehensive income"; as well as equities that are held for strategic reasons or that are not contestable on the market.
Initial recognition takes place, for financial assets whose delivery is regulated on the basis of agreements envisaged by the reference market (regular way contracts), as of the settlement date, while the trading date is applied for the others.
The initial recognition value for all the assets is the fair value, inclusive of the transaction costs or income directly attributable to said instrument.
The Group measures these financial instruments at fair value with the exception of investments in equity instruments not listed on active markets for which it is not possible to measure fair value reliably.
The determination of the fair value of securities measured at fair value through other comprehensive income is based on the prices struck on active markets, on prices provided by the operators or on internal appraisal models used in financial practice.
The expected loss recognised in the income statement under item "130. Net value adjustments due to credit risk of: b) measured at fair value through other comprehensive income" is calculated on the non-equity instruments that have passed the SPPI test. Any value write-backs are recorded with a matching balance in the income statement.
The value of unlisted share investments is determined by applying recognised measurement techniques, including the method based on multiple market observations of similar companies. The value of listed share investments is determined based on the market price.
For investments in equity instruments, all positive and negative changes in fair value, even if the latter are significant or prolonged below cost, are recorded with a matching balance under equity.
Financial assets are cancelled when the asset is sold, transferring the essential nature of the associated risks and benefits, or when the contractual rights on the financial flows deriving from said assets cease.
Following the derecognition of an investment in bonds, the related cumulative and unrealised change in value recognised in equity is transferred to item "100. Gain/loss on disposal or repurchase of: b) financial assets at fair value through other comprehensive income" in the income statement.
In the case of derecognition of an equity instrument, the related cumulative and unrealised change in value is reclassified to an available reserve within shareholders' equity.
Gains and losses on disposals are determined using the average cost method.

**3. Financial assets at amortised cost**
This item includes debt securities and loans allocated to the portfolio measured at amortised cost.
Due from banks, including also due from central banks other than demand deposits included in "Cash and cash equivalents" and due from customers, including due from Post Offices and Cassa Depositi e Prestiti, as well as operating loans related to the provision of financial assets and services as defined by the consolidation act of banking and lending laws (TUB) and the Consolidated Finance Act (TUF) (e.g. servicing activities) are recognised.
Loans/receivables are recognised in the financial statements when the Group becomes a party to the contract and acquires unconditionally a right to payment of the agreed amounts and are initially recognised at their fair value, corresponding to the amount disbursed, including transaction costs and initial revenues directly attributable. Where the net amount disbursed does not refer to its fair value, due to the lower interest rate applied compared to that of the reference market or to that normally applied to loans with similar characteristics, the initial recognition is made for an amount equal to the discounting of future cash flows at an appropriate rate.
After initial recognition, financial assets classified in the loans portfolio are recognised at amortised cost, using the effective interest method. The effective interest method is used to calculate the amortised cost and interest income of the loan over its entire duration. The effective interest rate is the rate that discounts the flow of estimated future payments over the expected life of the loan so as to obtain the net book value at initial recognition. Interest on loans/receivables is classified under interest and similar income deriving from amounts due from banks and loans to customers, and is recorded on an accrual basis.

In particular, with regard to factoring transactions, the transferee company can recognise a financial asset in its financial statements if and only if:

a) the financial asset is transferred along with essentially all the risks and contractual rights to the correlated cash flows (the transferor may maintain the rights to receive the cash flows of the asset but must have the obligation to pay the same to the transferee, and cannot sell or commit the financial asset);

b) the benefits associated with its ownership cease with regard to the transferor when transferred to the transferee.

The forms of transfer for loans/receivables subject to factoring can be broken down as follows:

- ✓ without recourse: a transaction that, irrespective of the contractual form, provides the factor with the full transfer of the risks and benefits associated with the assets forming the subject matter of the transaction as per IFRS 9;
- ✓ with recourse: a transaction that, irrespective of the contractual form, does not provide the factor with the full transfer of the risks and benefits associated with the assets forming the subject matter of the transaction as per IFRS 9.

Ifitalia recorded the following in the financial statements, under item 40 of the balance sheet assets, “Financial assets at amortised cost”, and in line with the afore-mentioned criteria:

- ✓ loans/receivables acquired without recourse. Classification envisages the recording of the loans/receivable due from the debtors for the portion of the amount paid (cash risk) and for the portion still to be paid (endorsement risk) net of impairment. In this case, the amount due to the transferor, for the portion of the amounts still to be paid, is recorded under balance sheet liability item 10, "Payables";
- ✓ advances paid to the transferors for loans/receivables acquired with recourse, inclusive of the interest and other amounts accrued, and net of impairment;
- ✓ advances paid to the transferors for loans/receivables acquired without recourse with contractual clauses (as defined below) that limit the essential transfer of all the risks and benefits (formal without recourse);
- ✓ advances paid to the transferors for future loan/receivable factoring transactions, inclusive of the interest and other amounts accrued;
- ✓ advances paid to the transferors exceeding the total loans/receivables inclusive of the interest and other amounts accrued;
- ✓ exposure to the factored debtors in just guarantee-related without recourse transactions when on occurrence of default the payment is made under guarantee of said loan/receivable;
- ✓ amounts due for late payments;
- ✓ exposures to the factored debtors for payment extensions granted;
- ✓ Ifitalia recorded the following amounts under guarantees and commitments, in line with the above criteria:
- ✓ both the value of the loans/receivables acquired without recourse (just guarantee) and the guarantees given accessory to the factoring transactions;
- ✓ the value of the endorsement risk for the loans/receivables acquired without formal recourse and the value of the exposure for the unused amount of the committed credit facilities.

In order to assess whether transfer of the essential nature of the risks and benefits has taken place in acquiring the loans/receivables factored without recourse, it is necessary to identify and analyse, using qualitative and quantitative criteria, the contractual clauses capable of affecting the expected variability of the cash flows of the factored loans/receivables. For such purposes, the most common contractual clauses in Ifitalia transactions have been stated below, analysed with a view to application of the recognition/derecognition rules.

a) Maximum payable

This category of clauses is key for the purposes of the recognition/derecognition since it limits the undertaking of the credit risk by the Factor. In essence, while the “initial loss” remains the Factor’s, the losses exceeding the ceiling are the transferor’s.

In the presence of this clause, it is necessary to quantify and compare the amount of the ceiling with the risk exposure. If the maximum payable essentially covers the credit risk, then it means that the afore-mentioned risk has been transferred by the Transferor to the Factor.

With regard to the outstanding contracts, the latter point has been confirmed, therefore the clauses have not been considered as an impediment to recognition of the individual loans/receivables in the financial statements.

b) Malus clause

The commission linked to the portfolio’s performance, with retroactive application (losses deriving from default of the factored debtors, with regard to principal and/or interest), can be critical for the purpose of recognition/derecognition since it can indicate a limitation or an exclusion of the transfer of the risks by the transferor to the factor.

In the presence of quantitative and qualitative analysis carried out, the loans/receivables assisted by this clause in certain specific cases led to the retention of the credit risk by the transferor to an extent considered to be significant on

the basis of materiality thresholds. In such cases, the clause was considered an impediment to recognition of the individual loans/receivables in the financial statements.
For the purpose of calculating the return within the sphere of factoring transactions, it is possible to identify, with regard to the nature, three categories of remuneration:

- ✓ Management commission

This commission takes the form of a fee for the provision of a plurality of services (for example, the dunning of the debtor, debt collection, etc.) provided by means of an unspecified number of activities within a specific time span. With regard to this type of commission, recognised irrespective of the duration of the loan/receivable, IAS 18 was applied, re-discounting the portion of commission relating to loans/receivables not expired to be credited as a matching balance to the item “other liabilities”.

- ✓ Guarantee commission (costs/revenues directly attributable to the transaction)

This commission takes the form of a fee for the undertaking by the Factor of all or part of the risk element inherent in the financial asset forming the subject matter of the transaction. With regard to this type of commission, steps were taken to apply IAS 39, spreading the revenue equally over the duration of the loan/receivable and for loans/receivables due beyond 12 months deducting the unaccrued amount (deferred income) from said loan/receivable.

- ✓ Other types of commission

This category includes those cost/revenue items not falling within the above two categories and includes on-going, one-off commission recorded at the time when the one-off service is completed (very often coinciding with collection of the commission).
Loans/receivables are in turn classified as performing and impaired (non-performing). According to the Bank of Italy instructions, impaired assets are as follows:

- ✓ Non-performing loans: positions vis-à-vis parties in a state of insolvency (even if not legally ascertained) or in essentially equivalent situations, irrespective of any loss forecasts made by the company. Therefore, the existence of any guarantees (secured or unsecured) to cover the receivables is left aside.
- ✓ Unlikely to pay: the classification in this category takes place on the basis of the improbability that, without recourse to action such as enforcement of the guarantees, the debtor fully meets his/her credit obligations (in terms of principal and/or interest). This assessment is made independently from the presence of any amounts (or instalments) past due and not paid.
  Therefore, it is not necessary to await the explicit symptom of anomaly (non-payment), if elements exist that imply a situation of debtor default risk (for example, a crisis in the industrial sector in which the debtor operates).
- ✓ Impaired past due positions: cash credit exposures other than those classified as non-performing or unlikely to pay, which are past due as at the reporting reference date.

a) Past due positions with respect to individuals: exposures other than those classified as non-performing or unlikely to pay, which are past due by more than 90 days as at the reporting reference date. Based on the Bank of Italy legislation, Ifitalia applies the notion of past due exposure at counterparty level. The position is past due if there is at least one invoice past due by more than 90 days and the total of the past due invoices (including those by less than 90 days) exceeds 5 percent of the total loans/receivables.
b) Past due positions with respect to Public Administration parties: in accordance with a conservative interpretation of the Bank of Italy regulations the definition of “past due” includes those exposures for which the following conditions are met:
   1. they have been past due on a continual basis for more than:
      - 90 days in the case of exposures to central administrations, central banks and to local authorities;
      - 180 days in the case of exposures to government agencies;
   2. the total amount of the exposures indicated above and the other portions due by less than 90 or 180 days are at least equal to 5 percent of the entire exposure to this debtor.
   3. they are different from exposures to the Tax Authorities deriving from sales of tax credits (VAT, IRPEG, etc.).

   These loans and receivables have an undetermined maturity, as there is a minimum time before which they cannot be liquidated but not a maximum term by which they must be paid.
   For these exposures, where the notion of past due receivable is applied at the counterparty level, the continual nature of the past due receivable is interrupted when the debtor has made a payment for at least one of the positions that became past due in the previous 90 days.

The classification of exposures subject to concession (forborne exposures) includes exposures that have been subject to concession vis-à-vis a debtor who is dealing with difficulties or is close to dealing with difficulties in terms of meeting its financial commitments. These exposures can be classified either as impaired assets ("non-performing exposures") or as performing loans ("performing exposures"). As regards the measurement and provisions for exposures subject to concessions, accounting policies follow the general criterion, in line with the provisions of IFRS 9.

Staging rules

*Performing positions*

The Stage classification for performing facilities is based on the outcome of the assessment of "significant increase in credit risk" (or "significant impairment").

The "significant increase in credit risk" is assessed at the individual facility level by comparing the rating determined at the reporting date with the rating in effect at the origination date (recognition date).

The rating, monitored and updated periodically according to Ifitalia's policies, represents the main parameter for expressing creditworthiness.

For the assessment of "significant impairment", Ifitalia uses the absolute and relative criteria defined at Group level.

- ✓ Absolute criteria:

  The absolute criteria (or backstop) used to classify performing facilities in Stages 1 and 2 are based on the information available at the reporting date (e.g., rating, days past due). The thresholds used reflect absolute levels of high or low credit quality in order to classify:

  • in Stage 1, all facilities that have a low credit risk;

  • in Stage 2, all facilities that have a high underlying risk.

  The absolute criteria (or backstop) defined are based on the assessment of the rating at the reporting date.

  Furthermore, as required by the accounting standard and Group policy, Ifitalia adopts the "Rebuttable Presumption", according to which all facilities with contractual payments past due for more than 30 days are classified in Stage 2.

- ✓ Relative criteria:

  For all performing facilities, which do not fall within the scope of the absolute criteria, relative criteria are applied, expressed in terms of the difference between ratings (known as the "delta notch").

*Non-Performing Perimeter*

All facilities that at the reporting date have a rating of 11 12 are classified in Stage 3.

Impairment rules

Following the classification in Stages, Ifitalia calculates the provisions, at the individual facility level, consistent with regulatory principles and Group guidelines.

The provision amount corresponds to the expected loss differentiated by Stage in order to take into account the different levels of risks:

- ✓ For facilities classified in Stage 1, an expected loss in relation to the maturity is calculated with a maximum value of one year;
- ✓ For facilities classified in Stage 2, a lifetime expected loss (EL Lifetime) is calculated, that is, until the facility's maturity date;
- ✓ For facilities classified in Stage 3, specific provisions are calculated, corresponding to an expected lifetime loss.

*Performing positions*

The impairment calculation is based on risk parameters (PD, LGD and EAD) consistent with the duration of the transaction.

The expected loss in Stage 1 represents the expected loss deriving from the possible occurrence of a facility entering default within one year of the reporting date.

The expected loss in Stage 2 is the present value of expected losses due to a facility entering default in the period between the reporting date and the facility's maturity.

To calculate the expected lifetime loss, cumulative PDs are therefore used.

For the portion of the portfolio for which the rating models are not available at the BNP Group level, Ifitalia, in line with Group guidelines, calculates the expected loss, at one year or over the lifetime, using a simplified method based on historical loss data (EL ratio).

In accordance with IFRS 9, the PD, LGD and EAD parameters used to calculate impairment are consistent with regulatory values (those used to calculate the IRBA capital requirements), in particular for the LGD parameter, the value is net of conservative margins, regulatory penalties, and downturn margins.

In addition, IFRS 9 provides for the adoption of a forward-looking, multi-scenario approach to risk parameters in order to incorporate current conditions as well as expectations for possible future events and conditions in the impairment calculation.

*Non-Performing Perimeter*
For facilities classified in Stage 3, Ifitalia calculates the expected lifetime loss through a forward-looking approach that incorporates future expectations of possible collections and losses, including possible sales scenarios.
For non-performing exposures, Ifitalia has adopted a unique, precise analytical valuation model for individual positions; thus, for these positions Ifitalia adopts a "Judgemental Approach";
The Judgemental Approach incorporates both the collection strategy and the expected value deriving from a possible sale of the portfolio.
The determination of the recoverable value of receivables takes into account the time value of money and any guarantees supporting the positions; for the purpose of calculating the current value of the flows, the fundamental elements are represented by the identification of estimated recoveries, the related timescales and the discount rate to be applied.
For an estimate of the amount and the recovery timescale of the afore-mentioned problem loans/receivables, reference is made to specific calculations and, in the absence thereof, to estimated and forfeit values. These estimates are made taking into account both the specific solvency situation of debtors with payment difficulties and any difficulties in servicing debt by individual segments.
The write-down of problem loans/receivables is subsequently written back only when the quality of the amount due has improved to such an extent that reasonable certainty exists of a greater recovery of the principal and the interest and/or amounts have been collected to an extent greater than the value of the receivables recorded in the previous financial statements.
Recoveries of part or entire loans/receivables previously written down are booked to reduce the value of item “130. Net value adjustments/write-backs due to credit risk of: a) financial assets at amortised cost”
.
A derecognition occurs when there is no longer a reasonable likelihood of recovery. The amount of the losses is recorded in the income statement net of the write-down allowances previously provided.
The Group writes off both partial and total credit. The timing of the write off takes account of the legal and judicial system, the different types of receivables and the average recovery times as well as the timing required for the full allocation of the receivables.

**4. Tangible assets**
Tangible assets are initially stated at cost, inclusive of all the charges directly associated with bringing the asset onto stream.
Item (80) “Tangible assets” includes land and buildings used for business purposes, land and buildings for investment purposes, furniture, electronic systems and other tangible assets.
Assets used for business purposes are those held for the supply of services or for administrative purposes, while investment properties are those held for the purpose of collecting lease payments and/or held for appreciating the invested capital or in any event not occupied by the company or when they become as such.
Subsequent to initial recognition, tangible assets are recorded at cost net of accumulated depreciation and impairment losses.
With reference to properties held for investment, the valuation at cost was opted for, providing the disclosure envisaged by IAS 40.
The depreciable value, equating to cost less the residual value (or rather the amount that is expected to be obtained from the asset at the end of its useful life, usually zero, after having deducted the sale costs), is divided up systematically over the useful life of the tangible asset, adopting a straight-line depreciation approach.
The residual value and the useful life of properties, plant and machinery is reviewed at least once a year for financial statement purposes and, if the expectations differ from the previous estimates, the depreciation charge for the current and subsequent years is adjusted.
The useful life, subject to periodic review for the purpose of recording any estimates significantly different from the previous ones, is defined as:
– the period of time during which it is expected that an asset can be used by the company, or,
– the quantity of products or similar units that the company expects to obtain from the use of said asset.

In the property category, land and buildings are considered to be separable assets and treated independently for accounting purposes, even when acquired together, but only if the entire building is owned (detached property). As a rule, land has an unlimited life and therefore is not depreciated. Buildings have a limited life and, therefore, are depreciated. An increase in the value of the land on which a building stands does not influence the determination of the building's useful life.
If there is objective evidence that an individual asset has suffered impairment, steps are taken to compare the book value of the asset with its recoverable value, equating to the greater between the fair value, less sales costs, and the related value in use, understood to be the current value of the future cash flows that are expected to derive from the asset. Any value adjustments are recorded under item 180. "Net value adjustments/write-backs on tangible assets" in the income statement.
If the value of an asset previously written down is reinstated, the new book value cannot exceed the net book value that would have been determined if no impairment loss on the asset had been recorded in previous years.
Depreciation is recorded in the income statement in item 180, "Net value adjustments/write-backs on tangible assets".
The costs incurred subsequent to purchase are added to the book value of the assets or recorded as a separate asset if it is probable that future economic benefits exceeding those initially estimated will be achieved and the cost can be reliably determined. All the other costs incurred subsequently (e.g. ordinary maintenance measures) are recorded in the income statement, in the year they are incurred, under item: 160.b) "Other administrative expenses", if they refer to assets for business use, or item 200. "Other operating income/expenses", if referring to properties held for investment.
Tangible assets are cancelled from the balance sheet when disposed of or when the asset is permanently withdrawn from use and future profits are not expected from its disposal and future economic benefits are not expected from its use. Any difference between the disposal value and the book value is recorded in the income statement under the item 250. Profit/loss on disposal of investments.
In case of leases, the lease liability is recognised under the balance sheet liabilities, which consists of the present value of the payments that, at the valuation date, still have to be made to the lessor, while the Right of Use Asset (also known as "RoU Asset"), obtained as the sum of the following components, is recognised under the balance sheet assets:
• lease liability;
• initial direct costs;
• payments made at or before the commencement of the lease (less any lease incentives received);
• dismantling and restoring costs.
The term of the lease, the basis for calculating the Right of Use, is determined by taking into account the economic duration and not the legal duration, and also includes any renewal or early termination options if the exercise of such options is reasonably certain.
The asset recognised is subject to straight-line depreciation and the new liability is discounted using a discount rate defined at the effective date of the lease contract and reduced to the payment of the lease instalments. Interest expense accrued on the lease liability is recorded under "Interest and similar expense" and the depreciation charges of the right of use are recognised under "Net value adjustments/write-backs on tangible/intangible assets".
For contracts involving low-value assets (less than EUR 5,000) and for short-term leases with a duration of equal to or less than 12 months, the introduction of IFRS 16 does not require the recognition of the financial liability and the related right of use, but lease payments continue to be recognised in the income statement on a straight-line basis for the term of the respective contracts.

**5. Intangible assets**
The Group made use of the option envisaged by the standard not to apply IFRS 16 to intangible assets.
An intangible asset is a non-monetary asset, identifiable even if lacking physical appearance, from which it is probable that future economic benefits will originate. The asset is identifiable if:
– it can be separated or spun-off and sold, transferred, granted under licence, leased or exchanged;
– it derives from contractual rights or other legal rights irrespective of the fact that these rights are transferable or separable from other rights or obligations.
The asset is controlled by the company if the company has the power to avail itself of the economic future benefits deriving from the resource in question and can, also, limit access by third parties to said benefits. They are therefore recorded among the balance sheet assets only if:
(a) future economic benefits attributable to the asset in question are likely to emerge;
(b) the cost of the assets can be reliably measured.
If the conditions described above should occur, intangible assets are included among the balance sheet assets and recorded at cost, adjusted for any accessory charges. Otherwise, the cost of intangible assets is recorded in the income statement related to the year in which the cost was borne.

Intangible assets recorded in the financial statements are essentially represented by software. Furthermore, in accordance with the Group accounting standards and IAS/IFRS, the Company adopted the policy of capitalising the IT costs attributable to software development projects.
After initial recognition, software is recorded in the financial statements at cost net of total amortisation and accumulated losses in value.
The cost includes:
- the purchase price less trade discounts and allowances;
- any direct cost for preparing the asset for use.
Any expenses, determined and attributable to the asset reliably, subsequent to initial recognition, are capitalised only if they are able to generate future economic benefits.
Intangible assets with a definite useful life are amortised on the basis of the estimate made of their residual useful life and recorded at cost net of total amortisation (using the straight-line method) and any impairment losses applicable. At the end of each accounting period, this residual useful life is subject to appraisal so as to ascertain the adequacy of the estimate. If there is objective evidence that an individual asset has suffered impairment, steps are taken to compare the book value of the asset and its recoverable value, equating to the greater between the fair value, less sales costs, and the related value in use, understood to be the current value of the future cash flows that are expected to derive from the asset.
In the event that the book value is greater than the recoverable value, a loss equating to the difference between the two values is recorded under item 190. "Net value adjustments/write-backs on intangible assets".
If the value of a previously written down intangible asset, other than goodwill, is reinstated, the new amounts cannot exceed the net book value that would have been determined if no loss had been recorded for the impairment of the asset in previous years.
Amortisation is recorded in the income statement in item 190. "Net value adjustments/write-backs on intangible assets".
Intangible assets are eliminated from the balance sheet at the time of disposal or when future economic benefits from their use or disposal are no longer expected, and any difference between the disposal value and the book value is recorded in income statement item 250. Profit/loss on disposal of investments.

**6. Tax assets and liabilities**

Income taxes are calculated in observance of current tax legislation. The tax liability (return) is the total amount of the current and deferred taxes included in the calculation of the net profit or loss for the year. Current taxes represent the amount of the income taxes payable (recoverable) referring to the taxable income (tax loss) for a year. Deferred taxes represent the amounts of the income taxes payable (recoverable) in future years, referable to taxable (deductible) timing differences.
Current tax assets include the advance payments and other tax credits for withholdings made or for tax credits for which a rebate has been requested from the competent tax authorities. By contrast, tax liabilities reflect the provisions necessary for covering the tax charges for taxation on the basis of current legislation.
Deferred taxation is calculated by applying the "balance sheet liability method", taking into account the tax effects associated with the timing differences between the book value of the assets and the liabilities and their value for tax purposes, which determine taxable or deductible amounts in future periods.
Timing differences can be:

- ✓ taxable, i.e. timing differences that, when determining the taxable income (tax loss) for future years, will translate into taxable amounts when the book value of the asset or the liability will be realised or discharged; a deferred tax liability is recorded for these differences.
- ✓ deductible, in other words timing differences that, when determining the taxable income (tax loss) for future years, will translate into deductible amounts when the book value of the asset or the liability will be realised or discharged.

A deferred tax asset is recorded for all the deductible timing differences if it will be probable that taxable income will be generated against which the deductible timing difference can be used.
Deferred tax assets and liabilities are calculated using the tax rate envisaged in the periods when the assets will be realised or the liability will be discharged and will be offset when they are due to the same tax authority and when the right to offsetting is recognised by law.

Current and deferred taxes are recorded in the income statement with the exception of those relating to items whose value adjustment is recorded as a matching balance to the equity and for which the tax effects are also recorded among the equity reserves. Deferred tax assets and deferred tax liabilities are not discounted back or offset.

**7. Financial liabilities at amortised cost**

Initial recognition takes place at the fair value of the liabilities, equating to the face value increased by any additional costs/income directly attributable to the individual transaction and not reimbursed by the creditor. Internal administrative costs are excluded.

Financial liabilities at amortised cost (item 10) include all the forms of funding vis-à-vis the system as well as amounts due to transferors. Payables include all the debt liabilities, other than trading liabilities.

The item mainly comprises payables due to banks for loans received, current account overdrafts and payables to transferors for loans/receivables acquired without recourse, in relation to the portion for which the price has not been paid to the transferor or all the risks and benefits have not been transferred.

After initial recognition, subsequent measurement follows the amortised cost approach, using the effective interest rate method.

The related interest is recorded in the income statement under item 20. “Interest and similar expense”.

Payables are cancelled from the financial statements when the related contractual obligations expire or are discharged.

**8. Employee termination benefits**

Employee Termination Benefits, disbursed by the employer to the employee when the employment relationship terminates, are one of the worker’s rights regulated by Article 2120 of the Italian Civil Code and by Italian Laws No. 297/1982 and 296/2006. The provision has been recorded as a benefit subsequent to the employment relationship with defined benefits. The related liability is recorded in the financial statements on the basis of the amount to be paid to each employee and is valued using the actuarial method as a “defined benefit obligation”, taking into account future due dates when the financial disbursement will actually occur.

In particular, following Italian Law no. 296/2006 (2007 Budget Act), the amount recorded under the item “Employee termination benefits” refers solely to the defined benefit obligations connected with the benefits accrued up to a specific date within the first half of 2007, which may be different for every employee, valued by an independent actuary without applying the “pro-rata” of the service supplied. As a result, costs relating to work performed after said date are not considered for valuation purposes.

The actuarial method for calculating the Employee Termination Benefits starts from the detailed situation, at the moment of recording, of each worker and envisages year after year, for each individual worker up until his/her departure, the development of this situation due to:

- ✓ the expected date of termination of the employment relationship, resignation, redundancy, death, inability to work or retirement (once the requirements have been met);
- ✓ for each worker that remains within the workforce, potential requests for advance salary payments are also taken into account**.**

**9. Provision for risks and charges**

A provision is recorded under “Provisions for risks and charges” (item 100) only when:

- a current obligation (legal or implicit) exists as the result of a past event;
- it is probable that the use of resources will be necessary for meeting the obligation;
- a reliable estimate can be made of the amount of the obligation.

The provision is represented by the liabilities that are expected to be incurred in order to discharge the obligation.

The provisions for risks and charges include:

- provisions for revocation disputes and third party disputes (including therein those made by staff and former employees);
- any other provision with a specific purpose;
- the provision for the 25th year of service bonus for employees;
- provision for a redundancy incentive for employees.

No provision is made against potential and improbable liabilities.
The amount set aside to the provision for risks and charges is recorded in the income statement under item 170 “Net provisions for risks and charges”.
The afore-mentioned item includes the balance, positive or negative, between the provisions and any re-allocations to the income statement of the provisions deemed in excess.
If the provisions concern charges for employees, the income statement item concerned is item 160.a) “Administrative expenses: personnel expenses”.
The provisions made are reviewed at the end of each reporting period and adjusted to reflect the best current estimate. If it is no longer likely that the use of resources for producing economic benefits will be necessary to meet the obligation, the provision is reversed.

**B) THE STANDARDS USED FOR THE PREPARATION OF THE COMPARATIVE RESULTS AS AT 31 DECEMBER 2018 (ONLY FOR THE ITEMS IMPACTED BY THE NEW STANDARD).**

**Tangible assets**

Tangible assets are initially stated at cost, inclusive of all the charges directly associated with bringing the asset onto stream.
Item (80) “Tangible assets” includes land and buildings used for business purposes, land and buildings for investment purposes, furniture, electronic systems and other tangible assets.
Assets used for business purposes are those held for the supply of services or for administrative purposes, while investment properties are those held for the purpose of collecting lease payments and/or held for appreciating the invested capital or in any event not occupied by the company or when they become as such.
Subsequent to initial recognition, tangible assets are recorded at cost net of accumulated depreciation and impairment losses.
With reference to properties held for investment, the valuation at cost was opted for, providing the disclosure envisaged by IAS 40.
The depreciable value, equating to cost less the residual value (or rather the amount that is expected to be obtained from the asset at the end of its useful life, usually zero, after having deducted the sale costs), is divided up systematically over the useful life of the tangible asset, adopting a straight-line depreciation approach.
The residual value and the useful life of properties, plant and machinery is reviewed at least once a year for financial statement purposes and, if the expectations differ from the previous estimates, the depreciation charge for the current and subsequent years is adjusted.
The useful life, subject to periodic review for the purpose of recording any estimates significantly different from the previous ones, is defined as:
– the period of time during which it is expected that an asset can be used by the company, or,
– the quantity of products or similar units that the company expects to obtain from the use of said asset.
In the property category, land and buildings are considered to be separable assets and treated independently for accounting purposes, even when acquired together, but only if the entire building is owned (detached property). As a rule, land has an unlimited life and therefore is not depreciated. Buildings have a limited life and, therefore, are depreciated. An increase in the value of the land on which a building stands does not influence the determination of the building’s useful life.
If there is objective evidence that an individual asset has suffered impairment, steps are taken to compare the book value of the asset with its recoverable value, equating to the greater between the fair value, less sales costs, and the related value in use, understood to be the current value of the future cash flows that are expected to derive from the asset. Any value adjustments are recorded under item 180. “Net value adjustments/write-backs on tangible assets” in the income statement.
If the value of an asset previously written down is reinstated, the new book value cannot exceed the net book value that would have been determined if no impairment loss on the asset had been recorded in previous years.
Depreciation is recorded in the income statement in item 180, “Net value adjustments/write-backs on tangible assets”.
The costs incurred subsequent to purchase are added to the book value of the assets or recorded as a separate asset if it is probable that future economic benefits exceeding those initially estimated will be achieved and the cost can be reliably determined. All the other costs incurred subsequently (e.g. ordinary maintenance measures) are recorded in the income statement, in the year they are incurred, under item: 160.b) “Other administrative expenses”, if they refer to assets for business use, or item 200. “Other operating income/expenses”, if referring to properties held for investment.

Tangible assets are cancelled from the balance sheet when disposed of or when the asset is permanently withdrawn from use and future profits are not expected from its disposal and future economic benefits are not expected from its use. Any difference between the disposal value and the book value is recorded in the income statement under the item 250. Profit/loss on disposal of investments.

**A.3 – DISCLOSURE ON THE TRANSFERS BETWEEN FINANCIAL ASSET PORTFOLIOS**
The Group has not carried out any portfolio transfers during 2019.

**A.4 – FAIR VALUE DISCLOSURE**

**Qualitative information**

**A.4.1 Fair value levels 2 and 3: measurement techniques and input used**
The fair value is the price that would be perceived for the sale of an asset, or that would be paid for the transfer of a liability in a regular transaction between market operators as of the measurements date (IFRS 13; § 9).
In the event of financial instruments listed on active markets (fair value level 1), the fair value is determined as from the official prices of the most advantageous market to which the Group has access (Mark to Market). A financial instrument is considered as listed on an active market if the listed prices are readily and duly available in a price list and these prices represent effective market transactions that regularly take place in normal transactions.
For the purpose of classification in fair value level 2, if the official listing on an active market does not exist for a financial instrument in its entirety, but active markets exist for the parts it is comprised of, the fair value is determined on the basis of the pertinent market prices for the parts it is comprised of. If the market listings are not available, the Group resorts to measurement models (Mark to Model) in line with the methods generally accepted and used by the market. The measurement models include techniques based on the discounting of the future cash flows and on the estimate of the volatility and are subject to review both during their development and periodically, for the purpose of ensuring their full coherence with the objectives of the measurement.
These methods use inputs based on prices formed in recent transactions in the instrument subject to measurement and/or prices/listings of instruments with similar features in terms of risk profile. These prices/listings are, in fact, important for the purpose of determining the significant parameters, in terms of credit risk, liquidity risk, price risk and any other significant risk, relating to the instrument being measured.
The reference to these “market” parameters makes it possible to limit the discretion used in the measurement, at the same time ensuring the verifiability of the resulting fair value.
If, due to one or more risk factors, it is not possible to refer to market data, and therefore the financial instruments are classified in fair value level 3, the measurement models employed use estimates based on historical data as inputs.
The parameters that cannot be observed on the markets used for the measurement of the equity instruments that give rise to FV adjustments in the determination of the estimates, refer to the Net Asset Value (with the exclusion of any intangible fixed assets) whose calculation is based on data communicated directly by the Company (financial statements, reports, etc.).
Specifically, as at 31 December 2019, the Group recorded both unlisted equity investments that are carried at cost, since these are capital instruments whose fair value cannot be measured reliably, as well as unlisted equity investments measured at fair value on equity figures under “Financial assets mandatorily at fair value”.
During 2019, no changes took place in the measurement techniques used for estimating the fair value of Levels 2 and 3 of the financial assets and liabilities measured at fair value.
With regard to the financial instruments recognised at amortised cost, with regard to the estimate of the fair value indicated in the Notes to the accounts, the following methods and assumptions have been applied:
- for cash and cash equivalents, the fair value is represented by the nominal or face value;
- for properties, the fair value was determined on the basis of the analysis of the market values of similar properties;
- with regard to the impaired financial assets, the fair value was adopted as equal to the estimated realisable value used for financial statement purposes;
- with regard to financial assets, as well as for other asset and liability items without a specific maturity, the book value essentially approximates the fair value.

### A.4.2 Processes and sensitivity of the measurements

The unobservable parameters capable of influencing the measurement of the instruments classified as level 3 are represented by the estimates and the assumptions underlying the models used for measuring the investments in equities.
With regard to these investments, no quantitative sensitivity analysis of the fair value with respect to the change in the non-observable inputs has been drawn up, since either the fair value has been obtained from third party sources without making any adjustment or it is the result of a model whose inputs are specific to the entity subject to measurements (e.g., equity values of the company) and in relation to which it is not reasonably possible to hypothesise alternative values.

