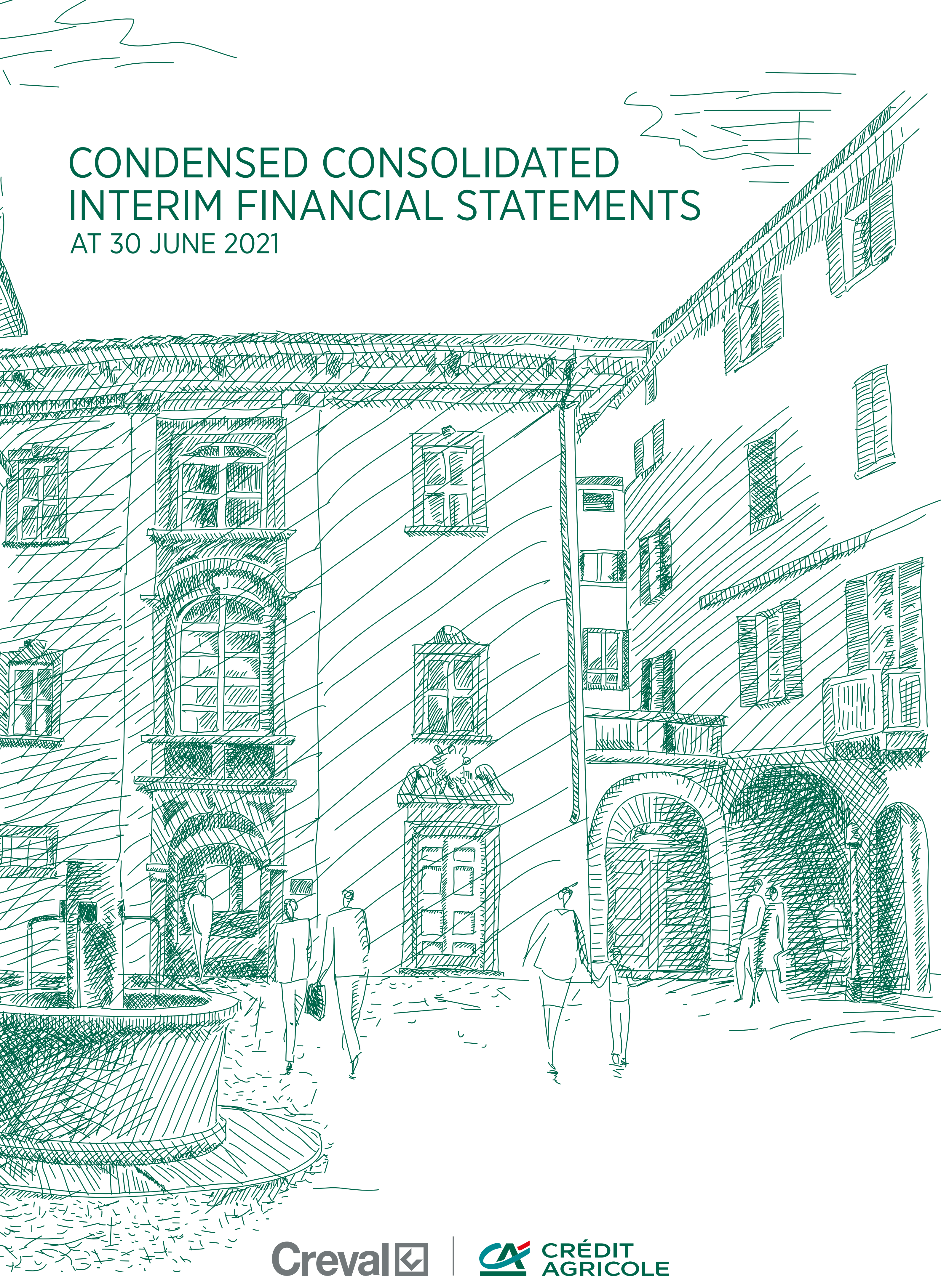
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AT 30 JUNE 2021



Creval | CRÉDIT AGRICOLE

Credito Valtellinese

Condensed Consolidated Interim Financial Statements at 30 June

2021

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Corporate Officers and Independent Auditors

Board of Directors

CHAIRMAN

Filippo Zabban

DEPUTY CHAIRMAN

Giampiero Maioli

DIRECTORS

Eufrasio Anghileri

Letteria Barbaro-Bour

Carlo Berselli

Matteo Bianchi

Bénédicte Chrétien

Pierre Débourdeaux

Elisa Dellarosa

Marco Di Guida

François-Edouard Drion

Simona Lo Sinno

Ivan Padelli

Antonella Salvatori

Carmela Adele Rita Schillaci

The Board of Directors was appointed by the Shareholders' Meeting held on 18 June 2021.

Board of Statutory Auditors

CHAIRMAN

Francesca Michela Maurelli

STANDING AUDITORS

Paolo Cevolani

Alessandro Stradi

ALTERNATE AUDITORS

Simonetta Bissoli

Francesco Fallacara

General Management

GENERAL MANAGER

Roberto Ghisellini

DEPUTY GENERAL MANAGER

Umberto Colli

Giliane Coeurderoy

Vittorio Pellegatta

Enzo Rocca

MANAGER RESPONSIBLE FOR PREPARING THE COMPANY'S FINANCIAL REPORTS

Simona Orietti

INDEPENDENT AUDITORS

PricewaterhouseCoopers S.p.A.

The Crédit Agricole Group

1° FIRST

RETAIL BANK IN THE EUROPEAN UNION*	ASSET MANAGER IN EUROPE	BANCASSURER IN FRANCE

Key figures

52 MILLION CUSTOMERS	**48** COUNTRIES	**142,000** PERSONNEL MEMBERS
6.1 MLN€ UNDERLYING NET INCOME	**119.6 BLN€** EQUITY- GROUP SHARE	**17.2%**** CET1 RATIO

Rating

S&P Global ratings	Moody's	Fitch Ratings	DBRS
A+	**Aa3**	**A+**	**AA (low)**

* 34.9 million retail customers in France, Italy and Poland in Retail Banking.

** Phased-in.

Figures as at 31 December 2020; number of customers and personnel as at 30 June 2021.

The Crédit Agricole Group in Italy

PLAYER IN THE ITALIAN CONSUMER
FINANCE MARKET*

ASSET MANAGER
IN ITALY**

Key figures

OVER 5 MILLION
CUSTOMERS

OVER 17,000
PERSONNEL MEMBERS

737 BLN€***
NET INCOME - GROUP SHARE

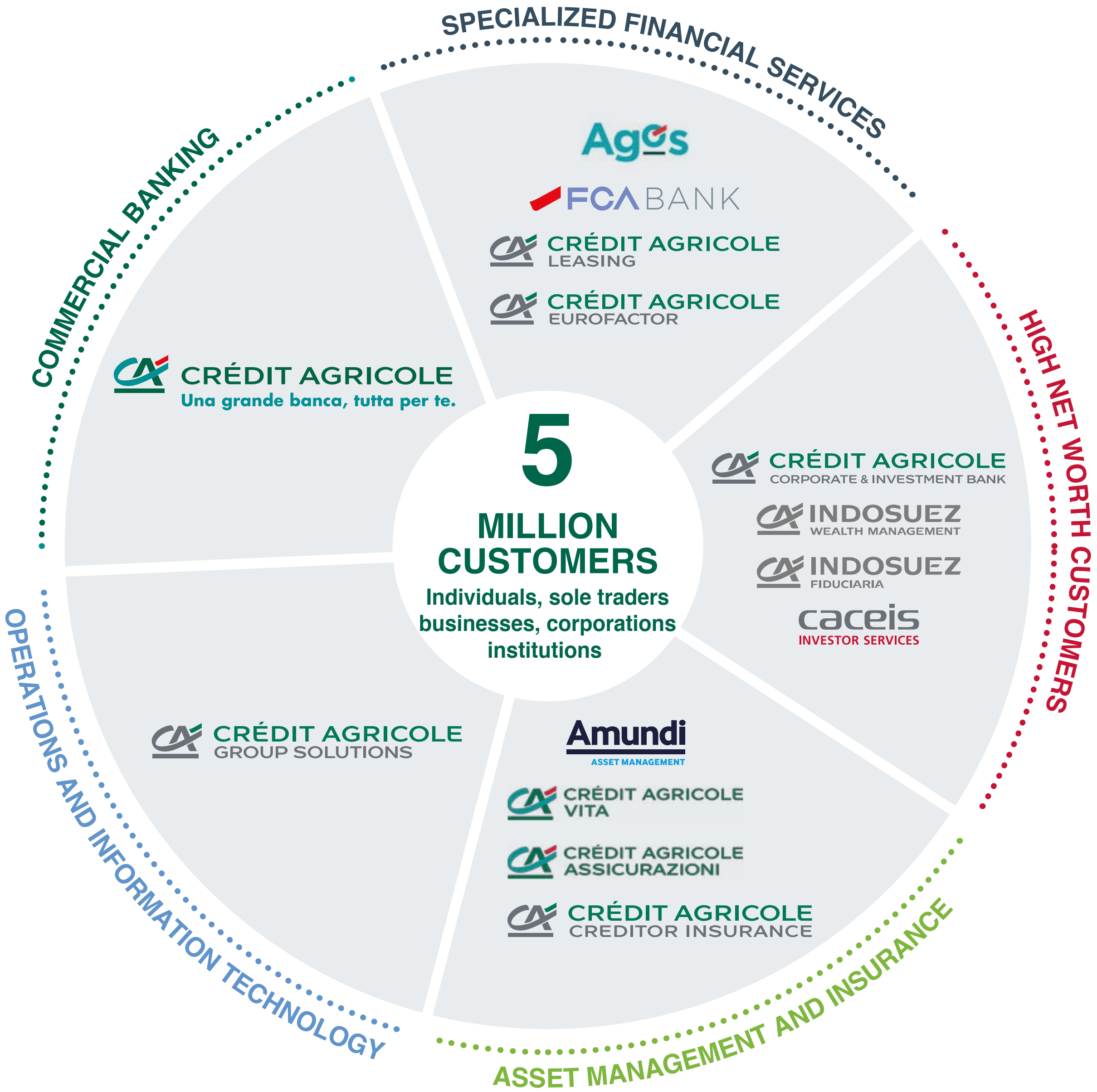
3.4 BLN€
NET OPERATING REVENUES

270 BLN€****
CUSTOMERS' DEPOSITS AND FUNDS UNDER MANAGEMENT

78 BLN€
LOANS TO CUSTOMERS

* Source: Agos and FCA Bank.
** Source: Assogestioni, "Mappa trimestrale del Risparmio Gestito", 3Q 2020. Data gross of duplications.
*** Of which 571 Mln€ attributable to the Crédit Agricole S.A. Group.
**** Including "out-of-Group" Amundi AuM and CECEIS Assets under Custody.

The Group's offer in Italy



The Crédit Agricole Italia Banking Group

The **Crédit Agricole Italia Banking Group**, through its commercial banks, is a proximity banking player that covers all market segments, thanks to its distinctive positioning based on Customer centrality.

OVER 2.7 MILLION
CUSTOMERS

APPROX. 13,000
PERSONNEL MEMBERS

206* MLN€
NET INCOME - GROUP SHARE

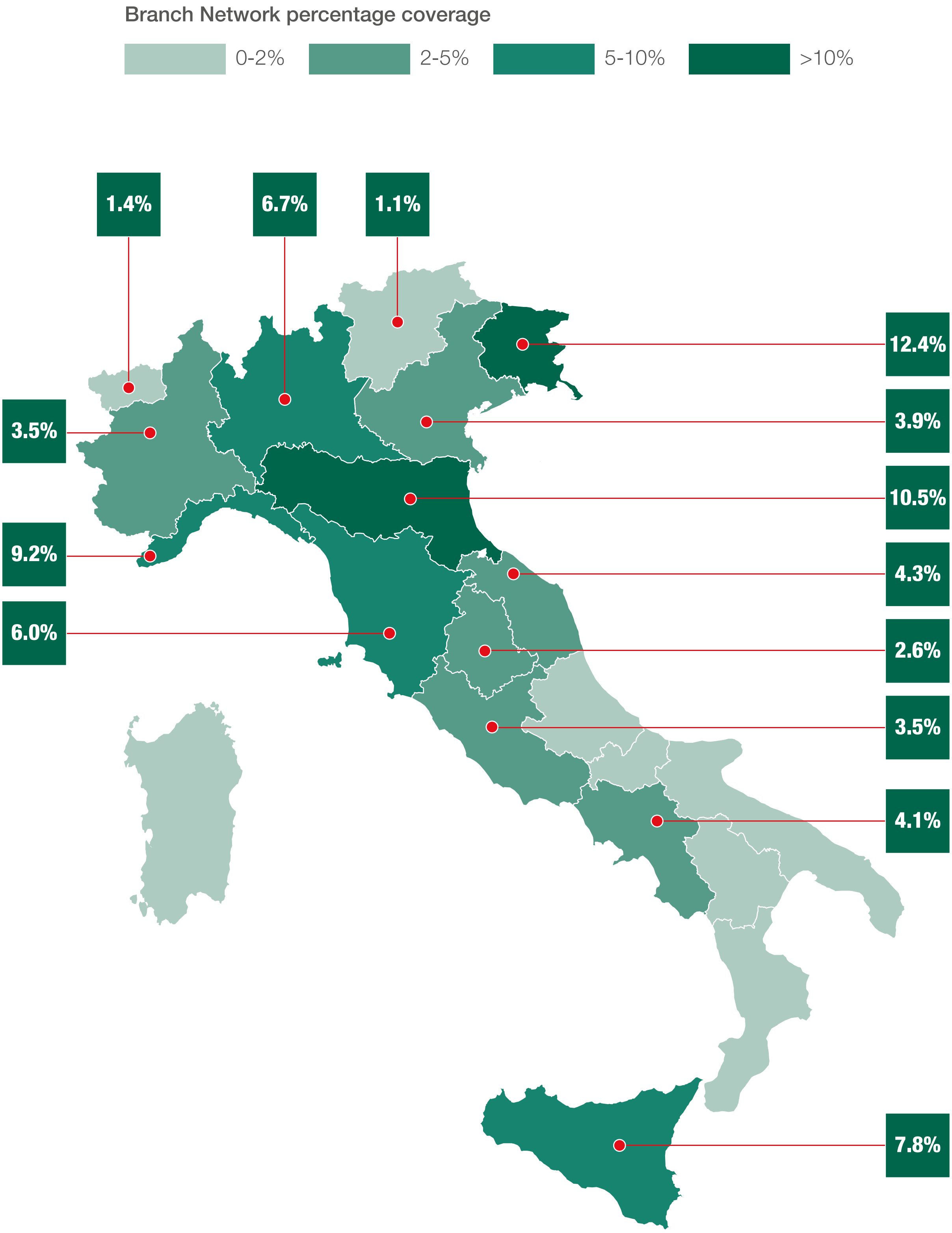
2 BLN€
NET OPERATING REVENUES

OVER
1,300
POINTS OF SALE

OVER
50 BLN€
TOTAL LOANS

* Excluding impairment losses on goodwill.
Figures as at 31 December 2020; number of customers and personnel as at 30 June 2021.

Branch Network percentage coverage
by Region



System figure - source: Bank of Italy as at 31 March 2021.
CA Italia Group figure as at 30 June 2021.

CRÉDIT AGRICOLE

The Parent Company of the Crédit Agricole Italia Banking Group, one of leading Italian banks, it is strongly rooted in the communities it operates in and originated from local banks.

830	43.4 BLN€	117.4 BLN€
POINTS OF SALE	LOANS	TOTAL FUNDING

CRÉDIT AGRICOLE FRIULADRIA

Crédit Agricole FriulAdria joined the Group in 2007. Today it is **the bank of choice for households and businesses in Northeast Italy.**

195	8.1 BLN€	17.9 BLN€
POINTS OF SALE	LOANS	TOTAL FUNDING

Creval

Creval is now part of the Crédit Agricole Italia Banking Group after the success of the public tender offer in April 2021. It operates in 11 Italian Regions.

355	14.4 BLN€	28.7 BLN€
POINTS OF SALE	LOANS	TOTAL FUNDING

CRÉDIT AGRICOLE LEASING

The Crédit Agricole Italia Banking Group's leasing entity. Crédit Agricole Leasing Italia **operates in the equipment, vehicle, real estate, seacraft and aircraft and renewable energy** financial leasing segments.

CRÉDIT AGRICOLE GROUP SOLUTIONS

CAGS is the consortium company of the **Crédit Agricole Italia Banking Group** in in charge of all activities relating to Operational Processes, Information Systems, Technical Logistics, Safety and Security, Business Continuity, Purchases and Real Estate Management, as well as Human Resources Administration.

Financial highlights and performance measures

Income Statement highlights(°) (thousands of Euro)	30.06.2021	30.06.2020	Changes	
			Absolute	%
Net interest income	168,219	161,512	6,707	4.15
Net fee and commission income	120,564	111,939	8,625	7.71
Dividend income	875	759	116	15.28
Net income from banking activities	14,573	811	13,762	n.s.
Other operating income (expenses)	5,015	7,976	(2,961)	-37.12
Net operating income	309,246	282,997	26,249	9.28
Operating expenses	(210,015)	(211,358)	(1,343)	-0.64
Operating margin	99,231	71,639	27,592	38.52
Cost of risk(a)	(53,653)	(64,407)	(10,754)	-16.70
Of which net value adjustments of loans	*(50,229)*	*(60,774)*	*(10,545)*	*-17.35*
Net profit for the period	40,356	40,987	(631)	-1.54

Balance Sheet highlights(°) (thousands of Euro)	30.06.2021	31.12.2020	Changes	
			Absolute	%
Loans to customers	18,746,396	19,648,291	(901,895)	-4.59
Of which securities measured at amortized cost	*4,347,589*	*4,661,572*	*(313,983)*	*-6.74*
Net financial Assets/Liabilities at fair value	176,480	188,583	(12,103)	-6.42
Financial assets measured at fair value through other comprehensive income	1,151,003	855,467	295,536	34.55
Equity investments	22,084	20,573	1,511	7.34
Property, plant and equipment and intangible assets	526,685	541,772	(15,087)	-2.78
Total net assets	21,690,423	22,326,637	(636,214)	-2.85
Funding from Customers	17,868,226	17,733,069	135,157	0.76
Indirect funding from Customers	10,852,631	10,440,722	411,909	3.95
of which: asset management	*8,203,484*	*7,816,279*	*387,205*	*4.95*
Net due to banks	872,594	1,985,038	(1,112,444)	-56.04
Equity	1,797,196	1,774,414	22,782	1.28

Operating structure	30.06.2021	31.12.2020	Changes	
			Absolute	%
Number of employees	3,483	3,521	(38)	-1.08
Average number of employees(§)	3,272	3,335	(63)	-1.89
Number of branches	355	355	-	-

(°) Income statement and balance sheet data are those restated in the reclassified financial statements shown from page 58 to page 68.

(a) The cost of risk includes provisioning for risks and charges, net value adjustments of loans and impairment of securities.

(§) The average number has been calculated as the weighted average of employees and atypical workers, where the weight is the number of months worked in the year; part-time staff is conventionally weighted at 50%.

Structure ratios(°)	30.06.2021	31.12.2020
Loans to customers / Total net assets	66.4%	67.1%
Direct funding from customers / Total net assets	82.4%	79.4%
Asset management / Total indirect funding from Customers	75.6%	74.9%
Loans to Customers / Direct funding from Customers	80.6%	84.5%
Total assets / Equity	**14.4**	**13.5**

Profitability ratios(°)	30.06.2021	30.06.2020
Net interest income / Net operating income	54.4%	57.1%
Net fee and commission income / Net operating income	39.0%	39.6%
Cost(*) / income ratio	64.0%	69.5%
Net income / Average equity (ROE)[a]	4.6%	4.9%
Net income / Average Tangible Equity (ROTE)[a]	4.6%	5.0%
Net profit / Total assets (ROA)	0.4%	0.4%
Net profit / Risk-weighted assets	1.1%	1.0%

Risk ratios(°)	30.06.2021	31.12.2020
Gross bad loans / Gross loans to Customers	2.3%	1.9%
Net bad loans / Net loans to Customers	1.0%	0.7%
Gross non-performing exposures / Gross loans to customers (gross NPE ratio)	6.1%	5.8%
Net non-performing exposures / Net loans to customers (net NPE ratio)	3.2%	3.1%
Impairments of loans / Net loans to Customers	0.7%	0.6%
Cost of risk[b] / Operating margin	54.1%	56.2%
Net bad loans / Total Capital[c]	7.3%	5.3%
Total Impairments of non-performing loans / Gross non-performing loans	48.7%	48.3%
Total Impairments of performing loans / Gross performing loans	0.5%	0.4%

Capital and liquidity ratios	30.06.2021	31.12.2020
Common Equity Tier 1[d] / Risk-weighted assets (CET 1 ratio)	23.7%	24.5%
Tier 1[e] / Risk-weighted assets (Tier 1 ratio)	23.7%	24.5%
Total Capital[c] / Risk weighted assets (Total Capital Ratio)	25.6%	26.5%
Risk weighted assets (Euro thousands)	7,745,652	8,037,729
Liquidity Coverage Ratio (LCR)	283%	238%

(°) The Ratios are based on the balance sheet and income statement data of the reclassified financial statements shown on pages 57 and 65.
(*) Ratio calculated excluding ordinary and extraordinary contributions to support the banking system.
(a) The ratio of net earnings to the equity weighted average (for ROTE net of intangibles).
(b) The cost of risk includes provisioning for risks and charges, net value adjustments of loans and impairment of securities.
(c) Total Capital: total regulatory own funds.
(d) Common Equity Tier 1: Common Equity Tier 1.
(e) Tier 1: Tier 1 Capital.

Interim Report on Operations

NOTES ON THE GENERAL MACROECONOMIC SCENARIO AND THE FINANCIAL SYSTEM

INTERNATIONAL MACROECONOMIC CONTEXT FOR THE FIRST HALF OF THE YEAR 2021

The international economic scenario in the first half of 2021 confirmed the convincing signs of recovery that had already emerged in the last part of 2020, mainly thanks to a number of key factors, such as the gradual introduction of vaccines and the announcement of further and important tax support, which are helping to improve confidence on a global scale. The economic recovery was unevenly distributed across countries and production sectors: the industrial sector continued its recovery process, supporting the volume of world trade in goods, while service activities are still affected by social containment measures. The forecasts of the European Commission indicate a decisive recovery in global GDP in 2021, with an intensity able to ensure the re-absorption of the contraction recorded last year (+5.6% from -3.4% in 2020).

In the first months of the year, the economic cycle strengthened in China and the United States, while in the Eurozone economic activity declined, reflecting the implementation of additional containment measures introduced to counter the third wave of the virus outbreak. In the first quarter of 2021, China's GDP increased by +0.6% compared to the previous quarter (+6.5% in Q4 2020), showing positive signs for all aggregates. In the United States, economic activity strengthened further in the first quarter (+1.6% in the first quarter, +1.1% in the previous quarter), characterized by a recovery in consumption and investment, which benefited from the substantial fiscal stimulus programme.

On the other hand, the economic cycle in the Eurozone was still conditioned by the extension of social containment measures, even if they were gradually being eased. In the first quarter, gross domestic product declined further (-0.6% and -0.7% in the first and previous quarters, respectively) due to the large drop-in activity in Germany (-1.8%). However, a significant improvement is expected in the coming months, mainly due to the reduction in the number of infections, but also to the availability of the first tranches of Next Generation EU financial resources. Moreover, the forecasts of the European Commission estimate a full recovery of the Eurozone economy in the two-year period from 2021 to 2022 with GDP growth of +4.3% and +4.4%, respectively. Such significant growth will also benefit the EU's aggregate deficits, which have increased to around 7% of GDP in 2020, mainly due to government interventions to support households, workers and businesses affected by Covid-19, and the mechanism of automatic stabilizers.

The recovery of the economic cycle was also accompanied by an acceleration in global inflation driven by the effects of higher oil and commodity prices that impacted the various stages of the price system. In this regard, inflation in the Eurozone is expected to remain extremely volatile, showing a high but temporary level in 2021 that will stabilise at around 1.0%-1.1% in 2022[1].

1 Source: ECO, Macroeconomic scenario No. 21/142 (April 2021).

Monetary policies

Given the economic context, the main central banks are pursuing different **monetary policies:**

- the **Fed** confirmed its monetary policy by leaving rates unchanged in a range between 0.00% and 0.25%, reiterating that full employment is the key to monetary policy in the United States. Therefore, the US central bank will keep interest rates at these levels until the economy reaches full employment and the inflation rate stabilizes at 2% in the long term, confirming the assumption of the transitory nature of the increase in inflation. The Federal Reserve will continue its purchases of Government bonds at a rate of at least 80 billion dollars a month while Chairman Powell confirmed that, although there have been initial discussions about tapering (i.e., gradually reducing the amount of purchases), the conditions for starting this process are still far away[2];
- the **European Central Bank** decided to continue the accommodative stance of its monetary policy, confirming the measures introduced at previous meetings. Interest rates remain unchanged: the reference rate remains unchanged at zero while the deposit rate is negative at -0.5%. The Executive Council set the amount of the Pandemic Emergency Purchase Programme (PEPP) at EUR 1.850 billion, together with the expectation that net purchases would continue "at least until the end of March 2022 and, in any case, until such time as the Executive Council deems the critical phase related to the coronavirus to be over". Based on a joint assessment of financing conditions and the prospects for inflation, the ECB expects that purchases under the PEPP will continue at a significantly higher pace in the coming quarter in the first few months of this year. Moreover, net purchases under the Asset Purchase Programme (APP) will continue at a monthly rate of EUR 20 billion. Moreover, the ECB will continue to provide abundant liquidity through its refinancing operations. In particular, the third set of targeted longer-term refinancing operations (TLTRO-III) plays a crucial role in supporting bank lending to businesses and households.
  On 8 July 2021, the ECB published a statement outlining its new monetary policy strategy, setting the inflation target of 2% in the medium term and confirming that interest rates continue to be the ECB's main monetary policy instrument. Forward guidance on interest rates, asset purchases and longer-term refinancing operations remain an integral part of the ECB's instruments, to be used where appropriate.
- the **Bank of England**, with the meeting held on 22 June, considered the current monetary policy initiatives suitable. Therefore, the reference rate remains stable at 0.10%, and the Quantitative Easing programme is confirmed with the aim of maintaining the stock of financial assets purchased at 895 billion pounds.

Main economies[2]

Global GDP is expected to increase by +4.7% in 2021, a sharp recovery from the marked decline in 2020 (-8.9%). The international context is characterized by uncertainty and the various risk factors that could contribute to weakening the current balance have been reflected, albeit with different intensity, in the different geographical areas:

- the **United States**[3] in the first quarter of 2021 grew by +1.6% over the previous quarter, bringing the GDP level back to the values at the end of 2019. Activity is expected to increase further in the second quarter, amid strong consumer spending supported by the provision of direct public aid to household income. Total employment of non-agricultural employees increased by 850,000 in June and the unemployment rate stood at 5.9%. Significant improvements can be found in the leisure and hospitality sectors, in professional and commercial services and in the retail trade. In April, consumer price inflation rose to 4.9%. The increase in nominal inflation was mainly due to a strong annual increase in the energy component;
- GDP in the first quarter of 2021 in **China**[3] grew by +0.6% compared to the previous quarter, down compared to the last two quarters. In addition to expansionary policies, the main driver of economic activity was investment and private consumption, which should continue to drive the recovery in the coming months as the prospects for employment and income-producing businesses increase. In May, consumer price inflation over twelve months rose slightly to 1.3%, compared to 0.9% in April. Consumer price inflation remains moderate as a whole, while energy prices increased considerably;

2 Source: Prometeia, Forecast Report (July 2021).
3 Source: US Bureau of Labor Statistics (June 2021).

- in **Japan**[3], GDP in the first quarter of 2021 fell by 1% on the previous quarter, as the second state of emergency, implemented between early January and mid-March, weighed on private consumption and business investment. The strengthening of domestic demand as a result of a relaxation of the containment measures, as well as the ongoing budget support and the recovery of foreign demand should support a gradual but constant recovery, which is expected to pick up more strongly later in the year and continue at a moderate pace thereafter. The third state of emergency, announced at the end of April, and limited progress in vaccine administration are likely to delay a more solid recovery until the second half of this year;
- in **India**, the second pandemic wave is strongly affecting growth after the good result of the first quarter. In the first three months, GDP grew by +2.1% in economic terms with a recovery in private consumption growth (+2.8%), after three negative quarters, and with a strong increase in public spending and investments thanks to economic policy measures aimed at supporting the construction sector. However, the recurrence of the pandemic was reflected in the PMI indicators, which plummeted from over 55.4 to 48.1, with the service sector particularly affected. Inflation in May 2021 increased by + 6.3%[2];
- in **Russia**, GDP in the first quarter of 2021 was broadly stable compared to the fourth quarter of 2020. Production figures show a recovery driven by manufacturing and sectors with greater exposure to health issues as they reopen. On the other hand, the important mining sector continues to decline, partly due to the OPEC+ agreements on limiting production quotas. Inflation reached 6% in May (5-year high), mainly due to the increase in the price of food;
- in the first three months of 2021, the first quarter after Brexit, the **UK**[4] economy contracted by -1.5% compared to the fourth quarter of 2020. The figure reflects a general decline in the main indicators, which were negatively impacted by the continued containment of the Covid-19 pandemic. The services sector decreased by -2.0% compared to the previous quarter, particularly penalized by education (-11.8%), with strong contributions from accommodation and food. Production also recorded negative growth (-0.4%) in the first quarter of 2021, mainly due to the decline in the manufacturing sector (-0.7%), which however benefited from an increase in the production of pharmaceuticals (+5.6%).

EUROZONE

In the first quarter of 2021, **GDP in the Eurozone**[5] decreased slightly compared to the fourth quarter of 2020, by **-0.3%**. This figure follows the decline in the fourth quarter of 2020 (-0.6%), after the strong rebound in the third quarter of 2020 (+12.6%).

Industrial production[6] in April 2021 grew by +39.3% y/y (+0.8% compared to the previous month). **Inflation**[7] also increased, reaching 2.0% in May 2021 (+1.4 p.p. compared to the previous year). The increase in the figure, which is similar at global level, is mainly attributable to the energy sector, the oil sector, and to the raw materials sector whose price increases led to a worsening of the curve in both producer and consumer prices.

The **unemployment rate**[8] of 8.0% in April 2021 is up from the April 2020 figure of 7.3%, and slightly down from the previous month (8.1%).

In **Germany**[3], GDP in the first quarter fell sharply by -1.8%, reflecting a substantial negative contribution from household consumption, while investment contributed essentially nothing. The manufacturing sector continued its recovery process, supporting GDP growth, albeit at a more moderate pace than in previous quarters.

In **France**[3], GDP decreased very moderately by -0.1% compared to the fourth quarter of 2020 but was the only country to grow compared to the first quarter of 2020. This trend is the result of a negative contribution from the foreign component (-0.4pp), against a positive one from domestic demand (0.1pp) and the change in inventories (0.2pp). The manufacturing sector grew marginally, as did the construction sector.

4 Source: Office for National Statistics, GDP first quarterly estimate (May 2021).
5 Source: Eurostat, 66/2021 (June 2021).
6 Source: Eurostat, 67/2021 (June 2021).
7 Source: Eurostat, 71/2021 (June 2021).
8 Source: Eurostat, 63/2021 (June 2021).

In **Spain**[3], GDP fell by -0.4% compared to the fourth quarter, remaining the country furthest away from the activity levels at the end of 2019 (-9.3%). Similarly in Germany, the contribution of household consumption was negative. Investment also declined in construction and transport.

Following the suspension of the Stability and Growth Pact, member states undertook robust measures to combat the crisis through extraordinary financial support, **increasing aggregate deficits in the Eurozone to approximately 7% of GDP**. Moreover, temporary assistance measures totaling EUR 540 billion were approved by Europe, such as the SURE, EIB and ESM funds, as well as the longer-term Next Generation EU, which will be implemented over the 2021-2026 period and altogether will make available to member states EUR 750 billion in loans (up to EUR 360 billion) and grants (up to EUR 390 billion) through seven programmes – the main one being the Recovery and Resilience Facility (RRF) covering the entire loan portfolio and 80% of grants.

The Next Generation EU is not just a recovery plan but a unique opportunity to emerge stronger from the pandemic, thanks to a new-found sense of European unity, to transform the economy by creating a greener, more digital and resilient EU. This is demonstrated by the first issue of **"European" bonds** that will help finance national recovery plans.

THE ITALIAN ECONOMY

On 22 June 2021, the European Commission gave an overall positive assessment of **the National Recovery and Resilience Plan (NRRP)** presented by the Italian government at the end of April. The framework includes EUR 235.61 billion in total resources: the NGEU funds will amount to EUR 205 billion, to which the government will add a further EUR 30.6 billion to finance a complementary national plan to run alongside the European programme. The Italian NRRP is based on six missions divided into three horizontal strategic priorities: the digital transition, the green transition and social inclusion. Almost 40% of total resources are allocated to ecological transition, 27% to digitalization and 40% to the development of the south of the Country. The impact of these investments on Italy's GDP is estimated to have a total cumulative effect of +3.6% in 2026[9].

In the first quarter of 2021, the Italian economy showed a marginal improvement compared to the previous quarter, with economic GDP growth of +0.1%[1]. The moderate recovery in production activity is the result of an increase in the added value of agriculture and industry and a decrease in the tertiary sector, which in some sectors was still affected by the measures to combat the health emergency. On the demand side, exports of goods and services grew in economic terms by +0.5%, as did gross fixed investments, which increased by +3.7%, imports by +2.3% while domestic final consumption decreased by -1.0%.

Household spending[1] decreased in economic terms by -1.8%. Purchases of durable goods decreased by -0.9%, services by -4.2%, semi-durable goods by -3.6% and non-durable goods by 1.9%.

In the first quarter of 2021, **the disposable income** of consumer households increased by + 1.5%[11] compared to the previous quarter, while the y/y change was + 0.8%. Compared to the fourth quarter of 2020, **the propensity to save** estimated 17.1% increased by +1.8%. This increase derives from a decrease in final **consumption expenditure** (-0.6% compared to the fourth quarter of 2020, -4.0% y/y change) and an increase in gross disposable income.

Consumer confidence[10] in June 2021 consolidated its positive trend and markedly increased to 115.1 (110.6 in May and 102.3 in April). In particular, the economic component rose from 116.2 in May 2021 to 126.9. The same trend was also reported for **business confidence**, whose positive trend in place since December 2020 was consolidated with the June figure rising from 107.3 (May 2021) to 112.8.

In the first quarter of 2021, the **public administration**[11] recorded a net debt of 13.1% of GDP, down compared to 10.6% in the corresponding period of 2020, due to the substantial increase in expenditure resulting from the continuation of measures to support the household and business income, which exceeded the increase in revenues. In the first quarter of 2021, as a percentage of GDP, the primary and current balances were negative at -9.7% (-7.5% in the same period of 2020) and -8.6% (-7.3% in the same period of 2020), respectively.

9 Source: Prometeia, Brief 21/4 (May 2021).
10 Source: ISTAT, Consumer and business confidence (June 2021).
11 Source: ISTAT, Quarterly account of public administrations (July 2021).

Industrial production[12] in April 2021 (+1.8% compared to March) marks the fifth month of economic growth and exceeds the pre-pandemic levels of February 2020. The index shows economic increases in all the main industrial groupings: positive changes characterized capital goods (+3.1%), energy (+2.4%), intermediate goods (+1.1%) and, to a lesser extent, consumer goods (+0.5%). In April 2021, the overall index increased compared to the same period of previous year by 79.5%, due to the exceptionally low figure in April 2020. While the period January-April 2021 showed an increase of +21.6% compared to the four-month period January-April 2020.

Improved expectations on the economic climate, also linked to the generalized reduction in infection, liquidity support measures and incentives for investment in construction, led to an economic growth in **gross fixed investments**11 (+4.1%) in the first quarter of 2021, which involved all types: homes (+4.8%), non-residential buildings (+5.2%), construction of plant, machinery and equipment (+3.5%) and intellectual property (+0.4%)[1].

Trade figures for the first quarter of 2021 showed positive signs on the goods side, while on the services side there were still signs of weakness related to the persistent difficulties in the tourism movement. **Foreign trade**[13] in the February-April 2021 quarter, compared to the previous quarter, reported an increase of +4.2% for exports and +7.6% for imports. In the month of April 2021 alone, following the exceptionally low level of April 2020, the year-on-year growth of exports was extraordinarily large: +97.6%, with +91.5% for sales to the EU area and +104.6% to the non-EU area. Imports also showed a very strong increase compared to the same period of previous year (+62.8%) involving both the EU area (+69.2%) and non-EU markets (+54.9%).

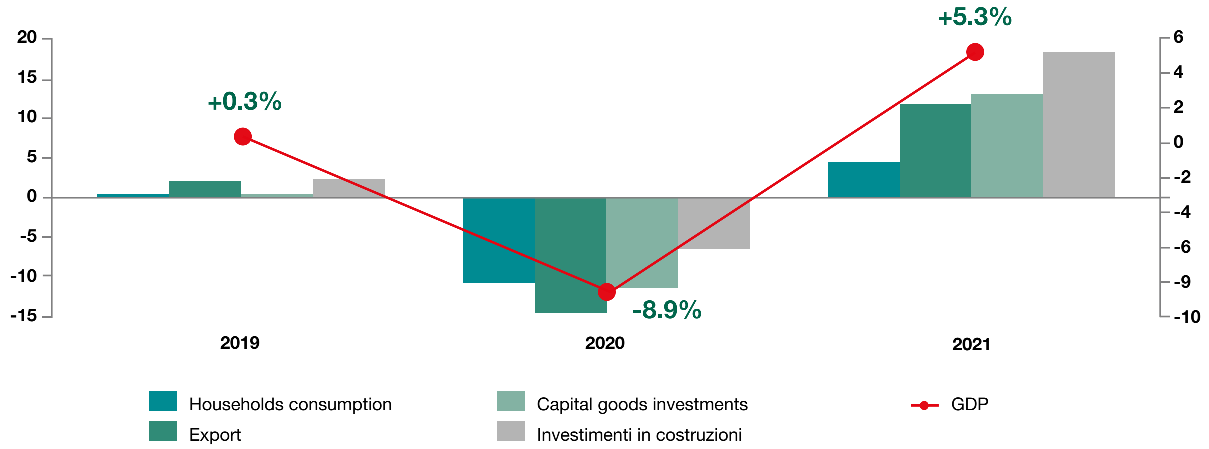
Consumer prices[14] in June 2021 increased (gross of tobacco) by +0.1% on a monthly basis and +1.3% on an annual basis (as in the previous month), supported by temporary factors linked to commodities driven by the prices of energy goods, which accelerated to +14.1% compared to June 2020 due to the prices of the non-regulated component (+12.8%). The “core inflation” figure, calculated net of energy and fresh food, shows an increase of +0.3% compared to the same period of previous year, while “acquired” inflation for 2021 is +1.3% for the general index and +0.6% for the core component, although this trend remains moderate compared to that of the Eurozone.

The labor market shows signs of gradual improvement: the **unemployment rate**[15] in May 2021 stood at 10.5%, with an increase in the number of employed people and a decrease in both the unemployed and the inactive compared to April. Comparing the March-May 2021 quarter with the previous quarter (December 2020-February 2021), the **level of employment** is 0.3% higher, while the actual figure for the employment rate in May 2021 stands at 57.2%.