### A.4.3 Fair value hierarchy

IFRS 13 establishes a fair value hierarchy in relation to the degree of observability of the inputs of the valuation techniques adopted. In detail, the following levels are identified:
Level 1: valuations (without adjustments) taken from the active markets of the listings;
Level 2: inputs other than the listed prices as per the previous point, but in any event referring to parameters or prices that can be observed directly or indirectly on the market;
Level 3: inputs that are not based on market observations.
The classification of financial instruments measured at fair value and assets and liabilities not measured at fair value or valued at fair value on a non-current basis is carried out with reference to the aforementioned indications. These parameters are also used for the transfer between the various levels that might become necessary during the year.
There were no transfers between the fair value levels during 2019.

### A.4.4 Other information

The Group has not availed itself of the possibility envisaged by IFRS 13, § 48 that makes it possible to "measure the fair value of a group of financial assets and liabilities based on the price that would be received from the sale of a long net position (or rather an asset) for a specific exposure to risk or from a transfer of a short net position (or rather a liability) for a particular exposure to risk in a regular transaction between market operators as of the measurement date, under current market conditions."

### Quantitative information

### A.4.5 Fair value hierarchy

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

(thousands of €)

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| **Financial assets/liabilities measured at fair value** | L1 | L2 | L3 | L1 | L2 | L3 |
| 1. Financial assets at fair value through profit or loss | - | - | - | - | - | - |
| *a) financial assets held for trading* | - | - | - | - | - | - |
| *b) financial assets designated at fair value* | - | - | - | - | - | - |
| *c) other financial assets mandatorily measured at fair value* | - | - | 4,566 | - | - | 5,181 |
| 2. Financial assets at fair value through other comprehensive income | - | - | - | - | - | - |
| 3. Hedging derivatives | - | - | - | - | - | - |
| 4. Property, plant and equipment | - | - | - | - | - | - |
| 5. Intangible assets | - | - | - | - | - | - |
| **Total** | **-** | **-** | **4,566** | **-** | **-** | **5,181** |
| 1. Financial liabilities held for trading | - | 72 | - | - | 142 | - |
| 2. Financial liabilities designated at fair value | - | - | - | - | - | - |
| 3. Hedging derivatives | - | - | - | - | - | - |
| **Total** | **-** | **72** | **-** | **-** | **142** | **-** |

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

(thousands of €)

| | | Financial assets at fair value through profit or loss | | | | Financial assets at fair value through comprehensive income | Hedging derivatives | Property, plant and equipment | Intangible assets |
|---|---|---|---|---|---|---|---|---|---|
| | | Total | of which: a) financial assets held for trading | of which: b) financial assets designated at fair value | of which: c) other financial assets mandatorily measured at fair value | | | | |
| **1.** | **Opening balance** | **5,181** | **-** | **-** | **5,181** | **-** | **-** | **-** | **-** |
| **2.** | **Increases** | **1** | **-** | **-** | **1** | **-** | **-** | **-** | **-** |
| 2.1. | Purchases | - | - | - | - | - | - | - | - |
| 2.2. | Profits charged to: | 1 | - | - | 1 | - | - | - | - |
| 2.2.1 | Income statement | 1 | - | - | 1 | - | - | - | - |
| | - of which gains | 1 | - | - | 1 | - | - | - | - |
| 2.2.2. | Shareholders' equity | - | X | X | X | - | - | - | - |
| 2.3 | Transfers to other levels | - | - | - | - | - | - | - | - |
| 2.4. | Other increases | - | - | - | - | - | - | - | - |
| 3. | **Decreases** | **616** | **-** | **-** | **616** | **-** | **-** | **-** | **-** |
| 3.1 | Sales | - | - | - | - | - | - | - | - |
| 3.2 | Reimbursements | 616 | - | - | 616 | - | - | - | - |
| 3.3 | Losses charged to: | - | - | - | - | - | - | - | - |
| 3.3.1 | Income statement | - | - | - | - | - | - | - | - |
| | - of which losses | - | - | - | - | - | - | - | - |
| 3.3.2 | Shareholders' Equity | - | X | X | X | - | - | - | - |
| 3.4 | Transfers to other levels | - | - | - | - | - | - | - | - |
| 3.5 | Other decreases | - | - | - | - | - | - | - | - |
| **4.** | **Closing balance** | **4,566** | **-** | **-** | **4,566** | **-** | **-** | **-** | **-** |

## A.4.5.3 Annual changes in liabilities measured at fair value on a recurring basis (level 3)

There were no amounts in this section.

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

(thousands of €)

| Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis | 2019 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | BV | L1 | L2 | L3 | BV | L1 | L2 | L3 |
| 1. Financial assets measured at amortised cost | 7,523,545,444 | - | - | 7,523,545,444 | 7,523,545,444 | - | - | 7,523,545,444 |
| 2. Property, plant and equipment held for investment purposes | 1,285 | - | 1,285 | - | 2,597 | - | 2,597 | - |
| 3. Non-current assets and disposal groups held for sale | - | - | - | - | - | - | - | - |
| **Total** | **7,523,546,729** | **-** | **1,285** | 7,523,545,444 | **7,750,092** | **-** | **2,597** | **7,747,495** |
| 1. Financial liabilities measured at amortised cost | 6,652,937 | - | - | 6,652,937 | 6,969,462 | - | - | 6,969,462 |
| 2. Liabilities associated with discontinued operations | - | - | - | - | - | - | - | - |
| **Total** | **6,652,937** | **-** | **-** | **6,652,937** | **6,969,462** | **-** | **-** | **6,969,462** |

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

## A.5 DISCLOSURE ON "DAY ONE PROFIT/LOSS"

The Group did not carry out any transactions that generated the "day one profit/loss".

## PART B – INFORMATION ON THE BALANCE SHEET

### ASSETS

### Section 1 – Cash and cash equivalents

*(thousands of €)*

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| a) Cash | 1 | 6 |
| b) Demand deposits with Central Banks | - | - |
| **Total** | **1** | **6** |

The item comprises cash and cash equivalents and revenue stamps at company headquarters.

### Section 2 – Financial assets at fair value through profit or loss – Item 20

**2.1 Financial assets held for trading: breakdown by product**

There were no amounts in this section.

**2.2 Derivative financial instruments**

There were no amounts in this section.

**2.3 Financial assets held for trading: breakdown by debtor/issuer/counterparties**

There were no amounts in this section.

**2.4 Financial assets at fair value: breakdown by product**

There were no amounts in this section.

**2.5 Financial assets at fair value: breakdown by debtor/issuer**

There were no amounts in this section.

**2.6 Other financial assets mandatorily at fair value: breakdown by product**

*(thousands of €)*

| | Total 31/12/2019 | | | Total 31/12/2018 | | |
|---|---|---|---|---|---|---|
| | L1 | L2 | L3 | L1 | L2 | L3 |
| **1. Debt securities** | **-** | **-** | **-** | **-** | **-** | **-** |
| 1.1 Structured securities | - | - | - | - | - | - |
| 1.2 Others debt securities | - | - | - | - | - | - |
| **2. Equity instruments** | **-** | **-** | **4,566** | **-** | **-** | **5,181** |
| **3. UCI units** | **-** | **-** | **-** | **-** | **-** | **-** |
| **4. Loans** | **-** | **-** | **-** | **-** | **-** | **-** |
| 4.1 Repurchase agreements | - | - | - | - | - | - |
| 4.2 Other | - | - | - | - | - | - |
| **Total** | **-** | **-** | **4,566** | **-** | **-** | **5,181** |

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

## 2.7 Other financial assets mandatorily at fair value: breakdown by debtor/issuer

*(thousands of €)*

| | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|
| **1. Equity instruments** | **4,566** | **5,181** |
| *of which: banks* | - | - |
| *of which: other financial companies* | 4,240 | 4,239 |
| *of which: non-financial companies* | 326 | 942 |
| **2. Debt securities** | **-** | **-** |
| a) Public administration | - | - |
| b) Banks | - | - |
| c) Other financial companies | - | - |
| *of which: insurance companies* | - | - |
| d) Non-financial companies | - | - |
| **3. UCI units** | **-** | **-** |
| **4. Loans** | **-** | **-** |
| a) Public administration | - | - |
| b) Banks | - | - |
| c) Other financial companies | - | - |
| *of which: insurance companies* | - | - |
| d) Non-financial companies | - | - |
| e) Household | - | - |
| **Total** | **4,566** | **5,181** |

## Section 3 – Financial assets at fair value through other comprehensive income – Item 30

There were no amounts in this section.

## Section 4 – Financial assets at amortised cost – Item 40

4.1 Financial assets at amortised cost: breakdown by product of due from banks

*(thousands of €)*

| Breakdown | Total 31/12/2019 | | | | | | Total 31/12/2018 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Book value | | | Fair value | | | Book value | | | Fair value | | |
| | First and second level | Third level | of which: impaired financial assets purchased or | L1 | L2 | L3 | First and second level | Third level | of which: impaired financial assets | L1 | L2 | L3 |
| **1. Deposits and current accounts** | 704 | | | | | 1,064 | 316 | | | | | 316 |
| **2. Loans** | 76,415 | 20 | - | - | - | 76,435 | 21,178 | 712 | - | - | - | 21,890 |
| 2.1 Repurchase agreements | | | | | | | | | | | | |
| 2.2 Financial leasing | | | | | | | | | | | | |
| 2.3 Factoring | 76,415 | 20 | - | - | - | 76,435 | 21,178 | 712 | - | - | - | 21,890 |
| - with recourse | 60,022 | | | | | 60,022 | 281 | | | | | 281 |
| - without recourse | 16,393 | 20 | | | | 16,413 | 20,897 | 712 | | | | 21,609 |
| 2.4 Other loans | | | | | | | | | | | | |
| **3. Debt securities** | - | - | - | - | - | - | - | - | - | - | - | - |
| - structured securities | | | | | | | | | | | | |
| - other debt securities | | | | | | | | | | | | |
| **4. Other assets** | | | | | | | | | | | | |
| **Total** | **77,119** | **20** | **-** | **-** | **-** | **77,499** | **21,494** | **712** | **-** | **-** | **-** | **22,206** |

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

## 4.2 Financial assets at amortised cost: breakdown by product of due from financial companies

*(thousands of €)*

| Breakdown | Total 31/12/2019 | | | | | | Total 31/12/2018 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Book value | | | Fair Value | | | Book value | | | Fair Value | | |
| | First and second level | Third level | of which: impaired financial assets purchased or originated | L 1 | L 2 | L 3 | First and second level | Third level | of which: impaired financial assets purchased or originated | L 1 | L 2 | L 3 |
| **1. Loans** | **21,087** | **-** | **-** | **-** | **-** | **21,087** | **62,912** | **-** | **-** | **-** | **-** | **62,912** |
| 1.1 Repurchase agreement | | | | | | | | | | | | |
| 1.2 Financial Leasing | | | | | | | | | | | | |
| 1.3 Factoring | 21,087 | - | - | - | - | 21,087 | 62,912 | - | - | - | - | 62,912 |
| - with recourse | 6,794 | | | | | 6,794 | 30,776 | | | | | 30,776 |
| - without recourse | 14,293 | | | | | 14,293 | 32,136 | | | | | 32,136 |
| 1.4 Other loans | | | | | | | | | | | | |
| **2. Debt securities** | - | - | - | - | - | - | - | - | - | - | - | - |
| 2.1 Structured securities | | | | | | | | | | | | |
| 2.2 other debt securities | | | | | | | | | | | | |
| **3. Other assets** | | | | | | | | | | | | |
| **Total** | **21,087** | **-** | **-** | **-** | **-** | **21,087** | **62,912** | **-** | **-** | **-** | **-** | **62,912** |

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

## 4.3 Financial assets at amortised cost: breakdown by product of due from customers

*(thousands of €)*

| Breakdown | Total 31/12/2019 | | | | | | Total 31/12/2018 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Book value | | | Fair value | | | Book value | | | Fair value | | |
| | First and second level | Third level | of which: impaired financial assets purchased or originated | L1 | L2 | L3 | First and second level | Third level | of which: impaired financial assets purchased or originated | L1 | L2 | L3 |
| **1. Loans** | 7,298,876 | 126,083 | - | - | - | 7,424,959 | 7,520,823 | 141,554 | - | - | - | 7,662,377 |
| 1.1 Financial leasing | | | | | | | | | | | | |
| *of which: without final purchase option* | | | | | | | | | | | | |
| 1.2 Factoring | 6,848,555 | 110,973 | - | - | - | 6,959,528 | 6,829,807 | 141,554 | - | - | - | 6,971,361 |
| - with recourse | 755,535 | 57,391 | | | | 812,926 | 853,583 | 86,638 | | | | 940,221 |
| - without recourse | 6,093,020 | 53,582 | | | | 6,146,602 | 5,976,224 | 54,916 | | | | 6,031,140 |
| 1.3 Consumer credit | | | | | | | | | | | | |
| 1.4 Credit cards | | | | | | | | | | | | |
| 1.5 Loans on pledge | | | | | | | | | | | | |
| 1.6. Loans granted in relation to the payment services performed | | | | | | | | | | | | |
| 1.7 Other loans | 450,321 | 15,110 | | | | 465,431 | 691,016 | | | | | 691,016 |
| *of which: from enforcement of guarantees and commitments* | | | | | | | | | | | | |
| **2. Debt securities** | - | - | - | - | - | - | - | - | - | - | - | - |
| 2.1 structured securities | | | | | | | | | | | | |
| 2.2 other debt securities | | | | | | | | | | | | |
| **3. Other assets** | | | | | | | | | | | | |
| **Total** | **7,298,876** | **126,083** | **-** | **-** | **-** | **7,424,959** | **7,520,823** | **141,554** | **-** | **-** | **-** | **7,662,377** |

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

The item "Financial assets at amortised cost" includes deferred income relating to the spreading of revenue, falling within the scope of IFRS 9, in line with the duration of the credit to which they refer.
Deferred income relating to guarantee commissions within the scope of IFRS 9 amounted to EUR 24,059 as at 31 December 2019, while the same item as at 31 December 2018 amounted to EUR 48,488.

## 4.4 Financial assets at amortised cost: breakdown by debtor/issuer of due from customers

*(thousands of €)*

| Breakdown | Total 31/12/2019 | | | Total 31/12/2018 | | |
|---|---|---|---|---|---|---|
| | First and second level | Third level | of which: impaired financial assets purchased or originated | First and second level | Third level | of which: impaired financial assets purchased or originated |
| **1. Debt securities** | - | - | - | - | - | |
| a) Public Administration | | | | | | |
| b) Non-financial companies | | | | | | |
| **2. Loans to:** | 7,298,876 | 126,083 | - | 7,520,823 | 141,554 | - |
| a) Public Administration | 931,261 | 34,972 | | 1,504,982 | 39,183 | |
| b) Non-financial companies | 6,222,947 | 88,910 | | 5,951,238 | 100,136 | |
| c) Households | 144,668 | 2,201 | | 64,603 | 2,235 | |
| **3. Other assets** | | | | | | |
| **Total** | **7,298,876** | **126,083** | **-** | **7,520,823** | **141,554** | **-** |

## 4.5 Financial assets at amortised cost: gross value and total value adjustments

*(thousands of €)*

| | Gross value | | | | Value adjustments | | | Overall partial write-off * |
|---|---|---|---|---|---|---|---|---|
| | First level | *of which: instruments with low credit risk* | Second stage | Third stage | First level | Second level | Third level | |
| **Debt securities** | | | | | | | | |
| **Loans** | 6,489,013 | | 919,815 | 410,494 | 6,933 | 4,812 | 284,392 | |
| **Other assets** | | | | | | | | |
| **Total 2019** | **6,489,013** | **-** | **919,815** | **410,494** | **6,933** | **4,812** | **284,392** | - |
| **Total 2018** | **6,684,666** | **-** | **931,142** | **437,027** | **4,392** | **6,501** | **294,761** | - |
| *of which: impaired financial assets purchased or originated* | X | X | | | X | | | |

### 4.6 Financial assets at amortised cost: guaranteed assets

*(thousands of €)*

| Breakdown | Total 31/12/2019 | | | | | | Total 31/12/2018 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Due from banks | | Due from financial companies | | Due from customers | | Due from banks | | Due from financial companies | | Due from customers | |
| | VE | VG | VE | VG | VE | VG | VE | VG | VE | VG | VE | VG |
| **1. Performing assets guaranteed by:** | 59,636 | 59,635 | - | - | 2,458,423 | 2,098,115 | 4 | 4 | 28,851 | 25,171 | 1,908,896 | 1,341,527 |
| - Leased assets | | | | | | | | | | | | |
| - Factoring receivables | 59,636 | 59,635 | | | 942,482 | 852,767 | 4 | 4 | 28,851 | 25,171 | 1,052,653 | 947,080 |
| - Mortgages | | | | | | | | | | | | |
| - Pledges | | | | | | | | | | | | |
| - Unsecured guarantees | | | | | 1,515,941 | 1,245,348 | | | | | 856,243 | 394,447 |
| - Derivatives on receivables | | | | | | | | | | | | |
| **2. Impaired assets guaranteed by:** | - | - | - | - | 72,700 | 67,455 | - | - | - | - | 81,716 | 80,701 |
| - Leased assets | | | | | | | | | | | | |
| - Factoring receivables | | | | | 72,328 | 67,206 | | | | | 80,815 | 80,251 |
| - Mortgages | | | | | | | | | | | | |
| - Pledges | | | | | | | | | | | | |
| - Unsecured guarantees | | | | | 372 | 249 | | | | | 901 | 450 |
| - Derivatives on receivables | | | | | | | | | | | | |
| **Total** | **59,636** | **59,635** | **-** | **-** | **2,531,123** | **2,165,570** | **4** | **4** | **28,851** | **25,171** | **1,990,612** | **1,422,228** |

VE = book value of exposures
VG = fair value of the guarantees

## Section 5 – Hedging derivatives – Item 50

There were no amounts in this section.

## Section 6 – Change in value of financial assets recorded as part of a generic hedge - Item 60

There were no amounts in this section.

## Section 7 – Equity investments – Item 70

There were no amounts in this section.

## Section 8 – Tangible assets – Item 80

### 8.1 Tangible assets for business use: breakdown of assets valued at cost

*(thousands of €)*

| Assets/Balances | | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|---|
| **1.** | **Assets owned** | **374** | **18,188** |
| a) | land | - | 13,186 |
| b) | buildings | - | 3,617 |
| c) | furniture | 15 | 36 |
| d) | IT equipment | 359 | 419 |
| e) | other | - | 930 |
| **2.** | **Assets purchased under financial lease** | **2,247** | **-** |
| a) | land | - | - |
| b) | buildings | 2,247 | - |
| c) | furniture | - | - |
| d) | IT equipment | - | - |
| e) | other | - | - |
| | **Total** | **2,621** | **18,188** |
| *of which: obtained through enforcement of guarantees received* | | - | - |

The decrease in owned assets between 2018 and 2019 is due to the sale of the building in Via Pisani in Milan.

## 8.2 Tangible assets held for investment: breakdown of assets valued at cost

*(thousands of €)*

| Assets/Balances | Total 31/12/2019 | | | | Total 31/12/2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | Book Value | Fair Value | | | Book Value | Fair Value | | |
| | | L1 | L2 | L3 | | L1 | L2 | L3 |
| **1. Assets owned** | **1,286** | **-** | **1,286** | **-** | **2,597** | **-** | **2,597** | **-** |
| a) land | | - | | - | 1,030 | - | 1,030 | - |
| b) buildings | 1,286 | - | 1,286 | - | 1,567 | - | 1,567 | - |
| **2. Assets purchased under financial lease** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| a) land | - | - | - | - | - | - | - | - |
| b) buildings | - | - | - | - | - | - | - | - |
| **Total** | **1,286** | **-** | **1,286** | **-** | **2,597** | **-** | **2,597** | **-** |
| *of which: obtained through enforcement of guarantees received* | - | - | - | - | - | - | - | - |

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

"Assets held for investment" are represented by the leased portion of the building in Rome, via Vittorio Veneto 7.

## 8.3 Tangible assets for business use: breakdown of revalued assets

There were no amounts in this section.

## 8.4 Tangible assets held for investment: breakdown of assets measured at fair value

There were no amounts in this section.

## 8.5 Inventories of tangible assets regulated by IAS 2: breakdown

There were no amounts in this section.

## 8.6 Tangible assets for business use: changes during the year

*(thousands of €)*

| | | Land | Buildings | Furniture | IT equipment | Other | Total |
|---|---|---|---|---|---|---|---|
| **A.** | **Gross opening balance** | **13,186** | **12,459** | **1,762** | **6,206** | **930** | **34,543** |
| A.1 | Net reductions in total amounts | - | (8,842) | (1,726) | (5,787) | - | (16,354) |
| A.2 | **Net opening balances** | **13,186** | **3,617** | **36** | **419** | **930** | **18,188** |
| **B.** | **Increases** | **-** | **12,606** | **16** | **4,259** | | **16,881** |
| B.1 | Purchases | | 3,608 | 5 | 262 | | **3,875** |
| B.2 | Capitalized improvement expenses | | | | | | **-** |
| B.3 | Write-backs | | | | | | **-** |
| B.4 | Positive fair value changes booked to: | - | | | | | **-** |
| | a) equity | | | | | | **-** |
| | b) income statement | | | | | | **-** |
| B.5 | Exchange gains | | | | | | **-** |
| B.6 | Transfer from properties held for investment purposes | | | X | X | X | **-** |
| B.7 | Other changes | | 8,998 | 11 | 3,997 | | **13,006** |
| **C.** | **Decreases** | **13,186** | **13,976** | **37** | **4,319** | **930** | **32,448** |
| C.1 | Sales | 13,186 | 13,165 | 11 | 4,079 | | **30,441** |
| C.2 | Depreciation | | 811 | 26 | 240 | | **1,077** |
| C.3 | Impairment charges booked to: | **-** | **-** | **-** | **-** | **-** | **-** |
| | a) equity | | | | | | **-** |
| | b) income statement | | | | | | **-** |
| C.4 | Negative fair value changes booked to: | **-** | **-** | **-** | **-** | **-** | **-** |
| | a) equity | | | | | | **-** |
| | b) income statement | | | | | | **-** |
| C.5 | Exchange losses | | | | | | **-** |
| C.6 | Transfer to: | **-** | **-** | **-** | **-** | **-** | **-** |
| | a) property, plant and equipment held for investments purposes | | | X | X | X | **-** |
| | b) non-current assets and disposal groups held for sale | | | | | | **-** |
| C.7 | Other decreases | | | | | 930 | **930** |
| **D.** | **Net closing balances** | **- 0** | **2,247** | **15** | **359** | **- 0** | **2,621** |
| D.1 | Net reductions in total amounts | - | - 655 | (1,741) | (2,030) | - | (4,425) |
| D.2 | **Gross closing balance** | **- 0** | **2,902** | **1,756** | **2,389** | **- 0** | **7,047** |
| E. | Valuation at cost | **- 0** | **2,247** | **15** | **359** | **- 0** | **2,621** |

The tangible assets for business use of the company are all measured at cost.
A table showing the rights of use acquired in the lease of tangible assets is shown below.

| | | Land | Buildings | Furniture | IT equipment | Other | Total |
|---|---|---|---|---|---|---|---|
| **A.** | **Gross opening balance** | | | | | | |
| A.1 | Net reductions in total amounts | | | | | | |
| A.2 | **Net opening balances** | | | | | | |
| **B.** | **Increases** | **-** | **2,902** | | | | **2,902** |
| B.1 | Purchases | | 2,902 | | | | **2,902** |
| B.2 | Capitalized improvement expenses | | | | | | **-** |
| B.3 | Write-backs | | | | | | **-** |
| B.4 | Positive fair value changes booked to: | - | | | | | **-** |
| | a) equity | | | | | | **-** |
| | b) income statement | | | | | | **-** |
| B.5 | Exchange gains | | | | | | **-** |
| B.6 | Transfer from properties held for investment purposes | | | X | X | X | **-** |
| B.7 | Other changes | | | | | | **-** |
| **C.** | **Decreases** | **-** | **655** | | | **-** | **655** |
| C.1 | Sales | | | | | | **-** |
| C.2 | Depreciation | | 655 | | | | **655** |
| C.3 | Impairment charges booked to: | **-** | **-** | **-** | **-** | **-** | **-** |
| | a) equity | | | | | | **-** |
| | b) income statement | | | | | | **-** |
| C.4 | Negative fair value changes booked to: | **-** | **-** | **-** | **-** | **-** | **-** |
| | a) equity | | | | | | **-** |
| | b) income statement | | | | | | **-** |
| C.5 | Exchange losses | | | | | | **-** |
| C.6 | Transfer to: | **-** | **-** | **-** | **-** | **-** | **-** |
| | a) property, plant and equipment held for investments purposes | | | X | X | X | **-** |
| | b) non-current assets and disposal groups held for sale | | | | | | **-** |
| C.7 | Other decreases | | | | | | **-** |
| **D.** | **Net closing balances** | **-** | **2,247** | **-** | **-** | **-** | **2,247** |
| D.1 | Net reductions in total amounts | - | (655) | 0 | 0 | - | (655) |
| D.2 | **Gross closing balance** | **-** | **2,902** | **-** | **-** | **-** | **2,902** |
| E. | Valuation at cost | **-** | **2,247** | **-** | **-** | **-** | **2,247** |

The rights of use acquired in a finance lease refer to the lease contracts of the properties located in Via Deruta and Corso Italia in Milan, which are used by the company as work premises. The contracts are signed with the company BNL Spa.

### 8.7 Tangible assets held for investment: changes during the year

*(thousands of €)*

| | | Total | |
|---|---|---|---|
| | | Land | Buildings |
| **A.** | **Opening balance** | **1,030** | **1,567** |
| **B.** | **Increases** | **-** | **677** |
| | B.1 Purchases | | |
| | B.2 Capitalized improvement expenses | | |
| | B.3 Net positive fair value changes | | |
| | B.4 Value adjustments for impairment | | |
| | B.5 Exchange losses | | |
| | B.6 Transfers from properties for business use | | |
| | B.7 Other changes | | |
| **C.** | **Decreases** | **1,030** | **958** |
| | C.1 Sales | 1,030 | 855 |
| | C.2 Depreciation | | 103 |
| | C.3 Net negative fair value changes | | |
| | C.4 Value adjustments for impairment | | |
| | C.5 Exchange losses | | |
| | C.6 Transfers from: | | |
| | a) properties for business use | | |
| | b) non-current assets and disposal groups held for sale | | |
| | C.7 Other changes | | |
| **D** | **Closing balance** | **-** | **1,286** |
| E. | Measurement at fair value | | **1,286** |

The tangible assets held for investment of the company are all measured at cost.
The value of the land for the property located in Rome (Via V. Veneto) has not been spun-off, since Ifitalia does not own the entire building.

### 8.7.1 Tangible assets held for investment for rights of use acquired: changes during the year

There were no amounts in this section.

### 8.8 Inventories of tangible assets regulated by IAS 2: changes during the year

There were no amounts in this section.

### 8.9 Commitments to purchase tangible assets

There were no amounts in this section.

### Tangible assets: depreciation

| Category | Depreciation percentage |
|---|---|
| Land | no depreciation |
| Buildings | from 1.25% to 10% |
| Furniture | 12% |
| IT equipment | from 11.11% to 33.33% |
| Other | from 14.29% to 25% |
| Other : works of art | no depreciation |

## Section 9 – Intangible assets – Item 90

### 9.1 Intangible assets: breakdown

*(thousands of €)*

| Items/Amounts | Total 31/12/2019 | | Total 31/12/2018 | |
|---|---|---|---|---|
| | Assets valued at cost | Assets valued at fair value | Assets valued at cost | Assets valued at fair value |
| **1. Goodwill** | | | - | - |
| **2. Other intangible assets:** | | | | |
| 2.1 owned | **11,264** | **-** | **10,520** | - |
| - generated internally | 1,879 | | 1,949 | - |
| - other | 9,385 | | 8,571 | - |
| 2.2 acquired under financial lease | | | **-** | - |
| **Total 2** | **11,264** | - | **10,520** | - |
| **3. Assets pertaining to financial lease:** | | | | |
| 3.1 unopted assets | | | **-** | - |
| 3.2 assets withdrawn following termination | | | **-** | - |
| 3.3 other assets | | | - | - |
| **Total 3** | **-** | - | **-** | - |
| **4. Assets granted under operating lease** | | | **-** | - |
| **Total (1+2+3+4)** | **11,264** | **-** | **10,520** | **-** |
| **Total 31/12/2018** | **11,264** | **-** | **10,520** | **-** |

The IT costs attributable to internal software development projects amount to EUR 1,879 thousand.
The intangible fixed assets also include “software licenses” for EUR 1,689 thousand (EUR 458 thousand in 2018) and “software development” for EUR 7,696 thousand (EUR 8,113 thousand in 2018).

### 9.2 Intangible assets: changes during the year

*(thousands of €)*

| | Total |
|---|---|
| **A. Opening balances** | **10,520** |
| **B. Increases** | **4,407** |
| B.1 Purchases | 4,407 |
| B.2 Write-backs | |
| B.3 Fair value positive changes | - |
| - equity | |
| - income statement | |
| B.4 Other changes | |
| **C. Decreases** | **3,663** |
| C.1 Sales | |
| C.2 Depreciation | **3,663** |
| C.3 Value adjustments | - |
| - equity | |
| - income statement | |
| C.4 Negative fair value changes | - |
| - equity | |
| - income statement | |
| C.5 Other decreases | - |
| **D. Net closing balances** | **11,264** |

The purchases during the year, amounting to EUR 4,407 thousand, refer to capitalisations of IT costs, of which EUR 670 thousand (673 thousand in 2018) referring to capitalisation of internal effort.

### 9.3 Intangible assets: other information

There were no amounts in this section.

### Value adjustments to intangible assets: amortisation

| Category | amortisation percentage |
|---|---|
| Software | from 12.5% to 33.3% |
| Costs of conversion | 12.5% |
| Cost of implementation | 33.3% |
| Costs for regulatory constraints | directly charged to the income statement |

## Section 10 – Tax assets and tax liabilities - Asset item 100 and liability item 60

### 10.1 Tax assets: current and deferred: breakdown

*(thousands of €)*

| | 31/12/2019 | | | | 31/12/2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | IRES | IRAP | OTHER | TOTAL | IRES | IRAP | OTHER | TOTAL |
| **Current tax assets:** | | | | | | | | |
| - Tax advances | 11,113 | 2,703 | 12 | 13,828 | 9,386 | 2,653 | | 12,039 |
| - Amounts withheld | 4 | | | 4 | 15 | - | - | 15 |
| - Tax credits pending rebate by the tax authorities | 1,078 | | | 1,078 | 2,215 | - | - | 2,215 |
| | **12,195** | **2,703** | **12** | **14,910** | **11,616** | **2,653** | **-** | **14,269** |
| **Prepaid tax assets:** | | | | | | | | |
| - Writedowns of credits exceeding the deductible portion for the year | 39,173 | 5,007 | | 44,180 | 39,166 | 5,006 | - | 44,172 |
| - Provisions for risks and charges | 2,864 | 76 | | 2,940 | 4,331 | 73 | - | 4,404 |
| - Other | 385 | | | 385 | 345 | - | - | 345 |
| | **42,422** | **5,083** | **-** | **47,505** | **43,842** | **5,079** | **-** | **48,921** |
| **Total** | **54,617** | **7,786** | **12** | **62,415** | **55,458** | **7,732** | **-** | **63,190** |

### 10.2 Tax liabilities: current and deferred: breakdown

*(thousands of €)*

| | 31/12/2019 | | | 31/12/2018 | | |
|---|---|---|---|---|---|---|
| | IRES | IRAP | TOTAL | IRES | IRAP | TOTAL |
| **Current tax liabilities:** | | | | | | |
| - Taxes for the year | 18,642 | 4,414 | 23,056 | 10,626 | 2,689 | 13,315 |
| | **18,642** | **4,414** | **23,056** | **10,626** | **2,689** | **13,315** |
| **Deferred tax liabilities:** | | | | | | |
| - Amortisation/depreciation of tangible fixed assets | - | - | - | 1,548 | 312 | 1,860 |
| - Capital Gain on participations | 44 | 198 | 242 | 49 | 198 | 247 |
| - Others | 291 | - | 291 | 286 | - | 286 |
| | **335** | **198** | **533** | **1,883** | **510** | **2,393** |
| **Total** | **18,977** | **4,612** | **23,589** | **12,509** | **3,199** | **15,708** |

## 10.3 Change in deferred tax assets (matching balance in income statement)

*(thousands of €)*

| | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|
| **1. Opening balance** | **48,576** | **38,940** |
| **2. Increases** | **963** | **11,560** |
| 2.1 Deferred tax assets recognized during the year | 963 | 11,533 |
| a) related to previous years | 380 | - |
| b) due to change in accounting policies | - | 10,810 |
| c) write-backs | | |
| d) other | 583 | 723 |
| 2.2 New taxes or increases in tax rates | | |
| 2.3 Other increases | - | 27 |
| **3. Decreases** | **2,419** | **1,924** |
| 3.1 Deferred tax assets eliminated during the year | 2,419 | 1,924 |
| a) reversals | 2,419 | 1,924 |
| b) written down as now considered irrecoverable | | |
| 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 214/2011 | | |
| b) other | - | - |
| **4. Closing balance** | **47,120** | **48,576** |

Deferred tax assets have been recorded in the financial statements based on the assumption that taxable income will be generated against which the deductible timing differences can be used.
The increase of EUR 963 thousand refers almost entirely to the allocation to the provisions for risks and charges for the year; the reduction of EUR 2,419 thousand relating to the use of the provisions for risks and charges.