Despite the impact of the third wave of infections, the rate of decline of the Italian economy slowed down, and the enhanced deployment of vaccines should help put GDP back on a growth path in the second quarter, while an acceleration is expected in the third quarter, when the recovery already underway in several economic sectors will be joined by tourism and entertainment, which have been particularly hard hit by the crisis. These trends, thanks also to the first NGEU funds (EUR 25 billion), some of which will be spent in the second half of the year, are estimated to contribute to an increase in GDP of +5.3% in 2021[16].

12 Source: ISTAT, Industrial Production (April 2021).
13 Source: ISTAT, Foreign trade and import prices (June 2021).
14 Source: ISTAT, Consumer prices - provisional data (June 2021).
15 Source: ISTAT, Employed and Unemployed (May 2021, provisional data).
16 Source: Prometeia, Forecast Report (July 2021).

Italy: GDP and components



Source: Prometeia, Forecast Report (July 2021).

THE BANKING SYSTEM

In the first half of 2021, the banking sector **continued to meet the demand for loans from households and businesses**, despite the particularly complex environment, with supply conditions remaining relaxed, also thanks to the ECB's **ample availability of liquidity**. In fact, the cost of bank funding remains at low levels as a result of the many monetary and regulatory policy measures implemented at both national and European level, with repercussions on the medium/long-term reference rates applied to customers, improving the conditions of access to credit for households and businesses.

In economic terms, already in the first quarter of 2021 there was a **recovery in the profitability of the banking sector**, with prospects of a return to pre-crisis profitability, thanks to the growth of net fee and commission income, supported by the acceleration of the asset management component and the effectiveness of cost reduction measures. **Investments in technology and cyber security grew**, driven by the greater impetus for digital transformation and also necessary to counter the greater IT risks related to increased online operations by customers, offset by the reduction in structural costs thanks to the continued network optimization process. The downsizing of the **cost of risk** was also positive, returning to physiological levels after the exceptional values recorded in 2020. Lastly, **systemic expenses** related to the rescue of some institutions carried out by the FITD continue to weigh on the bank accounts, resulting in requests for extraordinary contributions to replenish the value of the fund, in addition to ordinary contributions that increase at the banking system level in line with the trend in protected deposits.

With regard to **extraordinary credit support measures**, there continues to be widespread use of loan moratoria and public guarantees, which at European level have taken on very different characteristics across countries. Italy, together with Spain, is the country where the use of moratoria and guarantees has been most extensive and where the measures in place are still high when compared to total loans. In terms of risk, the data on loans for which the moratoria expired at the end of 2020 shows a shift to low impaired content and broadly aligned across countries, a sign of the effectiveness of these extraordinary measures.

Despite the fact that most of the **moratoria** granted have expired or are about to expire, the use of such concessions is still important. At 30 June 2021, EUR 128 billion worth of loan moratoria were still active at the national level, representing approximately 46% of all moratoria granted since March 2020 (approximately EUR 280 billion), of which about EUR 102 billion for **non-financial companies** and EUR 19 billion for **households**. Moreover, a total of 2,251,280 **requests for guarantees were received by the Guarantee Fund** for a total amount of more than EUR 182.2 billion. Of these, 1,162,147 refer to loans introduced by the Liquidity Law Decree up to EUR 30,000, with 100% coverage, for a financed amount of approximately EUR 22.6 billion, and 543,090 to guarantees for moratoria introduced by the Cura Italia Law Decree for a financed amount of approximately EUR 14.8 billion. Finally, the total volume of **loans guaranteed by SACE under the "Garanzia Italia" scheme rose to EUR 26.1 billion**[17].

17 Press releases of the task force composed of MEF, Bank of Italy, ABI, MCC, MISE and SACE (30 June 2021).

For the largest Italian banking groups, the incidence of moratoria on the loan portfolio stood at 7.7% at the end of 2020, compared to the EU average of 2.1% and values below 1% in France and Germany. This difference already existed in June 2020, i.e., even before the gradual expiry of the measures. Also in this respect, **Italy seems to stand out from other EU countries**: in Italy only 34% of the moratoria granted expired by the end of 2020, compared with 65% at European level and over 80% in France and Germany. Despite the fear of a possible impairment of asset quality related to the amount of loans subject to moratoria, the data made available by the EBA on all significant Italian banks, however, indicate that only 2.7% of loans for which the moratoria has expired was classified as NPLs at the end of 2020 (vs 4.5% of the EU average)[18]. The breakdown by counterparty shows that the existing moratoria mainly concern loans to businesses: France (80%), Italy (70%) and Germany (60%), while in Spain the prevalence refers to credit to households (80%). Italy confirms the greater use of loans backed by public guarantees: guaranteed loans represent around 5.5% of the outstanding loans of significant banking groups, compared to an EU average of 2.5%, while Germany is the country with the lowest use of these extraordinary measures. At European level, the guarantee covers on average 70% of the amount of the loan, with Italy having the highest level of coverage (almost 90%), followed by Spain and Germany (around 80%) and the French groups having the lowest coverage (55%)[19].

The **level of capitalization** of the Italian banking system remains **solid and resilient** for almost all significant institutions, with capital ratios well above the minimum requirements applicable from 1 January 2021 set by the supervisory authority following the SREP process carried out in 2020. Consequently, in the absence of any unexpected and particularly negative developments in the coming months, the recommendation on the dividend distribution limit, introduced at the beginning of the pandemic, should be repealed and banks will be able to return to their dividend policies from the end of the third quarter of 2021.

As a result of this scenario, the following economic trends were recorded[20]:

Loans to households and businesses in May 2021 amounted to EUR 1,317 billion, up +0.6% compared to the end of the previous year. According to official data of the Bank of Italy, the trend of loans to non-financial companies slowed down, although the rate of expansion remained quite high, in connection with a demand for state-guaranteed loans that remained high. Loans to households increased for both home loans and consumer credit.

The rate of impairment of the loan, expressed by the Default Rate, increased slightly, though remaining at low values, with coverage levels remaining under control and incidences improving further, also thanks to the derisking process that has characterized the last few years, favoring an active management of NPLs and continuing with the sales of impaired portfolios on the market.

In April 2021, the stock of **net bad loans** was gradually decreasing to EUR 19.8 billion, down by -5.2% compared to the end of the previous year. The percentage of net bad loans to loans was 1.15%, compared to 1.50% in April 2020.

The interest rates applied to loans to customers in May 2021 remained particularly low, at historic lows: the average rate on total loans was 2.23%, the rate on new home loans was 1.43% (compared to 1.33% in 2020) – which summarizes the trend in fixed and variable rates and is also influenced by the change in the breakdown of loans by type of loan – while the rate for loans to businesses was 1.17% (compared to 1.21% in 2020).

Liabilities to the Euro system increased as a result of banks' participation in the seventh auction of the third round of targeted longer-term refinancing operations (TLTRO-III), settled on 24 March 2021, through which Italian banks raised EUR 77 billion, bringing total liabilities to the Euro system to EUR 427 billion.

18 EBA Risk dashboard, data at Q1 2021.
19 Prometeia calculations on ECB and EBA data (May 2021), data at December 2020.
20 ABI Monthly Outlook (June 2021).

Total **direct funding** (deposits from resident customers and bonds) in May 2021 remained strong, up +1.4% compared to the end of the previous year. The medium/long-term funding component, represented by bonds, declined by more than EUR 7 billion in absolute terms (or -3.5%), while deposits increased by about EUR 35 billion, or +2.0% vs Dec-2020. The analysis of the trend in deposits shows that the upward trend is mainly due to companies that, benefiting from access to credit on favorable terms, increased their liquidity position, which, however, due to the profound uncertainty caused by the outbreak of the Covid-19 pandemic, was not immediately reinvested in productive activities.

Interest **rates** on **bank deposits** were substantially stable: the average interest rate on total bank deposits from customers in May 2021 was 0.47%, compared to 0.49% in December 2020.

The spread between the average rate on loans and the average rate on deposits to households and non-financial companies remained in Italy at very low levels: in May 2021, it stood at 176 basis points, down from 178 basis points in December 2020.

With regard to the **asset management**[21] industry, in May 2021 the system posted net deposits of EUR +6.8 billion, up to EUR +41.7 billion since the beginning of the year, while assets under management - also thanks to the market effect - reached a new all-time high at EUR 2,480 billion. Assets invested in mandates amounted to EUR 1.220 billion, or 49% of the total. Assets under collective management amounted to EUR 1.260 billion, representing the remaining 51% of total assets.

REGULATORY AND SUPERVISORY INTERVENTIONS

The **monetary policy measures** taken by supervisory authorities aim to preserve favorable financing conditions, thereby supporting the flow of credit to all sectors of the economy and safeguarding price stability in the medium term. In this regard, the ECB has:

- **extended the third series of TLTRO-III operations** by adding further three operations to those initially planned to be carried out in June, September and December 2021 (each with a duration of three years). The maximum amount that can be applied for was increased from 50% to 55% of the stock of eligible loans at the end of February 2019 and the limit on participation in a single auction was removed. The interest rate for each operation is set at a level equal to the average interest rate of the Euro system's main refinancing operations for the duration of the respective TLTRO-III, except for the periods from 24 June 2020 to 23 June 2021 and from 24 June 2021 to 23 June 2022, when a lower interest rate of 50 basis points will apply (with the period during which the most favorable cost conditions will apply being extended by 12 months). In order to reduce the interest rate, there are three different lending performance criteria that refer to three different observation periods: (a) special reference period from 1 March 2020 to 31 March 2021; (b) second reference period from 1 April 2019 to 31 March 2021; and (c) additional special reference period from 1 October 2020 to 31 December 2021. The interest rate conditions of the first seven operations are determined on the basis of these three criteria, those of the subsequent operations are determined on the basis of the additional special reference period criterion only;
- **decided to increase the amount of the Pandemic Emergency Purchase Programme (PEPP)** by EUR 500 billion for a total of EUR 1.850 billion and a validity until the end of March 2022. The Governing Council also decided to extend the reinvestment of principal payments on maturity of securities purchased under the PEPP until at least the end of 2023. Therefore, the Governing Council intends to make net purchases at least until March 2022 and until the health emergency is over;
- **confirmed the measures to support PELTRO liquidity**, longer-term refinancing operations for the pandemic emergency. These operations are carried out through a fixed rate auction procedure with full allotment of the amounts requested, applying an interest rate that is 25 basis points below the average interest rate for the main refinancing operations over the duration of the respective PELTRO. The first seven operations were carried out on a monthly basis between May and December 2020, with maturities staggered between July and September 2021. On 10 December 2020, in order to continue to provide effective liquidity support, the Governing Council decided to offer four additional PELTROs in 2021, with a quarterly frequency and a duration of approximately one year;

21 Source: Assogestioni, Monthly map of assets under management (May 2021).

- **extended the easing measures on the leverage ratio calculation,** which allow for the temporary exclusion of certain central bank exposures from the leverage ratio in order to support the ECB's monetary policy transmission, to March 2022. The decision extends the leverage ratio relief granted in September 2020, which was due to expire on 27 June 2021, as it is the Council's opinion that the condition of exceptional circumstances justifying the temporary exclusion continues to be met.

At the end of May 2021, the Italian government approved the "Sostegni bis" **Law Decree (LD 73/2021)**, which for banks envisages the extension of certain measures for access to credit and liquidity as well as incentives for business combinations and for the sale of non-performing loans:

- **moratoria for SMEs extended to 31 December 2021**, subject to notification to the banks of the willingness to extend the moratorium on loans by 15 June, provided that the moratoria applies only to the principal amount. Therefore, from 1 July, companies will have to resume paying the interest on loans on moratorium;
- **public guarantees granted by the Central Guarantee Fund (FCG) and SACE on new loans or on the renegotiation of existing debts extended to 31 December 2021**, although some changes to the FCG's coverage have been envisaged and will take effect from 1 July 2021 (the percentage of public guarantee will increase from 90% to 80% and from 100% to 90% for loans up to EUR 30,000). Finally, for both FCG and SACE guarantees, the duration of the loans can be increased to 10 years, following authorization by the European Commission, which however at the moment seems inclined to grant an extension of the guaranteed loans of less than 8 years.
- **possibility of transforming DTAs**, i.e., deferred tax assets, **also in the case of mergers occurring during 2022 but approved by 31 December 2021**. The most significant change is that the merger or acquisition plan must also be approved by the Board of Directors (BoD) of the company being merged. This means that mainly non-hostile deals are incentivized, since in order to benefit from the tax relief an agreement must be reached between the two BoDs, which will then have one year to obtain approval and conclude the merger or acquisition;
- **regulation contained in the "Cura Italia" Law Decree extended to 31 December 2021** whereby it is possible to transform deferred tax assets relating to tax losses into tax credits, even if not recognized in the financial statements, **in the event that a company sells NPLs** for a maximum of EUR 2 billion.

Furthermore, the supervisory authorities continue to pay close attention to credit risk, with the aim of avoiding possible future critical situations similar to those of 2012. There are many law and regulatory changes that will entail a **revision of the methods for managing the credit cycle** from 2021 onwards, including:

- **EBA's new definition of default** that all banks are required to apply from 1 January 2021, as detailed in the 2016 Guidelines and in the Delegated Regulation of the EU Commissions no. 371/2018. The new rules intervene on the classification to NPLs in terms of timeliness (refining the methods for classifying UTPs and introducing greater automatism), objectivity (defining non-discretionary materiality thresholds, both absolute and relative and differentiated for retail and corporate) and prudence (introducing specific rules for the return to performing status – known as probation period). According to the new rules, banks will also have to identify the economic and legal connections of their customers in order to identify cases in which the default of a subject may affect a related debtor (known as contagion effect);
- **EBA guidelines on credit disbursement and monitoring,** published in their final version in May 2020, which are part of the EU's regulatory priorities on credit risk to strengthen the soundness of the practices for taking out loans. The aim is to improve credit quality and contain the build-up of new impaired exposures in the European market, as envisaged in the NPL Action Plan of the European Council of July 2017. The guidelines, applicable as from 30 June 2021, introduce best practices for managing and monitoring credit risk through the use of sound and prudent standards;
- the Implementing Technical Standards (ITS) published by the EBA on 24 June 2021, which implement the updates to prudential regulations contained in Regulations no. 876/2019 (CRR 2) and no. 630/2019 (Prudential Backstop). The prudential backstop introduces a new regulation on the minimum coverage ratio of NPLs, which envisages a system of deductions from the bank's Common Equity Tier 1 (CET1) if certain minimum loss coverage levels are not reached through provisions or other impairment losses. The coverage envisaged varies according to the non-performing period (known as vintage), the presence or absence of collateral (secured or unsecured loans) and the type of collateral backing the loan. This Pillar 1 regulatory framework does not envisage flexibility margins and applies only to non-performing loans generated by loans disbursed on or after 26 April 2019. Although the regulation is already in place, deduction levels resulting from the introduction of the prudential backstop will be reported by banks as part of their supervisory reports from 30 June 2021;

- the new **update to the guidelines on legislative and non-legislative moratoria introduced as a result of the Covid-19** pandemic, published on 2 December 2020 by EBA, in which a number of new features are introduced, including the following: (a) the deadline for a decision on the granting of the moratorium by the bank was extended to 31 March 2021; (b) the perimeter of potential forbearance may exclude "Covid" suspensions whose disbursement date is between 1 October 2020 and 31 March 2021 and whose sum of the months of suspension enjoyed by the relationship to cope with the Covid emergency is less than or equal to 9 months. This limit does not apply to changes to the payment schedule agreed on loan agreements prior to 1 October 2020 (for which no change is required). Outside these cases, banks will need to assess individual positions in order to identify a possible situation of "financial distress" with the consequent classification of loans as forborne exposures (whether performing or non-performing).

ENVIRONMENTAL, SOCIAL AND (CORPORATE) GOVERNANCE (ESG)

The **ESG (Environmental, Social and Governance)** topic is one of the strategic priorities of the European Commission, which will publish its new Action Plan this year. The main milestones are the presentation of the **European Green Deal** in December 2019 – which aims to make Europe the first climate neutral continent by 2050 – and the launch of the **Next Generation EU** programme in May 2020 in response to the pandemic crisis. The plan on sustainable finance is part of a series of strategic initiatives by the Commission that will introduce important changes to the legislative framework for the financial system up to 2024. In 2020, the ECB published guidelines on climate and environmental risks for significant banks while the EBA in 2019 established its own roadmap of work on the topic (Action Plan on sustainable finance) and is publishing a set of proposals. The target date is 2025 when the EBA is expected to publish a report on the prudential treatment of assets based on ESG factors with the possible introduction of a green supporting factor to accelerate green investments.

In this context, banks are taking action with business plans that, more and more frequently, indicate as the central pillar the achievement of ESG targets such as: granting green loans aimed at improving energy efficiency or investing in green technologies, issuing green and social bonds or marketing sustainable investment and insurance products. The drive to integrate ESG factors into all areas of bank operations also comes from rating agencies, which are starting to pay more and more attention to ESG elements in rating definition.

In terms of **ESG regulation**, one of the main pillars is **disclosure of information**. This is an important first step as it allows stakeholders to assess the environmental risks of companies and their sustainable finance strategy. In particular, information transparency on ESG issues is based on four guidelines:

- The **European taxonomy** is a tool to help investors identify economic activities that are environmentally sustainable. The taxonomy regulation requires any company subject to the NFRD to disclose information on how, and to what extent, the company's activities are associated with economic activities that qualify as environmentally sustainable;
- The **Non-Financial Reporting Directive (NFRD)** is a 2014 directive that makes it mandatory from 2018 for public interest companies (i.e. companies with more than 500 employees) to disclose information on how they operate and manage social and environmental challenges. On 21 April 2021, the revision of the directive was completed and the Commission adopted the proposal on the **New Corporate Sustainability Reporting Directive (CSRD)**, which will bind all large companies to provide sustainability data according to common standards: the aim is to make disclosure consistent and comparable, while applying proportionality criteria for SME disclosure;
- The **Sustainable Finance Disclosure Regulation (SFDR)**, which came into force on 10 March 201, aims to increase the transparency of investment products through an approach for classifying ESG funds and by establishing transparency requirements at the product and company level. Therefore, the asset managers will have to disclose the proportion of investments that are aligned with the taxonomy, for each financial product or investment fund;

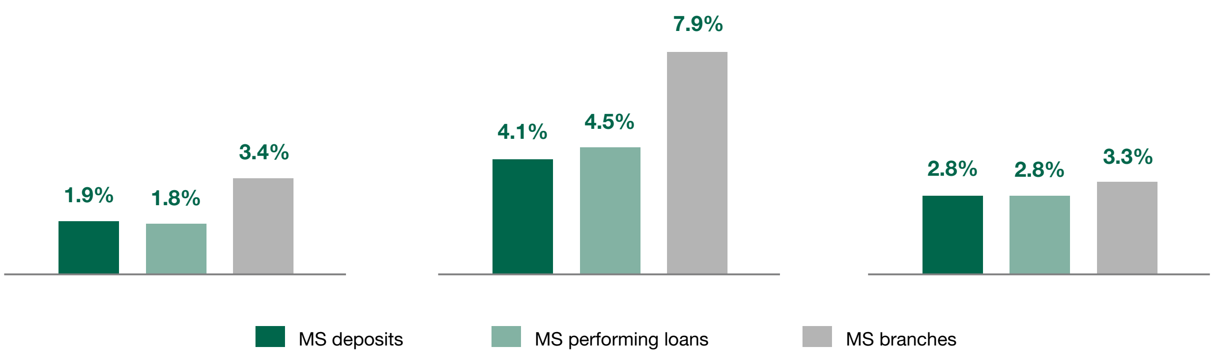
- Finally, the EBA requires **disclosure of ESG risks and risk mitigation actions** in Pillar 3 of major listed banks from next year. The EBA recently launched the public consultation for the draft ITS on the disclosure in Pillar 3 of these risks. The ESG factors will thus have an impact on all functions of the banking business (risk management, disbursement policies, planning, remuneration policies, etc.).