## 10.3.1 Change in deferred tax assets pursuant to Law 214/2011 (matching balance in income statement)

*(thousands of €)*

| | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|
| **1. Opening balance** | **34,478** | **34,478** |
| **2. Increases** | | **-** |
| **3. Decreases** | **-** | **-** |
| 3.1 Amounts reversed | | - |
| 3.2 Transformation into tax credits | - | - |
| a) from losses for the year | | |
| b) from tax losses | | |
| 3.3 Other decreases | - | - |
| **4. Closing balance** | **34,478** | **34,478** |

## 10.4 Changes in deferred tax liabilities (matching balance in income statement)

*(thousands of €)*

| | | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|---|
| **1.** | **Opening balances** | **2,393** | **1,860** |
| **2.** | **Increases** | **5** | **533** |
| 2.1 | Deferred taxes recognized during the year | 5 | 293 |
| | a) related to previous years | | - |
| | b) due to change in accounting policies | - | 247 |
| | c) other | 5 | 46 |
| 2.2 | New taxes or increases in tax rates | | - |
| 2.3 | Other increases | - | 240 |
| **3.** | **Decreases** | **1,865** | **-** |
| 3.1 | Deferred tax liabilities eliminated during the year | 1,865 | - |
| | a) reversals | 1,860 | - |
| | b) due to change in accounting policies | | - |
| | c) other | 5 | - |
| 3.2 | Reductions in tax rates | | - |
| 3.3 | Other decreases | | - |
| **4.** | **Closing balance** | **533** | **2,393** |

## 10.5 Changes in deferred tax assets (matching balance under equity)

*(thousands of €)*

| | | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|---|
| **1.** | **Opening balance** | **345** | **145** |
| **2.** | **Increases** | **40** | **240** |
| 2.1 | Deferred tax assets recognized during the year | 40 | - |
| | a) related to previous years | | - |
| | b) due to changes in accounting policies | | - |
| | c) other | 40 | - |
| 2.2 | New taxes or increases in tax rates | | - |
| 2.3 | Other increases | - | 240 |
| **3.** | **Decreases** | - | 40 |
| 3.1 | Deferred tax assets eliminated during the year | - | 40 |
| | a) reversals | - | 40 |
| | b) written down as now considered irrecoverable | | - |
| | c) due to changes in accounting policies | | - |
| | d) other | | - |
| 3.2 | Reductions in tax rates | | - |
| 3.3 | Other decreases | | - |
| **4.** | **Closing balance** | **385** | **345** |

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### 10.6 Changes in deferred tax liabilities (matching balance under equity)

*(thousands of €)*

| | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|
| **1. Opening balance** | **-** | **247** |
| **2. Increases** | **-** | |
| 2.1 Deferred tax liabilities recognized during the year | - | |
| a) related 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 | | |
| **3. Decreases** | **-** | **247** |
| 3.1 Deferred taxes cancelled during the year | - | 247 |
| a) reversals | | |
| b) due to change in accounting policies | - | 247 |
| c) other | | - |
| 3.2 Reductions in tax rates | | |
| 3.3 Other decreases | | - |
| **4. Closing balance** | **-** | **-** |

## Section 11 – Non-current assets and groups of assets undergoing disposal and associated liabilities – Asset item 110 and liability item 70

There were no amounts in this section.

## Section 12 – Other assets – Item 120

### 12.1 Other assets: breakdown

*(thousand of €)*

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Guarantee deposits | 3 | 8 |
| Amounts receivable for supply of services/advance payments | 22 | 70 |
| Items in transit | 178 | 349 |
| Securities credited to customers subject to collection services awaiting collection from the bank | 47,698 | 36,978 |
| Other amounts receivable | 8,673 | 11,711 |
| **Total** | **56,574** | **49,116** |

## LIABILITIES

### Section 1 – Financial liabilities at amortised cost - Item 10

### 1.1 Financial liabilities at amortised cost: breakdown by product of payables

*(thousands of €)*

| Items | Total 31/12/2019 | | | Total 31/12/2018 | | |
|---|---|---|---|---|---|---|
| | due to banks | due to financial institutions | due to customers | due to banks | due to financial institutions | due to customers |
| **1. Loans** | 5,790,566 | 401 | - | 5,905,597 | 836 | - |
| 1.1. Reverse repurchase agreements | | | | | | |
| 1.2 other | 5,790,566 | 401 | | 5,905,597 | 836 | |
| **2. Leasing payables** | 2,323 | | | | | |
| **3. Other payables** | 267,163 | 1,366 | 305,010 | 400,692 | | 315,797 |
| **Total** | **6,060,052** | **1,767** | **305,010** | **6,306,289** | **836** | **315,797** |
| **Fair value - level 1** | | | | | | |
| **Fair value - level 2** | | | | | | |
| **Fair value - level 3** | 6,060,052 | 1,767 | 305,010 | 6,306,289 | 836 | 315,797 |
| ***Total fair value*** | 6,060,052 | 1,767 | 305,010 | 6,306,289 | 836 | 315,797 |

Payables due to banks are almost entirely represented by the exposure to the Parent Company BNP Paribas. Other payables concern the current account exposure to BNL and payables due to transferors for the portion of the fee not advanced relating to loans/receivables without recourse. Due to financial institutions include payables due to third parties for the portion of loan of securitisation transactions.

### 1.2 Financial liabilities at amortised cost: breakdown by product of securities issued

*(thousands of €)*

| Items | Total 31/12/2019 | | | | Total 31/12/2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | VB | Fair Value | | | VB | Fair value | | |
| | | L1 | L2 | L3 | | L1 | L2 | L3 |
| **A. Bonds** | | | | | | | | |
| 1. bonds | | | | | | | | |
| 1.1 structured | | | | | | | | |
| 1.2 others | | | | | | | | |
| 2. other bonds | 286,108 | | | 286,108 | 346,540 | | | 346,540 |
| 2.1 structured | | | | | | | | |
| 2.2 others | 286,108 | | | 286,108 | 346,540 | | | 346,540 |
| **Total** | **286,108** | | | **286,108** | **346,540** | | | **346,540** |

The table shows the securities issued as part of the securitisation transactions, limited to the part not financed by Ifitalia (see part D section 2 for further details).

### 1.3 Subordinated payables and securities
There were no amounts in this section.

### 1.4 Structured securities
There were no amounts in this section.

### 1.5 Finance lease payables

Cash outflows for leases are shown in the table below.

*(thousands of €)*

| | Leasing cash flow maturity bands | | | | |
|---|---|---|---|---|---|
| | within 1 month | from 1 month to 6 months | from 6 months to 1 year | from one year to 2 years | **Total** |
| Lease liabilities | 291 | 289 | 580 | 1163 | **2323** |
| **Total** | **291** | **289** | **580** | **1163** | **2323** |

The duration of the payables derives from the term of the lease contracts for the premises in Via Deruta and Corso Italia, which are likely to expire early on 31 December 2021 due to the relocation of the offices to another building. Given the limited term of this financial liability, no specific hedging has been activated.

## Section 2 – Financial liabilities held for trading – Item 20

### 2.1 Financial liabilities held for trading: breakdown by product

*(thousands of €)*

| Liabilities | Total 31/12/2019 | | | | | Total 31/12/2018 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | NV | Fair value | | | Fair value* | NV | Fair value | | | Fair value* |
| | | L1 | L2 | L3 | | | L1 | L2 | L3 | |
| **A. Cash liabilities** | | | | | | | | | | |
| 1. Deposits | | | | | | | | | | |
| 2. Debt securities | - | - | - | - | - | - | - | - | - | - |
| 2.1 Bonds | - | - | - | - | - | - | - | - | - | - |
| 2.1.1 Structured | | | | | X | | | | | X |
| 2.1.2 Other bonds | | | | | X | | | | | X |
| 2.2 Other securities | - | - | - | - | - | - | - | - | - | - |
| 2.2.1 Structured | | | | | X | | | | | X |
| 2.2.2 Other | | | | | X | | | | | X |
| **Total A** | - | - | - | - | - | - | - | - | - | - |
| **B. Derivative instruments** | | | | | | | | | | |
| 1. Financial derivatives | - | - | - | 72 | - | - | - | - | 142 | - |
| 1.1 Trading | X | | | 72 | X | X | | | 142 | X |
| 1.2 Fair value option | X | | | | X | X | | | | X |
| 1.3 Other | X | | | | X | X | | | | X |
| 2. Credit derivatives | - | - | - | - | - | - | - | - | - | - |
| 2.1 Trading | X | | | | X | X | | | | X |
| 2.2 Fair value option | X | | | | X | X | | | | X |
| 2.3 Other | X | | | | X | X | | | | X |
| **Total B** | X | - | - | 72 | X | X | - | - | 142 | X |
| **Total (A + B)** | X | - | - | 72 | X | X | - | - | 142 | X |

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3
NV = Nominal/notional value
FV* = Fair value calculated excluding the changes on variation of the creditworthiness of the issuer with respect to the issue date

### 2.2 Breakdown of financial liabilities held for trading: subordinated liabilities

There were no amounts in this section.

### 2.3 Breakdown of financial liabilities held for trading: structured securities

There were no amounts in this section.

### 2.4 Breakdown of financial liabilities held for trading: derivative financial instruments

*(thousands of €)*

| Underlying assets/Derivatives Type | Total 2019 | | | | Total 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | Over the counter | | | Organised Markets | Over the counter | | | Organised Markets |
| | Central counterparts | without central counterparts | | | Central counterparts | without central counterparts | | |
| | | with compensatory agreements | without compensatory agreements | | | with compensatory agreements | without compensatory agreements | |
| **1. Debt securities and interest rates** | | | | | | | | |
| - Nominal value | | | 1,319 | | - | - | 1,893 | - |
| - Fair value | | | 72 | | - | - | 142 | - |
| **2. Equity securities and financial indices** | | | | | | | | |
| - Nominal value | | | | | - | - | - | - |
| - Fair value | | | | | - | - | - | - |
| **3. Currency and gold** | | | | | | | | |
| - Nominal value | | | | | - | - | - | - |
| - Fair value | | | | | - | - | - | - |
| **4. Loans** | | | | | | | | |
| - Nominal value | | | | | - | - | - | - |
| - Fair value | | | | | - | - | - | - |
| **5. Goods** | | | | | | | | |
| - Nominal value | | | | | - | - | - | - |
| - Fair value | | | | | - | - | - | - |
| **6. Others** | | | | | | | | |
| - Nominal value | | | | | - | - | - | - |
| - Fair value | | | | | - | - | | - |
| **Total** | - | - | 72 | - | - | - | 142 | - |

## Section 3 – Financial liabilities at fair value – Item 30

There were no amounts in this section.

## Section 4 – Hedging derivatives – Item 40

There were no amounts in this section.

## Section 5 – Change in value of financial liabilities recorded as part of a generic hedge – Item 50

There were no amounts in this section.

## Section 6 – Tax liabilities – Item 60

See section 10 under assets

## Section 7 – Liabilities associated with assets undergoing disposal – Item 70

See section 11 under assets

## Section 8 – Other liabilities – Item 80

8.1 Other liabilities: breakdown

*(thousands of €)*

| Description | **Total 31/12/2019** | **Total 31/12/2018** |
|---|---|---|
| Collections being registered | 104,035 | 110,628 |
| Amounts due to employees | 1,811 | 1,804 |
| Amounts due to the tax authorities | 642 | 662 |
| Amounts due to social security and welfare institutions | 1,238 | 1,120 |
| Payables and invoices to be received from suppliers and professionals | 21,027 | 21,463 |
| Liabilities due to transferors | 5,853 | 6,221 |
| Other payables | 4,444 | 3,988 |
| Advances from customers | 71,388 | 34,657 |
| Residual holiday entitlement fund | 473 | 297 |
| **Total** | **210,912** | **180,841** |

## Section 9 – Employee termination benefits – Item 90

### 9.1 "Employee termination benefits": changes during the year

*(thousands of €)*

| | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|
| **A. Opening balance** | **4,073** | **4,740** |
| **B. Increases** | **1,445** | **44** |
| B.1 Provision for the year | 51 | 36 |
| B.2 Other changes | 1,394 | 8 |
| **C. Decreases** | **819** | **711** |
| C.1 Liquidations | 427 | 566 |
| C.2 Other changes | 392 | 145 |
| **D. Closing balance** | **4,699** | **4,073** |

(*) The provision for employment termination benefits calculated in compliance with Article 2120 of the Italian Civil Code equals EUR 4,261,833 and represents the effective obligation towards employees. The allocation for the year is EUR 70,801.

### 9.2 Other information

#### 9.2.1 Description of the provision and related risks

Employee termination benefits, disbursed by the employer to the employee when the employment relationship terminates, are one of the worker's rights regulated by Article 2120 of the Italian Civil Code and by Italian Laws no. 297/1982 and 296/2006. The provision has been recorded as a benefit subsequent to the employment relationship with defined benefits. The related liability is recorded in financial statements based on the amount to be paid to each employee and is valued using the actuarial method as a "defined benefit obligation", taking into account future due dates when the financial disbursement will actually occur. More specifically, Italian Law No. 296/2006 (2007 Budget Act) essentially states that the portion of employee termination benefits:

- accrued through the beginning of 2007 will remain in-house and must be disbursed to employees in accordance with statutory regulations, creating a liability to be recorded in the financial statements;
- accrued from the beginning of 2007 must, according to the employee's choice: a) be transferred to supplementary welfare funds; or b) be transferred to the INPS Treasury Fund.

Therefore, the amount recorded under the item "Employee termination benefits" refers solely to the defined benefit obligations connected with the benefits accrued up to a specific date within the first half of 2007 that is different for every employee, valued by an independent actuary without applying the "pro-rata" of the service supplied.

As a result, costs relating to future work provided are not considered for valuation purposes.

The current method for calculating employee termination benefits starts from the detailed situation, at the moment of entry, of each worker and envisages each year, for each individual worker up until his/her departure, the development of the provision due to:

1. the expected date of termination of the employment relationship, resignation, redundancy, death, inability to work or retirement (once the requirements have been met);
2. for each worker that remains within the workforce, potential requests for advance salary payments are also taken into account.

#### 9.2.2 Changes during the year of net defined benefit liabilities (assets) and reimbursement rights

The change in the provision for employee termination benefits is shown in Section 9 "Employee termination benefits - Item 90 - table 9.1 "Employee termination benefits: changes during the year".

The allocation for the year represents the change due to the passage of time and is equivalent to EUR 51 thousand.

The social security cost related to employment benefits, as illustrated above, is not set aside, but recorded directly in the income statement following the supplementary welfare reform, which provides for the allocation of accrued employee termination benefits to supplementary funds or the INPS Treasury Fund (Legislative Decree no. 252/2005 and Law no. 296/2006). The allocation for the year is recorded in the income statement under personnel costs.

### 9.2.3 Information on the fair value of assets serving the plan

Employee termination benefits are fully paid by the Company and there are no assets serving the plan.

### 9.2.4 Description of the principal actuarial assumptions

The liability recognised in the balance sheet is equal to the present value of the defined benefit obligations accrued as at 31 December 2019 estimated by an independent actuary.
The benefits owed by the Company were estimated based on developmental assumptions for the population of relevant personnel (forecast of length of employment with company, probability of early disbursements), in addition to the use of appropriate demographic and economic financial bases (mortality tables, monetary inflation). For 2019, the following parameters were used: discount rate of 1.5%; inflation rate of 1.5%; 2% salary increase; estimated employment duration of 10 years.

## Section 10 – Provisions for risks and charges − Item 100

### 10.1 Provisions for risks and charges: breakdown

*(thousands of €)*

| Items | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|
| 1. Provisions for credit risk relating to commitments and guarantees issued | 1,613 | 1,647 |
| 2. Provisions on other commitments and other guarantees issued | | - |
| 3. Post retirement benefit obligations | | - |
| 4. Other provisions for risks and charges | 6,936 | 13,056 |
| 4.1 legal and tax disputes | 4,508 | 10,700 |
| 4.2 personnel expenses | 2,428 | 2,356 |
| 4.3 other | | |
| **Total** | **8,549** | **14,703** |

### 10.2 Provisions for risks and charges: changes during the year

*(thousands of €)*

| | | Provisions on other commitments and other guarantees issued | Post retirement benefit obligations | Other provisions for risks and charges | Total |
|---|---|---|---|---|---|
| **A.** | **Opening balance** | **-** | **-** | **13,056** | **13,056** |
| **B.** | **Increases** | **-** | **-** | **1,855** | **1,855** |
| B.1 | Provision for the year | | | 1,852 | 1,852 |
| B.2 | Changes due to the passing of time | | | - | - |
| B.3 | Changes due to the changes in the discount rate | | | - | - |
| B.4 | Other changes | | | 3 | 3 |
| **C.** | **Decreases** | **-** | **-** | **7,975** | **7,975** |
| C.1 | Utilisations for the year | | | 7,970 | 7,970 |
| C.2 | Changes due to the changes in the discount rate | | | - | - |
| C.3 | Other changes | | | 5 | 5 |
| **D.** | **Closing balance** | **-** | **-** | **6,936** | **6,936** |

### 10.3 Provisions for credit risk related to commitments and financial guarantees given

*(thousands of €)*

| | Provisions for credit risk relating to commitments and guarantees issued | | | |
|---|---|---|---|---|
| | First level | Second level | Third Level | **Total** |
| 1. Commitments to disburse funds | | | | **-** |
| 2. Financial guarantees issued | 273 | 78 | 1262 | **1,613** |
| **Total** | **273** | **78** | **1,262** | **1,613** |

### 10.4 Provisions on other commitments and other guarantees given

There were no amounts in this section.

### 10.5 Defined benefit in-house pension funds

There were no amounts in this section.

### 10.6 Provisions for risks and charges - other provisions

*(thousands of €)*

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Personnel provisions: | | |
| - redundancy incentive | - | - |
| - other employee benefits | 2,428 | 2,356 |
| **Total** | **2,428** | **2,356** |

Provisions for employee benefits, referred to as "other employee benefits", represent the provisions that the Company has recorded in the financial statements in relation to employee incentive plans.
These plans are related to the achievement of results both at company level and at the level of the individual employee, therefore the related provisions reflect the estimate that management has prepared on the basis of the company's strategic objectives for the year 2019.

## Section 11 – Equity – Items 110, 120, 130, 140, 150, 160 and 170

### Summary

*(thousands of €)*

| | SHAREHOLDERS' EQUITY | 31/12/2019 | 31/12/2018 |
|---|---|---|---|
| **110.** | Share capital | 55,900 | 55,900 |
| **140.** | Share premium | 61,799 | 61,799 |
| **150.** | Reserves | 595,117 | 555,673 |
| | *a) income reserves* | 596,275 | 5 62.702 |
| | *b) other reserves* | - 1,158 | - 7,029 |
| **160.** | Valuation reserves | - 1,015 | 4 .960 |
| ***180*** | *Profit (loss) for the year* | 50,580 | 33,573 |
| | **Total shareholders' equity** | **762,379** | **711,905** |

### 11.1 Share Capital: breakdown

(thousands of €)

| Type | Amount |
|---|---|
| 1. Share capital | |
| 1.1 Ordinary shares | 55,900 |
| 1.2 Other shares | - |

The share capital amounts to EUR 55,900 thousand and is made up of 55,900,000 shares with a par value of EUR 1 each. The ordinary shares totalling 55,900,000 have been fully subscribed and paid up.

### 11.2 Treasury shares: breakdown

There were no amounts in this section.

### 11.3 Equity instruments: breakdown

There were no amounts in this section.

### 11.4 Share Premium: breakdown

(thousands of €)

| Type | Amount |
|---|---|
| **Share premium** | |
| Share premium from ordinary shares | 61,799 |

The share premium has not changed with respect to 31 December 2018.

### 11.5 Other information

Breakdown and changes in Reserves

(thousands of €)

| | Legal reserve | Statutory reserve | Other | Total |
|---|---|---|---|---|
| **A. Opening balance** | **11,180** | **551,137** | **(6,644)** | **555,673** |
| **B. Increases** | **-** | **33,101** | **6,342** | **39,443** |
| B.1 Allocations of profits | | 33,101 | 472 | 33,573 |
| B.2 Other changes | | | 5,870 | 5,870 |
| **C. Decreases** | **-** | **-** | **-** | **-** |
| C.1 Utilisations | - | - | - | - |
| hedging of losses | | | | - |
| distribution | | | | - |
| transfer to capital | | | | - |
| C.1 Other changes | | | - | - |
| **D. Closing balance** | **11,180** | **584,238** | **(301)** | **595,117** |

The increase in other reserves of EUR 5,870 thousand is due to the reclassification of the revaluation reserve for the property in Via Pisani, Milan sold during 2019.

## Breakdown and changes in Valuation reserves

*(thousands of €)*

| | Financial assets at fair value through other comprehensive income | Tangible assets | Intangible assets | Hedging of financial flows | Special revaluation laws | Financial liabilities at fair value with an impact on income statement (changes of creditworthiness) | Other | Total |
|---|---|---|---|---|---|---|---|---|
| **A. Opening balances** | - | - | - | - | 5,870 | - | (910) | 4,960 |
| **B. Increases** | - | - | - | - | - | - | - | - |
| B.1 Positive fair value changes | | | | | - | | - | - |
| B.2 Other increases | - | | | | - | | - | - |
| **C. Decreases** | - | - | - | - | 5,870 | - | 105 | 5,975 |
| C.1 Negative fair value changes | | | | | - | | - | - |
| C.1 Other decreases | - | | | | 5,870 | | 105 | 5,975 |
| **D. Closing balances** | - | - | - | - | - | - | (1,015) | (1,015) |

With regards to the provisions of Article 2427 no. 7-bis of the Italian Civil Code, the following table provides an analytical breakdown of equity items by origin, potential use and distributable nature.
No use was made in the last three years.

*(thousands of €)*

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| | Amount | Potential use | | Amount available |
|---|---|---|---|---|
| **Share capital** | 55,900 | - | | - |
| **Capital reserve:** | | | | |
| Share premium reserve | 61,799 | A-B-C | | 61,799 |
| **Profit reserve:** | | | | |
| Legal reserve | 11,180 | B | | |
| Statutory reserve | 585,095 | A-B-C | | 585,095 |
| **Other reserve:** | | | | |
| Stock options/Dspp/Freeshares reserve | 102 | A-B-C | | 102 |
| FTA Reserve and Goodwill | (8,159) | A-B-C | | (8,159) |
| Merger surplus | 1,029 | A-B-C | | 1,029 |
| Property revaluation reserve | 5,870 | A-B-C | | 5,870 |
| **Valuation reserve** | (1,015) | - | (1) | - |
| **Profit for the year** | 50,580 | A-B-C | | 50,580 |
| **Total** | **762,380** | **-** | | **696,316** |
| **Non-distributable share** | **66,065** | | | |
| **Third party assets** | **10** | | | |
| **Residual distributable share** | **696,325** | | | **696,316** |

Key:
A: share capital increase
B: coverage of losses
C: distribution to shareholders
(1) As provided for by art. 6 of Legislative Decree no. 38 of 28 February 2005, the valuation reserves formed in accordance with IAS cannot be distributed and are unavailable for allocation to capital, coverage of losses and the uses provided for by articles 2350 third section, 2357 first section, 2358 third section, 2359-bis first section, 2342,2478-bis fourth section of the Italian Civil Code

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## Section 12 – Non-controlling interests

### 12.1 Breakdown of item 180 "Non-controlling interests"

*(thousands of €)*

| Items | 2019 | 2018 |
|---|---|---|
| 1. Capital | 10 | 10 |
| 2. Treasury stock | | |
| 3. Capital intruments | | |
| 4. Surcharges | | |
| 5. Reserves | | |
| 6. Valuation reserves | | |
| 7. Profit/loss of the year | | |

### Other information

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

(thousand of €)

| | Notional value on commitments and financial guarantees issued | | | Total 2018 | Total 2017 |
|---|---|---|---|---|---|
| | First stage | Second stage | Third stage | | |
| **1. Commitments to disburse funds** | **181,880** | **-** | **-** | **181,880** | **267,231** |
| a) Public Administrations | - | - | - | - | - |
| b) Banks | - | - | - | - | - |
| c) Other financial institutions | - | - | - | - | - |
| d) Non-financial institutions | 181,880 | - | - | 181,880 | 267,231 |
| e) Families | - | - | - | - | - |
| **2. Financial guarantees issued** | **108,021** | **7,015** | **3,895** | **118,931** | **157,295** |
| a) Public Administrations | 6 | - | - | 6 | 18 |
| b) Banks | 4,715 | 1 | - | 4,716 | 8,293 |
| c) Other financial institutions | | | | - | 6 |
| d) Non-financial institutions | 100,910 | 6,645 | 3,865 | 111,420 | 143,252 |
| e) Families | 2,390 | 369 | 30 | 2,789 | 5,726 |

### 2. Other commitments and other guarantees given

There were no amounts in this section.

### 3. Financial assets subject to offsetting in financial statements, or subject to framework offsetting agreements or similar agreements

There were no amounts in this section.

### 4. Financial liabilities subject to offsetting in financial statements, or subject to framework offsetting agreements or similar agreements

There were no amounts in this section.

### 5. Securities lending

There were no amounts in this section.

### 6. Information on joint control assets

There were no amounts in this section.

## PART C – INFORMATION ON THE INCOME STATEMENT

### Section 1 – Interest – Items 10 and 20

### 1.1 Interest and similar income: breakdown

*(thousands of €)*

| Items/Technical forms | Debt securities | Loans | Other transactions | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|---|---|---|
| **1. Financial assets at fair value through profit or loss:** | - | - | - | - | - |
| 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 | | | | - | - |
| **2. Financial assets at fair value through other comprehensive income:** | | | X | - | |
| **3. Financial assets measured at amortised cost:** | - | **67,532** | **-** | **67,532** | **60,625** |
| 3.1 Loans to banks | | 536 | X | 536 | 322 |
| 3.2 Loans to financial companies | | 3,490 | X | 3,490 | 3,369 |
| 3.2 Loans to customers | | 63,506 | X | 63,506 | 56,934 |
| **4. Hedging derivatives** | X | X | | - | - |
| **5. Other assets** | X | X | | - | - |
| **6. Financial liabilities** | X | X | X | **10,098** | **11,159** |
| **Total** | **-** | **67,532** | | **77,630** | **71,784** |
| *of which: interest income on impaired financial assets* | | 3,575 | | | 4,608 |
| *of which: interest income on leases* | | | | | |

### 1.2 Interest and similar income: other information

The interest in item “3. Financial assets at amortised cost” essentially refers to interest accrued for factoring activities on payments, advances to transferors and on extensions granted to factored debtors.
Interest income also includes any interest contractually charged to Ifitalia that, due to the application of negative funding rates, showed an accounting sign of revenue. As at 31 December 2019, this item amounted to EUR 10,098 thousand.

### 1.2.1 Interest income on foreign currency financial assets

Interest income on foreign currency financial assets totalled EUR 6,052 thousand and refers to loans to customers.

### 1.3 Interest and similar expense: breakdown

*(thousands of €)*

| Items/Technical forms | Deposits | Securities | Other transactions | **Total 31/12/2019** | **Total 31/12/2018** |
|---|---|---|---|---|---|
| 1. Financial liabilities measured at amortised cost: | 7,150 | - | - | 7,150 | 5,774 |
| 1.1 Deposits from banks | 5,063 | X | X | 5,063 | 3,787 |
| 1.2 Deposits from financial companies | 2,087 | X | X | 2,087 | 1,987 |
| 1.3 Deposits from customers | | X | X | - | - |
| 1.4 Securities issued | X | | X | - | |
| 2. Financial liabilities held for trading | | | | - | |
| 3. Financial liabilities designated at fair value | | | | - | |
| 4. Other liabilities | X | X | - | - | |
| 5. Hedging derivatives | X | X | - | - | |
| 6. Financial assets | X | X | X | - | |
| **Total** | **7,150** | **-** | **-** | **7,150** | **5,774** |
| *of which: interest expense relating to lease payables* | *4* | | | | |

### 1.4 Interest and similar expense: other information

Interest paid to banks consists of interest paid on funding received.
Interest paid to financial businesses is related to securitisation activities.

### 1.4.1 Interest expense on foreign currency liabilities

Interest expense on foreign currency liabilities amounted to EUR 4.5 million and refers mainly to foreign currency funding transactions.

## Section 2 – Commissions – Items 40 and 50

### 2.1 Commission income: breakdown

*(thousands of €)*

| Types of service/Amounts | **Total 31/12/2019** | **Total 31/12/2018** |
|---|---|---|
| a) financial lease transactions | - | - |
| b) factoring transactions | 55,299 | 53,692 |
| c) consumer credit | - | - |
| d) guarantees given | - | - |
| e) services: | - | - |
| - fund management for third parties | - | - |
| - exchange brokerage | - | - |
| - distribution of products | - | - |
| - other | - | - |
| f) collection and payment services | - | - |
| g) servicing in securitisation transactions | - | - |
| h) other commission | - | - |
| **Total** | 55,299 | 53,692 |

### 2.2 Commission expense: breakdown

*(thousands of €)*

| Detail/Sectors | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|
| a) guarantees received | 882 | 1,181 |
| b) distribution of services to third parties | - | - |
| c) collection and payment services | 645 | 795 |
| d) other commissions of brokerage | 11,061 | 11,065 |
| **Total** | **12,588** | **13,041** |

## Section 3 – Dividends and similar income – Item 70

### 3.1 Dividends and similar income: breakdown

*(thousands of €)*

| Items/Income | Total 31/12/2019 | | Total 31/12/2018 | |
|---|---|---|---|---|
| | Dividends | Similar Income | Dividends | Similar Income |
| A. Financial assets held for trading | | | | |
| B. Other financial assets mandatorily measured at fair value | 38 | | 59 | |
| C. Financial assets at fair value through other comprehensive income | | | | |
| D. Equity investments | | | | |
| **Total** | **38** | **-** | **59** | **-** |

## Section 4 – Net trading profit (loss) – Item 80

### 4.1 Net trading profit (loss): breakdown

*(thousands of €)*

| Transactions/Income components | Capital gains (A) | Profit on trade (B) | Capital losses (C) | Loss on trade (D) | **Net result** [(A+B) - (C+D)] |
|---|---|---|---|---|---|
| **1. Financial assets held for trading** | **-** | **-** | **-** | **-** | **-** |
| 1.1 Debt securities | | | | | - |
| 1.2 Equity instruments | | | | | - |
| 1.3 UCI units | | | | | - |
| 1.4 Loans | | | | | - |
| 1.5 Other | | | | | - |
| **2. Financial liabilities held for trading** | **-** | **-** | **-** | **-** | **-** |
| 2.1 Debt securities | | | | | - |
| 2.2 Deposits | | | | | - |
| 2.3 Other | | | | | - |
| **3. Financial assets and liabilities: exchange differences** | X | X | X | X | (65) |
| **4. Derivative instruments** | **70** | **-** | **-** | **-** | **70** |
| 4.1 Financial derivatives | 70 | | | | 70 |
| 4.2 Credit derivatives | | | | | - |
| *of which: natural hedging related to the fair value option* | X | X | X | X | |
| **Total** | **70** | **-** | **-** | **-** | **5** |

**Section 5 – Net result from hedging activities – Item 90**
There were no amounts in this section.

**Section 6 – Gain (loss) on disposal or repurchase - Item 100**
There were no amounts in this section.

**Section 7 – Net result of other financial assets and liabilities at fair value through profit or loss – Item 110**

**7.1 Net change in value of other financial assets and liabilities at fair value through profit or loss: breakdown of financial assets and liabilities at fair value**
There were no amounts in this section.

**7.2 Net change in value of other financial assets and liabilities at fair value through profit or loss: breakdown of other financial assets mandatorily at fair value**

*(Thousands of €)*

| Transactions/Income components | Capital Gains (A) | Gains on disposal (B) | Capital Losses (C) | Losses on disposal (D) | **Net Result** [(A+B) − (C+D)] |
|---|---|---|---|---|---|
| **1. Financial assets** | **1** | **-** | **-** | **-** | **1** |
| 1.1 Debt securities | | | | | - |
| 1.2 Equity instruments | 1 | | | | 1 |
| 1.3 UCI units | | | | | - |
| 1.4 Loans | | | | | - |
| **2. Financial assets in currency: foreign exchange differences** | X | X | X | X | |
| **Total** | 1 | - | - | - | 1 |

## Section 8 – Net value adjustments/write-backs due to credit risk - Item 130

### 8.1 Net value adjustments/write-backs due to credit risk relating to financial assets at amortised cost: breakdown

*(thousands of €)*

| Transactions/Income components | Value adjustments | | | Writebacks | | Total | Total |
|---|---|---|---|---|---|---|---|
| | First and second level | Third level | | First and second level | Third level | 31/12/2019 | 31/12/2018 |
| | | Write-off | Other | | | | |
| **1. Loans to banks** | - | - | - | 135 | - | 135 | **(12)** |
| impaired loans acquired or originated | - | - | - | - | - | - | - |
| - for leasing | | | | | | - | - |
| - for factoring | | | | | | - | - |
| - other loans | | | | | | - | - |
| Other loans | - | - | - | 135 | - | 135 | (12) |
| - for leasing | | | | | | - | - |
| - for factoring | | - | - | 135 | - | 135 | (12) |
| - other loans | - | - | - | - | - | - | - |
| **2. Loans to financial companies** | (122) | (16) | - | - | - | (138) | **(12)** |
| impaired loans acquired or originated | - | - | - | - | - | - | - |
| - for leasing | | | | | | - | - |
| - for factoring | | | | | | - | - |
| - other loans | | | | | | - | - |
| Other loans | (122) | (16) | - | - | - | (138) | (12) |
| - for leasing | | | | | | - | - |
| - for factoring | (122) | (16) | - | | - | (138) | (12) |
| - other loans | - | - | - | - | - | - | - |
| **3. Loans to consumers** | (726) | (1,399) | (18,171) | - | 7,961 | (12,335) | **(9,858)** |
| impaired loans acquired or originated | - | - | - | - | - | - | - |
| - for leasing | | | | | | - | - |
| - for factoring | | | | | | - | - |
| - for consumer credit | | | | | | - | - |
| - other loans | | | | | | - | - |
| Other loans | (726) | (1,399) | (18,171) | - | 7,961 | (12,335) | (9,858) |
| - for leasing | | | | | | - | - |
| - for factoring | (726) | (1,399) | (18,171) | | 7,961 | (12,335) | (9,858) |
| - for consumer credit | | | | | | - | - |
| - loans on pledge | | | | | | - | - |
| - other loans | - | - | - | - | - | - | - |
| **Total** | (848) | (1,415) | (18,171) | 135 | 7,961 | (12,338) | (9,882) |

### 8.2 Net value adjustments/write-backs due to credit risk relating to financial assets at fair value through other comprehensive income: breakdown

There were no amounts in this section.

## Section 9 – Gains/losses from amendments to contracts without derecognition – Item 140

### 9.1 Gains (losses) from amendments to contracts: breakdown

There were no amounts in this section.