This regulatory action is accompanied by **stress tests on climate risks**. In 2021, the ECB already carried out a top-down on a total of about 2,000 banks, of which it has only released some preliminary results for now. In 2022, the ECB will also carry out a bottom-up stress exercise on climate risk. Climate risk is of more general interest to the ECB, also in view of the revision of its monetary policy strategy, and it has recently announced the establishment of the Climate Change Centre, which should coordinate work on climate change.

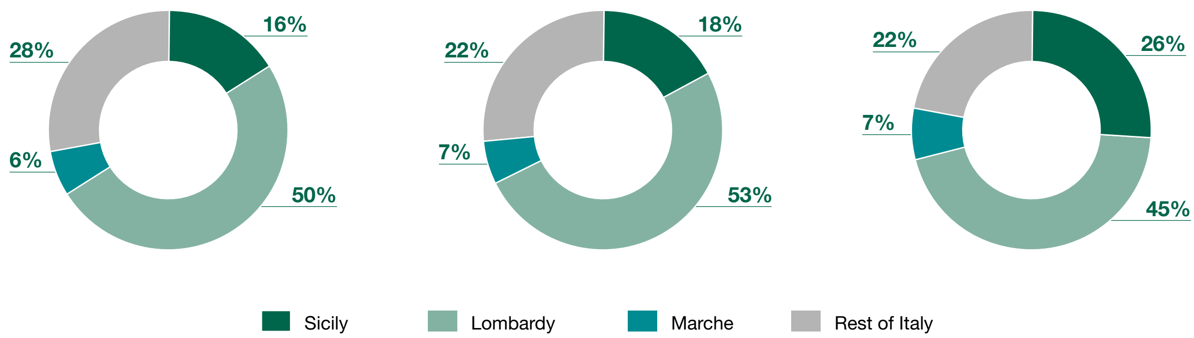
ECONOMY OF THE REGIONS WHERE CREVAL IS MOST PRESENT

The Italian regions where Credito Valtellinese has its strongest historical roots are Lombardy, Marche and Sicily. In the first two regions, the Bank's share of branches exceeds 3%, while in Sicily its presence is close to 8%. Equally important is the contribution to the regional banking trend both in terms of deposits and loans. The Bank provides 72% of its funding in these three regions and collects almost 78% of its deposits from them. 77% of its branches are located there.

Market share Lombardy | *Market share Sicily* | *Market share Marche*



Performing loans breakdown | *Deposits breakdown* | *Branches breakdown*



(Benchmark with Bank of Italy data at March 2021).

Lombardy[22]

With regard to Lombardy, the pandemic had strong repercussions on the production system and consumption. In 2020, the regional gross domestic product decreased by 9.4%, which is worse than the national average. According to Prometeia estimates, made in April, Lombardy's GDP is expected to recover by 5.2% in 2021 and 4.5% in 2022. With regard to investments, after last year's squeeze, we should see a rebound of 13.2% with double-digit growth also in 2022. Exports are expected to rebound to 12.2% in 2021 and then improve at lower rates in line with a normalization of world trade. On the other hand, the labor market remains critical; compared to the first quarter of 2020, the balance of employed people in Lombardy decreased by 193 thousand units. Lombardy's unemployment rate of 5% in 2020 is expected to increase to 6.5% in 2021 and 6.9% in 2022, according to Prometeia forecasts. Such growth drivers, at national and regional level, can be attributed both to the transfer of unemployed people who will return to work and to the fact that the permission to dismiss, hitherto suspended by government provisions introduced in 2020 as an emergency measure to deal with the economic effect of the pandemic, will be selectively recognized.

Regional industrial production grew by 8.7% in the first quarter of 2021, in line with the national figure. However, there is a wide dispersion in the recovery according to the sectors involved and consequently also at provincial level where production specialization is more marked. The transport and steel sectors grew by almost 20%, while food, textiles and clothing still slowed down. In fact, production shows a trend of between 13 and 14% for Lecco and Brescia, while at the bottom of the list are Como, Pavia and Sondrio, which are still positive.

An intensification of the favorable phase in manufacturing is expected in the spring and subsequent months based on the fact that business confidence in Lombardy rose in May to its highest level since the end of 2017. Services also continued to recover, thanks to the easing of restrictions, and confidence was back to positive and at its highest level since spring 2018. The increase is more cautious on the household side; however, consumer sentiment is also back in line with pre-pandemic levels, but the propensity to save continues to outweigh consumption.

Marche[23]

In 2020, the Marche Region experienced a decline in line with the national average (-8.9%). According to Prometeia forecasts, the GDp of Marche in 2021 is estimated to recover by 4.9% and 4.1% in 2022. With regard to investments, after last year's squeeze, we should see a rebound of close to 10% this year and almost 7% in 2022. Exports are expected to rebound to 11.5% in 2021 and to grow by 5.6% in the following year. The unemployment rate in the Marche region ended 2020 at 7.9% and according to Prometeia it should reach 9.1% in 2021 and 9.6% in 2022. For the current year, surveys among regional entrepreneurs show an improvement in confidence and expectations for both investments and turnover. In fact, the results from the first quarter of the year show that industrial production increased by 7.5% compared to the same quarter of previous year. At sector level, all sectors included in the Confindustria Marche survey recorded positive changes except for the fashion system. Production in the mechanical engineering sector grew significantly (+16.0%) compared to the same quarter in 2020, performing in line with the national level. In the furniture sector, production increased by 31.4% y/y and surveys confirm an increase in production for the second quarter.

Production in the textile-clothing sector decreased by 19.1% compared to the first quarter of 2020, which is worse than the result recorded at national level.

Overall, the survey confirms the positive momentum confirmed by the percentage of companies reporting an increase in production, up to 53% from 24% in the previous survey carried out in the last quarter of 2020.

22 Union Camere Lombardia "Manufacturing companies - The economic performance of industry and crafts in Lombardy 1st quarter 2021".
Assolombarda Booklet Economia No.57 / June 2021.
Bank of Italy - The economy of Lombardy - June 2021.
Prometeia Local Economy Scenarios - April 2021.
ISTAT Exports of the Italian regions - June 2021.

23 Confindustria Marche "Economic data for the first quarter of 2021" - May 2021; "Quarterly economic survey" 1st quarter 2021; Economic survey 2nd quarter 2021.
Bank of Italy - The economy of Marche - June 2021.
Prometeia Scenarios for Local Economies - April 2021.
ISTAT Exports of the Italian regions - June 2021.

Sicily[24]

The Sicilian economy was affected by the pandemic emergency, with GDP decreasing by 8.4% in 2020. A negative result even though the epidemic affected this region less severely than others in terms of infection and mortality. The restrictions on economic and social activity caused a slowdown in the economy, which in Sicily, as elsewhere, occurred in a heterogeneous manner across production sectors. Industry and construction partially recovered in the second half of the year, while service activities, led by tourism, ended a very negative year, mainly due to the lack of foreign tourists.

The drop in Sicilian production is mainly due to the weakness of the oil refining sector, which accounts for more than 40% of regional exports.

According to the first Prometeia estimates drawn up in April, Sicily's GDP is expected to recover by 3.4% in 2021 and 3.9% in 2022; figures that are below the national average. The prospects of investments will benefit from the ongoing recovery with an increase of around 11% in 2021 and more than 7% in 2022. Exports are expected to rebound to 13.7% in 2021 and to continue to grow in the following year.

The unemployment rate ended 2020 at 17.9% with forecasts for the next two years above 19%, almost twice the national average.

COVID-19 EMERGENCY – INITIATIVES ADOPTED BY THE BANK

In relation to the ongoing pandemic emergency, the Bank maintained strict preventive measures by adopting all the safety regulations indicated in the various legislative deeds issued from time to time by national and local Authorities and/or in the Protocols signed between the Government and the Trade Association (ABI) and Social Partners, as well as any other appropriate precautionary measures to protect the health of employees and customers while ensuring the proper functioning of the Bank.

The trend of the emergency is constantly monitored through periodic weekly meetings of the Crisis Operating Group, which brings together the main Corporate functions (including General Management, HR, Security, Business, Organization, Planning, Risk, Communication and Real Estate) and makes use of the collaboration of a specific Coronavirus Operational Unit (UOC), as the first internal information point for all employees on the issue. With specific reference to the six-month period under review, the main security measures implemented/maintained by the Bank include the following:

- Telecommuting;
- Reducing mobility by limiting travel to business continuity requirements only;
- Suspension of classroom training courses with implementation and enhancement of online courses;
- Suspension of appointments with consultants or suppliers at company premises, activating alternative channels of communication where possible;
- Supply of masks, body temperature measuring instruments, separation screens and disinfectant gel to operating Personnel at Group facilities;
- Arrangements for cleaning companies to use specific products for the hygiene of the company's premises and to intensify the related interventions on a daily basis;
- Display to the public (inside and outside the Company) of specific posters with the instructions to be followed in terms of interpersonal distancing, restricted access and hygiene regulations;
- Implementation on the company intranet of a specific and constantly updated section on the health and safety regulations adopted from time to time, on the guidelines to be followed in the event of contact with virus-positive individuals and on those of a behavioral nature to be followed while in company premises (network and head office).

24 Unioncamere Sicilia "Export data" 1st quarter 2021; "Timid recovery for Sicily".
Bank of Italy - The economy of Sicily - June 2021.
Prometeia Scenarios for Local Economies - April 2021.
ISTAT Exports of the Italian regions - June 2021.

Moreover, as part of the integration process with the Parent Company, which began during the half-year in question, the Bank integrated gradually the main security measures set out in the Parent Company's Covid and Health Protocol.

With specific reference to the territorial network and in line with the evolution of the epidemiological context, access to the public, in any case in a 1:1 ratio between Operator and Customer and without prejudice to the adoption of all other rules aimed at safeguarding the necessary health and safety measures, was by appointment for consultancy activities and free of charge for branch operations; with reference to the latter type of operation, in case of "red" zones at regional and/or local level, access to the public was by appointment only. Only for the Milan market, in line with the recommendation made by the city administration with a view to limiting mobility in the morning, the opening of the branches to the public was postponed to 9.30 am.

With regard to Remote working, at the date of preparation of this report, approximately 70% of head office personnel were using it; this method is also used by some colleagues in the sales network, who, in accordance with current regulations, are classified as "frail", by being temporarily assigned to another job.

In order to facilitate the use of remote access channels to banking services, additional remote access modes were activated for Customers by accelerating the introduction of new online features such as the opening of current accounts and the possibility of obtaining a personal loan. Moreover, remote customer contact channels were enhanced to ensure adequate support and information on the use of digital channels and to enable the branch appointment request directly from the Creval.it website and from home banking. Important initiatives to communicate with Customers (both with regard to the changed operations of the branches and the different methods of access) have been activated by making full use of digital channels (email, SMS, social) and implementing the Bank's website.

In response to the greater need for remote connections of employees and use of the Bank's online services by customers, Creval continued to strengthen its IT network by expanding the number of users to allow a higher number of simultaneous accesses to the corporate network (Virtual Private Network - VPN), increasing the number of resources with remote access from about 300 to over 1,500. Anti-fraud control units and safety protocols were also strengthened and measures to prevent phishing attacks were implemented, thereby adopting the dual authentication channel (known as MFA) for each access to the information system and to the company workstations.

SIGNIFICANT EVENTS IN THE HALF-YEAR

The most important events that characterized the management of Creval during the first half of 2021 and that, if necessary, were the subject-matter of specific disclosures to markets are mentioned below.

Voluntary takeover bid with cash consideration by Crédit Agricole Italia on all shares of Credito Valtellinese

On 23 April 2021, the voluntary takeover bid with cash consideration, launched by Crédit Agricole Italia on all the shares of Credito Valtellinese S.p.A (Creval), through which Crédit Agricole Italia came to hold 91.17% of Creval's share capital, was successfully concluded.

Moreover, at the end of the sell-out and squeeze-out procedures, Crédit Agricole Italia came to own 100% of Creval's share capital, for a total consideration of EUR 861 million. The consideration per share paid by Crédit Agricole Italia is EUR 12.27 (ex-dividend, i.e., not including the coupon relating to the 2021 Dividend). In addition, a dividend of EUR 0.23 per share was paid on 28 April 2021 by Creval, resulting in a total consideration of EUR 12.50 per share.

The full success of the transaction will further facilitate the merger by incorporation of Creval into Crédit Agricole Italia, expected in 2022.

The offer represents an extension of the strategic partnership of Crédit Agricole with Creval, supported by a strong industrial and cultural affinity, and in line with the sustainable growth strategy of Crédit Agricole Italia, which also includes a successful integration of other banks, as proven by previous acquisitions. Crédit Agricole and Creval already enjoyed a strong partnership: Crédit Agricole Vita, the Group's Italian subsidiary operating in the life insurance business, was the exclusive partner of Credito Valtellinese while its parent company, Crédit Agricole Assurance, was one of the main shareholders of Creval, with a 9.8% stake.

The transaction is developed around a solid industrial project with which Crédit Agricole Italia consolidates its competitive position as the sixth commercial bank in the Italian market in terms of indirect funding and becomes the seventh in terms of total assets and number of customers, reaching a market share of ~5% at national level (based on the number of branches), leveraging on a shared culture of continuous support to local communities.

The acquisition of Creval represents an ideal growth opportunity for Crédit Agricole Italia in terms of geographical coverage:
- increase in critical mass in areas complementary and adjacent to those already served by strengthening local customer coverage;
- significant strengthening in Northern Italy (~70% of the number of pro forma branches);
- doubling of market share in Lombardy (from 3% to more than 6%), where Credito Valtellinese operates with more than 40% of its branches, becoming the seventh bank in the region, a significant improvement in the largest and richest Italian region and, in particular, in Milan;
- increase in size in Piedmont, Marche and Lazio and access to new regions, including the more dynamic metropolitan areas of Sicily, as well as Valle d'Aosta and Trentino.

The successful completion of the transaction consolidates the Group's competitive position in Italy, allowing for the creation of a stronger Italian Banking Group that benefits from the financial strength, support, expertise and product range of one of Europe's largest and most established groups, with significant positive impacts on the economic situation of the territories involved and in the interest of all stakeholders. In particular, the transaction generates benefits:
- for customers who have access to an attractive and comprehensive range of financial solutions, benefiting from the entire bancassurance offer of the Crédit Agricole Group, a leader in Europe;
- for the people of Credito Valtellinese, who become part of a leading financial group and top employer;
- for shareholders, thanks to a return on investment of more than 10% within the third year, based solely on cost and funding synergies, continuing to develop the Group's raison d'être with a strong commitment to supporting the Italian economy and local communities, through proximity to the territories.

Relying on past successful experience in performing integrations (in particular of Cassa di Risparmio di Rimini, Cassa di Risparmio di Cesena and Cassa di Risparmio di San Miniato), Crédit Agricole Italia is confident in its ability to integrate Creval with minimal risks.

THE COMPLETION OF THE TRANSACTION

In making reference to the detailed information contained in the Offer Document, to the Prospectus and to all the documentation made available pursuant to the law, as well as to the individual communications made from time to time concerning the development of the Offer and its outcome, herein we limit ourselves to recalling that the Offer was launched by Crédit Agricole Italia on 23 November 2020 in the form of a Takeover Bid entirely in cash, on the basis of a unit price of EUR 10.50 (cum dividend, i.e. including coupons relating to any dividends distributed) for each share of Creval.

By means of a press release published on 14 April 2021, Crédit Agricole Italia increased the consideration for the Offer up to a maximum amount of EUR 12.50 (cum dividend) for each share to be sold in acceptance of the offer, of which EUR 12.20 is fixed and EUR 0.30 (the “Additional Consideration”) is subject to the condition that the Offeror will hold a total stake higher than 90% of the share capital of Credito Valtellinese.

Subsequently, on 20 April 2021, Crédit Agricole Italia decided not to make the payment of the Additional Consideration conditional upon exceeding the 90% threshold, but to pay a consideration of EUR 12.50 (cum dividend) for each share to be sold in acceptance of the Offer (the “Updated Consideration”) regardless of exceeding the 90% threshold. Therefore, the acceptance period was automatically extended until 23 April 2021.

On the basis of the final results – communicated to the market on 28 April 2021 – during the acceptance period (as extended above) 62,232,666 shares, equal to approximately 88.714% of Creval’s share capital with voting rights, were sold in acceptance of the Offer. Therefore, considering that the Offeror already held 1,720,791 shares of Creval, representing 2.453% of the share capital, Crédit Agricole Italia came to hold a total of 63,953,457 shares of Creval, equal to 91.167% of the share capital with voting rights.

Therefore, the Minimum Threshold Condition (i.e., the holding by the Offeror of a total shareholding equal to at least 50% + 1 share of the voting capital of Creval) was verified, as were the other Conditions of Effectiveness of the Offer. Therefore, the Offer was effective and could be completed.

Since Crédit Agricole Italia had already declared in the Offer Document that it would not implement any measures aimed at restoring a free float sufficient to ensure the regular trading of Creval’s shares, and since the stake held at the end of the acceptance period was higher than 90%, but lower than 95%, the conditions for the obligation to purchase (the “sell out procedure”) pursuant to Article 108, paragraph 2, of the Consolidated Finance Act have been met, in relation to maximum 6,196,237 remaining shares (the “Residual Shares”) representing 8.833% of Creval’s share capital.

The procedure for the fulfilment of the purchase obligation, which was held between 3 May and 21 May 2021, was characterized by requests for sale relating to a total of 1,835,136 residual shares, representing 2.616% of Creval’s share capital and 29.617% of the residual shares, in addition to 2,398,846 shares that were purchased outside the procedure for the fulfilment of the purchase obligation. Therefore, based on the final results of the procedure for the fulfilment of the purchase obligation, communicated on 26 May 2021, Crédit Agricole Italia has come to hold a total of 68,187,439 shares in Creval, equal to 97.203% of the share capital.

After the sell-out procedure, Crédit Agricole Italia, having come to hold a stake higher than 95% of Creval’s share capital, exercised its right to purchase pursuant to Article 111, paragraph 3, of the Consolidated Finance Act by means of a specific joint procedure (known as squeeze-out procedure) which, as agreed with CONSOB and Borsa Italiana, was held on 4 June 2021.

The Joint Procedure concerned 1,962,255 Creval shares still outstanding, representing 2.797% of the share capital. The consideration envisaged by the Joint Procedure was the same as that paid for the shares acquired in the procedure pursuant to Article 108, paragraph 2 of the Consolidated Finance Act, i.e., EUR 12.50 (cum dividend) for each additional residual share. Therefore, following the conclusion of the Joint Procedure, Crédit Agricole Italia came to hold 100% of Creval’s share capital.

Moreover, note that Borsa Italiana, by measure no. 8770 taken on 27 May 2021, ordered the delisting of Creval's shares (ISIN: IT0005412025) from the Electronic Stock Market as from 4 June 2021 (date of execution of the Joint Procedure), subject to suspension for the sessions of 2 and 3 June 2021.

On 18 June 2021, the Shareholders' Meeting of Creval was held to appoint the new Board of Directors that met after the Shareholders' Meeting and appointed Filippo Zabban as Chairman, Giampiero Maioli as Deputy Chairman, Roberto Ghisellini as General Manager and Giliane Coeurderoy as Deputy General Manager of Creval.

Rating

On 29 April 2021, the rating agency DBRS Morningstar upgraded the Bank's ratings, including the Long-Term Issuer Rating to A (high), from BB (high) and the Short-Term Issuer Rating to R-1 (middle), from R-3. The trend on all ratings was stable. DBRS Morningstar changed the Support Assessment to SA1 from SA3 while the Intrinsic Assessment was withdrawn.