## Section 10 – Administrative expenses – Item 160

### 10.1 Personnel expenses: breakdown

*(thousands of €)*

| Type of expense/Amounts | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|
| 1) **Employees** | 18,656 | 16,642 |
| a) salaries and wages | 13,064 | 11,314 |
| b) social security contributions | 3,616 | 3,431 |
| c) leaving indemnity | - | - |
| d) social security and welfare costs | - | - |
| e) provision for termination benefits | 51 | 36 |
| f) provisions for post-retirement benefits and similar obligations: | 465 | 433 |
| - defined contribution | 465 | 433 |
| - defined benefit | - | - |
| g) payments to external supplementary pension funds: | 809 | 756 |
| - defined contribution | 809 | 756 |
| - defined benefit | - | - |
| h) other expenses (net) | 651 | 672 |
| 2) Other active employees | 369 | 123 |
| 3) Directors and Statutory Auditors | 146 | 148 |
| 4) Staff retirement | - | - |
| 5) Recovery of expenses for employees seconded to other companies | (150) | (374) |
| 6) Expense reimbursements for employees of third parties seconded to the company | 4,088 | 2,886 |
| **Total** | **23,109** | **19,425** |

### 10.2 Average number of employees by category

| | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|
| **a) Employees** | **236** | **215** |
| 1) Managers | 5 | 7 |
| 2) Middle managers | 127 | 120 |
| 3) Remaining employees | 104 | 88 |
| **b) Other personnel** | **40** | **21** |
| **Total** | **276** | **236** |

### 10.3 Other administrative expenses: breakdown

*(thousands of €)*

| Type of expense/Balances | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|
| Indirect duties and taxes | 1,016 | 1,255 |
| Sundry services rendered by third parties | 9,267 | 9,179 |
| Sundry services rendered by third parties (IT ) | 8,932 | 8,829 |
| Sundry services rendered by third parties (Internal Auditing) | 335 | 350 |
| Fees for professionals | 3,523 | 3,483 |
| Fees for consultancy | 733 | 661 |
| Fees for legal and notarial costs | 2,282 | 2,115 |
| Fees for debt collection | 387 | 572 |
| Compensation to independent Auditors | 121 | 135 |
| Costs relating to properties/furniture | 871 | 566 |
| Postal, printed matter, surveillance of premises and stock values | 1,409 | 1,457 |
| Management expenses GFCC | 527 | 484 |
| Advertising and entertainment | 231 | 249 |
| Searches and information | 1,262 | 1,337 |
| Other expenses | 4,463 | 8,765 |
| **TOTAL** | **22,569** | **26,775** |

The compensation for services rendered by the audit company in 2019, net of VAT, is EUR 75 thousand (EUR 75 thousand in 2018).

### Section 11 – Net provisions for risks and charges – Item 170

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

*(thousands of €)*

| Operations/Income components | Value adjustments | | Writebacks | | Total | Total |
|---|---|---|---|---|---|---|
| | Specific | Portfolio | Specific | Portfolio | 31/12/2019 | 31/12/2018 |
| A. Guarantees issued | (58) | 18 | 75 | | 35 | 22 |
| B. Derivatives on receivables | | | | | - | |
| C. Commitments to grant loans | | | | | - | |
| D. Other transactions | | | | | - | |
| **E. Total** | **(58)** | **18** | **75** | | **35** | **22** |

### 11.2 Net provisions relating to other commitments and other guarantees given: breakdown

There were no amounts in this section.

### 11.3 Other net provisions for risks and charges: breakdown

*(thousands of €)*

| Analysis | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|
| **PROVISIONS** | **(480)** | **(1,886)** |
| **Legal disputes** | **(480)** | **(1,886)** |
| Revocation actions | - | (1,036) |
| Pending disputes | (480) | (850) |
| **Personnel charges** | - | - |
| **Other provisions** | - | - |
| **USES** | **3,570** | **421** |
| **Legal disputes** | **3,570** | **421** |
| Revocation actions | 2,500 | 122 |
| Pending disputes | 1,070 | 299 |
| **Personnel charges** | - | - |
| **Other uses** | - | - |
| **INTEREST FROM DISCOUNTING BACK** | **5** | **(5)** |
| **Legal disputes** | **5** | **(5)** |
| Revocation actions | 1 | (1) |
| Pending disputes | 4 | (4) |
| **Total** | **3,095** | **(1,470)** |

## Section 12 – Net value adjustments/write-backs on tangible assets – Item 180

### 12.1 Net value adjustments/write-backs on tangible assets: breakdown

*(thousands of €)*

| Assets/Income component | Depreciation (A) | Value adjustments for impairment (B) | Write-backs (C) | **Net result (A+B)-C** |
|---|---|---|---|---|
| **A. Property, plant and equipment** | | | | |
| A.1 Owned | **1,078** | **-** | **-** | **1,078** |
| - for business use | **423** | **-** | **-** | **423** |
| - for investment | **655** | **-** | **-** | **655** |
| - Inventories | **-** | **-** | **-** | **-** |
| A.2 Acquired under financial lease | **103** | **-** | **-** | **103** |
| - for business use | 103 | | | 103 |
| - for investment | | | | - |
| A.3 Granted under operating lease | X | | | - |
| **Total** | **1,181** | **-** | **-** | **1,181** |

## Section 13 – Net value adjustments/write-backs on intangible assets – Item 190

### 13.1 Net value adjustments/write-backs on intangible assets: breakdown

*(thousands of €)*

| Assets/Income components | Depreciation (A) | Value adjustments for impairment (B) | Write-backs (C) | **Net result (A)+(B)-(C)** |
|---|---|---|---|---|
| **1. Intangible assets different from goodwill:** | 3,663 | - | - | 3,663 |
| 1.1 owned | 3,663 | | | 3,663 |
| 1.2 acquired under financial lease | | | | - |
| **2. Assets pertaining to financial lease** | | | | - |
| **3. Assets granted under operating lease** | | | | - |
| **Total** | **3,663** | **-** | **-** | **3,663** |

## Section 14 – Other operating income and expenses – Item 200

### 14.1 Other operating expenses: breakdown

*(thousands of €)*

| Analysys | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|
| **Other charges** | | |
| Losses for sundry causes | | |
| Other charges | (1,269) | (550) |
| **Total** | **(1,269)** | **(550)** |

### 14.2 Other operating income: breakdown

*(thousands of €)*

| Analysys | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|
| **Other income** | | |
| Rental income | 370 | 401 |
| Other income | 3,386 | 2,694 |
| **Total** | **3,756** | **3,095** |

## Section 15 – Profit (Loss) from equity investments - Item 220

There were no amounts in this section.

## Section 16 – Net result of fair value measurement of tangible and intangible assets - Item 230

There were no amounts in this section.

## Section 17 – Goodwill impairment – Item 240

There were no amounts in this section.

## Section 18 – Profit/loss on disposal of investments - Item 250

### 18.1 Profit/loss on disposal of investments: breakdown

*(thousands of €)*

| Income component/value | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|
| **A. Proprieties** | **17,757** | **-** |
| - Gains on disposal | 17,757 | |
| - Losses from sale | | |
| **B. Other activities** | **-** | **-** |
| - Gains on disposal | | |
| - Losses from sale | | |
| **Net result** | **17,757** | **-** |

## Section 19 – Income taxes for the year on current operations – Item 270

### 19.1 Income taxes for the year on current operations: breakdown

(thousands of €)

| | | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|---|
| 1. | Current taxes (-) | (23,067) | (13,317) |
| 2. | Changes in current taxes of previous years (+/-) | (505) | 34 |
| 3. | Reduction in current taxes for the year (+) | | 148 |
| 3.bis | Reduction in current taxes for the year for tax credits | - | - |
| | of which under Law no. 214/2011 (+) | - | - |
| 4. | Change in deferred tax assets (+/-) | (1,458) | (1,174) |
| 5. | Change in deferred tax liabilities (+/-) | 1,860 | (46) |
| | **Taxes for the year (-) (-1+/-2+3+3bis+/-4+/-5)** | **(23,170)** | **(14,355)** |

### 19.2 Reconciliation between the theoretical tax liability and the effective tax liability in the financial statements

(thousands of €

| Analysis | Ires | Irap |
|---|---|---|
| Economic result useful for calculating taxation | 73,369 | 73,369 |
| Permanent, undeductible differences | 995 | 18,995 |
| Permanent, untaxable differences | (5,470) | (18,526) |
| Total taxable income | 68,894 | 73,838 |
| Theoretical tax rate | 27.50% | 5.55% |
| Theoretical tax liability/recovery | (18,946) | (4,098) |
| Other differences | (106) | (15) |
| **Effective tax liability as per financial statements** | **(19,052)** | **(4,113)** |

## Section 20 – Profit (loss) from discontinued operations after taxes - Item 290

There were no amounts in this section.

## Section 21 – Income statement: other information

### 21.1 - Detailed breakdown of interest income and commission income

(thousands of €)

| Transactions/Income components | Interest income | | | Commission income | | | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|---|---|---|---|---|---|
| | Banks | Financial institutions | Customers | Banks | Financial institutions | Customers | | |
| **1. Financial leasing** | - | - | - | - | - | - | - | - |
| - property assets | | | | | | | - | - |
| - movable assets | | | | | | | - | - |
| - operating assets | | | | | | | - | - |
| - intangible assets | | | | | | | - | - |
| **2. Factoring** | **356** | **4,870** | **62,306** | **3** | **1,350** | **53,945** | **122,830** | ***114,332*** |
| - on current receivables | *356* | *4,746* | *63,584* | *3* | *1,350* | *53,879* | 123,918 | 113,409 |
| - on future receivables | | | *287* | | | *66* | 353 | 425 |
| - on receivables acquired definitely | | | | | | | - | - |
| - on receivables acquired under nominal value | | | | | | | - | - |
| - for other loans | | *124* | *(1,565)* | | | | (1,441) | 498 |
| **3. Consumer credit** | - | - | - | - | - | - | - | - |
| - personal loans | | | | | | | - | - |
| - targeted finance | | | | | | | - | - |
| - loans on salaries | | | | | | | - | - |
| **4. Loans on pledge** | | | | | | | - | - |
| **5. Guarantees and commitments** | - | - | - | - | - | - | - | - |
| - commercial | | | | | | | - | - |
| - financial | | | | | | | - | - |
| **Total** | **356** | **4,870** | **62,306** | **3** | **1,350** | **53,945** | **122,830** | **114,332** |

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**21.2 - Other information**
There were no amounts in this section.

**Section 22 - Profit or loss for the year attributable to non-controlling interests**
There were no amounts in this section.

## *PART D – OTHER INFORMATION*

### Section 1 – Specific references to transactions carried out

**A. LEASES (LESSOR)**
There were no amounts in this section.

**B. B. FACTORING AND TRANSFER OF LOANS/RECEIVABLES**

**B.1 Gross and book values**

**B.1.1 Factoring transactions**

*(thousands of €)*

| Items/Amount | | Total 31/12/2019 | | | Total 31/12/2018 | | |
|---|---|---|---|---|---|---|---|
| | | Gross value | Value adjustments | Net value | Gross value | Value adjustments | Net value |
| **1.** | **Performing assets** | **6,957,802** | **11,745** | **6,946,057** | **6,924,791** | **10,893** | **6,913,898** |
| | - exposures to transferors (with recourse): | 825,967 | 3,616 | 822,351 | 890,150 | 5,510 | 884,640 |
| | *- factoring of future receivables* | 25,142 | 62 | 25,080 | 19,604 | 25 | 19,579 |
| | *- other* | 800,825 | 3,554 | 797,271 | 870,546 | 5,485 | 865,061 |
| | - exposures to transferred debtors transferors (without recours | 6,131,835 | 8,129 | 6,123,706 | 6,034,641 | 5,383 | 6,029,258 |
| **2.** | **Impaired assets** | **395,384** | **284,391** | **110,993** | **437,028** | **294,763** | **142,265** |
| **2.1** | **Non-performing** | **291,249** | **2 36.198** | **55,051** | **304,501** | **243,253** | **61,248** |
| | - exposures to transferors (with recourse) | 183,439 | 1 43.207 | 4 0.232 | 188,990 | 141,741 | 47,249 |
| | *- factoring of future receivables* | 10,732 | 6,462 | 4,270 | 10,408 | 6,507 | 3,901 |
| | *- other* | 172,707 | 1 36.745 | 3 5.962 | 178,582 | 135,234 | 43,348 |
| | - exposures to transferred debtors (without recourse) | 107,810 | 92,991 | 14,819 | 115,511 | 101,512 | 13,999 |
| | *- purchases below nominal value* | | | - | - | - | - |
| | *- other* | 107,810 | 92,991 | 14,819 | 115,511 | 101,512 | 13,999 |
| **2.2** | **Unlikely to pay** | **83,653** | **39,804** | **4 4.643** | **104,270** | **49,129** | **55,141** |
| | - exposures to transferors (with recourse) | 42,056 | 20,998 | 2 1.058 | 64,612 | 30,065 | 34,547 |
| | *- factoring of future receivables* | - | - | - | - | - | - |
| | *- other* | 42,056 | 20,998 | 2 1.058 | 64,612 | 30,065 | 34,547 |
| | - exposures to transferred debtors (without recourse) | 41,597 | 18,012 | 23,585 | 39,658 | 19,064 | 20,594 |
| | *- purchases below nominal value* | | | - | - | - | - |
| | *- other* | 41,597 | 18,012 | 23,585 | 39,658 | 19,064 | 20,594 |
| **2.3** | **Past due positions** | **20,482** | **2,500** | **17,982** | **28,257** | **2,381** | **25,876** |
| | - exposures to transferors (with recourse) | 2,961 | 178 | 2,783 | 5,060 | 219 | 4,841 |
| | *- factoring of future receivables* | - | - | - | - | - | - |
| | *- other* | 2,961 | 178 | 2,783 | 5,060 | 219 | 4,841 |
| | - exposures to transferred debtors (without recourse) | 17,521 | 2,322 | 15,199 | 23,197 | 2,162 | 21,035 |
| | *- purchases below nominal value* | | | - | - | - | - |
| | *- other* | 17,521 | 2,322 | 15,199 | 23,197 | 2,162 | 21,035 |
| | **Total** | **7,353,186** | **289,441** | **7,063,745** | **7,361,819** | **305,656** | **7,056,163** |

**B.1.2 Purchase transactions for impaired receivables other than factoring**
There were no amounts in this section.

**B.2 – Breakdown by residual life**

**B.2.1 – With recourse factoring transactions: advances and “total loans/receivables”**

*(thousands of €)*

| Maturity | Advances | | Total loans/receivables | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| - on demand | 160,007 | 189,587 | 1,867,216 | 2,515,157 |
| - up to 3 months | 370,375 | 398,552 | 4,940,195 | 4,686,481 |
| - 3 to 6 months | 83,001 | 89,315 | 1,164,825 | 1,172,590 |
| - 6 months to 1 year | 74,817 | 60,063 | 478,499 | 684,044 |
| - beyond 1 year | 198,234 | 233,761 | 246,599 | 260,155 |
| - unspecified duration | - | - | - | - |
| **Total** | **886,434** | **971,278** | **8,697,334** | **9,318,427** |

**B.2.2 – Without recourse factoring transactions: exposures**

*(thousands of €)*

| Maturity | Exposures | |
|---|---|---|
| | 2019 | 2018 |
| - on demand | 448,084 | 597,523 |
| - up to 3 months | 4,125,563 | 3,803,116 |
| - 3 to 6 months | 987,069 | 929,924 |
| - 6 months to 1 year | 357,664 | 429,433 |
| - beyond 1 year | 2,945 | 1,970 |
| - unspecified duration | 255,983 | 322,920 |
| **Total** | **6,177,308** | **6,084,886** |

**B.2.3 – Purchase transactions for impaired receivables other than factoring**
There were no amounts in this section.

**B.3 – Other information**

**B.3.1 – Turnover of factored loans/receivables**

*(thousands of €)*

| Items | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|
| ***1. Without-recourse transactions*** | 29,627,602 | 26,355,047 |
| *of which: purchases below the nominal value* | - | - |
| ***2. With-recourse transactions*** | 2,706,404 | 3,232,562 |
| **Total** | **32,334,007** | **29,587,609** |

The table was drawn up in accordance with the standards illustrated in section A.2.3. “Loans/receivables – Classification”.

**B.3.2 – Collection services**

*(thousands of €)*

| Items | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|
| *Loans and receivables collected in the year* | 408,316 | 434,734 |
| *Amount of loans and receivables at year end* | 116,904 | 124,310 |

**B.3.3 – Nominal value of factoring contracts for future loans/receivables**

*(thousands of €)*

| Items | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|
| *Loans and receivables collected in the year* | 408,316 | 434,734 |
| *Amount of loans and receivables at year end* | 116,904 | 124,310 |

The unused margin intended as the difference between the maximum amount of loans/receivables that can be purchased and the amount of loans/receivables purchased, as at 31 December 2019, amounted to EUR 7,358 thousand (EUR 13,132 thousand at the end of 2018).

**C. CONSUMER CREDIT**

There were no amounts in this section.

## D. GUARANTEES GIVEN AND COMMITMENTS

### D.1 Value of guarantees (secured or unsecured) given and commitments

*(thousands of €)*

| | Transactions | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|---|
| 1) | Financial guarantees given upon first request | **118,931** | **157,295** |
| | a) Banks | 4,716 | 8,293 |
| | b) Financial Companies | - | 6 |
| | c) Costumers | 114,215 | 148,996 |
| 2) | Other financial guarantees given | **-** | **-** |
| | a) Banks | - | - |
| | b) Financial Companies | - | - |
| | c) Costumers | - | - |
| 3) | Commercial guarantees issued | **-** | **-** |
| | a) Banks | - | - |
| | b) Financial Companies | - | - |
| | c) Costumers | - | - |
| 4) | Irrevocable commitments to reimburse funds | **181,880** | **267,231** |
| | a) Banks | - | - |
| | i) certain to be called on | - | - |
| | ii) uncertain to be called on | - | - |
| | b) Financial Companies | - | - |
| | i) certain to be called on | - | - |
| | ii) uncertain to be called on | - | - |
| | c) Costumers | 181,880 | 267,231 |
| | i) certain to be called on | - | - |
| | ii) uncertain to be called on | 181,880 | 267,231 |
| 5) | Commitments underlying credit derivatives: protection sales | - | - |
| 6) | Assets made to guarantee third party obligations | - | - |
| 7) | Other irrevocable commitments | - | - |
| | a) to give guarantees | - | - |
| | b) others | - | - |
| | **Total** | **300,811** | **424,526** |

### D.2 Loans recorded in the financial statements due to enforcement

*(thousands of €)*

| Exposures | 31/12/2019 | | | 31/12/2018 | | |
|---|---|---|---|---|---|---|
| | Gross value | Value adjustments | Net value | Gross value | Value adjustments | Net value |
| **1. Performing assets** | | | | | | |
| - from guarantees | **-** | **-** | **-** | **-** | **-** | **-** |
| - commercial | - | - | - | - | - | - |
| - financial | - | - | - | - | - | - |
| **2. Impaired assets** | | | | | | |
| - from guarantees | **144,344** | **(103,784)** | **40,560** | **159,743** | **(113,251)** | **46,491** |
| - commercial | - | - | - | - | - | - |
| - financial | 144,344 | (103,784) | 40,560 | 159,743 | (113,251) | 46,491 |
| **Total** | **144,344** | **(103,784)** | **40,560** | **159,743** | **(113,251)** | **46,491** |

## D.3 Guarantees given (secured or unsecured): status of risk undertaken and quality

(thousands of €)

| Type of assumed risk | Not impaired guarantees issued | | | | Impaired guarantees issued: non-performing | | | | Other impaired guarantees | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Counterguaranteed | | Other | | Counterguaranteed | | Other | | Counterguaranteed | | Other | |
| | Gross value | Total Provisions | Gross value | Total Provisions | Gross value | Total Provisions | Gross value | Total Provisions | Gross value | Total Provisions | Gross value | Total Provisions |
| Guarantees issued with assumption of risk of initial loss | - | - | - | - | - | - | - | - | - | - | - | - |
| - financial guarantees upon first request | - | - | - | - | - | - | - | - | - | - | - | - |
| - other financial guarantees | - | - | - | - | - | - | - | - | - | - | - | - |
| - commercial guarantees | - | - | - | - | - | - | - | - | - | - | - | - |
| Guarantees issued with assumption of mezzanine type risk | - | - | - | - | - | - | - | - | - | - | - | - |
| - financial guarantees upon first request | - | - | - | - | - | - | - | - | - | - | - | - |
| - other financial guarantees | - | - | - | - | - | - | - | - | - | - | - | - |
| - commercial guarantees | - | - | - | - | - | - | - | - | - | - | - | - |
| Pro rata guarantees issued | - | - | 115,036 | (339) | - | - | - | - | - | - | 3,895 | (1,262) |
| - financial guarantees upon first request | - | - | 115,036 | (339) | | | | | | | 3,895 | (1,262) |
| - other financial guarantees | - | - | - | - | - | - | - | - | - | - | - | - |
| - commercial guarantees | - | - | - | - | - | - | - | - | - | - | - | - |
| Total | - | - | 115,036 | (339) | - | - | - | - | - | - | 3,895 | (1,262) |

## D.4 Guarantees given (secured or unsecured): amount of counter-guarantees

There were no amounts in this section.

## D.5 Number of guarantees given (secured or unsecured): status of risk undertaken

There were no amounts in this section.

## D.6 Guarantees given (secured or unsecured): with risk-taking on the first losses and mezzanine type: amount of underlying assets

There were no amounts in this section.

## D.7 Guarantees given (secured or unsecured) in the process of being enforced: stock data

There were no amounts in this section.

## D.8 Guarantees given (secured or unsecured) in the process of being enforced: flow data

There were no amounts in this section.

## D.9 Changes in impaired guarantees given (secured or unsecured): non-performing

There were no amounts in this section.

## D.10 Changes in impaired guarantees given (secured or unsecured): other

(thousands of €)

| Amount of the changes | Financial guarantees upon first request | | Other financial guarantees | | Commercial guarantees | |
|---|---|---|---|---|---|---|
| | Counterguaranteed | Other | Counterguaranteed | Other | Counterguaranteed | Other |
| **(A) Initial gross value** | - | 385 | - | - | - | - |
| **(B) Increases:** | - | 3,915 | - | - | - | - |
| - (b1) transfers from performing guarantees | - | 159 | - | - | - | - |
| - (b2) transfers from other impaired guarantees | - | - | - | - | - | - |
| - (b3) other increases | - | 3,756 | - | - | - | - |
| **(C) Decreases:** | - | (405) | - | - | - | - |
| - (c1) outgoings to performing guarantees | - | (152) | - | - | - | - |
| - (c2) outgoings from other impaired guarantees | - | - | - | - | - | - |
| - (c3) enforcement | - | - | - | - | - | - |
| - (c4) other decreases | - | (253) | - | - | - | - |
| **(D) Gross final value** | - | 3,895 | - | - | - | - |

## D.11 Changes in unimpaired guarantees given (secured or unsecured)

(thousands of €)

| Amount of the changes | Financial guarantees upon first request | | Other financial guarantees | | Commercial guarantees | |
|---|---|---|---|---|---|---|
| | Counterguaranteed | Other | Counterguaranteed | Other | Counterguaranteed | Other |
| **(A) Initial gross value** | - | 156,910 | - | - | - | - |
| **(B) Increases:** | - | 37,952 | - | - | - | - |
| - (b1) Guarantees given | - | 10,502 | - | - | - | - |
| - (b2) other increases | - | 27,450 | - | - | - | - |
| **(C) Decreases:** | - | (79,826) | - | - | - | - |
| - (c1) Guarantees not enforced | - | - | - | - | - | - |
| - (c2) transfers to impaired guarantees | - | (159) | - | - | - | - |
| - (c3) other decreases | - | (79,667) | - | - | - | - |
| **(D) Gross final value** | - | 115,036 | - | - | - | - |

## D.12 Changes in value adjustments / total provisions

There were no amounts in this section.

## D.13 Assets pledged as guarantee for own liabilities and commitments

There were no amounts in this section.

## D.14 Commission income and expenses on guarantees given (secured or unsecured) during the year: total value

There were no amounts in this section.

## D.15 Distribution of guarantees (secured or unsecured) given by sector of economic activities of the guaranteed debtors (amount guaranteed and underlying asset)

(thousands of €)

| Type of risk assumed | Given guarantees with first loss risk-taking | | Given guarantees with mezzanine risk-taking | | Given guarantees pro-quota |
|---|---|---|---|---|---|
| | Amount guaranteed | Underlying asset | Amount guaranteed | Underlying asset | Amount guaranteed |
| - Subgroup 1: SAE 430 - Non financial institutions - Production companies | - | - | - | - | 101,696 |
| - Subgroup 2: SAE 245 - Banking system | - | - | - | - | 4,716 |
| - Subgroup 3: SAE 492 - Other non financial institutions | - | - | - | - | 4,779 |
| - Subgroup: Others | - | - | - | - | 7,740 |
| **Total** | **-** | **-** | **-** | **-** | **118,931** |

## D.16 Geographic distribution of guarantees (secured or unsecured) given by region of residence of the guaranteed debtors (amount guaranteed and underlying asset)

(thousands of €)

| Type of risk assumed | | Given guarantees with first loss risk-taking | | Given guarantees with mezzanine risk-taking | | Given guarantees pro-quota |
|---|---|---|---|---|---|---|
| | | Amount guaranteed | Underlying asset | Amount guaranteed | Underlying asset | Amount guaranteed |
| - 'Region 1 | North-West Italy | - | - | - | - | 54,327 |
| - 'Region 2 | Centre Italy | - | - | - | - | 18,244 |
| - 'Region 3 | North-East Italy | - | - | - | - | 29,491 |
| - 'Region 4 | South Italy and islands | - | - | - | - | 16,552 |
| - 'Region 5 | Others | - | - | - | - | 317 |
| **Total** | | **-** | **-** | **-** | **-** | **118,931** |

**D.17 Geographic distribution of guarantees (secured or unsecured) given by sector of economic activities of the guaranteed debtors (number of guaranteed entities)**

There were no amounts in this section.

**D.18 Geographic distribution of guarantees (secured or unsecured) given by region of residence of the guaranteed debtors (number of guaranteed entities)**

There were no amounts in this section.

**D.19 Stock and trend of the number of associates**

There were no amounts in this section.

**E. PAYMENT SERVICES AND ISSUING OF ELECTRONIC MONEY**

There were no amounts in this section.

**F. OPERATIONS WITH THIRD-PARTY FUNDS**

There were no amounts in this section.

**G. LOAN TRANSACTIONS SECURED BY PLEDGE**

There were no amounts in this section.

**H. COVERED BONDS**

There were no amounts in this section.

**I. OTHER ASSETS**

There were no amounts in this section.

**Section 2 – Securitisation transactions, disclosure on the structured entities not consolidated in the accounts (other than vehicle companies not for securitisations) and sales of assets.**

**A. Securitisation transactions**

There were no amounts in this section.

**B. Disclosure on the structured entities not consolidated in the accounts (other than vehicle companies for securitisations)**

There were no amounts in this section.

**C. Sale transactions**

There were no amounts in this section.

**Section 3 – Information on risks and related hedging policies**

**Credit Risk**

***QUALITATIVE INFORMATION***

## 1. General aspects

Factoring activities involve numerous services that can be structured in various ways by means of the with- and without-recourse factoring of commercial loans and receivables.
A peculiar feature of factoring transactions is the correlated involvement for various reasons of three parties, which can be classified, in brief, as:

- The Factor (transferee);
- The Client (transferor);
- The Debtor (transferred party).

If observed from the standpoint of the underlying services, it is therefore a composite product, where the credit management, the guarantee of the debtor's solvency and the disbursement of advances on loans/receivables accepted under factoring can be combined in various ways.
Therefore, the risk assessment of factoring transactions must be carried out by means of preliminary analysis of numerous factors such as: the solvency of the transferred debtors, the degree of fragmentation of the risk, the characteristics of the underlying commercial relationship, the transferor's ability to repay – in the event of disbursement of advances – also in light of the figures of the Bank of Italy's Credit Reference Bureau and the financial statements, ratings – internal or ECAI – on the party and/or associated companies, connections or simple dependence on Groups, supply difficulties, technological innovation that could place a product out of the market, etc.
Clearly, these are appraisals that can only partly overlap with lending activities carried out by banks, indispensable for permitting an adequate control of the credit risk that partly expresses itself in aspects[1] not present in banking activities.
With regard to the provision of the above services, the factor may undertake the credit risks in different ways, which can be, in turn, broken down into certain elementary types:

- credit risk in the strictest sense, represented by the risk of loss due to default of the debtors[2];
- dilution risk is the risk that the amount of a receivable decreases through the granting of receivables, in cash or another form, in favour of the debtor;

[1] Measurement of the asset risk: a wider concept of the measurement of creditworthiness of the individual debtors factored, since it refers to the interaction of the individual names within the factored portfolio, whose risk profile is determined by the concentration of the debtors and their domestic-export nature, the ageing, DSO and payments terms, payment methods, statistics on bad debt, etc.;
Measurements of the "factorability" risk, associated with the nature and the characteristics of the supply relationship being factored, which influences the tendency of the transferred receivables to self-liquidate, especially with reference to a hypothetical terminal phase of said relationship. This risk is appreciable from the analysis of the subject matter of the supply and the type of debtors involved, the invoicing process and the statistics relating to the invoices (number, amounts...), the contracts, etc.
Measurement of the concentration risk of the relationship, falls between the asset risk and the factorability risk, since in the factoring transaction one of the most significant risk mitigation factors is represented by the large number of commercial relationships with the party granted credit that can be placed under observation and on which it is possible to intervene. In fact, adequate diversification not only permits the portfolio factored to "survive" the default of one or more debtors, but also contributes towards isolating and containing any problematic issues linked to the commercial transactions underlying the factored receivables and limits the impact of potential fraud.
Measurement of the facility risk, associated with the contractual and operating features of the factoring transaction that contribute to determining the related risk profile. It requires the assessment of the reason for the technical form proposed and the opinion on the ongoing operations (e.g., global transfer vs. spot transfer, confidential vs. disclosed, QN vs. recognition, invoice forwarding method, accompanying documents, dunning).
Where several products are offered and/or several transactions for which the customer undertakes the dual role of transferor and transferred debtor, these situations may give rise - from a conceptual standpoint - to a correlation risk between the transactions, understood as the possibility of unexpected changes in the overall risk of the transaction due to correlation between the risks deriving from the characteristics of the various transactions offered to the customer (the latter being particularly complex to identify and quantify).

[2] I.e., those with whom the factor has risks that must be discharged by those counterparties; therefore, these also include transferors for advances received.

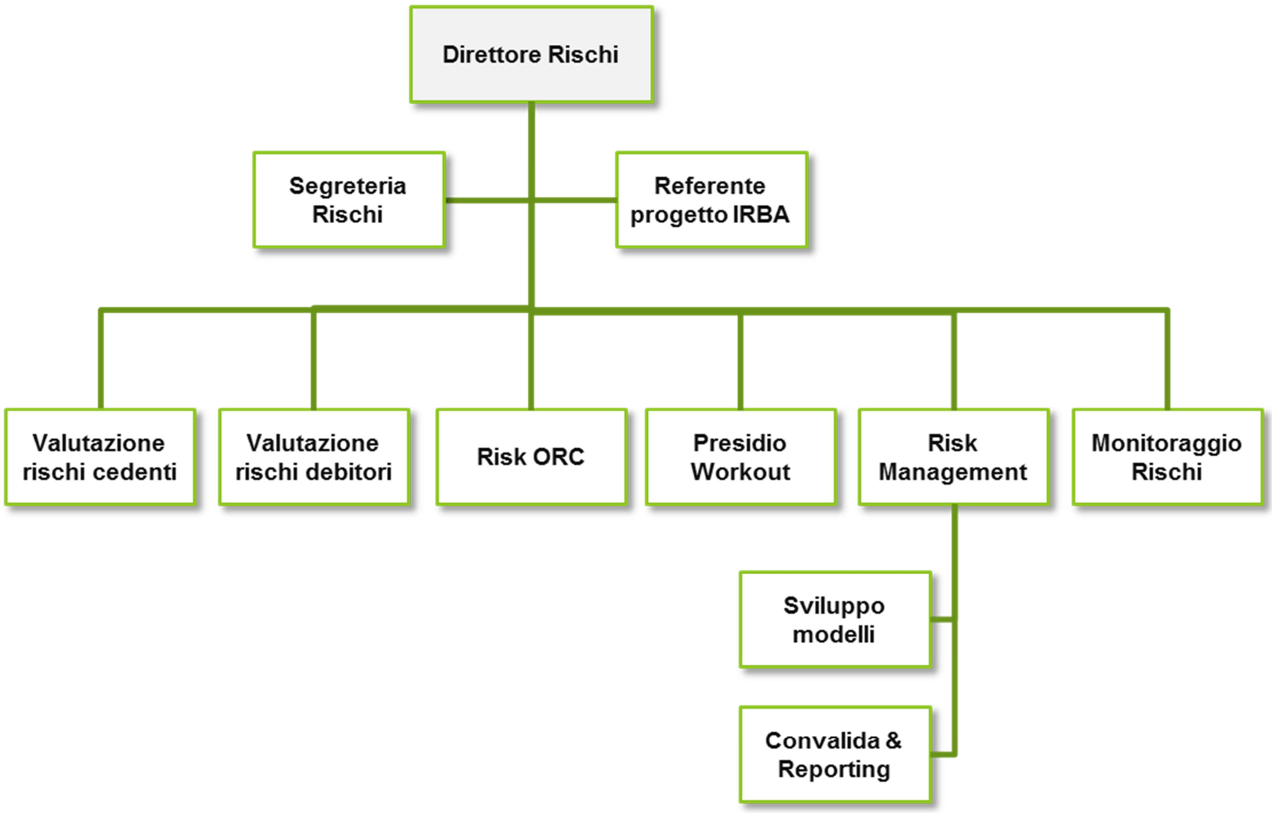
- commingling risk, which emerges in loan/receivable acquisition transactions each time the funds due to the factor may be confused with those of the transferor;
- late payment risk, which may occur if the without-recourse guarantee is also extended to the payment by the debtor as at a pre-established date (known as conventional expiry).

The internal control system set up by the company proposes to mitigate the manifestation of the above risks, which could lead to losses should they arise.
The planned progressive integration towards the Parent Company's credit risk control model, in addition to the scenario, in recent years, of exceptional macro-economic factors that have required and will require measures to be taken, including legislative, by the Regulators, who have facilitated the introduction of a gradual implementation of the credit risk control process.

## 2. Credit risk management policies

2.1 Organisational aspects

The Division's organisational structure is as follows:




The Head of the Risk Division holds the position of Head of the Risk Control Unit and, in this capacity, reports hierarchically to the Board of Directors; the Risk Division is integrated into the RISK organisational model of the BNP Paribas Group, with the consequent close link and reporting of the Head to the Factoring Global CRO of BNPP, with which it acts in close coordination.
The Head of the Division is the Point of Contact for outsourced services in the Internal Audit area of the Internal Rating System.
The Operational Risk Point of Contact functionally reports to the Head of the Risk Division, to whom he/she sends suitable information flows on pertinent risks, their recording and periodic monitoring and the mitigation actions implemented with the related Risk Owners.

The Permanent Controls are present in three units and are carried out by RISK ORC, the Risk Monitoring Department and the Risk Management Department. The Risk Division Office unit gathers together the secretarial activities, in the Risk Manager's staff. The remaining units of the Division are at line level.

Risk Division

- oversees the processes relating to the assumption of credit risk and ensures the maintenance of the customer portfolio quality over time in keeping with the corporate and BNP Paribas Group objectives and strategies.
- handles the doubtful positions, co-ordinating at BNP Paribas Group level.
- ensures constant monitoring of credit risks and those envisaged as part of the ICAAP process for the relevant areas of responsibility.
- ensures, in co-ordination with the competent BNP Paribas Group Units, the definition and maintenance of the methods and instruments aimed at identifying, measuring, assessing and handling the credit risks.
- ensures, in coordination with the responsible Units of the BNP Paribas Group, the monitoring of the Company's operational risks in its role as second line of defence and the coordination of the activities carried out by the first line of defence.
- It oversees the internal audit activities outsourced of the Internal Rating System, carried out in outsourcing by BNL SpA – DR – B2C

As a result of the outsourcing to BNL SpA – Special Loans Division of Workout activities, the Workout Activities Oversight Unit performs the role of Point of Contact for the Workout services outsourced (Problem asset management; Servicing on behalf of third parties and government authorities management; Revocation management, Lawsuit management of parties in Arrears Unlikely to Pay – Agreed Unlikely to Pay and Non-Performing statuses and of any positions subject to Complaints; Planning, operational management and monitoring; Analysis and Reporting).
The general mission is established by means of the Business Units indicated above, whose missions are summarised below.

Risk Division Office

- supports the Sales Division, the Transferor Risk Assessment and the Debtor Risk Assessment service in handling the transferor and debtor approval procedures for the Credit Committee (Ordinary and Integrated sessions) and BoD. Fulfils the obligations set forth by the Committee and forwards the documentation for which the opinion of the competent units of other Entities of BNP Paribas Group has been requested and performs any follow-up for the outcome, seeing to any changes set forth;
- ensures, for all paper files, the correct insertion in FIS of the limits without recourse of debtors approved by the Monocratic Bodies;
- oversees the preparation of the Default Committees in the envisaged Judgemental Impairment and Stock Sessions, supporting the Risk Manager in administering the resolutions taken by the Committee, receiving the opinion of BNL where required;
- it sees to the formalisation of risk measures, inputting in the information system the results of the resolutions of the statistical rating override process and judgemental assignment of the risk measures;
- oversees the process of publishing ratings in FIS attributed at the end of the quarter in application of the simplified valuation process (known as Sme Policy Performance);
- handles requests from Debtor Assessment to enter data in the master file for foreign parties and enter limits in Mediana/FIS, directly or through the use of services, for the assessment of the corresponding risks by the appointed requesting units (Val.DE);
- manages the flow of requests from the potential clients resulting from approval of without-recourse Feasibility Reports (opinions), ensuring, directly or through the use of the service, the correct entry of the reports and the related assignment to the units assigned to assess the corresponding risks;
- handles the safekeeping of the documents acquired at the approval stage (paper and/or online archiving);
- supervises the service relating to document archiving insofar as it is responsible;
- ensures for the approved limits, the control of the correctness of the data input in FIS, by means of a comparison between the data input and the original resolutions received from the Debtor Assessment service if on paper or the extracts produced by PEF (Electronic loan application) processed by IT on a daily basis;
- it sees to the handling of the restrictive measures resolved with reference to risks without recourse (revocations/reductions both PEF and on paper) by performing the related tasks (registration in FIS, etc.);
- ensures the adjustment of any errors detected in the FIS company information system relating to the processing of without-recourse limits.

Risk Operational Risk & Control / RISK ORC

The function was established as an internal structure in the last quarter of 2018.

The Risk Division is responsible for defining and supervising the overall operational risk management framework in its role as "second line of defence" together with Compliance, Legal, Tax and Finance to the extent of their direct concern.

Risk ORC is the structure in charge of this role that is carried out, in summary, in the following activities:

- ensure the dissemination and monitoring of compliance with the regulations, directives and methods of the Group in the field of Operational Risks, the assessment of the consequent choices regarding the methods and tools used and the assistance/consultancy on the matter to all company structures;
- supervise the qualification/quantification of historical operational risk incidents (HI Quality Review) by proposing any mitigation actions;
- ensure the definition of the mapping of the Company's operational risks (RCSA Risk & Control Self-Assessment), by supervising the activities carried out by OPC (Operational Permanent Controllers) and by Divisions/Structures for the relevant areas of responsibility and guaranteeing methodological support;
- ensure the definition of the Company's control plan, by supervising the activities carried out by the Risk Owner Company Structures for the relevant areas of responsibility and guaranteeing methodological support;
- ensure the supervision of the finding monitoring activities and recommendations issued by the periodic inspections (Inspection Générale), by the Regulator, by the Control Bodies and of the relevant corrective actions;
- ensure the effective implementation of strategies, frameworks and risk mitigation actions with the 1st line of defence, through the follow-up of action plans and the independent control of the activities carried out, either through tests of the controls carried out by the first line of defence or, if deemed relevant, any other type of controls;
- contribute to the dissemination of the culture and awareness of operational risk and to the formation of the risk mitigation framework;
- express an independent and alert view of the level of risk and the status of the operational risk mitigation framework;
- ensure internal management reporting to the Company's Control Bodies, to BNL SpA and to the Parent Company for matters falling within its competence;
- ensure the implementation of the outsourcing device by taking care of the implementation of the first line of defence on it;
- ensure, for the part of any activities allocated to BNL, the definition of Service Level Agreement/SLA and monitoring of the activities carried out.
- With reference to the internal and external fraud protection device:
  - ensure, in accordance with the Group guidelines, the coordination of initiatives for the management of fraud reports as well as assistance/consultancy on the matter;
  - ensure the implementation of the systems required for the prevention, identification, control and monitoring of the internal and external fraud protection system, as well as the coordination or direct management of investigations;
  - contribute, together with the first line of defence, to the training of personnel on the culture of prevention and defence against the risk of fraud.

Risk Monitoring Department

The purpose of the structure is to see to the definition, planning and implementation of controls aimed at monitoring credit risk. Specifically:

1) it defines, plans and implements credit control activities. In this area, the Department:

- carries out checks regarding the lending process and the management of the relationship and collections based on internal regulations;
- monitors the process and the merits of the assignment and revisions of ratings and reports periodic worsening in statistical ratings for the purpose of suitable management/review of the positions;
- makes sure that the facilities granted are regularly used with respect to the resolution reached at the time and the progression of the risk elements expressed by the development of the relationship;
- checks the process of allocating for impaired accounts; monitors the achievement of lending objectives in the activities of disbursement and management of lending positions, reporting any critical issue to the Divisions concerned;

- controls the consistency of the risk status classifications of the positions according to the guidelines of BNP Paribas Group and the Banking System, reporting any misalignment to the competent Divisions;

2) it ensures, working with the Business Lines, the effectiveness of the process of watchlist management to define and implement the corrective actions on positions subject to systematic supervision;
3) it contributes, in line with the rules of the BNP Paribas Group and together with the competent Divisions, to the planning, application and maintenance of the procedures aimed at overseeing the credit risks;
4) it ensures a periodic flow of information towards BNL to allow the consolidation - at BNP Paribas Group level - of the data regarding credit monitoring;
5) it ensures that specific reports regarding the results of the control activities carried out and the corrective actions for the identified anomalies are prepared for the Senior Management and/or the boards;
6) it reports any operational risk found as part of its permanent control activities to the Operational Risks Department and PCC.

The structure carries out these activities on a monthly or quarterly basis, based on the type of control to be carried out.
The activities are carried out based on the Operational Plan of Controls (OPC), which includes both controls on performance and on merits and correctness of form, broken down by type of process:

- Assumption and Review of credit risk;
- Credit risk management;
- Collection of impaired loans.

Risk Management Department

The organisational unit is divided up into two spheres with separate teams and responsibilities.
The Pillar 2 Product and Controls / Models Development Sphere sees to the activities associated with the development of the risk measures (PD, LGD, Dilution) and support in the implementation of models with regard to Ifitalia while, for the part developed by the BNL skill centre, it performs a support function for the implementation, application, applicative monitoring and periodic updating of said analysis as well as support for the issue of the regulations relating to its sphere.
This sphere's mission also includes the control on the Second Pillar risks, where considered significant by Senior Management, as well as the analysis with regard to the development on new products in terms of impact on the level of risk and support for the achievement insofar as it is responsible.
In conclusion, it works together with the Finance Division in the ICAAP process insofar as this falls under the responsibility of the Risk Division.
The Reporting and Models Validation Sphere, in co-ordination with the corresponding units of DR BNL,

- with regard to Model Validation, defines the validation guidelines for the credit risk models on a consistent basis with the guidelines of the BNP Paribas Group, follows the development of analysis methods for the validation of the aforementioned models and performs the second level validation/qualification (initial and periodic) of the local/central risk parameters for the purpose of checking the reliability of the results and the persistence of the consistency with legislative requirements and changes in the reference market. It ensures the monitoring of performance and the accuracy of estimates produced by local models following the resolution of any critical aspects found within its activities. A specific periodic disclosure is prepared to report on these activities to the Company's Governance and Control Bodies. In conclusion, it collaborates within the sphere of the above activities for the correct implementation of the algebra underlying the local estimation models with respect to the validated versions. Lastly, it oversees data quality control in the area of models, to the extent of its remit.
- with regard to reporting activities, it implements a control reporting system intended for Senior and Top Management on the performance of asset quality (e.g. changes in asset quality, shortcuts/excesses on LGD with respect to the coverages in NPL, changes in the distribution of EL by product/responsibility centre, significant changes in the granularity of the portfolio risk, analysis with focus on the change of significant sector risks, drafting of information sent to the Risk Policy Committees, etc.), provides the necessary disclosure support to management so that it can carry out its functions as part of the budgeting and periodic audit process (forecast), as well as disclosure support for the performance of the risk cost control activities carried out by management (Action Plan), performs second-level data quality controls for its area of responsibility on the internal rating system and on the information forwarded to central application software for calculating requirements, and, in conclusion, ensures its support for the consolidation process for the country risk limits of BNP Paribas in co-ordination with the Brussels GFCC.

Both the spheres of activities direct and collaborate with the IT Division, insofar as they are responsible, in relation to the development and maintenance of the databases necessary for the implementation of their analysis objectives.

Risk Assessment

- analyses the transferor and related with-recourse debtor approval procedures established by the Sales Division according to the methods envisaged by the “4Eyes” process, in particular:
- provides risk opinions on the without recourse debtor and transferor risks assessing the consistency with the lending policies of the Company and the BNP Paribas Group, as well as with the internal regulations in force;
- expresses a fairness opinion on the rating automatically calculated by the software as part of the transferor credit proposals;
- validates the changes in the without-recourse transferor and debtor ratings triggered by the override requests submitted by the Sales Division or the Debtor Assessment Department of the statistical ratings automatically assigned by the system (local models);
- validates the risk measures (rating and GRR) assigned in judgemental mode (central models) for both without-recourse transferors and debtors;
- validates the rating values calculated by the engines as part of the process of renewing debtors without recourse for a reduced amount
- supports the Default Committee in applying deviations from the Company Allocation Standards, expressing the Risk Opinion on the departure proposals put forward.

Debtor Assessment

- prepares and assesses without-recourse Debtor files and oversees the quality of these risks over time, in particular:
  - resolves within the authorised limits or submits without-recourse risks to the competent bodies;
  - assesses the consistency of the rating assigned by the software with the general risk profiles of the without-recourse Debtor, activating override processes, if necessary;
  - formulates proposals for assigning risk measures (rating and GRR SU) in judgemental mode for without-recourse debtors and submits them for validation to the Risk Assessment Department.
  - sees to, directly or via the use of services, the entry of the results of the resolutions relating to without-recourse limits and any reinsurance of the same in the Electronic Procedure or in the FIS company information system;
  - manages, with the credit insurance companies, the requests for granting, renewal or revocation of the individual insurance coverage;
  - sees to the review of outstanding without-recourse risks;
  - manages the limits subordinated to the acquisition of accessory guarantees in co-ordination with the Management Division (responsibility of VAL.DE)
  - examines the prepayment plans proposed or the requests for related extensions, submitting them to the competent bodies for authorisation;
  - adopts restrictive measures aimed at safeguarding the risk undertaken by means of decreases, changes and revocations of without-recourse limits;
  - handles the updates of the map of the Associated Customer Groups and their composition in a co-ordinated manner with the other company structures and the other entities of BNP Paribas Group;
  - sees to the main without-recourse debtor risk concentration, including by assigning portions of Major Debtor Limits or Debtor Group Limits, entering in the FIS company information system the results of the related resolutions and carrying out the appropriate controls in observance of the limits approved;
  - analyses the periodic downgrades of internal ratings of risks under its responsibility for case-by-case decisions;
- as part of managing counterparty risk:
  - supports the Head of the Division in identifying new credit insurance policies or reviewing the ones in place;
  - verifies the calculation and authorises the payment of the reassurance policy premiums, the services provided by external providers and information agencies
  - draws up suitable disclosure for the Owners with regard to the requirements of pro tempore policies in force so as to permit the correct operational handling; monitors the suitability of the CPAs resolved for foreign correspondents and insurance companies, handling the Annual Review process in collaboration with GFCC.

Workout Activities Unit

It oversees the Workout activities outsourced, periodically monitoring the observance of the service levels/execution times, the trend in the relationships with third parties, any problematic aspects emerging, and the identification of the appropriate solutions.

This unit draws up the reporting on all disputes and revocation actions for parties managed by the Workout unit of BPI.
For "legal deeds", it manages acceptance and activates the Workout unit of BPI for parties with the status Non-Performing – Arrears Unlikely to Pay – Agreed Unlikely to Pay.
It collects the proposals for reclassification of status of without-recourse transferors and debtors and submits them for the review and authorisation of the decision-making bodies, handling the entry in the company information system of the change of status resolved with regard to without-recourse debtors.

The point of contact of the IRBA project coordinates and supports the programme activities aimed at implementing the advanced risk calculation approach. In this context, it also follows the communications to the Supervisor and the "on site" validation activities.

## 2.2 Management, Measurement and Control Systems

### Internal Rating System (IRS)

The Ifitalia IRS, established since 2005, underwent a progressive change. The Probability of Default (PD) models that apply to the Large Corporate and Small Mid Corporate segments adopt a methodology that is in line with Group standards for the portion locally implemented. The Large Corporate portion uses a process implemented by the parent company BNP Paribas and applied on a transnational basis to determine the value of the internal rating and the GRR (Global Recovery Rate=1-LGD). The Small Mid Corporate section applies the rating models developed internally by the BNL domestic bank to ensure consistency in the assignment of risk parameters. On the other hand, based on the peculiarities of the factoring product, Ifitalia developed its own internal models for the estimation of the Loss Given Default and the observation of the Dilution risk.
All releases safeguard the principle of the uniqueness of the rating value by supplementing these values with those expressed by the BNP Paribas banking network, which are used, each time they are present, as a driver in the loan process. In line with the other entities of BNP Paribas Group, a single master scale is used to assess the one-year PD of counterparties included in the application scope of the models.
In addition to being a management control instrument and compliant with IFRS 9 requirements, the PD models in use were implemented as part of regulatory provisions to determine supervisory capital requirements, since our Company is a credit institution that plans to migrate to the internal rating application method using the advanced approach. The existing Ifitalia IRS is based on statistical models estimated by BNL and applied to our population. These consider, for their operation, pertinent financial, qualitative and performance variables. The probabilities of default obtained are corrected to consider the influence of the economic cycle in a way to reduce its influence and cyclicality.
The estimate of the exposure at default (EAD) and the risk parameters for the SME Retail perimeter are part of the Roll Out plan with a release expected during 2021. Therefore, for these components, Ifitalia adopts the Standard approach on a transitional basis. For portfolios belonging to the "Financial Institutions/Supervised Intermediaries and Local Authorities" asset classes, the Standard approach will be permanently applied. Therefore, there are no plans to develop internal models for measuring credit risk.
The internal rating system as a whole is subject to a general governance process and a set of application rules that guarantee the utmost reliability over time of the process to estimate and input the risk measures and their correct application in company processes.
The master scale adopted ranks the customers into 10 classes for the performing part and two classes for the default part, which includes past due, unlikely to pay and non-performing positions.
The risk managers and the principals of the approval process are allowed to request a review of the internal rating in accordance with a regulated process that entrusts the risk department with the authority to accept or refuse the related requests, each of which must be duly and promptly justified. The rating value is updated at the time the approval process begins and periodically, on the occurrence of specific events or at deadlines defined by the risk department.
The statuses expressed by the Parent Company on shared customers have direct effects on the internal classification, with particular reference to the various degrees of impairment. As regards other risk measures, which, together with the PD, make up the IRS, note that the Loss Given Default (LGD) is used in management reporting, particularly in reference to analyses highlighting the distribution of expected loss and consistency with coverage levels (shortcut/excess), as well as for IFRS 9 purposes.

## 2.3 Credit risk management policies

### Reporting

The reporting process drawn up by the Risk Management Dept. takes the form of periodic disclosure to the Risk Policy Committee (RPC)[3] of BNP Paribas Group, Senior Management, and the first level of responsibility of business management, and contains, among other things, qualitative-quantitative information on portfolio risk and the level of sector concentration. In compliance with the credit policies expressed by the Group, periodic disclosure has also been prepared for the process Owners, with the aim of facilitating observance of the indicated limits and permitting periodic reporting. Additional reports are drawn up by the Risk Monitoring Dept. and intended for Senior Management – subject to discussion if necessary with the process Owners – with the aim of informing Senior Management on observance of certain aspects of the credit process deemed to be particularly critical, also in relation to the indications received from the Parent Company.

The reporting process was further enhanced as a result of the gradual expansion of the use of risk measures with views dedicated to the trend of coverage, the distribution of ratings and the related migration matrices, as well as a better visibility of capital absorption and expected loss / RWA on credit risk, both for the performing and non-performing components, with a focus on the impact of dilution risk.

### Delegation system

The system of lending powers systematically supplements the use of the rating in the credit authorisation process with depth in the structure for exercising the authorisation in relation to the expected loss levels.

The decision-making process, taking into account Ifitalia's merger within the BNP Paribas Group, has adopted the Group model.

This model entails the involvement of two organisation chains in the credit granting process: a "commercial chain[4]" and a "risk chain[5]". According to this process, all lending resolutions relating to the transferor and debtor risk are made by the commercial chain, which avails itself of the support of a team of specialised credit risk analysts, who express credit opinions (known as risk opinions) on the credit proposals developed.

By means of this constant and joint assessment of the transferor proposal, by the commercial chain and the risk chain, the credit process has been defined as "4 Eyes".

The 4 Eyes organisational process applies at every decision-making level, from the lowest (Local areas) up to the General Management and, in the event of disagreement between the commercial opinion and the risk opinion, the concept of resolution escalation applies at all levels, on the basis of which the decision is referred to the higher decision-making body.

Resolution escalation applies each time the risk opinions express a more restrictive (or negative) lending opinion with respect to the proposed transaction and the decision-making body identified by the lending powers does not intend to comply with the risk opinion expressed.

For both the without-recourse debtor and transferor role, the power delegations take into account not only the absolute amounts but also the internal rating values expressed by the Group and by the internal rating system for the customers and debtors that are not shared.

The presence of insurance coverage on without-recourse debtor risk influences the lending process and the application of the delegation system.

In any event, the collective Decision-Making Bodies (Credit Committee and Board of Directors) are entrusted all the risks involving greater amounts, which are also subject to review by the Parent Company for the largest amounts or that, due to lender type, are reserved for the exclusive competence of the Board of Directors.

### Lending policies

A set of "Specific Credit Policies", approved by the Board of Directors, supplements the strategic guidelines formulated by the Parent Company's Risk Policy Committee (RPC) as regards specific local aspects, aimed at supporting and guiding the factoring activities at Group level.

The "Specific Credit Policies" concern aspects such as:

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[3] Credit Policy Committee

[4] "Commercial chain" means the business units of the Sales Division tasked with initial approval/decision-making activities.

[5] "Risk chain" means the business units of the Risk Division tasked with credit risk assessment activities in the initial approval process.

- coordination at Group level of the risk assumption methods, taking account of sector performance, default risk of the counterparty, and the aspects inherent in managing the relationship;
- methods of assumption and review of without-recourse debtor risk for specific brackets of amounts and segments;
- methods of assumption of transferor risk with regard to specific types of products and/or credit underlyings.

The implementation of strategies as well as the implementation of the "Specific Credit Policies" are subject to verification and reporting to the company governance bodies, according to specifically defined processes.

Supervision of performing and past due loans/receivables

The systematic supervision system takes and adapts to the factoring context the "IPEG" and "Watch List" procedure already in use at BNL, known as "IFIPEG".

"Systematic Supervision" is the set of management rules and processes for the individual risk positions of transferor and debtor counterparties, hereinafter referred to as "customers", aimed at ensuring constant reporting and assessment of risk, the consequent classification and the timely and effective application of management strategies designed to minimise the impact from risk increase, with a view to preserving the quality of these credit assets. Anticipatory management is envisaged, both in Basel regulations and in Bank of Italy supervisory instructions, as one of the fundamental principles of prudential control, where the focus is on the need for banks and financial brokers to set up a suitable system of monitoring and reporting risk exposures, which also assesses the manner in which the changing risk profile of the institution could influence its capital requirements. These rules promote the constant strengthening of the ability to prospectively assess risk profiles, defining the following, inter alia:

- Measurement criteria based on "internal ratings" as the predictive nature of those models allows for the definition of guidelines for governing credit risk, for the purpose of managing in advance possible impairment of assets;
- The fundamental principles of prudential control, where the focus is on the need for banks and financial brokers to set up a suitable system of monitoring and reporting of risk exposures, which also assessed the way in which the changing risk profile of the institution could influence its need for capital.

The Systematic Supervision process is organised into 3 pillars:

- On-going classification of Customers, by virtue of which the customer base must be permanently classified in relation to the current and forecast risk, making a distinction between low risk customers and high risk ones;
- Focus on customers subject to increasing risk, whose main objective is the early management of the deterioration of loan quality as well as its permanent and on-going monitoring;
- Action plans, focused on the reduction/reclassification of the risk vis-à-vis high risk customers.

These pillars are strictly linked to the Monitoring process, which constitutes the final phase of the broader process of Systematic Supervision and Monitoring. The Customer enters the Systematic Supervision process when:

- it is possible to apply a risk assessment and consequent management action to the same;
- a limit is granted or resolved or when an exposure emerges;
- the Customer is reclassified as performing or Restructured Unlikely to Pay, Automatic Unlikely to Pay, or Management Unlikely to Pay from a status of Arrears Unlikely to Pay, Non-Performing or Agreed Unlikely to Pay.

Conversely, the Customer leaves the process when:

- he/she no longer has dealings with Ifitalia;
- the position is classified as Arrears Unlikely to Pay, Non-Performing or Agreed Unlikely to Pay.

Positions that, due to the significance of the level of risk and/or performance or management anomalies detected, must be subject to specific monitoring, are classified as Watch List and periodically subject to examination by the Risk Monitoring Committee.

The Watchlist is broken down into:

- Ordinary: includes all positions in accounting status Performing, Past Due and those in accounting status Unlikely to Pay but defined as Automatic, Non-Arrears Unlikely to Pay without forborne flag in the management accounts, which have a counterparty risk higher than or equal to the threshold of EUR 200,000 and are marked red or orange.
- Doubtful: includes all positions in management status Management Unlikely to Pay, Restructured Unlikely to Pay or Automatic, Non-Arrears Unlikely to Pay with forborne flag, with counterparty risk >0 and/or transferor credit line and/or debtor credit limit.

The process is being fully reviewed as part of the process to implement the new IFIPEG 2.0 tool. -

Organisation of the Committees
For the purpose of ensuring an integrated management of the processes, the Company has established an organisational structure that envisages the meeting of Committees where the relevant business units are occasionally called to provide their contribution through an integrated approach.
In particular:

Credit Committee
It decides on the granting of loans and authorises their disbursements, within the limits of the powers granted.
It expresses opinions regarding lending in line with the delegated powers and approves, upon the proposal of the General Manager and within the maximum limits established by the Board of Directors, the decision-making and administrative sub-delegation and use of the credit facilities, including registered by name, to be assigned to certain defined business roles.
The Credit Committee meets in "ordinary" and "integrated" sessions. In the "integrated" session, the Credit Committee resolves solely on granting loans that exceed the powers of the "ordinary" session, without prejudice to the powers reserved exclusively to the Board of Directors.

Non-Standard Product Validation Committee
It authorises all the “non-standard products”, understood as those that cannot be activated, marketed, controlled, handled or registered for reputational, accounting, tax-related, supervisory and risk and management control purposes, in accordance with current practices and legislation.
The name of the Committee was changed to Product, Activities, Exceptional Transactions (COPAT) Committee as from December 2018 together with the entry of RISK ORC as a reference on aspects related to operational risk.
The Committee is responsible for assessing the impacts:
- on the components of credit risk, operational risk, market risk, ALM risk (interest rate risk and liquidity risk), risk of non-compliance, reputation risk and image risk;
- on the control system;
- on accounting and administrative processes/systems and on commercial, financial and supervisory reporting;
- on tax aspects;
- on legal aspects;
- on IT systems and/or infrastructure components;
- on distribution processes;
- on organisational aspects;
- on data, in terms of their quality compared to the different purposes of use.

Risk Monitoring Committee
The Risk Monitoring Committee, consistent with the Group model, is an analysis and decision-making body that ensures the integrated supervision of significant risks, also with a view to valuation of the level of adequacy of the available capital.
This Committee is the venue in which business management discusses the valuation of risks carried out by the competent units and assesses the mitigation action proposed by the responsible units, individually or jointly.
Furthermore, the company control units share the results of the respective activities within said Committee.
The Committee therefore represents one of the main venues in which - for its areas of responsibility - control is exercised by the Risk Control Units and represents a point of business synthesis that ensures a single view of risks.
The Committee is organised in multiple issue-based sessions, and its composition varies in relation to the issues handled in each session.
Specifically, the Committee is responsible for:
- examining the trends in impairment on the performing portfolio;
- validating the Operational Plans for Control of the risks, prepared by the responsible units, to be submitted for the approval of the Board of Directors;
- assessing the corrective action plans proposed by the competent units for the positions included on the watchlists, consistent with the processes defined at BNP Paribas Group level;
- directly downgrading, if necessary, the rating assigned to the customer;
- assessing the action/initiatives to mitigate risks and modify developmental trends in activities to contain risks and RWAs;

- providing a global and systematic vision of the situation within the sphere of the permanent control system and operational risk;
- intervening, in a dedicated session and in an anticipatory logic, on relations that present a relevant fraud scoring with decisions that can lead
  - to the maintenance of the relationship without any change compared to the existing situation;
  - to the maintenance of the relationship with a restructuring of the operations where necessary, also requiring the activation of a new investigation process;
  - to the inclusion of the name in the Watchlist;
  - to the request for an amicable exit from the relationship;
  - to status changeover, referring the valuation of the relevant provisions to the competent bodies.
- analysing and acquiring collective decisions with regard to the permanent control system and operational risks;
- supporting the Business Continuity manager in reporting, sharing and validating the information and initiatives aimed at maintaining Business Continuity solutions;
- in implementation of the governance of Internal Rating System:
  - ensuring a joint examination on initial application, as well as in the subsequent evolutions of risk measures that are applied in the business;
  - ensuring a joint examination on initial application, as well as in the subsequent evolutions of the tools for using the risk measures to govern credit and dilution risk;
  - ensuring an integrated view of the results of data quality and data integrity controls relating to the use of the internal rating system;
- ensuring an integrated communication flow on significant risks: collecting and reviewing reports on trends in the adequacy of the available capital (ICAAP) and of the significant risks drawn up by the competent business units; communicating the outcome of the discussions to the BoD, formalised in specific reports;
- supervising, in an integrated manner, the current and forecast trend of the risk profile and the level of capital adequacy of the Company, assessing the action/initiatives to mitigate risks and modify developmental trends in activities to contain risks and the RWAs;
- ensuring the supervision of supplier risk so as to efficiently manage any issues deriving from the commercial dealings with suppliers, ensuring the quality and continuity of the related activities.

Default Committee

The Default Committee is the body that analyses and resolves on lending disputes and the collection or loss forecasts.
This Committee works through two internal sessions: *Ordinary* (assesses and resolves the reclassification of risks exceeding EUR 3 million from performing and non-performing, assesses any deviation from the global Past Due and Unlikely to Pay provision determined by the level of the past due positions (Automatic IPA/IP), assesses and resolves allocations to provisions for risk starting from EUR 600 thousand) and *Stock* (assesses the management activity of risk positions with the Debt Collection Dept. with financial exposure starting from EUR 3 million). Promptly reports its decisions to the Risk Division of BNL.

Techniques for mitigating the credit risk

The mitigation of credit risk in the factoring transaction is essentially entrusted to an efficient and effective process for checking the ability of the debtor to pay the trade receivable acquired on maturity, which, since 2016 has been increasingly accompanied by insurance on without-recourse debtor risk, previously contracted essentially on foreign transactions and for transactions with specific customers. This choice is consistent with the strategies implemented within the factoring hub of BNP Paribas Group, where normally the assumption of without-recourse debtor risk is accompanied by an insurance guarantee or a guarantee from a foreign correspondent.
The compliance of correspondents and insurers is subject to periodic assessment.
Nevertheless, as regards unsecured and secured guarantees, the Company has already organised itself, defining tasks and responsibilities inherent to the definition of:

- standard forms for the types of guarantees normally assumed;
- processes for gathering the subscription of guarantees;
- processes for the control, custody and registration of the guarantees.

The organisational and technological processes take into due account the necessary functional distinction that must be assigned among the party that defines the standard texts, the party that collects the guarantees, and the party that checks/holds/validates them.

The credit protection usually undertaken is unsecured (unfunded), while the use of secured (funded) credit protection instruments is typically associated with protection of already non-performing loans/receivables and, therefore – contrary to banking activities - is more of an exception than a usual risk mitigation instrument.

2.4 Projects underway that will be realised as from 2020

The project entitled “Basel II Programme” to adopt the IRB Advanced approach for the calculation of the credit risk capital requirement has currently reached a very advanced stage, having managed during the last quarter of 2019 the access to on-site validation by the Supervisor. In relation to the process of completing the Bank of Italy's approval process, formal feedback is expected by the first half of 2020, with the aim of finalising the transition to the advanced approach during the year.

Along with these developments, the revision of the scoring system already in place has been finalised to extend its application and to increase its ability to classify even more selectively, consistent with the pro tempore risk objectives defined by the business.

A further strengthening of the framework for preventing the risk of external fraud is envisaged with the implementation of the "*ex-ante* fraud score" mentioned above, with reference to:

- the activation of the Audit process on transferors;
- the activation of a tool point in time with the aim of reporting attempted frauds already at the time of the transfer;
- a training and awareness-raising programme on the risk of fraud in general and with a particular focus on external factoring fraud.

## 3. Impaired credit exposures

Classification of impaired assets

The definition of impaired credit exposures is described by the company in a procedure that identifies the detection methods/criteria of the status of the counterparty.

This identification may be automatic (subjects in impaired past due status) or evaluated (arrears unlikely to pay and non-performing loans).

Subjects defined in past due/impaired status

Given that the past due must be on-going, as part of factoring transactions the continuity of the past due is recorded as follows:

- in case of "with recourse" transactions, the past due exposure, other than that related to the future loan/receivable factoring transaction, is determined exclusively upon the fulfilment of both of the following conditions:
  − the advance is for an amount equal to or greater than the total loans/receivables yet to fall due;
  − there is at least one invoice past due by more than 90 days and the total of the past due invoices (including those by less than 90 days) exceeds 5 percent of the total loans/receivables.
- in case of transactions "without recourse", for each transferred debtor, reference must be made to the individual invoice with the longest delay.

Therefore, for factoring transactions, the exposures recognised on parties pursuant to IAS/IFRS are "past due assets" when both conditions of persistence and materiality are met at the same time.

Subjects defined as arrears unlikely to pay and non-performing loans

- Unlikely to pay: the classification of counterparties in this category is the result of the company's opinion as to the unlikelihood that, without recourse to actions such as enforcement of the guarantees, the debtor/transferor fully meets his/her credit obligations (in terms of principal and/or interest). This assessment is made independently from the presence of any amounts (or instalments) past due and not paid. Therefore, it is not necessary to await the explicit symptom of anomaly (non-payment), if elements exist that imply a situation of counterparty default risk (for example, a crisis in the industrial sector in which it operates). All cash and off-balance-sheet exposures to a counterparty in this situation are referred to as "unlikely to pay", unless the conditions for classification as non-performing are met.
- Non-performing loans: this category includes all cash and off-balance-sheet exposures vis-à-vis a party in a state of insolvency (even if not legally ascertained) or in essentially equivalent situations, irrespective of any loss forecasts

made by the company. The exposures whose anomalous situation is attributable to profiles pertaining to country risk are excluded.