The upgrade follows the conclusion of Crédit Agricole Italia's voluntary takeover bid for all Creval's ordinary shares. DBRS Morningstar considers Creval to be an important subsidiary of CA Italia and a crucial element in the expansion strategy in Italy of Crédit Agricole, a key consideration behind the upgrade of Creval's ratings.

The following are the ratings assigned to Creval on the date of approval of this Report:

DBRS

Class of rating	Rating	Trend
Long-Term Issuer Rating	A (high)	Stable
Long-Term Senior Debt	A (high)	Stable
Long-Term Deposits	A (high)	Stable
Short-Term Issuer Rating	R-1 (middle)	Stable
Short-Term Debt	R-1	Stable
Short-Term Deposits	R-1 (middle)	Stable
Senior Long-Term Notes - EUR 5 billion EMTN Programme	A (high)	Stable
Senior Short-Term Notes - EUR 5 billion EMTN Programme	R-1	Stable
Mandatory Pay Subordinated Debt (Tier 2) - EUR 5 billion EMTN Programme	A (low)	Stable

Moody's

Class of rating	Rating	Outlook
Baseline Credit Assessment	ba1	
Adjusted Baseline Credit Assessment	baa1	
LT Bank Deposits	Baa1	Stable
ST Bank Deposits	P-2	
Senior Unsecured Debt	Baa2	Stable
Senior Unsecured MTN	(P)Baa2	
Subordinate MTN	(P)Baa2	
LT Counterparty Risk Rating	Baa1	
ST Counterparty Risk Rating	P-2	
LT Counterparty Risk Assessment	Baa1(cr)	
ST Counterparty Risk Assessment	P-2(cr)	

Based on the review of the creditworthiness of Crédit Agricole Italia, the rating agency issued a note on 3 June 2021 describing the upgrade of Creval's ratings and assessments resulting from their alignment with those of CA Italia, reflecting Moody's expectation that the two banks could be merged following the completion of the takeover bid.

MANAGEMENT TREND

In a context still characterised by the effects of the health emergency, Creval achieved a consolidated profit of EUR 40.4 million, in line with the result for the first half of 2020.

The performance of the statement of financial position aggregates and income statement figures is presented below in summary format, drawn up on a consolidated basis, reclassified according to the presentation criteria considered most appropriate for presenting the management trend. The aggregates and reclassifications regarding items of the financial statements as envisaged in Bank of Italy Circular no. 262/05 as amended are detailed in the reconciliation tables.

The reclassified statements were restated compared to the previous year, in line with the presentation methods of the Crédit Agricole Italia Group.

THE PERFORMANCE OF STATEMENT OF FINANCIAL POSITION AGGREGATES

Loans and receivables with customers

Net loans and receivables with customers, excluding debt instruments (EUR 4.3 billion), stood at EUR 14.4 billion, compared to EUR 15 billion at 31 December 2020. Mortgages grew (+0.7%) while there was a decrease in current accounts (-7.6%). Repurchase agreements, referring to loans with Cassa Compensazione e Garanzia, were closed, resulting in a reduction in loans of EUR 417 million compared to December 2020.

If loans represented by debt instruments (mainly government bonds) are included in the aggregate, total net loans amounted to EUR 18.7 billion, down (+4.6%) compared to EUR 19.6 billion at the end of 2020.

Credit Quality

Net non-performing loans, without considering loans classified to assets held for sale, amounted to EUR 492.1 million, down 0.4% compared to 31 December 2020. Gross non-performing loans amounted to EUR 959.1 million compared to EUR 955.9 million at the end of 2020. As from 1 January 2021, the new definition of default in loan and reporting processes was adopted in accordance with Delegated Regulation no. 529/2014 and Delegated Regulation no. 294/2015 and in accordance with the Second Part, chapter 4, Section II of Circular 285 of the Bank of Italy of 17 December 2013.

In detail, net bad loans amounted to EUR 145.1 million compared to EUR 113.3 million at the end of 2020; net unlikely to pay amounted to EUR 320.7 million compared to EUR 360 million at the end of 2020; net past due exposures amounted to EUR 26.3 million compared to EUR 20.7 million at the end of the year.

The coverage ratio of bad loans stood at 60.7%, the coverage ratio of unlikely to pay at 42.8% and the coverage ratio of past due loans at 9.7%. The coverage ratio of non-performing loans stood at 48.7%, up compared to 48.3% at 31 December 2020.

The coverage ratio of performing loans and receivables with customers (excluding government bonds) was 0.46% compared to 0.44% of 31 December 2020.

Direct and indirect funding from Customers

Direct funding stood at EUR 17.9 billion compared to EUR 17.7 billion at 31 December 2020 (+0.8%).

Deposits were down (-16.2%), offset by the 6.2% increase in current accounts. Repurchase agreements, referring to funding with Cassa Compensazione e Garanzia, were closed, resulting in a reduction of EUR 319 million compared to 31 December 2020.

Indirect funding amounted to EUR 10.9 billion, up by 3.9% compared to 31 December 2020 (EUR 10.4 billion).

The asset management component increased, also due to the increase in market valuations, from EUR 7.8 billion at the end of 2020 to EUR 8.2 billion (+4.9%). Assets under administration also grew slightly (+ 0.9%) and as at 30 June 2021 amounted to EUR 2.6 billion.

Net interbank position

As at 30 June 2021, the net interbank position showed a debt position of EUR 0.9 billion and included EUR 5 billion of Due to central banks for TLTRO financing (up by EUR 1.5 billion compared to 31 December 2020 due to participation in a new operation in March 2021).

The Bank's liquidity position remained strong. Free assets eligible for financing with the ECB amounted to EUR 4.6 billion and the LCR and NSFR liquidity ratios are well above 200% and 100%, respectively.

Equity investments

The equity investments held at 30 June 2021, measured using the equity method, are recognised in the relevant item for a total amount of EUR 22.1 million. They refer to equity investments in Generalfinance S.p.A., Global Broker S.p.A. and other investments of lower amounts.

Equity

Equity amounted to EUR 1.8 billion, up by EUR 22.8 million compared to 31 December 2020. The increase is due to the profit accrued in the half-year net of the negative change in the valuation reserves and the distribution of dividends for a total amount of EUR 16.1 million.

Own Funds

The Bank's CET1 capital at 30 June 2021, calculated on an individual phased-in basis, is EUR 1,837 million against risk-weighted assets (RWA) of EUR 7,746 million. Total own funds amounted to EUR 1,984 million. Note that with the entry of Creval into the CAI Group, prudential supervision is drawn up on an individual basis.

The capital ratios applying the transitional regime show the following values:
- 23.7% CET1 Capital ratio (24.5% at 31/12/2020);
- 23.7% Tier 1 Capital ratio (24.5% at 31/12/2020);
- 25.6% Total Capital ratio (26.5% at 31/12/2020).

The fully loaded CET1 ratio at 30 June 2021 was 20.4%, up from the figure at the end of 2020 (20%).

The regulatory ratios include the effects of regulatory changes introduced by CRR2 and the calculation of AVA using the advanced method.

TREND IN ECONOMIC RESULTS

Net Operating Income

Operating income amounted to EUR 309.2 million, compared to EUR 283 million in the first half of 2020.

Net interest

Net interest income in the first half of 2021 amounted to EUR 168.2 million. The performance for the period was affected by the lower contribution from non-performing loans sold in 2020 and the operations in the finance sector, offset by the benefits of TLTRO III. Compared to the same period last year (EUR 161.5 million), the margin increased by 4.1%.

Net fee and commission income

Net fee and commission income in the first half of 2021 amounted to EUR 120.6 million, compared to EUR 111.9 million in the same period last year, which was more impacted by the Covid-19-related health emergency that affected customers' operations.

Commissions from traditional banking activities amounted to EUR 84.1 million, up 4% compared to the first half of 2020. Commissions from assets under management amounted to EUR 36.4 million, compared to EUR 31 million in the same period last year (+17.5%).

Dividends and similar income

Dividends collected in the half-year amounted to EUR 875 thousand, in line with the previous year, and included income collected on OEIC (collective investment instruments) and dividends on shares classified in the portfolio of financial assets at fair value with an impact on comprehensive income.

Result of financial assets

The result of financial assets amounted to EUR 14.6 million, compared to EUR 0.8 million last year, and included mainly profits from the sale of portfolio securities.

Operating costs

Total operating costs amounted to EUR 210 million, down 0.6% compared to the first half of 2020.

Personnel expenses amounted to EUR 127.3 million, up by 2.4% compared to EUR 124.3 million recorded in the first half of 2020 and considered the increase in salaries provided for by the national labour contract and the supplementary agreement.

Other administrative expenses amounted to EUR 61.8 million, down 6.3% compared to the first half of 2020 (EUR 65.9 million), thanks to savings achieved through cost optimisation and rationalisation measures. System charges, represented in this half-year by the contribution to the Single Resolution Fund, amounted to EUR 11.2 million, down from the contribution in the same period last year (EUR 13.4 million).

Depreciation and amortisation on tangible and intangible assets amounted to EUR 20.9 million, down 0.8% compared to the first half of 2020.

Operating profit

The operating profit amounted to EUR 99.2 million, up 38.5% compared to the first half of 2020.

Net accruals to provisions for risks and charges

Net accruals to provisions for risks and charges totaled EUR 3.5 million, compared to EUR 3.1 million in the same period last year. The item includes the effects of credit risk assessments on commitments and guarantees and net accruals to provisions for risks and charges for credit and legal disputes.

Impairment losses on loans and receivables

Impairment losses on loans and receivables amounted to EUR 50.2 million, compared to EUR 60.8 million in the first half of 2020.

The index measuring the annualised cost of credit risk (ratio of profit and loss adjustments to the amount of net loans and receivables with customers at the end of the period) was 0.7% compared to 0.8% in the first half of 2020.

Gains on other investments

Gains on other investments amounted to EUR 3.3 million, compared to EUR 34.6 million in the first half of 2020 following the capital gain on the sale of the line of business of the loan against pledge of approximately gross EUR 33 million.

Pre-tax profit (loss) from continuing operations

Pre-tax profit (loss) from continuing operations amounted to EUR 48.8 million, compared to EUR 41.8 million in the same period last half-year.

Income taxes on current assets

Income taxes amounted to EUR 8.5 million also as a result of the recognition of DTAs on prior tax losses in relation to the partial reassessment of previously unrecognised deferred tax assets recognised in the first quarter for EUR 4.7 million.

In the first half of 2020, taxes benefited from the conversion of DTAs from tax losses into tax credits envisaged by the “Cura Italia” Decree in relation to the sale of non-performing loans carried out in the first half of 2020, which enabled further DTAs of the same amount and of the same nature to be recorded in the financial statements.

Net profit

The net profit for the period reached EUR 40.4 million, slightly down from EUR 41 million in the first half of 2020 (-1.5%).

OTHER INFORMATION

RISKS AND UNCERTAINTIES

The governance bodies are extremely aware that sustainable development and growth inevitably also involve a careful analysis of the risks to which Credito Valtellinese is exposed and of the related uncertainties in terms of impact on the bank's capital, financial and economic structure, as well as of the ways of managing and reducing them to acceptably low levels, in order to safeguard, on the one hand, savings (and with it customer confidence) and, on the other, loans (healthy growth engines).

The spread of the Covid-19 pandemic at the beginning of 2020 abruptly changed the current and prospective context in which Credito Valtellinese operates, causing significant repercussions on the reference macroeconomic scenario and on the regulatory framework issued by the Supervisory Authorities to deal with the emergency.

The unprecedented implications of the global crisis generated by the Covid-19 pandemic have prompted public authorities around the world to take swift and decisive action to ensure that banks can continue to play their role in financing the real economy and are able to sustain economic recovery despite the likely increasing level of credit losses they will face as a result of the crisis.

During 2020, the monetary policy put in place by the European Central Bank and the measures activated by the Government, aimed at favouring the disbursement of loans to support the categories most affected by the effects of the spread of the virus, made it possible to mitigate the potential tightening of liquidity conditions. Risk monitoring, management and control policies, with a special reference to credit risk, remain key principles against which banks will measure themselves in both domestic and international markets.

Credito Valtellinese constantly monitors the quality of the credit portfolio both at an overall level, analysing its composition on the basis of specific measurement parameters, and at a specific level, through the definition and application of operating procedures and processes that regulate all phases of individual lending relationships, with the aim of ensuring preventive management of the risk of default.

In view of the impact of the Covid-19 pandemic crisis, specific criteria were defined for identifying the portfolio to be subjected to enhanced monitoring as a priority, including through the activation of new review processes to complement ordinary processes. The development of disbursements to customers was achieved by maintaining a constant focus on credit quality.

However, the operating context for banks remains complex; future prospects continue to closely depend both on the evolution of the pandemic and on the measures adopted, on the one hand, to counteract the increase in infection and, on the other, to mitigate its impact on economic activity with repercussions on the main macroeconomic indicators taken into account for the definition of the scenarios used in the expected loss measurement model.

In this context, Credito Valtellinese can rely on belonging to a strong and solid international group as well as on the bank's liquidity and capitalisation, which are both a defence against the risks outlined above and a tool to meet the challenges that the post-pandemic economic recovery will require from the banking system.

The emergency context gave further impetus to the consolidation by the Group of the guidelines of the 2019-2022 Medium-Term Plan, confirming and strengthening the development strategies with special reference to the pillars relating to Customer Project, Social Responsibility and Technological Innovation. Therefore, although in the presence of such a complex scenario characterised by deep uncertainty on the duration of the recessionary effects, the effectiveness of the support policies for households and businesses defined by governments and the changes in monetary policy at EU level, the analyses carried out on the basis of the information currently available allow us to conclude that Credito Valtellinese will be able to cope with the risks and uncertainties arising from the emergency context. The assessment takes into account the level of capitalisation achieved and the current level of liquidity, which is above the regulatory threshold.

Information on business outlook, with a special reference to going concern assumptions

With regard to the going concern assumption, the Board of Directors, in the light of the main economic and financial indicators and business outlook, believes it has a reasonable certainty that the Bank and the Group will remain a going concern in the foreseeable future.

Related party transactions

Information on related party transactions can be found in the Related Party Transactions section of the notes.

SIGNIFICANT EVENTS OCCURRING AFTER THE REPORTING PERIOD AND BUSINESS OUTLOOK

Since 30 June 2021 and up to the date of approval of these condensed interim consolidated financial statements, no events have occurred that would significantly alter the Bank's structure.

In the second half of 2021, integration activities in the Crédit Agricole Group will continue. Therefore, the development of the Bank's activities will continue within the management and strategic guidelines of the new Group to which it belongs.

Credito Valtellinese

Condensed Consolidated
Interim Financial Statements at 30 June 2021

Interim financial statements

Condensed Consolidated Interim Financial Statements

CONSOLIDATED BALANCE SHEET

Assets		30.06.2021	31.12.2020
10.	Cash and cash equivalents	150,672	173,104
20.	Financial assets measured at fair value through profit or loss	176,564	188,663
	a) financial assets held for trading	548	676
	c) other financial assets mandatorily measured at fair value	176,016	187,987
30.	Financial assets measured at fair value through other comprehensive income	1,151,003	855,467
40.	Financial assets measured at amortized cost	22,926,757	21,203,246
	a) due from banks	4,180,361	1,554,955
	b) loans to customers	18,746,396	19,648,291
70.	Equity investments	22,084	20,573
90.	Property, Plant and Equipment	510,339	523,472
100.	Intangible assets	16,346	18,300
110.	assets	734,827	764,479
	a) current	72,111	101,809
	b) deferred	662,716	662,670
120.	Non-current assets held for sale and discontinued operations	13,645	11,730
130.	Other assets	168,631	122,638
Total assets		**25,870,868**	**23,881,672**

Liabilities and Equity		30.06.2021	31.12.2020
10.	Financial liabilities measured at amortized cost	23,059,381	21,415,762
	a) Due to banks	5,052,955	3,539,993
	b) Due to Customers	17,107,081	16,913,160
	c) Debt securities issued	899,345	962,609
20.	Financial liabilities held for trading	84	80
40.	Hedging derivatives	139,372	159,057
60.	Tax liabilities	8,090	1,553
	b) deferred	8,090	1,553
80.	Other liabilities	737,264	384,656
90.	Employee severance benefits	37,449	38,452
100.	Provisions for risks and charges	92,011	107,677
	a) commitments and guarantees given	12,965	13,140
	b) post-employment and similar obligations	1,717	1,840
	c) other provisions for risks and charges	77,329	92,697
120.	Valuation reserves	5,818	7,256
150.	Reserves	107,514	10,554
170.	Capital	1,643,508	1,643,508
180.	Treasury shares (-)	-	(100)
190.	Minority interests (+/-)	21	21
200.	Profit (Loss) for the period (+/-)	40,356	113,196
Total liabilities and equity		**25,870,868**	**23,881,672**

CONSOLIDATED INCOME STATEMENT

Items		30.06.2021	30.06.2020
10.	Interest and similar income	205,494	206,168
	Of which: interest income calculated with the effective interest method	*203,714*	*201,496*
20.	Interest and similar expense	(37,275)	(44,656)
30.	**Net interest income**	**168,219**	**161,512**
40.	Fee and commission income	132,367	123,790
50.	Fee and commission expense	(11,921)	(12,145)
60.	**Net fee and commission income**	**120,446**	**111,645**
70.	Dividends and similar income	875	759
80.	Net profit (loss) on trading activities	745	990
90.	Net profit (loss) on hedging activities	36	93
100.	Profit (losses) on disposal or repurchase of:	15,291	6,815
	a) financial assets measured at amortized cost	14,717	6,759
	b) financial assets measured at fair value through other comprehensive income	574	56
110.	Net profit (loss) on other financial assets and liabilities measured at fair value through profit and loss	(3,637)	(7,647)
	b) other financial assets mandatorily measured at fair value	(3,637)	(7,647)
120.	**Net interest and other banking income**	**301,975**	**274,167**
130.	Net losses/recoveries for credit risk on:	(45,758)	(58,363)
	a) financial assets measured at amortized cost	(45,732)	(58,608)
	b) financial assets measured at fair value through other comprehensive income	(26)	245
140.	Profits/Losses on contract modifications without derecognition	(757)	(365)
150.	**Net income from banking activities**	**255,460**	**215,439**
190.	Administrative expenses:	(210,490)	(212,228)
	a) personnel expenses	(127,311)	(124,328)
	b) other administrative expenses	(83,179)	(87,900)
200.	Net provisions for risks and charges	(3,214)	(2,709)
	a) commitments and guarantees given	263	433
	b) other net provisions	(3,477)	(3,142)
210.	Net adjustments of/recoveries on property, plant and equipment	(16,759)	(17,157)
220.	Net adjustments of/recoveries on intangible assets	(4,189)	(3,953)
230.	Other operating expenses/income	24,770	27,840
240.	**Operating costs**	**(209,882)**	**(208,207)**
250.	Profit (losses) on equity investments	1,794	1,175
260.	Profit (losses) from property, plant and equipment and intangible assets measured at fair value	(103)	-
280.	Profit (losses) on disposals of investments	1,570	33,385
290.	**Profit (Loss) before tax from continuing operations**	**48,839**	**41,792**
300.	Taxes on income from continuing operations	(8,483)	(806)
310.	**Profit (Loss) after tax from continuing operations**	**40,356**	**40,986**
330.	**Profit (Loss) for the period**	**40,356**	**40,986**
340.	Profit (Loss) for the period attributable to minority interests	-	1
350.	**Profit (Loss) for the period attributable to the Parent Company**	**40,356**	**40,987**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Items		30.06.2021	30.06.2020
10.	**Profit (Loss) for the period**	**40,356**	**40,986**
	Other comprehensive income net of tax not reclassified to profit or loss	1,134	5,231
20.	Equity securities designated at fair value through other comprehensive income	694	(930)
70.	Defined-benefit plans	440	6,183
90.	Share of valuation reserves on equity investments measured using the equity method	-	(22)
	Other comprehensive income after tax reclassified to profit or loss	**(2,573)**	**(2,422)**
140.	Financial assets (other than equity securities) measured at fair value through other comprehensive income	(2,573)	(2,422)
170.	**Total other comprehensive income after taxes**	**(1,439)**	**2,809**
180.	**Comprehensive income (Item 10+170)**	**38,917**	**43,795**
190.	Consolidated comprehensive income attributable to Minority Interests	-	1
200.	**Consolidated comprehensive income attributable to the Parent Company**	**38,917**	**43,796**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS AT 30 JUNE 2021