Return to performing

The counterparty can leave the non-performing status:

- o when the exposures are fully discharged, including interest on arrears;
- o if, once the conditions for maintaining the position as Non-performing no longer exist, it is returned to performing/Unlikely to pay by means of a specific resolution passed by the Positions delegated for this purpose;
- o in case of full loss transfer of the position not recovered in whole or in part.

The counterparty can leave the unlikely to pay status:

- o when the entire exposure classified as Unlikely to pay has been discharged;
- o if the status of Unlikely to Pay is among those that required an automatic placement, the position can be relocated to a different status only by resolution of the decision-making body granted the right to do so.

The counterparty can leave the impaired past due status:

- o the automatic positions do not require a resolution for the return to performing (BON/Bonis), in that the exit from this status is managed directly by the information system that checks on a monthly basis the absence of the conditions of materiality and persistence of the past due positions that determined the placement or the end of the "cure period".

Procedures for defining, managing and controlling anomalous items at Group level

The status coordination activity is transversal to all the entities of the BNPP group in order to achieve a homogeneous reclassification of the status of the customer. Alignment is a process that needs to be coordinated from the moment the state changeover is prepared for all the statuses being assessed. The status alignment process is not automatic but always subject to coordinated evaluation by the Group entities.

Management and recovery process for non-performing loans not yet due

The supervision of the collection process for impaired positions – other than past due and some of the unlikely to pay and restructured positions – is entrusted to the Special Loans - Workout Division of BNL SpA that, as mentioned previously, is an outsourced unit and followed internally by the Workout Activities Unit.

As part of this process, the Unit implements collection strategies that consider:

- o the status of the position and counterparties resulting from the data in its possession at the time the documentation is received and subsequently acquired;
- o the effective amount to be collected and economic advantages of possible actions to be carried out;
- o the presence of any guarantee that can be usefully enforced.

In relation to the above, it periodically takes steps to formulate collection forecasts and to quantify the amount of provisions deemed adequate in light of the status of the position when the forecasts are formulated and each time there are new elements that allow to change it.

In relation to the unlikely to pay/non-performing positions with contained risk amounts, external servicers are used, whose activities and efficiency is accurately monitored.

The Group methodology, shared with BNL, was introduced in 2012 with regard to the definition of the scope of impaired receivables and the rules to quantify the provisions to the performing portfolio (known as Collective Write-down) and non-performing receivables (known as Global impairment and analytic impairment). The process for provisioning and status changeover is co-ordinated by the Default Committee referred to above.

During 2019, the Company defined and submitted to the Board of Directors for approval both the "Non Performing Exposure - NPE" management strategy and the internal policy describing the guidelines for the activation of a write off process on non-performing loans.

**4. Financial assets subject to commercial renegotiations and exposures subject to concession**

Exposures falling under the categories of "Non-performing exposures with forbearance measures" and "Forborne performing exposures" as defined in the ITS are credit exposures subject to concessions (forbearance).

Credit exposures subject to concessions (forbearance) can fall both under the categories of "Non-performing forborne exposures (with forbearance measures)" and "Performing forborne exposures" as defined in the ITS.

Forbearance measures are represented by concessions/rescheduling with counterparties that are, or are expected to be, in difficulty in meeting the originally agreed deadlines (financial difficulties).

Exposures must not be treated as forborne when the debtor is not in financial difficulty (no subjective requirement).

The valuation component from which the opinion of state of difficulty at the time of the request for concession/rescheduling arises is necessary to determine whether the measures put in place are to be understood as forbearance measures.
A concession/rescheduling can be referred to any of the following actions:
a) a change in the previous contractual terms and conditions that the counterparty had to comply with and that counterparty is considered unable to comply with in the absence of the previous contractual terms and conditions due to financial difficulties (debt management problems) and that would not have been granted had the counterparty not been in such difficulties;
b) a total or partial refinancing/rescheduling of debt that would not have been granted had the counterparty not been in financial difficulty.
A concession/rescheduling can result in a loss for the bank/intermediary but this is not an absolute precondition. Therefore, a forbearance measure does not necessarily involve a loss.
In the business application, the focus is placed on the subjective assessment of the state of difficulty of the counterparty requesting the changes in due dates (forbearance measures) from which can derive - together with the existence of certain objective assumptions - the requirement of placing the counterparty among the NPE forborne exposures.
In particular, to ensure the above, the following guidelines are defined:
1 Changes in deadlines must be due to two distinct and alternative circumstances:

> 1.1 commercial reasons (trade concessions), i.e. problems related to the underlying supply and/or commercial policies of the purchaser and/or sector specificity in the absence of a state of difficulty and therefore of the counterparty;
>
> 1.2 change in deadlines resulting from a lack of funds in the presence of a state of difficulty of the counterparty (non-commercial concessions).

2 Some reasons constitute rebuttable presumption or absolute presumption of the case under 1.2.
3 The treatment must be differentiated between the debtor role (without recourse) and the transferor role (with recourse), meaning that

> 3.1 the debtor role without recourse is a debtor counterparty where there are receivables without recourse;
>
> 3.2 the transferor role with recourse is a transferor counterparty where there are exposures with recourse.

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## QUANTITATIVE INFORMATION

### 1. Distribution of financial assets by portfolio and loan quality (book values)

*(thousands of €)*

| Portfolios/quality | Non-performing | Unlikely to pay | Past due positions | Performing Past due positions | Other Assets | **Total** |
|---|---|---|---|---|---|---|
| 1. Financial assets measured at amortised cost | 62,992 | 45,129 | 17,981 | 1,102,515 | 6,294,568 | **7,523,185** |
| 2. Financial assets at fair value through other comprehensive income | | | | | | **-** |
| 3. Financial assets designated at fair value | | | | | | **-** |
| 4. Other financial assets mandatorily measured at fair value | | | | | 4,566 | **4,566** |
| 5. Discontinues operations | | | | | | **-** |
| **Total 31/12/2019** | **62,992** | **45,129** | **17,981** | **1,102,515** | **6,299,134** | **7,527,751** |
| **Total 31/12/2018** | **61,248** | **55,142** | **25,875** | **1,326,108** | **6,283,989** | 7,752,362 |

### 2. Distribution of financial assets by portfolio and loan quality (gross and net values)

*(thousands of €)*

| **Portfolios/quality** | **Impaired** | | | | **Performing** | | | **Total (net exposure)** |
|---|---|---|---|---|---|---|---|---|
| | Gross Exposure | Total value adjustment | Net exposure | Overall partial write-off * | Gross Exposure | Total value adjustment | Net exposure | |
| 1. Financial assets measured at amortised cost | 410,494 | (284,392) | 126,102 | | 7,408,828 | (11,745) | 7,397,443 | 7,523,545 |
| 2. Financial assets at fair value through other comprehensive income | | | - | | | | - | - |
| 3. Financial assets designated at fair value | | | - | | X | X | - | - |
| 4. Other financial assets mandatorily measured at fair value | | | - | | X | X | 4,566 | 4,566 |
| 5. Discontinued operations | | | - | | | | - | - |
| **TOTAL (2019)** | **410,494** | **(284,392)** | **126,102** | **-** | **7,408,828** | **(11,745)** | **7,402,009** | **7,528,111** |
| **TOTAL (2018)** | **437,026** | **(294,761)** | **142,265** | **-** | **7,615,809** | **(10,893)** | **7,610,411** | **7,752,676** |

*(thousands of €)*

| Portfolios/quality | **Low creditworthiness assets** | | **Other assets** |
|---|---|---|---|
| | Capital Losses Cumulative | Net exposure | Net exposure |
| 1. Financial assets held for trading | - | - | - |
| 2. Hedging derivatives | - | - | - |
| **Total (2019)** | - | - | - |
| **Total (2018)** | - | - | - |

* Value to be shown for information purposes.

## 3. Distribution of financial assets by maturity brackets (book values)

*(thousands of €)*

| Portfolios/quality | First level | | | Second level | | | Third level | | |
|---|---|---|---|---|---|---|---|---|---|
| | Up to 30 days | From 30 days to 90 | Over 90 days | Up to 30 days | From 30 days to 90 | Over 90 days | Up to 30 days | From 30 days to 90 | Over 90 days |
| 1. Financial assets measured at amortised cost | 552,065 | 108,966 | 249,696 | 108,930 | 20,878 | 61,980 | 1,863 | 662 | 407,970 |
| 2. Financial assets at fair value through other comprehensive income | | | | | | | | | |
| 3. Discontinues operations | | | | | | | | | |
| **Total (2019)** | 552,065 | 108,966 | 249,696 | 108,930 | 20,878 | 61,980 | 1,863 | 662 | 407,970 |
| **Total (2018)** | 457,064 | 114,299 | 650,456 | 45,359 | 15,177 | 43,752 | 1,404 | 2,930 | 432,693 |

## 4. Financial assets, commitments to grant funds and financial guarantees given: changes in total value adjustments and in total provisions

*(thousands of €)*

| Causes/Risk status | Total value adjustments | | | | | | | | | | | | | Total provisions on commitments to disburse funds and financial guarantees given | | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Assets in the first status | | | | Assets in the second status | | | | Assets in the third status | | | | of which: impaired financial assets acquired or originated | | | | |
| | Financial assets measured at amortised cost | Financial assets at fair value through other comprehensive income | of which: single write-downs | of which: collective write-downs | Financial assets measured at amortised cost | Financial assets at fair value through other comprehensive income | of which: single write-downs | of which: collective write-downs | Financial assets measured at amortised cost | Financial assets at fair value through other comprehensive income | of which: single write-downs | of which: collective write-downs | | First Level | Second Level | Third Level | |
| **Opening Balance** | 4,392 | | | 4,392 | 6,501 | | | 6,501 | 294,761 | | 294,761 | | | 232 | 132 | 1,283 | 307,301 |
| Increases in financial assets acquired or originated | | | | | | | | | | | | | | | | | - |
| Eliminations other than write-offs | | | | | | | | | | | | | | | | | - |
| Net value adjustments/writebacks for credit risk (+/-) | 3,683 | | | 3,683 | 2,202 | | | 2,202 | 10,974 | | 10,974 | | | 51 | 19 | 66 | 16,995 |
| Contract modifications without eliminations | | | | | | | | | | | | | | | | | - |
| Changes in estimation method | | | | | | | | | | | | | | | | | - |
| Write-off | | | | | | | | | (18,261) | | | | | | | | (18,261) |
| Other changes | (1,141) | | | (1,141) | (3,892) | | | (3,892) | (3,082) | | (3,082) | | | (10) | (73) | (87) | (8,285) |
| **Closing balance** | 6,934 | | | 6,934 | 4,811 | | | 4,811 | 284,392 | | 302,653 | | | 273 | 78 | 1,262 | 297,750 |
| Recoveries from collections on financial assets written off | | | | | | | | | 230 | | 230 | | | | | | 230 |
| Write-offs recognised directly to the income statement | | | | | | | | | (1,415) | | (1,415) | | | | | | (1,415) |

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# 5. Financial assets, commitments to grant funds and financial guarantees given: transfers between different stages of credit risk (gross and nominal values)

*(thousands of €)*

| Portfolios/quality | Gross Value / Nominal Value | | | | | |
|---|---|---|---|---|---|---|
| | Transfer from first stage to second stage | | Transfer from first stage to third stage | | Transfer from second stage to third stage | |
| | From first status to second status | From second status to first status | From second status to third status | From third status to second status | From first status to third status | From third status to first status |
| 1. Financial assets measured at amortised cost | 934,046 | 563,964 | 9,417 | 4,079 | 23,578 | 20,811 |
| 2. Financial assets at fair value through other comprehensive income | | | | | | |
| 3. Commitments to grant loans and financial guarantees issued | 10,513 | 10,302 | 1,084 | 52 | 1,157 | 11 |
| **Total 31/12/2019** | 944,559 | 574,266 | 10,501 | 4,131 | 24,735 | 20,822 |
| **Total 31/12/2018** | 93,640 | 1,771,605 | 20,451 | 26,114 | 37,928 | 40,778 |

# 6. Credit exposures to customers, banks and financial businesses

## 6.1 Off-balance sheet credit exposures to banks and financial businesses: gross and net values

*(thousands of €)*

| Types of exposures/Amounts | Gross Exposure | | Total value adjustments and total provisions | Net Exposure | Overall partial write-off* |
|---|---|---|---|---|---|
| | Impaired | Performing | | | |
| **A. CASH EXPOSURES** | | | | | |
| a) Doubtful loans | 1,648 | X | (1,648) | - | |
| -of which forborne exposures | | X | | - | |
| b) Unlikely to pay | 19 | X | | 19 | |
| -of which forborne exposures | | X | | - | |
| c) Impaired past due loans | - | X | - | - | |
| -of which forborne exposures | - | X | | - | |
| d) Performing Past due loans | X | 10,069 | (3) | 10,066 | |
| -of which forborne exposures | X | | | - | |
| e) Other Performing Assets | X | 88,302 | (161) | 88,141 | |
| -of which forborne exposures | X | | | - | |
| **TOTAL A** | **1,667** | **98,731** | **(1,812)** | **98,586** | **-** |
| **B. OFF BALANCE SHEET EXPOSURES** | | | | | |
| a) Impaired assets | | | | - | |
| b) Performing assets | X | 4,716 | - | 4,716 | |
| **TOTAL B** | **-** | **4,716** | **-** | **4,716** | **-** |
| **TOTAL (A+)B** | **1,667** | **103,447** | **(1,812)** | **103,302** | **-** |

* Value to be shown for information purposes.

### 6.2 Cash credit exposures to banks and financial businesses: changes in gross non-performing exposures

*(thousands of €)*

| | Cause/Categories | Doubtful loans | Unlikely to pay | Impaired past due loans |
|---|---|---|---|---|
| ***A.*** | ***Starting gross exposure*** | **1,646** | **19** | **693** |
| | - of which: exposures sold, but not eliminated | | | |
| ***B.*** | ***Increases*** | **2** | **-** | **-** |
| B.1 | entries from performing exposures | | | |
| B.2 | entries from impaired financial assets acquired or originated | | | |
| B.3 | transfers from other categories of impaired exposure | | | |
| B.4 | contract modifications without eliminations | | | |
| B.5 | other increases | 2 | | |
| ***C.*** | ***Decreases*** | **-** | **-** | **(693)** |
| C.1 | exits to performing exposures | | | |
| C.2 | write-offs | | | |
| C.3 | collections | | | |
| C.4 | sale proceeds | | | |
| C.5 | losses on sale | | | |
| C.6 | transfers from other categories of impaired exposures | | | |
| C.7 | contract modifications without eliminations | | | |
| C.8 | other decreases | | | (693) |
| ***D.*** | ***Gross final exposure*** | **1,648** | **19** | **-** |
| | of which: exposures sold, but not eliminated | | | |

### 6.2bis Cash credit exposures to banks and financial businesses: changes in gross forborne exposures broken down by credit quality

There were no amounts in this section.

### 6.3 Impaired cash credit exposures to banks and financial businesses: changes in total value adjustments

*(thousands of €)*

| | Cause/Categories | **Doubtful loans** | | **Unlikely to pay** | | **Impaired past due loans** | |
|---|---|---|---|---|---|---|---|
| | | Total | of which: forborne exposures | Total | of which: forborne exposures | Total | of which: forborne exposures |
| ***A.*** | ***Initial total adjustments*** | **1,646** | **-** | **-** | **-** | **1** | **-** |
| | - of which: exposures sold, but not eliminated | | | | | | |
| ***B.*** | ***Increases*** | **2** | **-** | **-** | **-** | **-** | **-** |
| B.1 | value adjustments from impaired financial assets acquired or | - | X | - | X | - | X |
| B.2 | other value adjustments | 2 | - | - | - | | - |
| B.3 | losses on sale | - | - | - | - | - | - |
| B.4 | transfers from other categories of impaired exposures | - | - | - | - | - | - |
| B.5 | contract modifications without eliminations | | X | | X | | X |
| B.6 | other increases | - | - | - | - | - | - |
| ***C.*** | ***Decreases*** | **-** | **-** | **-** | **-** | **(1)** | **-** |
| C.1 | write-backs from valuation | | | | | (1) | |
| C.2 | write-backs from collection | - | - | - | - | - | - |
| C.3 | gains on sale | - | - | - | - | - | - |
| C.4 | write-offs | - | - | - | - | - | - |
| C.5 | transfers from other categories of impaired exposures | - | - | - | - | - | - |
| C.6 | contract modifications without eliminations | - | X | | X | | X |
| C.7 | other decreases | - | - | - | - | - | - |
| ***D.*** | ***Final total adjustments*** | **1,648** | **-** | **-** | **-** | **-** | **-** |
| | - of which: exposures sold, but not eliminated | | | | | | |

### 6.4 Off-balance sheet credit exposures to customers: gross and net values

(thousands of €)

| Types of exposures/Amounts | Gross Exposure - Impaired | Gross Exposure - Performing | Total value adjustments and total provisions | Net Exposure | Overall partial write-off* |
|---|---|---|---|---|---|
| **A. CASH EXPOSURES** | | | | | |
| a) Doubtful loans | 303,431 | X | (240,439) | 62,992 | |
| -of which forborne exposures | 20,789 | X | (18,313) | 2,476 | |
| b) Unlikely to pay | 84,914 | X | (39,804) | 45,110 | |
| -of which forborne exposures | 22,899 | X | (10,728) | 12,170 | |
| c) Impaired past due loans | 20,482 | X | (2,501) | 17,981 | |
| -of which forborne exposures | - | X | - | | |
| d) Performing Past due loans | X | 1,092,446 | (1,164) | 1,091,282 | |
| -of which forborne exposures | X | 271 | 1 | 272 | |
| e) Other Performing Assets | X | 6,218,011 | (10,417) | 6,207,594 | |
| -of which forborne exposures | X | 91 | (3) | 88 | |
| **TOTAL A** | **408,827** | **7,310,457** | **(294,325)** | **7,424,959** | **-** |
| **B. OFF BALANCE SHEET EXPOSURES** | | | | | |
| a) Impaired assets | 3,895 | | (1,262) | 2,633 | |
| b) Performing assets | X | 292,200 | (351) | 291,849 | |
| **TOTAL B** | **3,895** | **292,200** | **(1,613)** | **294,482** | **-** |
| **TOTAL (A+)B** | **412,722** | **7,602,657** | **(295,938)** | **7,719,441** | **-** |

* Value to be shown for information purposes.

### 6.5 Credit exposures to customers: changes in gross impaired exposures

(thousands of €)

| | Cause/Categories | Doubtful loans | Unlikely to pay | Impaired past due loans |
|---|---|---|---|---|
| ***A.*** | ***Starting gross exposure*** | **302,854** | **104,251** | **27,563** |
| | - of which: exposures sold, but not eliminated | | | |
| ***B.*** | ***Increases*** | **25,388** | **17,452** | **4,260** |
| B.1 | entries from performing exposures | 1,744 | 16,091 | 2,502 |
| B.2 | entries from impaired financial assets acquired or originated | | | |
| B.3 | transfers from other categories of impaired exposure | 23,612 | | |
| B.4 | contract modifications without eliminations | | | |
| B.5 | other increases | 32 | 1,361 | 1,758 |
| ***C.*** | ***Decreases*** | **(24,811)** | **(36,789)** | **(11,341)** |
| C.1 | exits to performing exposures | (6,894) | (9,303) | (6,510) |
| C.2 | write-offs | (16,549) | (2,287) | (3) |
| C.3 | collections | (1,368) | (1,587) | |
| C.4 | sale proceeds | | | - |
| C.5 | losses on sale | | | - |
| C.6 | transfers from other categories of impaired exposures | | (23,612) | (3,539) |
| C.7 | contract modifications without eliminations | | | - |
| C.8 | other decreases | | | (1,289) |
| ***D.*** | ***Gross final exposure*** | **303,431** | **84,914** | **20,482** |
| | of which: exposures sold, but not eliminated | | | |

### 6.5bis Cash credit exposures to customers: changes in gross forborne exposures broken down by credit quality

*(thousands of €)*

| | Cause/Categories | Forborne exposures: impaired | Forborne exposures: performing |
|---|---|---|---|
| ***A.*** | ***Starting gross exposure*** | **32,356** | **952** |
| | of which: exposures sold, but not eliminated | | |
| ***B.*** | ***Increases*** | **19,168** | **79** |
| B.1 | entries from performing not forborne exposures | 2,575 | |
| B.2 | entries from performing forborne exposures | 7 | X |
| B.3 | entries from impaired forborne exposures | X | 79 |
| B.4 | entries from non impaired forborne | 14,684 | - |
| B.5 | other increases | 1,902 | |
| ***C.*** | ***Decreases*** | (7,837) | - |
| C.1 | exits to performing not forborne exposures | (23) | (669) |
| C.2 | exits to performing forborne exposures | (81) | X |
| C.3 | exits to impaired forborne exposures | X | (30) |
| C.4 | write-offs | (3,499) | - |
| C.5 | collections | - | - |
| C.6 | sale proceeds | - | - |
| C.7 | losses on sale | - | - |
| C.8 | other decreases | (4,234) | (639) |
| ***D.*** | ***Gross final exposure*** | **43,687** | **362** |
| | of which: exposures sold, but not eliminated | - | - |

### 6.6 Impaired cash credit exposures to customers: changes in total value adjustments

*(thousands of €)*

| | Cause/Categories | **Doubtful loans** | | **Unlikely to pay** | | **Impaired past due loans** | |
|---|---|---|---|---|---|---|---|
| | | Total | of which: forborne exposures | Total | of which: forborne exposures | Total | of which: forborne exposures |
| ***A.*** | ***Initial total adjustments*** | **241,606** | **16,326** | **49,128** | **3,838** | **2,380** | **-** |
| | - of which: exposures sold, but not eliminated | | | | | | |
| ***B.*** | ***Increases*** | **23,351** | **5,822** | **5,770** | **8,515** | **166** | **-** |
| B.1 | value adjustments from impaired financial assets acquired or originated | - | X | - | X | - | X |
| B.2 | other value adjustments | 11,440 | 2,392 | 5,770 | 1,885 | 166 | |
| B.3 | losses on sale | - | - | - | - | - | - |
| B.4 | transfers from other categories of impaired exposures | 11,911 | 730 | | - | - | - |
| B.5 | contract modifications without eliminations | - | X | - | X | - | X |
| B.6 | other increases | | 2,700 | | 6,630 | - | - |
| ***C.*** | ***Decreases*** | **(24,518)** | **(3,835)** | **(15,094)** | **(1,625)** | **(45)** | **-** |
| C.1 | write-backs from valuation | (4,321) | (405) | (2,125) | (339) | (45) | |
| C.2 | write-backs from collection | (2,504) | (31) | (491) | (390) | - | |
| C.3 | gains on sale | | | | | - | - |
| C.4 | write-offs | (17,693) | (3,342) | (567) | (100) | - | |
| C.5 | transfers from other categories of impaired exposures | | | (11,911) | (730) | | |
| C.6 | contract modifications without eliminations | - | X | - | X | - | X |
| C.7 | other decreases | | (57) | | (66) | | |
| ***D.*** | ***Final total adjustments*** | **240,439** | **18,313** | **39,804** | **10,728** | **2,501** | **-** |
| | - of which: exposures sold, but not eliminated | | | | | | |

## 7. Classification of financial assets, commitments to grant funds and financial guarantees given based on internal and external ratings

### 7.1 Breakdown of financial assets, commitments to grant funds and financial guarantees given by external rating classes (gross values)

*(thousands of €)*

| Exposures | External rating classes | | | | | | Unrated | Total |
|---|---|---|---|---|---|---|---|---|
| | Class 1 | Class 2 | Class 3 | Class 4 | Class 5 | Class 6 | | |
| **A. Financial assets measured at amortised cost** | **427,504** | **1,694,599** | **1,138,265** | **476,941** | **85,327** | **415** | **3,996,271** | **7,819,322** |
| - First level | 424,439 | 1,471,286 | 1,106,902 | 443,462 | 75,469 | - | 2,967,456 | **6,489,014** |
| - Second level | 3,065 | 221,829 | 31,363 | 21,409 | 9,858 | 415 | 631,875 | **919,814** |
| - Third level | - | 1,484 | - | 12,070 | - | - | 396,940 | **410,494** |
| **B. Financial assets at fair value through other comprehensive income** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| - First level | | | | | | | | **-** |
| - Second level | | | | | | | | **-** |
| - Third level | | | | | | | | **-** |
| **C. Commitments to disburse funds and financial guarantees** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| - First level | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| - Second level | - | - | - | - | - | - | - | **-** |
| - Third level | - | - | - | - | - | - | - | **-** |
| **Total (A + B)** | **427,504** | **1,694,599** | **1,138,265** | **476,941** | **85,327** | **415** | **3,996,271** | **7,819,322** |
| *of which: impaired financial assets acquired or originated* | | | | | | | | |
| **C. Commitments to disburse funds and financial guarantees** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| - First level | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| - Second level | - | - | - | - | - | - | - | **-** |
| - Third level | - | - | - | - | - | - | - | **-** |
| **D.** | **5,469** | **131,931** | **63,837** | **13,281** | **86,293** | **-** | **300,812** | **601,623** |
| | 5,456 | 131,655 | 63,745 | 13,238 | 75,806 | - | 289,901 | **579,801** |
| | 13 | 276 | 92 | 43 | 6,592 | - | 7,016 | **14,032** |
| | - | - | - | - | 3,895 | - | 3,895 | **7,790** |
| **Total (C)** | **5,469** | **131,931** | **63,837** | **13,281** | **86,293** | **-** | **300,812** | **601,623** |
| **Total (A + B + C)** | **432,973** | **1,826,530** | **1,202,102** | **490,222** | **171,620** | **415** | **4,297,083** | **8,420,945** |

Ifitalia, for the Exposures in the Central Administrations and Central Banks portfolio, uses the external ratings of the following ECAI:

| | 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|
| CERVED | A1.1, A1.2, A.1.3 | A.2.1, A.2.2, A.3.1 | B.1.1, B.1.2 | B.2.1, B.2.2 | C.1.1 | C.1.2, C.2.1 |

### 7.2 Distribution of financial assets, commitments to grant funds and financial guarantees given by internal rating class (gross values)

There were no amounts in this section.

## 8. Financial and non-financial assets obtained through the enforcement of guarantees received

There were no amounts in this section.

## 9. Lending concentration

### 9.1 Distribution of cash and off-balance sheet credit exposures by sector of economic activities of the counterparty

*(thousands of €)*

| Exposure types/Balances | Public administration | | Financial companies and banks | | Non financial companies | | Households | |
|---|---|---|---|---|---|---|---|---|
| | Net exposure | Total value adjustments | Net exposure | Total value adjustments | Net exposure | Total value adjustments | Net exposure | Total value adjustments |
| **A. CASH EXPOSURES** | | | | | | | | |
| A.1 Doubtful loans | 8,959 | (5,736) | | (1,648) | 53,376 | (227,719) | 657 | (6,984) |
| -of which forborne exposures | 639 | (362) | | | 1,759 | (17,509) | 78 | (442) |
| A.2 Unlikely to pay | 11,984 | (1,022) | 19 | - | 31,670 | (36,611) | 1,456 | (2,171) |
| -of which forborne exposures | 923 | (69) | | | 10,778 | (10,443) | 469 | (216) |
| A.3 Impaired past due positions | 14,029 | (2,012) | | - | 3,864 | (435) | 88 | (54) |
| -of which forborne exposures | | | | | | | | |
| A.4 Performing exposures | 931,261 | (327) | 98,207 | (164) | 6,222,947 | (10,844) | 144,668 | (410) |
| -of which forborne exposures | 196 | | | | 134 | (2) | 30 | - |
| **TOTAL A** | **966,233** | **(9,097)** | **98,226** | **(1,812)** | **6,311,857** | **(275,609)** | **146,869** | **(9,619)** |
| **B. OFF BALANCE SHEET EXPOSURES** | | | | | | | | |
| B.1 Impaired assets | - | - | | - | 2,609 | (1,255) | 24 | (6) |
| B.2 Performing assets | 6 | | 4,716 | - | 289,099 | (337) | 2,744 | - 15 |
| **TOTAL B** | **6** | **-** | **4,716** | **-** | **291,708** | **- 1,592** | **2,768** | **(21)** |
| **TOTAL (A+B) (31.12.2019)** | **966,239** | **(9,097)** | **102,942** | **(1,812)** | **6,603,565** | **(277,201)** | **149,637** | **(9,640)** |
| **TOTAL (A+B) (31.12.2018)** | **1,544,182** | **(6,138)** | **93,103** | **(1,824)** | **6,460,255** | **(288,492)** | **72,520** | **(10,847)** |

### 9.2 Distribution of cash and off-balance sheet credit exposures by counterparty's geographic area

*(thousands of €)*

| | Exposure types/Balances | ITALY | | OTHER EUROPEAN | | AMERICA | | ASIA | | REST OF THE WORLD | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Net exposure | Total value adjustments | Net exposure | Total value adjustments | Net exposure | Total value adjustments | Net exposure | Total value adjustments | Net exposure | Total value adjustments |
| **A.** | **CASH EXPOSURES** | | | | | | | | | | |
| A.1 | Non performing | 62,756 | (238,785) | 236 | (3,302) | - | - | - | - | - | - |
| A.2 | Unlikely to pay | 42,798 | (36,593) | 2,150 | (3,129) | - | - | - | - | 181 | (82) |
| A.3 | Past due positions | 17,979 | (2,500) | 2 | (1) | - | - | - | - | - | - |
| A.4 | Performing positions | 5,898,737 | (10,257) | 1,088,799 | (964) | 300,130 | (252) | 84,976 | (244) | 24,801 | (28) |
| | **TOTAL (A)** | **6,022,270** | **(288,135)** | **1,091,187** | **(7,396)** | **300,130** | **(252)** | **84,976** | **(244)** | **24,982** | **(110)** |
| **B.** | **OFF BALANCE SHEET EXPOSURES** | | | | | | | | | | |
| B.1 | Impaired assets | 2,633 | (1,262) | - | - | - | - | - | - | - | - |
| B.2 | Performing positions | 294,372 | (350) | 2,041 | - 1 | 45 | - | 107 | | - | - |
| | **TOTAL (B)** | **297,005** | **(1,612)** | **2,041** | **(1)** | **45** | **-** | **107** | **-** | **-** | **-** |
| | **TOTAL (A + B) (31/12/2019)** | **6,319,275** | **(289,747)** | **1,093,228** | **(7,397)** | **300,175** | **(252)** | **85,083** | **(244)** | **24,982** | **(110)** |
| | **TOTAL (A + B) (31/12/2018)** | **6,867,982** | **(299,602)** | **980,284** | **(7,058)** | **194,533** | **(403)** | **87,311** | **(128)** | **40,265** | **(110)** |

IFITALIA
GRUPPO BNP PARIBAS

## 9.2.1 Distribution of cash and off-balance sheet credit exposures by geographic area of counterparty resident in Italy

*(thousands of €)*

| | Exposure types/Balances | North-West | | North-East | | Centre | | South and Islands | |
|---|---|---|---|---|---|---|---|---|---|
| | | Net exposure | Total value adjustments | Net exposure | Total value adjustments | Net exposure | Total value adjustments | Net exposure | Total value adjustments |
| **A.** | **CASH EXPOSURES** | | | | | | | | |
| A.1 | Non performing | 11,564 | (63,986) | 6,893 | (33,674) | 24,777 | (69,558) | 19,522 | (71,567) |
| A.2 | Unlikely to pay | 4,075 | (8,942) | 3,933 | (4,853) | 14,013 | (11,086) | 20,777 | (11,712) |
| A.3 | Past due positions | 3,209 | (73) | 664 | (31) | 2,946 | (203) | 11,160 | (2,193) |
| A.4 | Performing positions | 2,261,588 | (4,268) | 1,062,166 | (2,276) | 1,903,416 | (1,324) | 671,207 | (2,389) |
| | **TOTAL (A)** | **2,280,436** | **- 77,269** | **1,073,656** | **- 40,834** | **1,945,152** | **- 82,171** | **722,666** | **- 87,861** |
| **B.** | **OFF BALANCE SHEET EXPOSURES** | | | | | | | | |
| B.1 | Impaired assets | 2,430 | - 1,210 | 74 | - 19 | 8 | - 2 | 121 | - 31 |
| B.2 | Performing positions | 227,304 | (162) | 28,015 | - 51 | 22,867 | - 81 | 16,186 | - 56 |
| | **TOTAL (B)** | **229,734** | **- 1,372** | **28,089** | **- 70** | **22,875** | **- 83** | **16,307** | **- 87** |
| | **TOTAL (A + B) (31/12/2019)** | **2,510,170** | **- 78,641** | **1,101,745** | **- 40,904** | **1,968,027** | **- 82,254** | **738,973** | **- 87,948** |
| | **TOTAL (A + B) (31/12/2018)** | **2,444,101** | **(81,949)** | **1,169,801** | **(41,372)** | **2,488,232** | **(89,114)** | **765,534** | **(87,167)** |

## 9.3 Significant exposures

*(thousands of €)*

| | SIGNIFICANT EXPOSURES | Book value | Weighted value |
|---|---|---|---|
| a | Amount | 2,857,415 | 1,622,738 |
| b | Number | 19 | 19 |

## 10. Models and other methods for gauging and handling the credit risk

The company does not use internal models for gauging credit risk

## 11. Other quantitative information

Not applicable to the company

## 3.2 MARKET RISK

### 3.2.1 INTEREST RATE RISK

### QUALITATIVE INFORMATION

**1. General aspects**
The interest rate risk deriving from the timing mismatch between asset and liability items associated with funding and lending transactions is handled by the Finance Division.
As part of its core activities, due to company policy, funding reflects the same market parameters to which the structure of the loans is linked.
In consideration of the types of lending and funding that characterise Ifitalia's activities, the risk of a change in the market rates has a marginal impact on the value of assets and liabilities.

### QUANTITATIVE INFORMATION
Given that all funding is currently provided to the company by the Parent Company, the mismatch by maturity bracket with respect to the amount of the funding is marginal as at 31 December 2019.

**1. Distribution by residual maturity (re-pricing date) of financial assets and liabilities**

Currency: euro *(thousand of €)*

| Item/residual life | On demand | Until 3 months | From 3 to 6 months | From 6 months to 1 year | From 1 year to 5 years | From 5 year to 10 years | Beyond 10 years | Unspecified life |
|---|---|---|---|---|---|---|---|---|
| **1. Assets** | **1,111,316** | **4,866,329** | **582,621** | **186,497** | **112,349** | **11,183** | **-** | **260,549** |
| 1.1 Debt securities | | | | | | | | |
| 1.2 Loans | 1,111,316 | 4,866,329 | 582,621 | 186,497 | 112,349 | 11,183 | | 255,983 |
| 1.3 Other assets | | | | | | | | 4,566 |
| **2. Liabilities** | **216,971** | **5,927,934** | **43,792** | **7,447** | **40,616** | **-** | **-** | **22,890** |
| 2.1 Payables | 152,526 | 5,737,512 | 12,733 | 7,266 | 40,616 | - | | 22,890 |
| 2.2 Securities issued | 64,445 | 190,422 | 31,059 | 181 | | | | |
| 2.3 Other liabilities | | | | | | | | |
| **3. Derivatives** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **72** |
| **Options** | - | - | - | - | - | - | - | - |
| 3.1 Long positions | | | | | | | | |
| 3.2 Short positions | | | | | | | | |
| **Other derivatives** | - | - | - | - | - | - | - | 72 |
| 3.1 Long positions | | | | | | | | 72 |
| 3.2 Short positions | | | | | | | | |

Currency: other currencies *(thousand of €)*

| Item/residual life | On demand | Until 3 months | From 3 to 6 months | From 6 months to 1 year | From 1 year to 5 years | From 5 year to 10 years | Beyond 10 years | Unspecified life |
|---|---|---|---|---|---|---|---|---|
| **1. Assets** | **33,537** | **342,085** | **20,947** | **698** | **-** | **-** | **-** | **-** |
| 1.1 Debt securities | | | | | | | | |
| 1.2 Loans | 33,537 | 342,085 | 20,947 | 698 | - | | | |
| 1.3 Other assets | | | | | | | | |
| **2. Liabilities** | **178,380** | **214,906** | **-** | **-** | **-** | **-** | **-** | **-** |
| 2.1 Payables | 178,380 | 214,906 | | | | | | |
| 2.2 Securities issued | | | | | | | | |
| 2.3 Other liabilities | | | | | | | | |
| **3. Derivatives** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Options** | - | - | - | - | - | - | - | - |
| 3.1 Long positions | | | | | | | | |
| 3.2 Short positions | | | | | | | | |
| **Other derivatives** | - | - | - | - | - | - | - | - |
| 3.1 Long positions | | | | | | | | |
| 3.2 Short positions | | | | | | | | |

**2. Models and other methods for gauging and handling the interest rate risk**

The interest rate risk is monitored on a quarterly basis by the Finance Division – Treasury Dept. The model used by Ifitalia to monitor interest rate risk is that indicated in the provisions contained in Bank of Italy Circular no. 288, whose model is based on the principle of a 200 bp shock

.

At the end of 2019, the portfolio's sensitivity to interest rate risk for Ifitalia amounted to EUR 9,543 million, equal to 1.364% of the supervisory capital, below the 20% threshold.

**3. Other quantitative information on interest rate risk**

There were no amounts in this section.

**3.2.2 PRICE RISK**

The Company does not purchase or sell financial instruments other than trade receivables and therefore is not exposed to the market risks associated with the price volatility of said instruments.

### 3.2.3 EXCHANGE RISK

### QUALITATIVE INFORMATION

**1. General aspects**
Exchange risk is negligible within the scope of core business activities since all assets acquired are matched by identical liabilities in the same currency and with the same duration features.

### QUANTITATIVE INFORMATION

**1. Distribution by currency of assets, liabilities and derivatives**

*(thousand of €)*

| Items | | | Currency | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | USA dollars | Pounds | Yen | Canadian dollars | Swiss franc | Other currencies |
| **1.** | | **Financial assets** | **333,164** | **15,114** | **2** | **20,442** | **97** | **37,960** |
| | 1.1 | Debt securities | - | - | - | - | - | - |
| | 1.2 | Capital securities | - | - | - | - | - | - |
| | 1.3 | Loans | 333,164 | 15,114 | 2 | 20,442 | 97 | 37,960 |
| | 1.4 | Other financial assets | - | - | - | - | - | - |
| **2.** | | **Other assets** | - | - | - | - | - | - |
| **3.** | | **Financial liabilities** | **332,444** | **15,083** | 2 | 20,419 | 97 | **37,797** |
| | 3.1 | Payables | 332,444 | 15,083 | 2 | 20,419 | 97 | 37,797 |
| | 3.2 | Debt securities | - | - | - | - | - | - |
| | 3.3 | Other financial liabilities | - | - | - | - | - | - |
| **4.** | | **Other liabilities** | - | - | - | - | - | - |
| **5.** | | **Derivatives** | - | - | - | - | - | - |
| | 5.1 | Long position | - | - | - | - | - | - |
| | 5.2 | Short position | - | - | - | - | - | - |
| | | **Total assets** | 333,164 | 15,114 | 2 | 20,442 | 97 | 37,960 |
| | | **Total liabilities** | 332,444 | 15,083 | 2 | 20,419 | 97 | 37,797 |
| | | **Imbalance (-/+)** | 720 | 31 | - | 23 | - | 163 |

**2. Models and other methods for gauging and handling the exchange risk**
As stated above, exchange risk is negligible since all assets acquired are matched by identical liabilities in the same currency and with the same duration features.

**3. Other quantitative information on exchange risk**
There were no amounts in this section.

### 3.3 OPERATIONAL RISK

## QUALITATIVE INFORMATION

### 1. General aspects, management processes and methods for gauging the operational risk

The control model defined by the BNP Paribas Group allocates the Operational Risk tasks among three lines of defence and, limited to Permanent Controls, between the first and second lines of defence as summarised below.


*(*) Compliance, LEGAL, RISK*
*(**) Group Tax and Group Finance for the purposes of organisational responsibilities and supervision of the risk management framework for accounting and financial reporting*

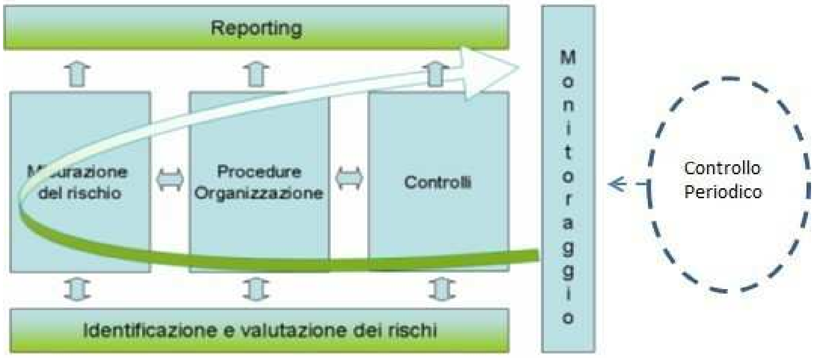
The distinction, operational since 2018, gives a general supervisory role to the Risk Division (RISK in the synthetic nomenclature of the BNP Paribas Group) which is part of the permanent second level control functions (second line of defence) with a special reference to operational risk; the first level is represented by the operating functions (entities) that carry out line activities and hierarchical controls and by the OPC structure that carries out the role of permanent first level control (first line of defence). OPC is represented by the Operational Risk and Permanent Controls Department.

The permanent controls of the first line of defence are entrusted to the structure called **"Operational Permanent Control" / OPC** that consists in Ifitalia of personnel independent of the operating functions that are responsible for:

- identifying and assessing the risks to which the assets are exposed;
- defining adequate control methods and ensuring their execution;
- identifying and implementing risk mitigation actions.

The **permanent control system,** whose framework is defined by the Risk Division that contributes to its application through its role of permanent second-level control, implements continuous risk control and monitoring of the effective implementation of strategic actions. The regulatory part is based on procedures that apply the Group's framework at the local level and are translated into policies, operational implementation procedures, control plans and a reporting system for appropriate internal and Group stakeholders in coordination with the Group functions of the Business Line Factoring.

The diagram below represents the overall breakdown of the components of the permanent monitoring device:




Within the Ifitalia internal control framework, the follow-up of corrective actions resulting from audit missions carried out by Inspection Générale is the responsibility of the Operational Risk and Permanent Controls Department, due to its proximity to operational processes, with periodic reporting of its results to the RISK function as the second line of defence. Inspection Générale is responsible for the final decision on the correct implementation of the corrective action resulting from the issue of specific recommendations.
OPC oversees the operational risk management system in coordination with the Head of the Risk Division through the latter's second line of defence, RISK ORC (RISK Operational Risk & Controls).

The supervision, management and monitoring activities (also with reference to the ICAAP process) are carried out by the already mentioned Operational Risks and Permanent Controls Department (OPC) in coordination with the Risk Division in accordance with the operational risk governance model defined by the Parent Company BNP Paribas. OPC is part of the Operational Management Division.
The complementariness of the "Operational Risks" and "Permanent Controls" areas carries out its synergistic action in the identification, assessment and monitoring phase of the actual risk (the risk that takes into account the coverage of the procedures and the effectiveness of the controls) and in the definition phase of the corrective actions and the relative priorities, following the adoption of shared and common metrics and measurements.
The staff of the OPC Unit, who do not participate in specific operating activities of the other departments, are dedicated to executing Permanent Controls according to the formalities and the deadlines defined in the Plan of Controls and prepared “day by day” operational disclosure on the checks carried out, emerging issues, and any mitigation activities carried out. This information is sent to the operational management (Head of the Units).

The Risk Division, in line with the guidelines of the BNP Paribas Group, is responsible for organising and supervising the global risk management system to which Ifitalia is exposed and, more specifically, the following risks: credit, dilution, counterparty, market, financing and liquidity, interest rate and exchange rate in the banking book, insurance and operational.
The RISK manager is also responsible for the Permanent control system and for the consistency and operation of the RISK manager in accordance with the Group's permanent control device.
In this way, RISK guarantees Ifitalia a single and integrated view of the various types of risk.

The second line of defence in the Risk Management area implemented by *RISK ORC*, on the Risk Manager's recommendation, has the mission of ensuring the correct application at local level of the Group's framework with reference to regulations, the way in which the risks to which the company is exposed are assessed (through the **Check & Challenge process on RCSA/Risk Control & Self Assessment**), the way in which the control plan is implemented (through the **Independent Testing** process), the examination (through the **Quality Review** process) of the way in which operational incidents are assessed by the first line of defence and, last but not least, the effectiveness of the system of defence against the risk of fraud.

The Operational Risk and Permanent Controls Department (OPC) operates based on the guidelines defined by the Risk Division and coordinates for this purpose with RISK ORC.

Information and coordination with management at the corporate level is carried out through Inter-functional Committees, the main one being the Risk Monitoring Committee during the Operational Risk and Permanent Controls session and that are envisaged by the pro tempore Company Regulations in force.

More in detail, always with regard to 2019, the organisation was completed by:

- ✓ **Risk Monitoring Committee - Permanent Control Operational Risk Session** that, consistently with the Parent Company model, assures the coordination and decision-making process supporting the permanent control and operational risk organisation. The Committee is responsible for:
  - approving the Operational Plans for Permanent Control of risks, prepared by the responsible divisions;
  - providing a global, organic vision of the permanent control and operational risk system;
  - analysing and acquiring collective decisions on the permanent control and operational risk framework;
  - generating an alarm and escalation level on recurring critical issues;
  - determining the involvement of operational units responsible for managing these issues and activating the monitoring of mitigating actions.

  Committee meetings, organised by RISK ORC, are attended by the Heads of the Company Divisions identified, for each session, in relation to the topics discussed and to their respective responsibilities. Moreover, the Contact Persons for Essential Outsourced Services and the relevant BNL SpA functions (Compliance and RISK ORC Division to the extent of their authority) and BNL Spa - Inspection Générale Hub Italy (as a permanent guest) participate in the meetings.

- ✓ Finance Division, which is responsible for ensuring that incidents generating a significant financial impact are properly reported in the Company's financial documents; this Division also works with the Operational Risks and Permanent Control Unit to perform an accounting reconciliation of operating incidents. It is also responsible for calculating the capital requirements to be established in relation to the operational risks.

**Method**

Management of operational risk, in the definition adopted by BNP Paribas, is based on an alignment of cause analysis (internal process or external fact), event (incident), and effect (risk of economic loss). In particular, the BNP Group defined as an incident a real event that has actually taken place, of which it is possible to effectively describe the real causes and consequences, as well as to measure its economic impacts. Analysis of the frequency/impacts of the historic incidents and their evolution in perspective represents an underlying element for the development of the map of the risks.

The Operational Risk Management Model within Ifitalia concerns the following processes:

- **Loss Data Collection Process**: activities for the identification, entry, and registration of historic incidents of Operational Risk through input to the BNP Group tool; FORECAST was the Group tool used until October, later replaced by the new RISK 360° application. The new tool was designed to allow the integrated management of all activities related to the operational risk framework and will gradually become available in all modules by 2021. The management of historical incidents has already been guaranteed after FORECAST has been discontinued from the 360°HI module.

  The process, implemented by the first line of defence, is subject to a second level control process called Quality Review with the aim of ascertaining the correct identification of the causes and effects of the incident and the adequacy of the action plans identified. The application of the second level control is implemented with a risk sensitive logic that takes into account the type of incident and its amount.

  Following the examination, if necessary, RISK ORC could agree with the first line of defence of the requests for correction.
- **RCSA/Risk Control & Self Assessment Process**: valuation of the exposure to operational and non-compliance risks within Ifitalia; the mapping of the risks has been one of the qualifying elements for the adoption of the TSA model. It is essentially based on a self-assessment process to identify, classify and measure in advance the risks that business operations are potentially exposed to and as such, is a managerial operating tool useful for planning the most appropriate mitigation measures for said risk.

  The process, implemented by the first line of defence, is subject to a second level control process called Check&Challenge that aims to ensure the correct identification of the relevant risks, their relevance before and after the application of the control system, as well as the identification of action plans, where mandatory for the Group's control system, or where deemed appropriate in coordination with the management concerned. The process has its own formalised governance, coordinated by the Risk Division, and ends with final approval by the Board of Directors.

- **Permanent Control Plan**: activation of permanent control procedures on areas at greatest operational risk identified in the RCSA Process; the outcomes of the controls are reported through the Ve.Re.Co. (Control Reports) Group application.
  The process, implemented by the first line of defence, is subject to a second level control process called Independent Testing where the controls implemented are subject to controls according to a risk sensitive priority logic. The purpose of the second level control is to verify the consistency of the scope of application of each control, the way in which it is formalised and its reperformability. Following the examination, if necessary, RISK ORC could agree with the first line of defence of the requests for correction.
- **Issue Resolution Activities**: adoption of suitable corrective measures in relation to the critical areas indicated, to ensure the efficiency of the company procedures and processes (in terms of integration, variation or support).
  This action can be activated directly from the first line of defence (known as self-identified action plans) or derives from the activity carried out by the second line of defence as described above.
  The corrective actions are carried out according to two different operating methods: definition of short-term corrective actions and structuring of medium/long-term action plans.
  Actions to correct the most significant critical points identified by the controls and incident analysis are recorded and monitored through the Aurora application in order to give greater structuring to the interventions in terms of finding, corrective action, minimum evidence for the closure of the action, deadlines and exact identification of those responsible for the termination. The use of a Group application offers the possibility of visibility to the management concerned and, at the same time, to the Group.
- **Reporting**:
  Reporting activities assure operational risk monitoring and enable to assess the efficacy of the controls and hedging procedures.
  Reports are produced by the first and second lines of defence.
  With reference to the first line of defence, the main report produced, is the *Permanent Controls and Operational Risks Report* that guarantees the presence of information on the outcomes of the permanent controls and the results of the Loss Data Collection process. This report, on a quarterly basis, is intended for the management in the Risk Monitoring Committee and the Board of Directors.
  With reference to the second line of defence, the main report produced is the OR&C Report submitted for validation by the General Manager and Risk Manager, which guarantees the Board of Directors and, through the Business Line, the Group a general view of the company's internal control system. This is an annual report. Other reports of greater detail and frequency are intended for management in the Risk Monitoring Committee and the Board of Directors.

## QUANTITATIVE INFORMATION

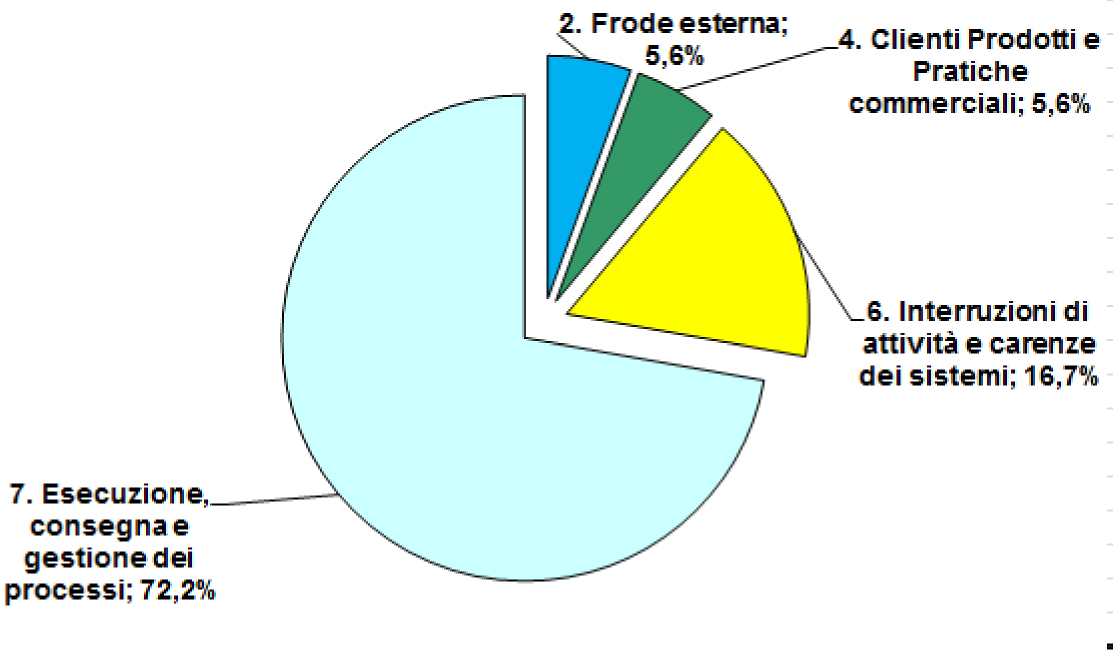
Assessment of the main sources and nature of risk events

The breakdown by percentage of operational risk events recorded in 2019 according to the type of loss event (Event Type) defined by the Basel II Committee is provided below. In 2019, 18 risk events occurred, involving:

- **phenomena related to the carrying-out, delivery and management of processes (ET 7**): these events are due to deficiencies in the completion of the transaction or in the management of the processes, as well as events deriving from transactions with commercial counterparties (sellers and suppliers); these events constitute the main source of operational risk, as they account for 72.2% of the total number of events occurred in 2019 (versus 63% in 2018);
- **phenomena related to interruptions of activities and system malfunctions (ET 6)**: these events derive from activity interruptions or from system malfunctions; they represent 16.7% of the total events recorded in 2019 (no event was recorded in 2018);
- **phenomena related to customers, products and business practices (ET 4)**: these are events deriving from breaches of professional obligations to customers or from the nature or characteristics of the product or of the service rendered; such phenomena are mainly represented by revocation actions and lawsuits, which account for 5.6% of the total events occurred in 2019 (versus 22.2% in 2018);

- **phenomena related to external frauds (ET 2):** these are events due to fraud, embezzlement or violation of laws by persons outside the Company and account for 5.6% of the total events in 2019 (versus 14.8% in 2018).

**Percentage composition by each type of event:**



### 3.4 LIQUIDITY RISK

### QUALITATIVE INFORMATION

### 1. General aspects, management processes and methods for gauging the liquidity risk

The policies for managing liquidity risk, i.e. the ability to fulfil, at any time, one's payment obligations at the set due dates, are an expression of the strategy defined by the Parent Company BNP Paribas, which is essentially based on centralised liquidity management for all Group companies.

### QUANTITATIVE INFORMATION

### 1. Time distribution by residual maturity of financial assets and liabilities – Euro

Euro *(thousands of €)*

| | Items/Timeframe | On demand | Within 7 days | From 7 to 15 days | From 15 days to 1 month | From 1 to 3 months | From 3 to 6 months | From 6 months to 1 year | From 1 to 5 years | Beyond 5 years | Unspecified life |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Cash assets** | **1,035,254** | **-** | **-** | **1,863,137** | **2,319,557** | **1,028,744** | **422,824** | **189,060** | **11,360** | **260,548** |
| A.1 | Government bonds | | | | | | | | | | |
| A.2 | Other debt securities | | | | | | | | | | |
| A.3 | Loans | 1,035,254 | | | 1,863,137 | 2,319,557 | 1,028,744 | 422,824 | 189,060 | 11,360 | 255,982 |
| A.4 | Other assets | | | | | | | | | | 4,566 |
| | **Cash liabilities** | **216,971** | **953,936** | **810,906** | **1,649,127** | **644,997** | **412,761** | **1,507,447** | **40,616** | **-** | **22,889** |
| B.1 | Deposits and current accounts | 152,526 | 952,587 | 795,682 | 1,597,992 | 522,283 | 381,702 | 1,507,266 | 40,616 | - | 22,889 |
| | - Banks | 89,596 | 951,237 | 783,558 | 1,550,462 | 401,307 | 350,643 | 1,507,085 | 40,616 | | 3,987 |
| | - Financial institutions | 62,930 | 1,350 | 12,124 | 47,530 | 120,976 | 31,059 | 181 | | | |
| | - Customers | | | | | | | | | | 18,902 |
| B.2 | Debt securities | 64,445 | 1,349 | 15,224 | 51,135 | 122,714 | 31,059 | 181 | | | |
| B.3 | Other liabilities | | | | | | | | | | |
| | **Off balance sheet transactions** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **1,599** |
| C.1 | Financial derivatives with capital exchange | - | - | - | - | - | - | - | - | - | - |
| | - Long positions | | | | | | | | | | |
| | - Short positions | | | | | | | | | | |
| C.2 | Financial derivatives without capital exchange | - | - | - | - | - | - | - | - | - | - |
| | Long positions | | | | | | | | | | |
| | Short positions | | | | | | | | | | |
| C.3 | Deposits and loans to be received | - | - | - | - | - | - | - | - | - | - |
| | - Long positions | | | | | | | | | | |
| | - Short positions | | | | | | | | | | |
| C.4 | Irrevocable commitments to grant funds | - | - | - | - | - | - | - | - | - | - |
| | - Long positions | | | | | | | | | | |
| | - Short positions | | | | | | | | | | |
| C.5. | Financial guarantees issued | | | | | | | | | | 1,599 |
| C.6 | Financial guarantees received | | | | | | | | | | |

## 1. Time distribution by residual maturity of financial assets and liabilities – Other currencies

Other currencies *(thousands of €)*

| Items/Timeframe | On demand | Within 7 days | From 7 to 15 days | From 15 days to 1 month | From 1 to 3 months | From 3 to 6 months | From 6 months to 1 year | From 1 to 5 years | Beyond 5 years | Unspecified life |
|---|---|---|---|---|---|---|---|---|---|---|
| **Cash assets** | **32,280** | **-** | **-** | **57,441** | **255,803** | **41,327** | **9,657** | **759** | **-** | **-** |
| A.1 Government bonds | | | | | | | | | | |
| A.2 Other debt securities | | | | | | | | | | |
| A.3 Loans | 32,280 | | | 57,441 | 255,803 | 41,327 | 9,657 | 759 | | |
| A.4 Other assets | | | | | | | | | | |
| **Cash liabilities** | **178,380** | **-** | **1,300** | **14,890** | **198,716** | **-** | **-** | **-** | **-** | **-** |
| B.1 Deposits and current accounts | 178,380 | - | 1,300 | 14,890 | 198,716 | - | - | - | - | - |
| - Banks | 176,973 | - | - 1,800 | 11,285 | 196,977 | - | | | | |
| - Financial institutions | 1,407 | | 3,100 | 3,605 | 1,739 | | | | | |
| - Customers | | | | | | | | | | |
| B.2 Debt securities | | | | | | | | | | |
| B.3 Other liabilities | | | | | | | | | | |
| **Off balance sheet transactions** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **2** |
| C.1 Financial derivatives with capital exchange | - | - | - | - | - | - | - | - | - | - |
| - Long positions | | | | | | | | | | |
| - Short positions | | | | | | | | | | |
| C.2 Financial derivatives without capital exchange | - | - | - | - | - | - | - | - | - | - |
| Long positions | | | | | | | | | | |
| Short positions | | | | | | | | | | |
| C.3 Deposits and loans to be received | - | - | - | - | - | - | - | - | - | - |
| - Long positions | | | | | | | | | | |
| - Short positions | | | | | | | | | | |
| C.4 Irrevocable commitments to grant funds | - | - | - | - | - | - | - | - | - | - |
| - Long positions | | | | | | | | | | |
| - Short positions | | | | | | | | | | |
| C.5. Financial guarantees issued | | | | | | | | | | 2 |
| C.6 Financial guarantees received | | | | | | | | | | |

## 3.5 DERIVATIVE INSTRUMENTS AND HEDGING POLICIES

There were no amounts in this section.

## SECTION 4 EQUITY INFORMATION

### 4. 1 The consolidated equity

### 4.1.1 Qualitative information

The Group's equity is made up of the aggregation of share capital, share premium reserve, reserves, valuation reserves and profit for the period.
For supervisory purposes, the capital aggregate significant for this purpose is determined based on the current provisions envisaged by the Bank of Italy and represents the reference oversight for prudential supervisory provisions.
In accordance with said provisions, the Company is obliged to maintain a comprehensive capital requirement, which is calculated as the sum of the requirements relating to the single risk types (known as "building block").

### 4.1.2 Quantitative information

#### 4.1.2.1 Group equity: breakdown

The Group's equity as at 31 December 2019 amounted to EUR 762,389 thousand.

*(thousands of €)*

| Items/Balances | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|
| 1. Share capital | 55,900 | 55,900 |
| 2. Share premium | 61,799 | 61,799 |
| 3. Reserves | 595,117 | 555,672 |
| - profit | 596,275 | 562,701 |
| a) legal reserve | 11,180 | 11,180 |
| b) statutory reserve | 584,238 | 551,137 |
| c) treasury shares | - | - |
| d) other | 857 | 384 |
| - other | (1,158) | (7,029) |
| 4. (Treasury shares) | - | - |
| 5. Valuation reserves | (1,015) | 4,960 |
| - Equity instruments measured at fair value through other comprehensive income | - | - |
| - Hedging of equity instruments measured at fair value through other comprehensive income | - | - |
| - Financial assets (other than equity securities) measured at fair value through other comprehensive income | - | - |
| - Financial assets available for sale | - | - |
| - Property, plant and equipment | - | - |
| - Intangible assets | - | - |
| - Hedging of foreign investments | - | - |
| - Cash flow hedges | - | - |
| - Hedging instruments (elements not designated) | - | - |
| - Exchange differences | - | - |
| - Non current assets and disposal group held for sale | - | - |
| - Financial liabilities designated at fair value through profit or loss (change in the Bank's creditworthiness) | - | - |
| - Special revaluation laws | | 5,870 |
| - Actuarial gains (losses) relating to defined benefit pension plans | (1,015) | (910) |
| - Quote of the valuation reserves relating at equity | - | - |
| 6. Equity instruments | - | - |
| 7. Profit (loss) for the year | 50,580 | 33,573 |
| **Total** | **762,379** | **711,904** |
| **Third party total** | **10** | **10** |
| **Total** | **762,389** | **711,914** |

#### 4.1.2.2 Valuation reserves of financial assets at fair value through other comprehensive income: breakdown
There were no amounts in this section.

#### 4.1.2.3 Valuation reserves of financial assets at fair value through other comprehensive income: changes during the year
There were no amounts in this section.

### 4.2 Own Funds and supervisory ratios

Bank of Italy Circular no. 288 "Supervisory Provisions for Financial Intermediaries" in Title I "Subjects and activities", Chapter 2 "Financial Group", Section II "Financial Group", 1 "Composition of the Financial Group" states that the financial companies that make up the group also include:
— corporate bodies with a corporate purpose limited to the carrying-out of certain transactions of a financial nature, whose activity is essentially carried out in the interest of the group."
However, Circular 288 also specifies that "Vehicles set up in Italy or abroad for the sole purpose of giving corporate form to individual funding or lending transactions and intended to be liquidated once the transaction is concluded, in which the

intermediary or a company of the financial group holds an interest that does not qualify as an equity investment for supervisory purposes, are not included in the financial group on condition that they are consolidated on a line-by-line basis in the consolidated financial statements of the parent company".

Therefore, since Ifitalia has no equity investments in the capital of the vehicle and since it has prepared this document relating to the consolidated financial statements, the vehicle should not be included in the financial group.
Moreover, as long as the vehicle is the only entity controlled by Ifitalia (and, as stated above, should not be included in the financial group), it is considered that the preconditions for the creation of the financial group itself and the application of the relevant legislation no longer exist.

Therefore, on the basis of the above regulations, the Financial Group is not set up in accordance with Circular 288 with the consequent exemption from all administrative/accounting obligations for the purposes of Supervision for the Financial Groups.

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## SECTION 5 – ANALYTICAL STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

(thousands of €)

| | ITEMS | Total (2019) | Total (2018) |
|---|---|---|---|
| 10. | **Profit (Loss) for the year** | 50,579,641 | 33,573,232 |
| | **Other income components without reversal to income statement connected with:** | | |
| 20. | Equity instruments measured at fair value through other comprehensive income: | - | |
| | a) fair value changes | | |
| | b) transfer to other components of equity | | |
| 30. | Financial liabilities designated at fair value through profit or loss (change in the Bank's creditworthiness): | - | |
| | a) fair value changes | | |
| | b) transfer to other components of equity | | |
| 40. | Hedging of equity instruments designated at fair value through other comprehensive income: | - | |
| | a) fair value changes (hedge instrument) | | |
| | b) fair value changes (hedging instrument) | | |
| 50. | Property, plant and equipment | | - |
| 60. | Intangible assets | | - |
| 70. | Defined benefit plans | (105,125) | 104,794 |
| 80. | Non current assets held for sale | | - |
| 90. | Share of reserves from valuation of investments carried at equity | | - |
| 100. | Income taxes relating at other income components without reversal to profit or loss | | - |
| | **Other income components with reversal to income statement connected with:** | | |
| 110. | Hedging of foreign investments: | - | - |
| | a) fair value changes | | - |
| | b) transfer to income statement | | - |
| | c) other changes | | - |
| 120. | Exchange differences: | - | - |
| | a) value changes | | - |
| | b) transfer to income statement | | - |
| | c) other changes | | - |
| 130. | Cash flows hedges: | - | - |
| | a) fair value changes | | - |
| | b) transfer to income statement | | - |
| | c) other changes | | - |
| | of which: result of net positions | | - |
| 140. | Hedging instruments (elements not designated): | - | - |
| | a) value changes | | - |
| | b) transfer to income statement | | - |
| | c) other changes | | - |
| 150. | Financial assets (other then equity securities) at fair value through other comprehensive income: | - | - |
| | a) fair value changes | | - |
| | b) transfer to income statement | - | - |
| | - adjustments from impairment | | - |
| | - profit/ loss from realisation | | - |
| | c) Other changes | | - |
| | Financial assets available for sale: | | - |
| | a) fair value changes | | - |
| | b) transfer to income statement | | - |
| | - adjustments from impairment | | - |
| | - profit/ loss from realisation | | - |
| | c) Other changes | | - |
| 160. | Non current assets and disposal groups held for sale: | - | - |
| | a) fair value changes | | - |
| | b) transfer to income statement | | - |
| | c) other changes | | - |
| 170. | Share of reserves from valuation of investments carried at equity | - | |
| | a) fair value changes | | |
| | b) transfer to income statement | - | |
| | - adjustments from impairment | | - |
| | - profit/ loss from realisation | | - |
| | c) Other changes | | - |
| 180. | Income taxes relating at other income components with reversal to profit or loss | - | **(40)** |
| 190. | **Total other income components** | **(105,125)** | **104,794** |
| 200. | **Comprehensive income (Item 10+190)** | **50,474,516** | **33,678,026** |
| 210. | **Comprehensive income third party** | | |
| 220. | **Comprehensive income head group** | **50,474,516** | **33,678,026** |

## SECTION 6 – TRANSACTIONS WITH RELATED PARTIES

The introduction of the international accounting standards involves the application of the provisions relating to disclosure on transactions with related parties established by IAS 24
.

### 6.1 Information on the remuneration of executives with strategic responsibilities

(thousands of €)

| | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|
| Directors | 46 | 46 |
| Auditors | 95 | 97 |
| **Total** | **141** | **143** |

### 6.2 Loans and guarantees given in favour of directors and statutory auditors

(thousands of €)

| | Total 31/12/2019 | Total 31/12/2018 |
|---|---|---|
| Directors | | - |
| Auditors | | - |
| **Total** | **-** | **-** |

## 6.3 Information on transactions with related parties

Reference should be made to the comments in the corresponding item of the Report on Operations – intercompany transactions and those with “related parties”.

Income statement transactions for the period and balance sheet balances as at 31 December 2019 between the Parent Company and other BNPP Group companies, deriving from financial or trade transactions, are presented below.