	Share capital: ordinary shares	Share premium reserve	Reserves: Income reserves	Reserves: other	Valuation reserves	Treasury shares	Profit (Loss) for the period	Equity	Minority interests
GROUP SHAREHOLDERS' AS AT 31.12.2020	1,643,508	-	10,554	-	7,256	(100)	113,196	1,774,414	-
MINORITY INTERESTS AS AT 31.12.2020	24	-	(2)	2	-	-	(3)	-	21
CHANGE TO OPENING BALANCE	-	-	-	-	-	-	-	-	-
GROUP SHAREHOLDERS' EQUITY AS AT 01.01.2021	1,643,508	-	10,554	-	7,256	(100)	113,196	1,774,414	
MINORITY INTERESTS AS AT 01.01.2021	24	-	(2)	2	-	-	(3)	-	21
ALLOCATION OF THE NET PROFIT FOR THE PREVIOUS YEAR									
Reserves			97,059	-	-	-	(97,059)	-	-
Dividens and other allocations	-	-	-	-	-	-	(16,134)	(16,134)	-
CHANGES IN THE PERIOD									
Changes in reserves	-	-	(102)	-	1	100	-	(1)	-
Issue of new shares	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-
Change in equity instruments	-	-	-	-	-	-	-	-	-
Stock options	-	-	-	-	-	-	-	-	-
Changes in equity interests	-	-	-	-	-	-	-	-	-
Comprehensive income	-	-	-	-	(1,439)	-	40,356	38,917	-
GROUP SHAREHOLDERS' EQUITY AS AT 30.06.2021	**1,643,508**	**-**	**107,514**	**-**	**5,818**	**-**	**40,356**	**1,797,196**	**-**
MINORITY INTERESTS AS AT 30.06.2021	**24**	**-**	**(5)**	**2**	**-**	**-**	**-**	**-**	**21**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS AT 30 JUNE 2020

	Share capital: ordinary shares	Share premium reserve	Reserves:		Valuation reserves	Treasury shares	Profit (Loss) for the period	Equity	Minority interests
			Income reserves	other					
GROUP SHAREHOLDERS' AS AT 31.12.2019	1,916,783	638,667	16,295	(965,995)	(5,621)	(100)	56,240	1,656,269	-
MINORITY INTERESTS AS AT 31.12.2019	24	-	-	1	-	-	(2)	-	23
CHANGE TO OPENING BALANCE	-	-	-	-	-	-	-	-	-
GROUP SHAREHOLDERS' EQUITY AS AT 01.01.2020	1,916,783	638,667	16,295	(965,995)	(5,621)	(100)	56,240	1,656,269	-
MINORITY INTERESTS AS AT 01.01.2020	24	-	-	1	-	-	(2)	-	23
ALLOCATION OF THE NET PROFIT FOR THE PREVIOUS YEAR									
Reserves			1,209	55,029	-	-	(56,238)	-	-
Dividens and other allocations	-	-	-	-	-	-	-	-	-
CHANGES IN THE PERIOD									
Changes in reserves	(273,275)	(638,667)	943	910,965	-	-	-	(34)	-
Issue of new shares	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-
Change in equity instruments	-	-	-	-	-	-	-	-	-
Stock options	-	-	-	-	-	-	-	-	-
Changes in equity interests	-	-	-	-	-	-	-	-	-
Comprehensive income	-	-	-	-	2,809	-	40,986	43,796	(1)
GROUP SHAREHOLDERS' EQUITY AS AT 30.06.2020	**1,643,508**	**-**	**18,448**	**-**	**(2,812)**	**(100)**	**40,987**	**1,700,031**	**-**
MINORITY INTERESTS AS AT 30.06.2020	**24**	**-**	**(1)**	**-**	**-**	**-**	**(1)**	**-**	**22**

CONSOLIDATED STATEMENT OF CASH FLOWS

		30.06.2021	30.06.2020
A.	**OPERATING ACTIVITIES**		
1.	**Operations**	**142,758**	**121,590**
-	profit (loss) for the period (+/-)	40,356	40,987
-	gains (losses) on financial assets held for trading and financial assets/liabilities measured at fair value through profit or loss (-/+)	2,668	7,730
-	Gains/losses on hedging activities (-/+)	(36)	(93)
-	Net losses/recoveries for credit risk (+/-)	53,916	66,416
-	Net adjustments of recoveries on property, plant and equipment and intangible assets (+/-)	20,949	21,110
-	Net provisions for risks and charges and other costs/revenues (+/-)	3,214	2,709
-	taxes, levies and tax credits not settled (+)	19,682	6,208
-	Other adjustments (+/-)	2,009	(23,477)
2.	**Cash flow generated/absorbed by financial assets**	**(2,134,747)**	**104,191**
-	Financial assets held for trading	224	1,382
-	Financial assets mandatorily measured at fair value	9,211	1,184
-	Financial assets measured at fair value through other comprehensive income	(296,633)	10,354
-	Financial assets measured at amortized cost	(1,803,451)	111,169
-	Other assets	(44,098)	(19,898)
3.	**Cash flow generated/absorbed by financial liabilities**	**1,975,520**	**(290,149)**
-	Financial liabilities measured at amortized cost	1,657,802	(463,323)
-	Financial liabilities held for trading	4	53
-	Other liabilities	317,714	173,121
Net cash flow generated/absorbed by operating activities		**(16,469)**	**(64,368)**
B.	**INVESTING ACTIVITIES**		
1.	**Cash flow generated by:**	**15,576**	**43,715**
-	sales of equity investments	-	2,015
-	dividend received on equity investments	1,215	1,184
-	sales of property, plant and equipment	14,361	2,516
-	sales of business units	-	38,000
2.	**Cash flow absorbed by:**	**(5,405)**	**(11,115)**
-	purchases of equity investments	(932)	-
-	purchases of property, plant and equipment	(2,238)	(7,202)
-	purchases of intangible assets	(2,235)	(3,913)
Net cash flows generated/absorbed by investing activities		**10,171**	**32,600**
C.	**FUNDING ACTIVITIES**		
-	distribution of dividends and other	(16,134)	-
Net cash flows generated/absorbed by funding activities		**(16,134)**	**-**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS FOR THE YEAR		**(22,432)**	**(31,768)**

RECONCILIATION

Financial Statement items	30.06.2021	30.06.2020
Opening cash and cash equivalents	173,104	190,434
Total net increase/decrease in cash and cash equivalents for the year	(22,432)	(31,768)
Closing cash and cash equivalents	150,672	158,666

KEY
(+) generated/from
(–) absorbed/used in

In line with the amendment to IAS 7, introduced by Regulation 1990 of 6 November 2017, to be applied for the first time from 1 January 2017, the information required by paragraph 44 B is provided below for the purpose of measuring changes in liabilities arising from financing activities, whether they are changes deriving from cash flows or changes not in cash and cash equivalents.

	31.12.2020	Changes from financing cash flows	Changes from obtaining or losing control of subsidiaries or other businesses	Fair value changes	Other changes	30.06.2021
Liabilities arising from financing activities	21,415,842	1,643,619	-	4	-	23,059,465

Notes to the Condensed Consolidated Interim Financial Statements

ACCOUNTING POLICIES

1. APPLICABLE PRINCIPLES AND METHODS, MEASUREMENTS AND ESTIMATES USED

1.1 Applicable standards and comparability

The interim financial statements of Credito Valtellinese at 30 June 2021 have been prepared and presented in accordance with IAS 34 "Interim Financial Reporting", which defines the minimum content of information and identifies the accounting and measurement standards to be applied to a condensed interim consolidated report.

The standards and interpretations used for the preparation of the interim financial statements, with reference to the classification, recognition, measurement and derecognition of financial assets and liabilities, as well as for the recognition of related revenues and costs, are in line with those adopted by Credito Valtellinese for the preparation of the financial statements at 31 December 2020, prepared in accordance with the IAS/IFRS issued by the International Accounting Standards Board (IASB) and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and approved by the European Commission, as established by EU Regulation no. 1606 of 19 July 2002.

The measurement policies and estimation methods adopted have also not changed from those applied in the preparation of the financial statements at 31 December 2020. Consequently, the adjustment to the measurement policies and estimation methods of the Crédit Agricole Group will take place gradually during the second half of 2021.

With regard to the standards and principles that have not changed compared to those adopted for the preparation of the financial statements at 31 December 2020, please refer to this disclosure.

INTERNATIONAL ACCOUNTING STANDARDS APPROVED BY THE EUROPEAN UNION IN FORCE IN 2021

In compliance with IAS 8, the following table lists the new international accounting standards, or amendments to standards already in force, and the related endorsement regulations whose application has become mandatory from 2021.

Standards, amendments or interpretations	Publication date	Date of first application
Amendments to IFRS 4 Insurance Contracts Temporary exemption from applying IFRS 9	16 December 2020 (EU No. 2020/2097)	1 January 2021
Amendments to IAS 39, IFRS 7 and IFRS 9 – Interest rate benchmark reform – Phase 2	14 January 2021 (EU No. 2021/25)	1 January 2021

With respect to the new standards and the amendments thereto that came into effect on 1 January 2021, a disclosure is provided below.

On 18 May 2017, the International Accounting Standards Board (IASB) published the new insurance accounting standard IFRS 17 "Insurance Contracts", which will replace IFRS4. The IASB postponed the effective date of the new standard, initially scheduled for 2021, to 1 January 2023, unless it is adopted by the European Union.

On 16 December 2020, Regulation 2020/2097 was published in the Official Journal of the European Union, which includes an amendment to IFRS 4. In particular, the amendments extend the expiry date of the temporary exemption from the application of IFRS 9 until 2023 to align the effective date of IFRS 9 with the new IFRS 17 and thus remedy the temporary accounting consequences that may occur if the two standards come into force on different dates. The above amendments to the accounting standards are not relevant for Credito Valtellinese.

Reform of the Benchmarks

The Benchmarks Project of the Crédit Agricole Group, also set out in the Crédit Agricole Italia Banking Group, coordinates the transition of the benchmark indexes for the Group and supervises to ensure the compliance of the Entities with the BMR (Benchmarks Regulation, Regulation (EU) 2016/1011, as amended by Regulation (EU) 2021/168).

In the course of 2021, reforms of the benchmark indexes entered an acceleration phase as a result of the deadlines set by the working group on alternative rates and by the authorities. The announcement by the Financial Conduct Authority (FCA) regulator on 5 March 2021 confirmed that LIBOR will cease to be published or lose representativeness in the various currencies on 31 December 2021, with the exception of the most widely used tenors of USD LIBOR, which will cease to be published or lose representativeness from 30 June 2023. Moreover, for new contracts, depending on the currency and asset class, banks must gradually stop using LIBOR indexes during 2021.

In the market of OTC derivatives, the ISDA protocol "2020 IBOR Fallbacks", in force from 25 January 2021, allows new fallback clauses defining replacement rates in the event of termination of the reference index to be automatically added to existing contracts. The banks of the Crédit Agricole Italia Banking Group joined the aforementioned ISDA protocol.

As this stage, the list of main benchmarks used by the Crédit Agricole Group and/or defined as "critical" by ESMA or "systemic", which are affected by a certain or potential transition, remains unchanged:
- EONIA, which will cease to be published after 3 January 2022;
- LIBOR, in the various currencies GBP, CHF, JPY, EUR and USD, whereby the termination of publication or loss of representativeness will occur at the end of December 2021, or at the end of June 2023 for most USD LIBOR tenors;
- EURIBOR, WIBOR, STIBOR, the end of which is possible but not expected in the short term.

EURIBOR, LIBOR (especially USD) and EONIA represent – in decreasing order – the Crédit Agricole Group's main exposures to the benchmark indexes.

In order for accounting hedging relationships affected by interest rate reform to continue despite uncertainties about when and how to transition from current indexes to the new indexes, the IASB published amendments to IAS 39, IFRS 9 and IFRS 7 in September 2019, which were adopted by the European Union on 15 January 2020. At 30 June 2021, the hedging instruments of Credito Valtellinese are not impacted by the reform.

Other amendments, published by the IASB in August 2020 and endorsed by the European Union in January 2021, complement those published in 2019 and focus on the accounting consequences of replacing old interest rates with alternative benchmarks as a result of the reforms. These amendments, known as "Phase 2", mainly concern changes in contractual cash flows. They allow Entities not to adjust the carrying amount of financial instruments to reflect the changes brought about by the reform but rather to update the effective interest rate under the amortised cost method to reflect the change in the alternative reference rate. With regard to hedge accounting, Entities will not have to discontinue their hedging relationships when making the changes required by the reform.

Amendment to IFRS16 – Covid-19-Related Rent Concessions

The IFRS Foundation approved an amendment to IFRS 16 in 2020 to clarify how to account for incentives granted as a result of the pandemic by lessees preparing their financial statements using international accounting standards.

This amendment, approved on 12 October 2020, with the publication of EU Regulation 2020/1434, exempts lessees from the requirement to assess whether Covid-19 incentives represent contractual changes to the lease by allowing them to qualify as "variable rent" with a direct impact on the income statement to reflect changes in payments due.

On 31 March 2021, the IASB issued the document called "Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendments to IFRS 16)" extending by one year (from June 2021 to June 2022) the period of application of the amendments to IFRS 16 (paragraphs 46A and 46B) relating to the treatment of lease incentives deriving from the Covid-19 pandemic.

Credito Valtellinese did not apply the amendments to IFRS 16 described above.

2. GENERAL PREPARATION PRINCIPLES

The condensed interim consolidated financial statements consist of:

- Statement of financial position;
- Income statement;
- Statement of comprehensive income;
- Statement of changes in equity;
- Statement of Cash Flows;
- Notes to the condensed interim consolidated financial statements.

The condensed interim consolidated financial statements have been prepared using the Euro as the reporting currency; amounts are expressed in thousands of EUR, unless otherwise specified.

In the Statement of financial position, Income Statement and Statement of Comprehensive Income, any item equal to zero in the reporting period of reference or in the previous period is not shown. In the Income Statement and Statement of Comprehensive Income, negative amounts are shown in brackets.

These condensed interim consolidated financial statements have been prepared, in accordance with the financial statements for the year ended 31 December 2020, on a going concern basis. In fact, as reported in the paragraph "Risks and uncertainties" of the Report on Operations, the analyses carried out on the basis of the information currently available, despite the complex scenario characterized by uncertainties on the evolution of the Covid-19 pandemic and on the effectiveness of the support measures introduced by governments and central banks, allow us to conclude that Credito Valtellinese and the Crédit Agricole Italia Banking Group will be able to face the risks and uncertainties arising from the economic context. The assessment considers the level of capitalization achieved, which shows a reassuring buffer against ECB requirements, and the current level of liquidity, which is above the regulatory threshold.

The preparation of the condensed interim consolidated financial statements requires the use of estimates and assumptions in determining certain cost and revenue components and in measuring assets and liabilities. The preparation of such estimates involves the use of available information and the adoption of subjective assessments. For a complete description, please refer to the 2020 Financial Statements.

Note that with regard to the quantification of impairment losses on financial assets, the determination of the fair value of financial instruments, the analysis of the recoverability of deferred tax assets, the estimates and assumptions related to them and used for the purpose of preparing the condensed interim consolidated financial statements, these may be subject to change as a result of new information available in the coming months, and the relative degree of reliability, with a special reference to the evolution of the spread of the Covid-19 and related containment measures as well as the effectiveness of the interventions of governments and national and international financial institutions in support of economic recovery. Moreover, they will undergo changes during the second half of 2021 as a result of the adjustment to the estimation methods and valuation policies of the Crédit Agricole Italia Banking Group, also in connection with the analysis activities in progress related to the integration process.

3. CONSOLIDATION SCOPE AND METHODS

3.1 Scope of consolidation

The condensed interim consolidated financial statements include Credito Valtellinese and the companies directly or indirectly controlled by it.

In consideration of International Financial Reporting Standard IFRS 10, subsidiaries are companies in which the Bank, directly or indirectly, has at the same time:
- the power to influence the company's key activities;
- the exposure and/or right to variability of returns;
- the possibility of exercising its power to influence returns.

Special purpose vehicles (SPEs/SPVs) are included when the requirements are met, even irrespective of the existence of a majority stake.

Investments in companies subject to joint control are those over which the Bank holds the power to take decisions regarding important activities of a third entity together with other parties based on an agreement.

Companies are considered associates, i.e., companies subject to significant influence, when the Bank, directly or indirectly, holds at least 20% of the voting rights or when even with a lower amount of voting rights and through specific legal relationships such as participation in shareholders' agreements, has the power to determine the financial and management policies of the investee company.

Similarly, significant influence over an investee, even if it is at least 20%, may not be realized as a result of legal relationships or shareholders' agreements or other significant factors affecting the governance of the entity.

The methods used to consolidate the figures of subsidiaries (line-by-line consolidation) are the same as those used to prepare the consolidated financial statements at 31 December 2020.

3.2 Equity investments in companies subject to exclusive control

Company name	Headquarters	Type of control[(1)]	Equity investment		Actual % of votes available[(2)]
			Investor	% held	
1. Credito Valtellinese S.p.A.	Sondrio				
2. Stelline Real Estate S.p.A.	Sondrio	1	1	100.00	
3. Creval PiùFactor S.p.A.	Milan	1	1	100.00	
4. Creval Covered Bond S.r.l.	Conegliano Veneto (TV)	1	1	60.00	
5. Quadrivio Rmbs 2011 S.r.l.	Conegliano Veneto (TV)	4			
6. Quadrivio Sme 2018 S.r.l.	Conegliano Veneto (TV)	4			

Key

(1) Type of relationship:

1 = majority of voting rights at ordinary shareholders'/quotaholders' meeting;

2 = considerable influence in ordinary shareholders'/quotaholders' meeting;

3 = agreements with other shareholders;

4 = other forms of control;

5 = sole management pursuant to article 39, paragraph 1 of "Italian Legislative Decree no. 136/2015";

6 = sole management pursuant to article 39, paragraph 2 of "Italian Legislative Decree no. 136/2015".

(2) Voting rights available at ordinary shareholders'/quotaholders' meetings, only if different from the % investment, distinguishing between actual and potential votes: 1 = actual; 2 = potential.

3.3 Investments in companies subject to joint control and to significant influence

Company name	Headquarters	Type of control[(1)]	Equity investment		% of actual votes available[(2)]
			Investor	% held	
1. Rajna Immobilaire S.r.l.	Sondrio	7	Credito Valtellinese	50.00%	
2. Sondrio Città Futura S.r.l.	Milan	8	Stelline Real Estate	49.00%	
3. Valtellina Golf Club S.p.A.	Caiolo	8	Credito Valtellinese	43.08%	
4. General Finance S.p.A.	Milan	8	Credito Valtellinese	46.81%	
5. Global Broker S.p.A.	Milan	8	Credito Valtellinese	30.00%	

Key

(1) Type of relationship:

7 = joint control;

8 = significant influence.

(2) Voting rights available at ordinary shareholders' meetings, only if different from the % investment, distinguishing between actual and potential votes: 1 = actual; 2 = potential.

SIGNIFICANT EVENTS OF THE PERIOD

Please refer to the Report on Operations.

COVID-19 EFFECTS: ACCOUNTING IMPACTS

The application of certain accounting standards necessarily requires the use of estimates and assumptions that can have a significant effect on the amounts reported in the statement of financial position and income statement and on the disclosure of contingent assets and liabilities. The economic effects deriving from the Covid-19 epidemic and the uncertainties of the macroeconomic scenario require, starting from the 2020 financial year, a careful analysis and weighting of the new economic context in the valuation models of the recoverable amount of the assets of the Group and of Credito Valtellinese. In this situation, there have been several indications from the Regulators aimed at supporting the banking system and allowing sufficient flexibility in managing this critical phase.