*(thousands of €)*

| Counterpart | IFITALIA creditor | IFITALIA debtor | Factoring receivables | Guarantees received (*) | Guarantees given | Derivative liability |
|---|---|---|---|---|---|---|
| **A) PARENT COMPANY** | **9,896** | **5,509,495** | **8** | **430,144** | **-** | **-** |
| BNP PARIBAS PARIS | 9,896 | 5,507,621 | 8 | 430,144 | | |
| BNP PARIBAS SUCC. MILANO | | 1,874 | | | | |
| **B) BNPP GROUP COMPANIES** | **2,218** | **847,002** | **53,603** | **-** | **8,307** | **72** |
| ARTIGIANCASSA SPA | | | 7 | | | |
| ARVAL SERVICE LEASE | - | 193 | | | | |
| ARVAL SERVICE LEASE ITALIA SPA | - | 78 | 45,647 | | | |
| AXEPTA SPA (EX- BNL POSITIVITY SRL) | (6) | | 6 | | | |
| BANCA NAZIONALE DEL LAVORO SPA | 857 | 559,827 | 5,615 | | 8,307 | 72 |
| BANQUE MAROCAINE POUR LE COMMERCE ET L'INDUSTRIE | | | 4 | | | |
| BNL FINANCE SPA | | | 4 | | | |
| BNPP CARDIF VITA COMPAGNIA DI ASSICURAZIONE E RIASSICURAZIONE SPA | (2) | | | | | |
| BNPP FACTOR | | 249 | 237 | | | |
| BNPP FORTIS | 3 | 432 | | | | |
| BNPP REAL ESTATE | | | 4 | | | |
| BUSINESS PARTNER ITALIA SCPA | | | | | | |
| CARDIF ASSURANCES RISQUES DIVERS | | | 99 | | | |
| CNH INDUSTRIAL CAPITAL EUROPE | | | 10 | | | |
| FINDOMESTIC BANCA SPA | | | 1,519 | | | |
| SERFACTORING SPA | | | | | | |
| TIERRE SECURITISATION SRL | | 286,157 | | | | |
| TURK EKONOMI BANKASI AS | | | 1 | | | |
| BNPP REAL ESTATE ADVISORY ITALY SPA | | 31 | | | | |
| DIAMANTE RE SRL | | 35 | | | | |
| SVILUPPO HQ TIBURTINA SRL | 1,366 | | | | | |
| SNC NATIOCREDIMURS | | | 450 | | | |
| INTERNATIONAL TRADE PARTNER | | **130** | | | | |
| BNP PARIBAS SGR SPA | 2 | | | | | |
| **C) ASSOCIATED COMPANIES** | | | **-** | **-** | **-** | **-** |
| INTERNATIONAL TRADE PARTNER | | | | | | |
| BNP PARIBAS SGR SPA | | | | | | |
| **Total** | **12,114** | **6,070,340** | **53,611** | **430,144** | **8,307** | **72** |
| | | | | | | |

*(thousands of €)*

| Counterpart | Interest and similar income | Interest and similar expense | Commission income | Commission expense | Dividends | Derivatives | Administrative expenses | Other operating income and charges | Gains from divestment of investment |
|---|---|---|---|---|---|---|---|---|---|
| **A) PARENT COMPANY** | 10,098 | (364) | - | (418) | - | - | (956) | - | |
| **B) BNPP GROUP COMPANIES** | 48 | (6,786) | 102 | (3,860) | 38 | 70 | (10,216) | (382) | 17,757 |
| **C) ASSOCIATED COMPANIES** | | | | | | | (768) | | |
| **Total** | **10,146** | **(7,150)** | **102** | **(4,278)** | **38** | **70** | **(11,940)** | **(382)** | 17,757 |

## SECTION 7 – LEASES (Lessee)

### QUALITATIVE DISCLOSURE

Ifitalia considered IFRS 16 to be applicable only in relation to the lease contracts for the buildings located in Corso Italia and Via Deruta in Milan entered into with BNL Spa. These properties are used by the company as the premises of its business activities.
The lease contracts were signed in April 2019 and have a term of 6 years + 6. However, in order to correctly apply IFRS 16, the actual lease term was calculated on the basis of the presumed early release date for moving the company offices to a new building. The early release date of the properties is scheduled for December 2021. Therefore, the right of use and the lease liabilities were calculated considering the period April 2019 and December 2021. Ifitalia has other lease contracts in place with the company BNL Spa for the sales outlets located in the various Italian regions; however, in consideration of the insignificant amounts and ongoing organisational changes that require them to be closed or restructured, these contracts were excluded from IFRS 16.
Moreover, no FTA impacts were calculated on the two Corso Italia and De Ruta lease contracts because the assumptions of use at the time of the FTA calculation (1 January 2019) were of very short duration, in consideration of the assumption of relocating Ifitalia's premises to the property owned in Via Pisani after the restructuring, since it was not yet expected to be sold.

### QUALITATIVE DISCLOSURE

### 1. ANNUAL CHANGES OF RIGHTS OF USE FOR LEASES

*(thousands of €)*

| | Total |
|---|---|
| **A. Gross opening balances** | |
| A.1 Total net impairments | |
| A.2 Net opening balances | |
| Abis. First application IFRS 16 | |
| **B. Increases** | **2,902** |
| B.1 Purchases | 2,902 |
| B.2 Capitalised improvement expenditure | |
| B.3 Write-backs | |
| B.4 Positive changes in fair value booked to: | |
| B.5 Positive exchange rate differences | |
| B.6 Transfers from real estate held for investment purposes | |
| B.7 Other variations | |
| **C. Decreases** | **655** |
| C.1 Sales | |
| C.2 Depreciation | 655 |
| C.3 Impairment losses booked to: | |
| C.4 Negative changes in fair value booked to: | |
| C.5 Negative exchange rate differences | |
| C.6 Relocation to: | |
| C.7 Other variations | |
| **D. Net closing balances** | **2,247** |
| D.1 Net impairment | -655 |
| D.2 Gross closing balances | 2,902 |
| **E. Valuation at cost** | **2,247** |

## 2. CASH FLOWS BY MATURITY BRACKETS OF LEASE PAYABLES

*(thousands of €)*

| | Leasing cash flow maturity bands | | | | |
|---|---|---|---|---|---|
| | within 1 month | from 1 month to 6 months | from 6 months to 1 year | from one year to 2 years | **Total** |
| Lease liabilities | 291 | 289 | 580 | 1163 | **2323** |
| **Total** | **291** | **289** | **580** | **1163** | **2323** |

## SECTION 8 – OTHER DISCLOSURE

### 8.1 Contributions received from the Public Administration

Companies that receive grants, contributions, paid assignments and economic advantages of any kind from public administrations, or in any case from public resources, are required to publish these amounts in the notes to the accounts of the financial statements and consolidated financial statements, if any. This is what the annual law for the market and competition provides in compliance with a series of disclosure and transparency obligations (Article 1, paragraph 125 et seq., Law no. 124/2017).

Following the Assonime Circular of 11 February 2019, in particular, with reference to the type of disbursements covered by the obligation to publish them in the notes to the financial statements and the way in which they are reported, the Company decided to refer to the National Register of State aid, in the presence of numerous interpretational issues that lead to the conclusion that further action at the regulatory level is desirable.

Here is the web address to access the information:
https://www.rna.gov.it/RegistroNazionaleTrasparenza/faces/pages/TrasparenzaAiuto.jspx

As reported by the national register of State aid, in 2019 Ifitalia did not request contributions.

Ifitalia received reimbursements for financed training amounting to EUR 26,403.90.

It also had contributions in the field of human resources management amounting to EUR 89,162, broken down as follows:

- Contributions for new hires/stabilisations, introduced by the 2018 Stability Law (Law no. 205/2017) of EUR 5,750;
- Contributions for the Ordinary Section of the Solidarity Fund - benefits: Interministerial Decree 83486 of 28/07/2014 - article 10, paragraph 2 of EUR 24,338.29;
- Article 8 of Italian Law Decree no. 203 of 30 September 2005, converted, with amendments, by Italian Law no. 248 of 2 December 2005. Compensating measures for companies that contribute the Employment Termination Benefits to supplementary pensions of EUR 59,073.90.

**Financial Statement Data for the Parent Company BNP Paribas**

With reference to the matters envisaged by Article 2497-bis, paragraph 4 of the Italian Civil Code, regarding disclosure on management and co-ordination activities, tables are presented below containing a summary of the highlights taken from the last set of financial statements approved on 31 December 2018 by BNP Paribas S.A. in its capacity as direct parent company.

**BNP PARIBAS GROUP**
**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2018**

| n millions of euros | Notes | Year to 31 Dec. 2018 *IFRS 9 & IFRS 15* | Year to 31 Dec. 2017[(1)] *IAS 39* |
|---|---|---|---|
| Interest income | 3.a | 35,723 | 33,566 |
| Interest expense | 3.a | (14,661) | (12,375) |
| Commission income | 3.b | 12,925 | 12,943 |
| Commission expense | 3.b | (3,718) | (3,513) |
| Net gain on financial instruments at fair value through profit or loss | 3.c | 5,808 | 5,346 |
| Net gains on financial instruments at fair value through equity | 3.d | 315 | 1,711 |
| Net gains on derecognized financial assets at amortised cost | 3.d | (5) | 55 |
| Net income from insurance activities | 3.e | 4,064 | 3,813 |
| Income from other activities | 3.f | 12,324 | 11,697 |
| Expense on other activities | 3.f | (10,259) | (10,082) |
| **REVENUES** | | **42,516** | **43,161** |
| Salary and employee benefit expense | 7.a | (16,617) | (16,496) |
| Other operating expenses | 3.g | (12,290) | (11,729) |
| Depreciation, amortization and impairment of property, plant and equipment and intangible assets | 5.n | (1,676) | (1,719) |
| **GROSS OPERATING INCOME** | | **11,933** | **13,217** |
| Cost of risk | 3.h | (2,764) | (2,907) |
| **OPERATING INCOME** | | **9,169** | **10,310** |
| Share of earnings of equity-method entities | 5.m | 628 | 713 |
| Net gain on non-current assets | | 358 | 488 |
| Goodwill | 5.o | 53 | (201) |
| **PRE-TAX INCOME** | | **10,208** | **11,310** |
| Corporate income tax | 3.i | (2,203) | (3,103) |
| **NET INCOME** | | **8,005** | **8,207** |
| Net income attributable to minority interests | | 479 | 448 |
| **NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS** | | **7,526** | **7,759** |
| Basic earnings per share | 8.a | 5.73 | 6.05 |
| Diluted earnings per share | 8.a | 5.73 | 6.05 |

[(1)] Revised presentation based on the reclassifications and the re-labelling within Net Banking Income described in note 2a: re-labelling of "net gains on available-for sale financial assets and other assets not measured at fair value" to "net gains on financial assets at fair value through equity" and "net gains on derecognised financial assets at amortised cost", reclassification of items related to insurance activities within "Net income from insurance activities" and reclassification of interest on trading instruments within "Net gains on financial instruments at fair value through profit or loss".

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## BNP PARIBAS GROUP
## BALANCE SHEET AT 31 DECEMBER 2018

| In millions of euros | Notes | 31 December 2018 IFRS 9 & IFRS 15 | 1 January 2018 (1) IFRS 9 & IFRS 15 | 31 December 2017(2) IAS 39 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and balances at central banks | | 185,119 | 178,433 | 178,446 |
| Financial instruments at fair value through profit or loss | | | | |
| Securities | 5.a | 121,954 | 130,326 | 122,964 |
| Loans and repurchase agreements | 5.a | 183,716 | 144,948 | 143,988 |
| Derivative financial instruments | 5.a | 232,895 | 229,896 | 229,897 |
| Derivatives used for hedging purposes | 5.b | 9,810 | 13,721 | 13,723 |
| Financial assets at fair value through equity | | | | |
| Debt securities | 5.c | 53,838 | 53,942 | 110,881 |
| Equity securities | 5.c | 2,151 | 2,330 | 6,928 |
| Financial assets at amortised cost | | | | |
| Loans and advances to credit institutions | 5.e | 19,556 | 20,356 | 20,405 |
| Loans and advances to customers | 5.e | 765,871 | 731,176 | 735,013 |
| Debt securities | 5.e | 75,073 | 69,426 | 15,378 |
| Remeasurement adjustment on interest-rate risk hedged portfolios | | 2,787 | 3,064 | 3,064 |
| Financial investments of insurance activities | 5.i | 232,308 | 227,712 | 227,712 |
| Current and deferred tax assets | 5.k | 7,220 | 7,368 | 6,568 |
| Accrued income and other assets | 5.l | 103,346 | 92,961 | 92,875 |
| Equity-method investments | 5.m | 5,772 | 6,221 | 6,426 |
| Property, plant and equipment and investment property | 5.n | 26,652 | 25,000 | 25,000 |
| Intangible assets | 5.n | 3,783 | 3,327 | 3,327 |
| Goodwill | 5.o | 8,487 | 9,571 | 9,571 |
| Non-current assets held for sale | 8.c | 498 | | |
| **TOTAL ASSETS** | | **2,040,836** | **1,949,778** | **1,952,166** |
| **LIABILITIES** | | | | |
| Deposits from central banks | | 1,354 | 1,471 | 1,471 |
| Financial instruments at fair value through profit or loss | | | | |
| Securities | 5.a | 75,189 | 67,087 | 67,087 |
| Deposits and repurchase agreements | 5.a | 204,039 | 174,645 | 174,645 |
| Issued debt securities | 5.a | 54,908 | 50,490 | 50,490 |
| Derivative financial instruments | 5.a | 225,804 | 227,644 | 227,644 |
| Derivatives used for hedging purposes | 5.b | 11,677 | 15,682 | 15,682 |
| Financial liabilities at amortised cost | | | | |
| Deposits from credit institutions | 5.g | 78,915 | 76,503 | 76,503 |
| Deposits from customers | 5.g | 796,548 | 760,941 | 760,941 |
| Debt securities | 5.h | 151,451 | 148,156 | 148,156 |
| Subordinated debt | 5.h | 17,627 | 15,951 | 15,951 |
| Remeasurement adjustment on interest-rate risk hedged portfolios | | 2,470 | 2,372 | 2,372 |
| Current and deferred tax liabilities | 5.k | 2,255 | 2,234 | 2,466 |
| Accrued expenses and other liabilities | 5.l | 89,562 | 80,472 | 79,994 |
| Technical reserves and other insurance liabilities | 5.j | 213,691 | 210,494 | 210,494 |
| Provisions for contingencies and charges | 5.p | 9,620 | 11,084 | 11,061 |
| **TOTAL LIABILITIES** | | **1,935,110** | **1,845,226** | **1,844,957** |
| **EQUITY** | | | | |
| *Share capital, additional paid-in capital and retained earnings* | | *93,431* | *89,880* | *91,026* |
| *Net income for the period attributable to shareholders* | | *7,526* | *7,759* | *7,759* |
| **Total capital, retained earnings and net income for the period attributable to shareholders** | | **100,957** | **97,639** | **98,785** |
| Changes in assets and liabilities recognized directly in equity | | 510 | 1,787 | 3,198 |
| **Shareholders' equity** | | **101,467** | **99,426** | **101,983** |
| **Minority interests** | 8.d | **4,259** | **5,126** | **5,226** |
| **TOTAL EQUITY** | | **105,726** | **104,552** | **107,209** |
| **TOTAL LIABILITIES AND EQUITY** | | **2,040,836** | **1,949,778** | **1,952,166** |

(1) As of 1January 2018 after implementation of IFRS 9 and IFRS 15, as described in note 2.b.

(2) Revised presentation, based on reclassifications and adjustments detailed in note 2.a, mainly related to the re-labelling of financial instruments item headings, the reclassification of financial instruments of insurance activities into "Financial investments of insurance activities", and the impact of securities recognition at settlement date.

# AUDITORS' REPORT

# Independent auditor's report in accordance with articles 14 and 19-bis of Legislative Decree No. 39 of 27 January 2010

To the Shareholders of International Factors Italia S.p.A.

## Report on the audit of the financial statements

### Opinion

We have audited the financial statements of International Factors Italia S.p.A. (the Company), which comprise the statement of financial position as at 31 December 2019, the income statement, the statement of comprehensive income, the statement of changes in equity, the cash flows statement for the year then ended and the explanatory notes, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union as well as with the regulations issued to implement article 43 of Legislative Decree No. 136/2015.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the section of this report titled *Auditor's responsibilities for the audit of the financial statements*. We are independent of the Company pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Responsibilities of the directors and board of statutory auditors for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union as well as with the regulations issued to implement article 43 of Legislative Decree No. 136/2015 and, according to the terms prescribed by law, for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Company's ability to continue as a going concern and for the appropriateness of the use of the going concern assumption in the preparation of the financial statements, and for appropriate disclosure thereof. In preparing the financial statements, the directors use the going concern basis of accounting unless directors either intend to liquidate the Company or to cease operations or has no realistic alternative but to do so.

The board of statutory auditors ("collegio sindacale") is responsible for overseeing, according to the terms prescribed by law, the Company's financial reporting process.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain a reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit performed in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of the audit in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- we identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; we designed and performed audit procedures in response to those risks; we obtained sufficient and appropriate audit evidence on which to base our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control;
- we obtained an understanding of the internal control relevant to the audit in order to design the audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- we evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- we concluded on the appropriateness of the director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. Where a material uncertainty exists, we are required to draw attention, in our auditor's report, to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, subsequent events or conditions may cause the Company to cease to continue as a going concern;
- we evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in such a manner as to give a true and fair view.

We communicated to those charged with governance, identified at an appropriate level as required by ISA Italia, among other matters, the scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

## Report on compliance with other laws and regulations

### Opinion in accordance with article 14, paragraph 2, letter e), of Legislative Decree No. 39/10

The directors of International Factors Italia S.p.A. are responsible for preparing a directors' report of International Factors Italia S.p.A. as at 31 December 2019, including its consistency with the relevant financial statements and its compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the directors' report with the financial statements of International Factors Italia S.p.A. as at 31 December 2019 and on its compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the directors' report is consistent with the financial statements of International

Factors Italia S.p.A. as at 31 December 2019 and is prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued based on our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Milan, 10 April 2020

Mazars Italia S.p.A.
*(signed on the original)*
Olivier Rombaut
Partner

*This report has been translated into English from the Italian original solely for the convenience of international readers*

# Independent auditor's report in accordance with articles 14 and 19-bis of Legislative Decree No. 39 of 27 January 2010

To the Shareholders of International Factors Italia S.p.A.

## Report on the audit of the consolidated financial statements as at 31 December 2019

### Opinion

We have audited the consolidated financial statements of International Factors Italia Group (the Group), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flows statement for the year then ended and the explanatory notes, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of the consolidated result of its operations and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union as well as with the regulations issued to implement article 43 of Legislative Decree No. 136/2015.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the section of this report titled *Auditor's responsibilities for the audit of the consolidated financial statements*. We are independent of International Factors Italia S.p.A. (the Company) pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Responsibilities of the directors and board of statutory auditors for the consolidated financial statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union as well as with the regulations issued to implement article 43 of Legislative Decree No. 136/2015 and, according to the terms prescribed by law, for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.
The directors are responsible for assessing the Group's ability to continue as a going concern and for the appropriateness of the use of the going concern assumption in the preparation of the consolidated financial statements, and for appropriate disclosure thereof. In preparing the consolidated financial statements, the directors use the going concern basis of accounting unless directors either intend to liquidate the parent company International Factors Italia S.p.A. or to cease operations or has no realistic alternative but to do so.

The board of statutory auditors ("collegio sindacale") is responsible for overseeing, according to the terms prescribed by law, the Group's financial reporting process.

### Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain a reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit performed in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of the audit in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- we identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures in response to those risks; we obtained sufficient and appropriate audit evidence on which to base our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control;
- we obtained an understanding of the internal control relevant to the audit in order to design the audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control;
- we evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- we concluded on the appropriateness of the directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. Where a material uncertainty exists, we are required to draw attention, in our auditor’s report, to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, subsequent events or conditions may cause the Group to cease to continue as a going concern;
- we evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in such a manner as to give a true and fair view;
- we obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We communicated to those charged with governance, identified at an appropriate level as required by ISA Italia, among other matters, the scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

## Report on compliance with other laws and regulations

### Opinion in accordance with article 14, paragraph 2, letter e), of Legislative Decree No. 39/10

The directors of International Factors Italia S.p.A. are responsible for preparing a directors’ report of International Factors Italia S.p.A. as at 31 December 2019, including its consistency with the relevant consolidated financial statements and its compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the directors' report with the consolidated financial statements of International Factors Italia S.p.A. as at 31 December 2019 and on its compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the directors' report is consistent with the consolidated financial statements of International Factors Italia S.p.A. as at 31 December 2019 and is prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued based on our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Milan, 10 April 2020

Mazars Italia S.p.A.
*(signed on the original)*
Olivier Rombaut
Partner

*This report has been translated into English from the Italian original solely for the convenience of international reader*

# BOARD OF STATUTORY AUDITORS’ REPORT

**IFITALIA S.p.A.**
**INTERNATIONAL FACTORS ITALIA S.p.A.**
**Company subject to the management and co-ordination of BNP Paribas S.A. – Paris**
**Registered offices in Corso Italia, 15 – 20122 Milan, Italy**
**Share capital: EUR 55,900,000 fully paid-in**
**Milan Monza Brianza Lodi Companies' Register No. and Tax Code 00455820589 Economic & Administrative Roster No. 683665**
**Register of Financial Brokers - mechanised code no. 19016**

**BOARD OF STATUTORY AUDITORS' REPORT TO THE SHAREHOLDERS' MEETING pursuant to Article 2429, par. 2 of the Italian Civil Code and Article 19 of Italian Legislative Decree No. 39/2010**

“”Dear Shareholders,

During the year ended 31 December 2019, we carried out the supervisory activities envisaged by the law, in observance of the provisions of Article 2403, par. 1 of the Italian Civil Code, Article 19-bis and 19-ter of Italian Legislative Decree No. 39 dated 27 January 2010 and subsequent amendments as well as the Supervisory Instructions for financial brokers issued by means of Bank of Italy circular No. 288/2015, for brokers enrolled in the Register as per Article 106 of the consolidation act of the banking and lending laws (TUB) Italian Legislative Decree No. 385/1993 and according to the standards of conduct recommended by the Italian Accounting Profession.

The Board of Statutory Auditors currently in office was appointed by resolution of the Shareholders' Meeting of 29 April 2019 and will remain in office until approval of the financial statements for the 2021 financial year.

The Board of Statutory Auditors points out that the Financial statements for the year ended 31 December 2019:

- have been drawn up in accordance with the International Accounting Standards (IAS) and International Financial Reporting Standard (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Commission as per the Procedure pursuant to Article 6 of Regulation (EC) No. 1606/2002 of the European Parliament and Council of the European Union dated 19 July 2002;

- take into account the provisions of the Bank of Italy on 22 December 2017 "IFRS Financial Statements of Brokers other than Banking Intermediaries" and measures issued in implementation of Article 9 of Italian Legislative Decree 38/2005;

- have been audited by Mazars Italia S.p.A., to whose report, issued without findings, reference should be made;

- closed with a profit of EUR 50,205,539 and equity of EUR 761,148,645.

The draft Financial Statements were approved by the Board of Directors during the meeting of 25 March 2020.

The Board of Statutory Auditors sets out below the results of its activities.

**<u>Standards of correct administration</u>**

The Board of Statutory Auditors oversaw, to the extent of its remit, the adequacy of the company’s organisational structure and its evolution within the sphere of the BNP Paribas Group, as well as the observance of the standards of correct administration, by means of direct observations, gathering information from the heads of the various divisions and meetings with the heads of the Independent Auditors Mazars S.p.A. for the purpose of a reciprocal exchange of significant data and information without having to make any observations about it.

The Board of Statutory Auditors has constantly attended the meetings of the Board of Directors and obtained quarterly information from the Directors on the activities carried out and on the most important economic, financial and equity transactions carried out by the Company.

Intercompany and related party transactions of an ordinary nature have been adequately described in the directors’ report and are deemed suitable and compliant with the interests of the Company; where applicable, the regulations laid down by Article 2497-ter of the Italian Civil Code have been observed.

In compliance with the Group instructions and IAS/IFRS international accounting standards, the Board of Directors took steps to draw up and forward the quarterly and interim data for the purposes of the consolidated reports.

Based on the information thus obtained, the Board of Statutory Auditors is in a position to state that no transactions were carried out that are unrelated to the corporate purpose or in conflict with the resolutions passed by the Shareholders' Meeting and the Board of Directors or with the Articles of Association.

**Checking outsourced functions**

It is noted that during 2019 the company maintained the outsourcing of important operating functions already in progress in previous years to both Banca Nazionale del Lavoro and Business Partner Italia S.c.p.a..

The Board oversaw that activity through meetings and information obtained from the single Heads of the Outsourced Activities as well as through the examination of the specific report on the important operating functions in relation to which it also drew up the considerations set out in Circular no. 288 of 3 April 2015 issued by the Supervisory Authority.

The Board of Statutory Auditors assessed and oversaw the adequacy of the internal audit system and the administrative accounting system as well as the reliability of the latter to correctly represent the operating events, by means of obtaining information from the heads of the respective divisions, the examination of the corporate documents and the analysis of the results of the work carried out by the independent auditors, overseeing the activities of those in charge of internal auditing, in observance of the Supervisory Provisions for Financial Brokers pursuant to Article 106 of the consolidation act of the banking and lending laws (TUB) set forth in Bank of Italy Circular no. 288/2015, Title III regarding administrative and accounting organisation and internal audits.

Accordingly, the Board of Statutory Auditors - both during board meetings and meetings with the outsourced Compliance, Anti-money laundering and Internal Audit divisions - received information on the annual plans of the aforesaid divisions and on the reports issued by them, assessing the results and monitoring the implementation of the corrective actions.

In general, the Board of Statutory Auditors noted an essentially satisfactory trend in the results of the Internal Audit reports as well as suitable compliance bases on conclusion of the activities of the Compliance division.

**Supervisory activities on the adequacy of risk management systems**

The Board of Statutory Auditors, as part of the general audit of the business risk management process, received reports from the Internal Auditing, Risk Management, Compliance and Anti-Money Laundering Divisions in 2019.

The reports document the results of the follow-up activities on the various corrective actions required, as well as the adequacy and effectiveness of the controls adopted by the Company to manage the risk of non-compliance with the regulations, with regard to the checks carried out, the assessment of reputational risk, the results that have emerged and the critical issues found.

With regard to credit risk management, the Board of Statutory Auditors was able to note the work carried out to always improve the tools that can guarantee credit risk control and that the Risk Department maintains its resoluteness in the selection of customers. The Board of Statutory Auditors can confirm the particular and significant activities carried out within the Risk Management division. This division prepared the documentation regarding the ICAAP (Internal Capital Adequacy Assessment Process) to certify Ifitalia's capital adequacy to the potential risks to which a bank is exposed and also launched the IRB

(Internal Rating Based) project regarding the advanced method of credit risk management based on the recommendations provided by the European Central Bank to the parent company.

The process should be completed in the 2020 financial year.

With regard to the management of self-money laundering risk, the Board of Statutory Auditors oversaw the observance of the Supervisory Instructions and the observance of the anti-money laundering and terrorism funding prevention legislation, with particular regard to the obligations to report suspect transactions and the other obligations as per Italian Legislative Decree No. 231 dated 21 November 2007, regarding the implementation of Directive 2005/60/EC and subsequent amendments, with particular reference to the establishment and activities of the anti-money laundering division in observance of the Bank of Italy Instruction of 10 March 2011 as amended containing “Implementing provisions regarding organisation, procedures and internal audits aimed at preventing use of intermediaries and other persons who carry out financial activities for money laundering and terrorism funding purposes, pursuant to Article 7, par. 2 of Italian Legislative Decree No. 231”.

The Board of Statutory Auditors also monitored compliance with the obligations introduced by Italian Legislative Decree No. 90 of 25 May 2017 implementing Directive (EU) 2015/849 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing and amending Directives 2005/60/EC and 2006/70/EC and implementing Regulation (EU) No. 2015/847 on information accompanying transfers of funds and repealing Regulation (EC) No. 1781/2006.The Board of Statutory Auditors also monitored compliance with the requirements of European Regulation No. 679 of 2016, which came into effect on 25 May 2018, and received a brief note from the Data Protection Officer describing the main actions taken to comply with this regulation.

**Other assets**

The Board of Statutory Auditors carried out its supervisory activities during the year, taking part in all 11 meetings of the Board of Directors, 1 Shareholders' Meeting and holding 6 audit meetings.

No reports were received from shareholders pursuant to Article 2408 of the Italian Civil Code.

The Board of Statutory Auditors maintained constant communication with the Independent Auditors; these meetings did not reveal any acts or facts deemed reprehensible or worthy of reporting, with special reference to the Financial Statements for 2018. On 8 April 2019, Ifitalia's audit team submitted the draft audit report on the financial statements as at 31 December 2019.

The auditing carried out on the financial statements did not reveal any findings with regard to the compliance procedures carried out on the internal control system or the validity procedures planned during the final audit of the areas of the Financial statements identified as significant.

The adequacy of the information provided in the Notes to the Financial Statements by the Board of Directors is also noted, with a special reference to *"Section 3 Events after the reporting period"* with regard to the monitoring and development of some instability factors that have recently emerged, such as the Covid-19 emergency, to which reference should be made for more details.

**Opinions issued by the Board of Statutory Auditors during the 2019 financial year**

The Board of Statutory Auditors issued the following opinions during the year:

- opinion on the sale of the property in Via Pisani n. 15 in favour of Sviluppo HQ Tiburtina S.r.l.;

- opinions on: i) findings and the remedial actions with reference to the usury report to the Bank of Italy in relation to the findings made by the outsourced Inspection Générale function during the "Transparency and Usury" audit carried out in October 2018; ii) granting of the power of attorney for reporting suspicious transactions to the head of the Anti-Money Laundering Division outsourced to BNL, Bruno Sbrocco. In this regard, reference should be made to the minutes of the meetings held on 28 May 2019 and 13 December 2019, respectively.

**Activities as Supervisory Body**

In compliance with the matters envisaged by Italian Legislative Decree No. 231/2001, the Company has an Organisation and Management Model for the prevention of the offences envisaged therein.

The Board of Statutory Auditors was also appointed to serve as Supervisory Body.

In order to carry out its tasks, the Board of Statutory Auditors must necessarily have suitable information flows provided by corporate bodies and control functions. This flow of information is correctly carried out within the company and allows the Supervisory Body to be correctly informed about corporate events affecting these activities.

With regard to the Organisation, Management and Control Model, the Supervisory Body:

- monitored the completion of the corrective actions identified by Protiviti during the Risk Assessment carried out during the previous updating of the Organisation and Management Model;
- suggested that the Organisational and Management Model be updated in accordance with Italian Legislative Decree 231/2001, with regard to regulatory and organisational amendments/additions that have taken place over time and until 31 December 2019.

The Supervisory Body provided the Board of Directors with the prescribed periodic report on the activities carried out.

**Conclusions**

In conclusion, the Board of Statutory Auditors can confirm that the supervisory activities carried out during the year and up until today have not revealed any omissions, reprehensible facts or irregularities.

Finally, in the first quarter of 2020, the Board of Statutory Auditors obtained information from the General Management on the activities promptly implemented by the company to deal with the COVID 19 emergency both in terms of safety at work and in terms of operations: these activities shall be deemed to comply with the directives of the authorities and shall be continuously monitored.

Having taken into account the above, the Board of Statutory Auditors reveals that there is no reason why the financial statements as at 31 December 2019 should not be approved, disclosing a profit of EUR 50,205,539, along with the proposal to allocate the profit formulated by the Board of Directors.

Milan, Italy, 10 April 2020

For the Board of Statutory Auditors

The Chairman

Roberto Santagostino

*[signed on the original]*

**IFITALIA S.p.A.**
**INTERNATIONAL FACTORS ITALIA S.p.A.**
**Company subject to the management and co-ordination of BNP Paribas S.A. – Paris**
**Registered offices in Corso Italia, 15 – 20122 Milan, Italy**
**Share capital: EUR 55,900,000 fully paid-in**
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**Register of Financial Brokers - mechanised code no. 19016**

# BOARD OF STATUTORY AUDITORS' REPORT TO THE SHAREHOLDERS' MEETING pursuant to Article 2429, par. 2 of the Italian Civil Code and Article 19 of Italian Legislative Decree No. 39/2010

“”Dear Shareholders,

Ifitalia has prepared the consolidated financial statements, which include in the scope of consolidation, other than Ifitalia, only Tierre Securitization srl, the SPV used for securitisation transactions and a de facto subsidiary of Ifitalia.

In fact, although Ifitalia does not hold any share in its capital, based on the reference accounting standards, it can be deemed that, from a substantial point of view, it controls the SPV since it is the main party that determines its flows and is also exposed to its variable returns.

Thus, having at least one subsidiary, Ifitalia is required to prepare the consolidated financial statements as at 31 December 2019, in accordance with the regulations governing the preparation of financial statements of banks and financial companies as well as international accounting standards.

Given the structure of the securitisation transactions that do not allow the receivables assigned to the SPV to be derecognised from Ifitalia's balance sheet assets, the values of the various items of the consolidated financial statements do not differ substantially from those of Ifitalia's separate financial statements. Therefore, the Company took advantage of the option to prepare a single Report on Operations to accompany both the separate and consolidated financial statements.

The Board of Statutory Auditors points out that the consolidated financial statements for the year ended 31 December 2019:

- have been drawn up in accordance with the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Commission as per the Procedure pursuant to Article 6 of the Regulation (EC) No. 1606/2002 of the European Parliament and Council of the European Union dated 19 July 2002;
- take into account the provisions of the Bank of Italy on 22 December 2017 "IFRS Financial Statements of Brokers other than Banking Intermediaries" and measures issued in implementation of Article 9 of Italian Legislative Decree 38/2005;
- have been audited by Mazars Italia S.p.A., to whose report, issued without findings, reference should be made;
- closed with a profit of EUR 50,579,641 and equity of EUR 762,389,388;
- in the Notes to the Consolidated Financial Statements, Part A – accounting policies A.1 – general part, the accounting standards applied in preparing the consolidated financial statements are presented.

For all other information relating to the activities carried on by Ifitalia, reference should be made to the report of the Board of Statutory Auditors to the 2019 separate financial statements of Ifitalia.

The Board of Statutory Auditors, to the extent of its remit, in addition to the above, did not find any significant facts that required mentioning in this report.””

Milan, Italy, 10 April 2020

For the Board of Statutory Auditors

The Chairman

Roberto Santagostino

*[signed on the original]*

**ORDINARY SHAREHOLDERS' MEETING HELD ON 28 APRIL 2020**

Resolutions: (EXTRACT)

The Shareholders' Meeting, chaired by Mario Girotti, met on 28 April 2020 and resolved:

- a) to approve the financial statements for the year ended 31 December 2019 as presented by the management body, as well as the report accompanying it;
- b) to allocate the profit of EUR 50,205,539 to the reserve fund since the legal reserve has already reached one fifth of the share capital.