The accounting measures issued focused in particular on:

- determining the Expected Credit Loss required by IFRS 9, using forward-looking and post-model adjustment scenarios;
- identifying guidelines for the treatment of concessions to borrowers and the resulting assessments of significant increases in credit risk;
- the transparency and completeness to be ensured in the information included in the financial statements;
- the valuation and impairment testing of non-financial assets.

For more detailed information on the documents issued by the Regulators, please refer to the Notes to the Credito Valtellinese Financial Statements at 31 December 2020.
During the first half of 2021, the evolution of the situation related to the pandemic emergency was monitored, assessing from time to time any impacts on the Bank's main estimated items.

Loans guaranteed by the Government

The measures launched by the Italian Government with a view to containing the economic impact of the spread of the Covid-19 pandemic, with specific reference to credit risk, include the moratorium on credit and the activation of public guarantees (Sace and Central Guarantee Fund) on new loans to businesses.

- for SMEs and natural persons carrying out business activities, loans of up to EUR 30 thousand have been made available with a full and free guarantee from the Central Guarantee Fund, a maximum duration of 96 months, with repayment of the capital portion beginning 24 months after disbursement at particularly advantageous economic conditions;
- on the other hand, companies can benefit from loans of up to 25% of turnover, with a maximum duration of 72 months, with repayment of the capital portion beginning up to 24 months after disbursement, subject to assessment by the Central Guarantee Fund (for companies with turnover of up to EUR 3.2 million), which offers a free guarantee of up to 90%, or with a guarantee from SACE (for companies with turnover of up to EUR 5 billion). The rate is defined on the basis of ordinary credit policies taking into account the presence of the public guarantee.

In accordance with the relevant accounting standards, these loans are recorded in the financial statements at amortized cost.

Creval participated in the issue of state-guaranteed loans amounting to approximately EUR 1.56 billion.

Moratoria

In order to overcome the potential difficulties of customers resulting from the temporary slowdown of the economic cycle and from the potential impact on liquidity, Creval promptly implemented the measures launched by the Italian Government and also subscribed to the ABI agreements that seek to suspend repayment plans and extend payment maturities and the repayment of loans granted.

The total amount of loans for which payments are suspended for Creval is approximately EUR 546 million. In accordance with the provisions of the law ("Cura Italia" decree and subsequent extensions), amounts of approximately EUR 447 million(*) are suspended for SMEs only until 31 December 2021.

Governance and estimate of ECL (Expected Credit Loss)

The risk control function, as part of credit risk management, oversees the models for defining value adjustments with reference to the collective evaluation of performing loans and the statistical evaluation of non-performing loans.

In accordance with IFRS 9, Creval classifies financial instruments into three different categories (known as Stages) based on the deterioration in credit quality (or risk) potentially occurring between the reporting date and the initial recognition date (origination date), with consequent differentiation in the level of impairment losses.

In order to comply with the requirements of IFRS 9, suitable models were prepared, the main features of which are described below:

1. determining the SICR threshold: in the presence of 30 overdue days, forbearance measures or the increase in lifetime probabilities of default (PD) at the reporting date with respect to the origination date above the default relevant thresholds;
2. the inclusion of forward-looking information in the expected loss calculation model: in line with the provisions of IFRS 9, the risk parameters were estimated over a lifetime horizon conditioned by expectations over expected macroeconomic scenarios (forward-looking information) through the application of specific satellite models which make it possible to estimate the impact of the macroeconomic scenarios on the individual risk parameters;
3. the forecasts of future trends of the macro-economic variables adopted are those referred to the "Most likely" macro-economic scenario, i.e., the scenario considered most likely and in line with the expected macro-economic trend. The scenario is defined by taking as a reference the forecasts provided by Prometeia and the results of reliability tests carried out through benchmarking analysis with other public source scenarios (ECB and Bank of Italy); The values of the "Most likely" scenario, formulated under conservative assumptions considering the uncertainty of the macroeconomic context due to the pandemic crisis, are shown below:

VARIABLES (CAGR 2021-2023)	Most likely scenario
Italy GDP	2.88%
Consumer price index	0.70%
Unemployment rate	0.40%
Residential property price	0.87%
Commercial real estate price	0.83%

4. calculaion of 12-month and lifetime expected losses: the IFRS 9 estimate of the PD, LGD and EAD parameters is based on the internal models adopted for credit risk management, net of conservative margins and downturn components but including an Add-on to take account of the non-linearity of the scenarios. Moreover, IFRS 9 risk parameters are adapted to incorporate forward looking information and the multi-period horizon.

In addition to the above risk parameters, the following additional components were estimated for the purpose of determining impairment losses on performing exposures:

- of the exposure over time, significant only for amortising products;
- probability of prepayment (early repayment of the loan applied in accordance with the Standard, limited to Stage 2 as it relates only to the lifetime component).

Where no internal estimates are available, Creval uses the external PD and LGD risk parameters provided by an independent ECAI at the individual security level for its own portfolio of securities. For the purpose of calculating the expected lifetime loss, the expected future cash flows from debt instruments are used, taking into account the related redemption plan. Consequently, for the determination of the multi-period Exposure At Default (EAD) of bullet, amortizing and zero-coupon securities, reference is made to the redemption plans of the securities in question.

(*) Management data.

Sensitivity analysis

In addition to the above, Creval adopts the “Most Likely scenario + Add-on” approach. Expected losses are estimated based on the impacts of the most likely scenario and corrected by a factor reflecting the non-linearity of the relationship between scenarios and expected losses. The corrective factor is defined by generating, through multivariate simulation techniques, 100,000 plausible macroeconomic scenarios whose centre is fixed on the “Most Likely” scenario and by exploiting the historical correlations observed between the macro-economic variables. Scenarios are ordered according to a directionality index based on a standardized normal distribution, which allows to assess the severity of the impacts of each scenario (a particularly expansive macro-economic context is associated with an index characterized by high values, whereas a low index describes a recessive macro-economic context). Based on this index, the scenarios are broken down in three areas:

- “Downside”, the first 30% of the distribution ordered according to the directionality index, i.e., those characterized by a recessive economic environment;
- “Indifference”, the central 40% of the distribution, i.e., scenarios similar to the “Most Likely” scenario;
- “Upside”, the last 30%, i.e., those characterized by an expansive economic environment.

For the “Downside” and “Upside” areas, the respective representative scenarios are identified, obtained as a median of the values observed on the individual macro-economic variables for the scenarios falling within the respective areas. Representative scenarios are used to estimate expected losses in an “Upside” or “Downside” context. The trends in the values of the macro-economic variables under the “Downside” and “Upside” assumptions are shown below.

VARIABLES (CAGR 2021-2023)	Upside	Downside
Italy GDP	4.11%	1.43%
Consumer price index	1.72%	0.35%
Unemployment rate	0.18%	0.81%
Residential property price	2.07%	-0.54%
Commercial real estate price	2.03%	-0.57%

Overall, the “Upside” scenario would generate a transfer from Stage 2 to Stage 1 of less than 1% of loans classified as Stage 2 at 30 June 2021, the expected loss for Stage 1 (12-month loss horizon) would be reduced by 10% while the expected loss for Stage 2 (lifetime loss horizon) would be reduced by 7%. The changes are mainly attributable to the significant increase in GDP, secondarily, to the growth in the price of residential property. For the main dimensions of the analysis, there are no particular differences in terms of expected losses and distributions between Stage 1 and Stage 2.

In the “Downside” scenario, less than 1% of the loans classified as Stage 1 at 30 June 2021 would be transferred from Stage 1 to Stage 2, the expected loss for Stage 1 (12-month loss horizon) would increase by 5%, while the expected loss for Stage 2 (lifetime loss horizon) would increase by 4%. The changes are attributable to lower GDP growth. For the main dimensions of the analysis, there are no particular differences in terms of expected losses and distributions between Stage 1 and Stage 2.

Deferred Tax Assets (DTA): probability test

The recognition of deferred tax assets (DTA), other than those that can be transformed into tax asset, is strictly related to the Bank’s ability to generate large future taxable income. The probability test was carried out for recognition purposes at 31 December 2020.

The test consists in simulating the ability to recover the deductible temporary differences and tax losses accrued at the end of the reporting period with future taxable income. The estimate of future tax income was made on the basis of projections that took account of the uncertainty related to more distant results; in particular, increasing adjustment factors have been applied over time.

Based on the test carried out, deferred tax assets depending on tax losses and ACE surpluses were recorded for the amount that is justified by the possibility of their recovery with future taxable income, amounting to EUR 77.8 million. Deferred tax assets on unrecognized tax losses and ACE surpluses amounted to approximately EUR 176 million.

In the second half of the year, a new probability test will be carried out, which will consider the evolution of the Bank within the Crédit Agricole Italia Group in the context of the regulations applicable in the new reference scenario.

EVENTS SUBSEQUENT TO THE END OF THE HALF-YEAR AND BUSINESS OUTLOOK

Since 30 June 2021 and up to the date of approval of these interim financial statements, no events have occurred that would significantly alter the structures of Credito Valtellinese and the economic results.

OTHER ASPECTS

NATIONAL TAX CONSOLIDATION OPTION

In accordance with article 2359 of the Italian Civil Code, the subsidiaries have exercised the option, along with Credito Valtellinese, to be subject to group IRES tax for a three-year period pursuant to Article 117, paragraph 1 of the Income Tax Consolidation Act, and comply with the regulations that govern its implementation between the parties. All the parties that are subject to group taxation must present their tax returns in accordance with standard terms while the consolidating party has to make the consolidated tax return and pay the group tax. The consolidated companies will undertake to collaborate with the consolidating company, providing it with all relevant information in order to meet the obligations that the consolidating company must meet with respect to the financial authorities.

In the event of tax losses, the grant of amounts used for offsetting, the tax assets for taxes paid abroad by the consolidated companies and for the consolidation adjustments, amounts equal to the actual tax benefit to the tax group will be recognized.

SUMMARY OF THE OPTIONS OF TAX CONSOLIDATION AT 30 JUNE 2021

Company	Year in which the option was exercised	Three-year period of the option
Stelline Real Estate S.p.A.	2019	2019-2021
Creval PiùFactor S.p.A.	2019	2019-2021

OTHER INFORMATION

PURCHASE OF TAX CREDITS - ECOBONUS

As part of the measures to support the economy introduced by the Government, Italian Law Decree No. 34/2020 (known as “Rilancio” (Relaunch)) recognises, for certain types of expenditure, the possibility of taking advantage of certain tax deductions in the form of tax credits. For the ecobonus and the sismabonus, as well as for other incentives for building works, it is also possible to benefit from the incentive through a discount on the amount due to the supplier, who will receive a tax credit.

Credito Valtellinese has taken steps to implement the service of purchasing tax credits from customers. Purchased receivables are recognized in statement of financial position assets under item 130 “Other assets”, with initial recognition at fair value, represented by the purchase price paid to the customer. The Bank also defined the “Hold to collect” business model for these loans (investment to be held until maturity) with consequent recognition using the amortized cost method.

The economic component of the discount (the delta between the nominal amount of the receivable and the cash disbursement) is recognized in the income statement under item 10 “Interest and similar income”. This interest is allocated over the life of the loan using the amortized cost method.

EXTERNAL AUDIT

The condensed interim consolidated financial statements at 30 June 2021 are accompanied by the certification of the Chairman of the Board of Directors and of the Manager in charge of financial reporting envisaged by Article 154 bis of the Consolidated Finance Act and are subject to a limited audit by PricewaterhouseCoopers S.p.A.

Note that on 18 June 2021, the shareholders’ meeting of Credito Valtellinese resolved to appoint Pricewaterhouse-Coopers S.p.A. to provide external audit services for the period from 2021 to 2029.

This condensed interim consolidated report is subject to review by the above-mentioned audit company.

BALANCE SHEET AGGREGATES

The following table shows the capital solidity at 30 June 2021, compared with the previous year. The trends of these aggregates are commented on in the report on operations.

Reclassified Consolidated Balance Sheet

Assets	30.06.2021	31.12.2020	Changes	
			Absolute	%
Net financial Assets/Liabilities at fair value	176,480	188,583	(12,103)	-6.42
Financial assets measured at fair value through other comprehensive income	1,151,003	855,467	295,536	34.55
Loans to Customers	18,746,396	19,648,291	(901,895)	-4.59
Equity investments	22,084	20,573	1,511	7.34
Property, plant and equipment and intangible assets	526,685	541,772	(15,087)	-2.78
Tax assets	734,827	764,479	(29,652)	-3.88
Other assets	332,948	307,472	25,476	8.29
Total assets	**21,690,423**	**22,326,637**	**(636,214)**	**-2.85**

Liabilities	30.06.2021	31.12.2020	Changes	
			Absolute	%
Net due to banks	872,594	1,985,038	(1,112,444)	-56.04
Funding from Customers	17,868,226	17,733,069	135,157	0.76
Tax liabilities	8,090	1,553	6,537	n.s.
Other liabilities	1,014,836	686,413	328,423	47.85
Specific-purpose provisions	129,460	146,129	(16,669)	-11.41
Capital	1,643,508	1,643,508	-	-
Reserves (net of treasury shares)	107,514	10,454	97,060	n.s.
Valuation reserves	5,818	7,256	(1,438)	-19.82
Equity attributable to minority interests	21	21	-	-
Profit (Loss) for the period	40,356	113,196	(72,840)	-64.35
Total equity and net liabilities	**21,690,423**	**22,326,637**	**(636,214)**	**-2.85**

Reconciliation of the official and reclassified balance sheets

Assets	30.06.2021	31.12.2020
Net financial assets/liabilities at fair value	**176,480**	**188,583**
20 a. Financial assets held for trading	548	676
20 c. Financial assets mandatorily measured at fair value	176,016	187,987
20. Financial liabilities held for trading	(84)	(80)
Financial assets measured at fair value through other comprehensive income	**1,151,003**	**855,467**
30. Financial assets measured at fair value through other comprehensive income	1,151,003	855,467
Loans to Customers	**18,746,396**	**19,648,291**
40 b. Loans to Customers	18,746,396	19,648,291
Equity investments	**22,084**	**20,573**
70. Equity investments	22,084	20,573
Property, plant and equipment and intangible assets	**526,685**	**541,772**
90. Property, Plant and Equipment	510,339	523,472
100. Intangible assets	16,346	18,300
Tax assets	**734,827**	**764,479**
110. Tax assets	734,827	764,479
Other asset items	**332,948**	**307,472**
10. Cash and cash equivalents	150,672	173,104
130. Other assets	168,631	122,638
120. Non-current assets held for sale and discontinued operations	13,645	11,730
Total assets	**21,690,423**	**22,326,637**

Liabilities	30.06.2021	31.12.2020
Net due to banks	**872,594**	**1,985,038**
40 a. Due from banks	(4,180,361)	(1,554,955)
10 a. Due to banks	5,052,955	3,539,993
Funding from Customers	**17,868,226**	**17,733,069**
10 b. Due to Customers	17,107,081	16,913,160
To deduct: Lease liabilities	(138,200)	(142,700)
10 c. Debt securities issued	899,345	962,609
Tax liabilities	**8,090**	**1,553**
60. Tax liabilities	8,090	1,553
Other liabilities	**1,014,836**	**686,413**
10 b. Due to customers: of which lease liabilities	138,200	142,700
40. Hedging derivatives (Liabilities)	139,372	159,057
80. Other liabilities	737,264	384,656
Specific-purpose provisions	**129,460**	**146,129**
90. Employee severance benefits	37,449	38,452
100. Provisions for risks and charges	92,011	107,677
Capital	**1,643,508**	**1,643,508**
170. Capital	1,643,508	1,643,508
Reserves (net of treasury shares)	**107,514**	**10,454**
150. Reserves	107,514	10,554
180. Treasury shares (+/-)	-	(100)
Valuation reserves	**5,818**	**7,256**
120. Valuation reserves	5,818	7,256
Minority interests	**21**	**21**
190. Minority interests	21	21
Profit (Loss) for the period	**40,356**	**113,196**
200. Profit (Loss) for the period	40,356	113,196
Total liabilities and equity	**21,690,423**	**22,326,637**

Loans to Customers

Items	30.06.2021	31.12.2020	Changes	
			Absolute	%
- Current accounts	1,478,566	1,599,612	(121,046)	-7.57
- Mortgage loans	10,638,747	10,564,394	74,353	0.70
- Advances and credit facilities	1,789,398	1,911,719	(122,321)	-6.40
- Reverse repurchase agreements	-	417,010	(417,010)	n.s.
- Non-performing loans	492,096	493,994	(1,898)	-0.38
Loans to Customers	**14,398,807**	**14,986,729**	**(587,922)**	**-3.92**
Securities measured at amortized cost	**4,347,589**	**4,661,562**	**(313,973)**	**-6.74**
Total Loans to Customers	**18,746,396**	**19,648,291**	**(901,895)**	**-4.59**

Loans to customers: credit quality

Items	30.06.2021			31.12.2020		
	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure
- Bad loans	369,446	(224,371)	145,075	304,988	(191,684)	113,304
- Unlikely to Pay	560,497	(239,796)	320,701	627,920	(267,962)	359,958
- Past-due/overlimit loans	29,142	(2,822)	26,320	23,018	(2,286)	20,732
Non-performing loans	**959,085**	**(466,989)**	**492,096**	**955,926**	**(461,932)**	**493,994**
- Performing loans – stage 2	1,077,907	(47,727)	1,030,180	1,114,526	(45,208)	1,069,318
- Performing loans – stage 1	13,724,607	(21,051)	13,703,556	14,325,493	(23,134)	14,302,359
Performing loans	**14,802,514**	**(68,778)**	**14,733,736**	**15,440,019**	**(68,342)**	**15,371,677**
Loans to Customers	**15,761,599**	**(535,767)**	**15,225,832**	**16,395,945**	**(530,274)**	**15,865,671**
Government Bonds measured at amortized cost	3,520,815	(251)	3,520,564	3,783,042	(422)	3,782,620
Total	**19,282,414**	**(536,018)**	**18,746,396**	**20,178,987**	**(530,696)**	**19,648,291**

Funding from Customers

Items	30.06.2021	31.12.2020	Changes	
			Absolute	%
- Deposits	1,316,147	1,569,625	(253,478)	-16.15
- Current and other accounts	15,411,518	14,505,261	906,257	6.25
- Other items	241,216	376,280	(135,064)	-35.89
- Reverse repurchase agreements	-	319,294	(319,294)	n.s.
Due to Customers	**16,968,881**	**16,770,460**	**198,421**	**1.18**
Debt securities issued	**899,345**	**962,609**	**(63,264)**	**-6.57**
Total direct funding	**17,868,226**	**17,733,069**	**135,157**	**0.76**
Indirect funding	**10,852,631**	**10,440,722**	**411,909**	**3.95**
Total funding	**28,720,857**	**28,173,791**	**547,066**	**1.94**

Indirect funding

Items	30.06.2021	31.12.2020	Changes	
			Absolute	%
- Asset management products	4,825,020	4,597,137	227,883	4.96
- Insurance products	3,378,464	3,219,142	159,322	4.95
Total assets under management	**8,203,484**	**7,816,279**	**387,205**	**4.95**
Assets under administration	**2,649,147**	**2,624,443**	**24,704**	**0.94**
Indirect funding	**10,852,631**	**10,440,722**	**411,909**	**3.95**

Securities measured at fair value

Items	30.06.2021	31.12.2020	Changes	
			Absolute	%
Financial assets and liabilities measured at fair value through profit or loss				
- Debt securities	2,753	2,972	(219)	-7.37
- Equity securities and units of collective investment undertakings	173,763	185,513	(11,750)	-6.33
- Derivative financial instruments with positive FV	48	178	(130)	-73.03
Total assets	**176,564**	**188,663**	**(12,099)**	**-6.41**
- Derivative financial instruments with negative FV	84	80	4	5.00
Total liabilities	**84**	**80**	**4**	**5.00**
Net Total	**176,480**	**188,583**	**(12,103)**	**-6.42**
Financial assets measured at fair value through other comprehensive income				
- Debt securities	1,085,788	790,945	294,843	37.28
- Equity securities	65,215	64,522	693	1.07
Total	**1,151,003**	**855,467**	**295,536**	**34.55**

Government securities held

	30.06.2021		
	Nominal value	Book value	Revaluation reserve
Financial assets measured at fair value through profit or loss	**5**	**6**	
Italian Government securities	1	1	X
Other Government securities	4	5	X
Financial assets through other comprehensive income	**843,442**	**871,222**	**1,034**
Italian Government securities	843,442	871,222	1,034
Financial assets carried at amortized cost	**3,298,500**	**3,520,564**	
Italian Government securities	3,010,500	3,204,615	X
Spanish Government securities	278,000	304,671	X
Portuguese Government securities	10,000	11,278	X
Total	**4,141,947**	**4,391,792**	

Equity investments

Items	30.06.2021	31.12.2020	Changes	
			Absolute	%
- Companies subject to exclusive control	-	-	-	-
- Jointly controlled companies	303	363	(60)	-16.53
- Companies subject to significant influence	21,781	20,210	1,571	7.77
Total	**22,084**	**20,573**	**1,511**	**7.34**

Specific-purpose provisions

Items	30.06.2021	31.12.2020	Changes	
			Absolute	%
Employee severance benefits	**37,449**	**38,452**	**(1,003)**	**-2.61**
Provisions for risks and charges	**92,011**	**107,677**	**(15,666)**	**-14.55**
a) commitments and guarantees given	12,965	13,140	(175)	-1.33
b) post-employment and similar obligations	1,717	1,840	(123)	-6.68
c) other provisions for risks and charges	77,329	92,697	(15,368)	-16.58
Total specific-purpose provisions	**129,460**	**146,129**	**(16,669)**	**-11.41**

Equity

Items	30.06.2021	31.12.2020	Changes	
			Absolute	%
Share capital	1,643,508	1,643,508	-	-
Reserves	107,514	10,554	96,960	n.s.
Reserve for valuation of financial assets through other comprehensive income	3,954	5,834	(1,880)	-32.2
Reserves from valuation of properties - artistic heritage	11,687	11,687	-	-
Reserves from valuation of actuarial gains (losses) relating to defined-benefit pension plans	(9,823)	(10,265)	(442)	-4.3
Treasury shares	-	(100)	(100)	-
Net profit for the period	40,356	113,196	(72,840)	-64.3
Total (book) equity	**1,797,196**	**1,774,414**	**22,782**	**1.3**

Own Funds (phased-in)

Own Funds and capital ratios	30.06.2021	31.12.2020
Common Equity Tier 1 capital (CET1)	**1,836,666**	**1,969,864**
Additional Tier 1 capital (AT1)	-	-
Tier 1 capital (T1)	1,836,666	1,969,864
Tier 2 (capital T2)	147,700	162,445
Own Funds	**1,984,366**	**2,132,309**
Risk-weighted assets	**7,745,652**	**8,037,729**
of which by credit and counterparty risks and by the risk of value adjustment of the loan	*6,689,962*	*7,029,200*
CAPITAL RATIOS		
Common Equity Tier 1 capital ratio	23.7%	24.5%
Tier 1 ratio	23.7%	24.5%
Total Capital ratio	25.6%	26.5%

Own funds do not include the result of the half-year.

TREND IN ECONOMIC RESULTS

The following tables show the income statement figures at 30 June 2021, compared with those of the same period of the previous year. The trends of these aggregates were commented on in the report on operations of the interim financial statements.

Reclassified consolidated income statement

	30.06.2021	30.06.2020	Changes	
			Absolute	%
Net interest income	168,219	161,512	6,707	4.15
Net fee and commission income	120,564	111,939	8,625	7.71
Dividend income	875	759	116	15.28
Net income from banking activities	14,573	811	13,762	n.s.
Other operating income (expenses)	5,015	7,976	(2,961)	-37.12
Net operating income	**309,246**	**282,997**	**26,249**	**9.28**
Personnel expenses	(127,311)	(124,328)	2,983	2.40
Administrative expenses	(61,756)	(65,920)	(4,164)	-6.32
Depreciation of property, plant and equipment and amortization of intangible assets	(20,948)	(21,110)	(162)	-0.77
Operating expenses	**(210,015)**	**(211,358)**	**(1,343)**	**-0.64**
Operating margin	**99,231**	**71,639**	**27,592**	**38.52**
Net provisioning for risks and charges	(3,477)	(3,142)	335	10.66
Net impairments of loans	(50,229)	(60,774)	(10,545)	-17.35
Net impairments of financial assets	53	(491)	(544)	-110.79
Profit (loss) on other investments	3,261	34,560	(31,299)	-90.56
Profit (loss) on continuing operations before taxes	**48,839**	**41,792**	**7,047**	**16.86**
Taxes on income from continuing operations	(8,483)	(806)	7,677	n.s.
Net profit for the period	**40,356**	**40,986**	**(630)**	**-1.54**
Profit for the period attributable to minority interests	-	1	(1)	n.s.
Profit for the period attributable to the Parent Company	**40,356**	**40,987**	**(631)**	**-1.54**

Reconciliation between the Official and Reclassified Income Statements

	30.06.2021	30.06.2020
Net interest income	**168,219**	**161,512**
30. Net interest income	168,219	161,512
Net fee and commission income	**120,564**	**111,939**
60. Net fee and commission income	120,446	111,645
230. Other operating expenses/income: of which Commission income from Fast Loan Application Processing	118	294
Dividends and similar income = item 70	**875**	**759**
Net income from banking activities	**14,573**	**811**
80. Net profit (loss) on trading activities	745	990
90. Net profit (loss) on hedging activities	36	93
100. Profit (loss) on disposal or repurchase of: a) securities classified as financial assets measured at amortized cost	14,517	6,372
100. Profit (loss) on disposal or repurchase of: b) financial assets measured at fair value through other comprehensive income	574	56
110. Net profit (loss) on other financial assets and liabilities measured at fair value through profit or loss	(3,637)	(7,647)
To deduct: b) other financial assets mandatorily measured at fair value: of which valuation of financial instruments	2,338	947
Other operating income (expenses)	**5,015**	**7,976**
230. Other operating expenses/income	24,770	27,840
To deduct: expenses recovered	(18,717)	(18,527)
To deduct: recovered expenses for the management of non-performing loans	(920)	(1,043)
To deduct: Commission income from Fast Loan Application Processing	(118)	(294)
Net operating income	**309,246**	**282,997**
Personnel expenses = item 190 a)	**(127,311)**	**(124,328)**
Administrative expenses	**(61,756)**	**(65,920)**
190. Administrative expenses: b) other administrative expenses	(83,179)	(87,900)
190. Administrative expenses: b) other administrative expenses: of which expenses for the management of non-performing loans	2,706	3,453
230. Other operating expenses/income: of which expenses recovered	18,717	18,527
Depreciation of property, plant and equipment and amortization of intangible assets	**(20,948)**	**(21,110)**
210. Net adjustments of/recoveries on property, plant and equipment	(16,759)	(17,157)
220. Net adjustments of/recoveries on intangible assets	(4,189)	(3,953)
Operating expenses	**(210,015)**	**(211,358)**
Operating margin	**99,231**	**71,639**
Net provisioning for risks and charges = Item 200 b) other net provisioning	**(3,477)**	**(3,142)**
Net impairments of loans	**(50,229)**	**(60,774)**
100. Profit (loss) on disposal or repurchase of: a) financial assets measured at amortized cost	14,717	6,759
To deduct profit (loss) on disposal or repurchase of: a) securities classified as financial assets measured at amortized cost	(14,517)	(6,372)
110. Net profit (loss) on other financial assets and liabilities measured at fair value through profit or loss of: b) other financial assets mandatorily measured at fair value: of which valuation of financial instruments	(2,338)	(947)
130. Net adjustments for credit risk of: a) financial assets measured at amortized cost	(45,732)	(58,608)
To deduct: net adjustments for credit risk of: a) securities classified as financial assets measured at amortized cost	(79)	736
140. Profits/Losses on contract modifications without derecognition	(757)	(365)
190. Administrative expenses: b) other administrative expenses: of which expenses for the management of non-performing loans	(2,706)	(3,453)
200. Net provisioning for risks and charges: a) commitments and guarantees given	263	433
230. Other operating expenses/income: of which recovered expenses for the management of non-performing loans	920	1,043

(cont.)

	30.06.2021	30.06.2020
Impairment of securities	**53**	**(491)**
130. Net adjustments for credit risk of: a) securities classified as financial assets measured at amortized cost	79	(736)
130. Net adjustments for credit risk of:: b) financial assets measured at fair value through other comprehensive income	(26)	245
Profit (loss) on other investments	**3,261**	**34,560**
250. Profit (losses) on equity investments	1,794	1,175
260. Profit (losses) from property, plant and equipment and intangible assets measured at fair value	(103)	-
280. Profit (losses) on disposals of investments	1,570	33,385
Profit (loss) on continuing operations before taxes	**48,839**	**41,792**
Taxes on income from continuing operations = item 300	(8,483)	(806)
Profit for the period	**40,356**	**40,986**
Profit for the period attributable to minority interests	-	1
Profit for the period attributable to the Parent Company	**40,356**	**40,987**

Net interest income

Items	30.06.2021	30.06.2020	Changes	
			Absolute	%
Business with customers	143,488	147,494	(4,003)	-2.71
Business with banks	17,371	2,240	15,131	n.s.
Debt securities issued	(13,360)	(13,602)	(242)	-1.78
Spreads on hedging derivatives	(7,155)	(6,813)	342	5.02
Financial assets held for trading	-	3	(3)	n.s.
Financial assets measured at fair value	76	197	(121)	-61.42
Securities measured at amortized cost	27,324	31,775	(4,451)	-14.01
Securities through other comprehensive income	2,898	3,172	(274)	-8.64
Other net interest income	(2,423)	(2,954)	(528)	-17.89
Net interest income	**168,219**	**161,512**	**6,707**	**4.15**

Net fee and commission income

Items	30.06.2021	30.06.2020	Changes	
			Absolute	%
- guarantees given	2,229	2,106	123	5.84
- collection and payment services	13,841	13,249	592	4.47
- current accounts	25,975	24,858	1,117	4.49
- debit and credit card services	10,685	8,627	2,058	23.86
Commercial banking business	**52,730**	**48,840**	**3,890**	**7.96**
- securities intermediation and placement	20,873	16,819	4,054	24.10
- intermediation in foreign currencies	1,423	1,466	(43)	-2.93
- asset management	3,959	4,056	(97)	-2.39
- distribution of insurance products	11,610	10,152	1,458	14.36
- other intermediation/management fee and commission income	3,775	3,003	772	25.71
Management, intermediation and advisory services	**41,640**	**35,496**	**6,144**	**17.31**
Tax collection services	**26,194**	**27,603**	**(1,409)**	**-5.10**
Total net fee and commission income	**120,564**	**111,939**	**8,625**	**7.71**

Net income from banking activities

Items	30.06.2021	30.06.2020	Changes	
			Absolute	%
Activities on interest rates	-	(11)	11	n.s.
Stocks	86	(75)	161	n.s.
Foreign exchange	659	1,076	(417)	-38.75
Total profit (losses) on financial assets held for trading	**745**	**990**	**(245)**	**-24.75**
Total profit (losses) on assets held for hedging	**36**	**93**	**(57)**	**-61.29**
Net profit (loss) on financial assets and liabilities measured at fair value	**(1,299)**	**(6,700)**	**(5,401)**	**-80.61**
Total profit (losses) on securities measured at amortized cost	**14,517**	**6,372**	**8,145**	**n.s.**
Total profit (losses) on securities through other comprehensive income	**574**	**56**	**518**	**n.s.**
Net income from banking activities	**14,573**	**811**	**13,762**	**n.s.**

Operating expenses

Items	30.06.2021	30.06.2020	Changes	
			Absolute	%
- wages and salaries	(81,950)	(81,303)	647	0.80
- social security contributions	(25,819)	(25,366)	453	1.79
- other personnel expenses	(19,542)	(17,659)	1,883	10.66
Personnel expenses	**(127,311)**	**(124,328)**	**2,983**	**2.40**
- general operating expenses	(14,937)	(18,360)	(3,423)	-18.64
- IT services	(15,476)	(17,489)	(2,013)	-11.51
- direct and indirect taxes	(20,579)	(20,218)	361	1.79
- real estate property management	(1,711)	(1,531)	180	11.76
- legal and other professional services	(5,855)	(7,617)	(1,762)	-23.13
- advertising and promotion expenses	(227)	(202)	25	12.38
- indirect personnel expenses	(293)	(440)	(147)	-33.41
- contributions to support the banking system	(11,193)	(13,355)	(2,162)	-16.19
- other expenses	(10,202)	(5,235)	4,967	94.88
- expenses and charges recovered	18,717	18,527	190	1.03
Administrative expenses	**(61,756)**	**(65,920)**	**(4,164)**	**-6.32**
- intangible assets	(4,189)	(3,953)	236	5.97
- property, plant and equipment	(16,759)	(17,157)	(398)	-2.32
Depreciation and amortization	**(20,948)**	**(21,110)**	**(162)**	**-0.77**
Operating expenses	**(210,015)**	**(211,358)**	**(1,343)**	**-0.64**

Net impairments of loans

	30.06.2021	30.06.2020	Changes	
			Absolute	%
- bad loans	(19,092)	(23,246)	(4,154)	-17.87
- Unlikely to Pay	(22,637)	(23,224)	(587)	-2.53
- Past-due loans	(2,385)	(3,998)	(1,613)	-40.35
Non-performing loans	**(44,114)**	**(50,468)**	**(6,354)**	**-12.59**
- Performing loans – stage 2	(2,617)	(4,464)	(1,847)	-41.38
- Performing loans – stage 1	1,120	(2,553)	(3,673)	n.s.
Performing loans	**(1,497)**	**(7,017)**	**(5,520)**	**-78.67**
Net losses on impairment of loans	**(45,611)**	**(57,485)**	**(11,874)**	**-20.66**
Profits/Losses on contract modifications without derecognition	(757)	(365)	392	n.s.
Valuation of financial instruments	(2,338)	(947)	1,391	n.s.
Expenses/recovered expenses for loan management	(1,786)	(2,410)	(624)	-25.89
Net losses on impairments of guarantees and commitments	263	433	(170)	-39.26
Net impairments of loans	**(50,229)**	**(60,774)**	**(10,545)**	**-17.35**

FAIR VALUE INFORMATION

Fair value disclosure – Classification of financial instruments and non-financial assets/ liabilities

The fair value is the price at which an asset can be sold or a liability can be transferred in a regular transaction between market participants at a certain valuation date. The fair value represents a market measurement basis, not related to the individual company and must be measured by adopting assumptions that the market operators would use to determine the price of the asset or of the liability, assuming that they act to meet their economic interest in the best way possible.

In particular, the criteria applied to determine the fair value are as follows:
- Mark to Market: valuation method that coincides with the Level 1 classification of the Fair Value hierarchy;
- Comparable Approach: valuation method based on the use of inputs observable on the market the use of which implies a Level 2 classification of the fair value hierarchy;
- Mark to Model: valuation method related to the application of pricing models whose inputs determine the Level 3 classification (use of at least one significant input that cannot be observed) of the fair value hierarchy.

The criteria for determining the fair value remained unchanged from those adopted for the preparation of the consolidated financial statements at 31 December 2020.

Fair value disclosure – Transfers between portfolios

There were no transfers between portfolios during the first half of 2021.

Assets and liabilities measured at fair value on a recurring basis breakdown by fair value level

Assets/liabilities measured at fair value	30.06.2021			31.12.2020		
	L1	L2	L3	L1	L2	L3
1. Financial assets measured at fair value through profit or loss	56	492	176,016	55	620	187,988
a) financial assets held for trading	56	492	-	55	620	1
b) financial assets designated at fair value	-	-	-	-	-	-
c) other financial assets mandatorily measured at fair value	-	-	176,016	-	-	187,987
2. Financial assets measured at fair value through other comprehensive income	1,083,354	26,585	41,064	788,398	23,516	43,553
3. Hedging derivatives	-	-	-	-	-	-
4. Property, Plant and Equipment	-	-	24,789	-	-	24,789
5. Intangible assets	-	-	-	-	-	-
TOTAL	**1,083,410**	**27,077**	**241,869**	**788,453**	**24,136**	**256,330**
1. Financial liabilities held for trading	-	84	-	-	80	-
2. Financial liabilities designated at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	139,372	-	-	159,057	-
Total	**-**	**139,456**	**-**	**-**	**159,137**	**-**

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

The transfers among different levels of fair value involve a limited number of positions. In particular, in the first half of 2021, transfers of financial assets from Level 2 to Level 1 amounting to EUR 13.3 million and from Level 3 to Level 2 amounting to EUR 2.5 million were recognized.

Transfers from level 1 to level 2 and from level 3 to level 1 are not significant.

At 30 June 2021, the overall data of the CVA/DVA that forms the fair value of derivatives was not significant.

The Bank has carried out a sensitivity analysis to unobservable market parameters in the valuation of instruments classified in Level 3 of the fair value hierarchy and measured at fair value on a recurring basis.

The portfolio of instruments measured at fair value on a recurring basis and classified within level 3 of the fair value hierarchy mainly consists of OEIC units and equity instruments.

Level 3 OEIC units classified in the portfolio of “Financial assets at fair value through profit or loss” mainly include shares of real estate funds. The Bank also holds units in the Atlante Fund, whose assets mainly consist of units in the Italian Recovery Fund; its investment policy is aimed at non-performing loans of a number of Italian banks, by subscribing financial instruments (usually notes of different seniority originating from securitisation transactions, including junior tranches). In a particularly adverse simulative scenario, the zeroing of the value of EUR 11.2 million cannot be excluded.

The value of the real estate OEIC units totalling EUR 85.0 million is exposed to the trend of the domestic real estate market. The sensitivity is estimated on the basis of a historical simulation approach, assuming a reduction in the value of the units equal to the first percentile of the distribution of annual changes in prices of a residential real-estate market index (Italy ISI Property Price Residential) recorded over a 6-year period. The change in the parameter used in the valuation, together with the estimated sensitivity, is shown below.

Financial asset	Non-observable parameter	Parameter change	Sensitivity
Real estate OEIC	Trend in prices of the real estate market	-184 p.b.	(1,567)

Moreover, “Financial assets at fair value through profit or loss” also include OEIC units of private equity and private debt that hold financial instruments mainly issued by small and medium enterprises, for an amount of EUR 53.8 million, whose value is mainly affected by the economic situation of the domestic market and for which information is not sufficient to carry out a sensitivity analysis. The item also includes OEIC units that invest mainly in past due corporate loans of EUR 23.3 million; based on the information available, it was not possible to carry out a sensitivity analysis.

The Bank holds a total of EUR 40.8 million of equity instruments classified within Level 3 of the fair value hierarchy, mainly included within “Financial assets at fair value through other comprehensive income”. In an adverse simulative scenario that for some securities requires the application of a particularly severe haircut and for others a zeroing of the value, the overall sensitivity is estimated at EUR 21.2 million.

“Financial assets at fair value through profit or loss” also include the mezzanine and junior tranches coming from the disposal through a securitisation of portfolios of bad loans (Elrond and Aragorn), amounting to EUR 0.9 million and corresponding to 5% of the total amount placed with institutional investors. Moreover, the portfolio includes mezzanine and junior tranches of EUR 1.6 million, mainly from corporate loan restructuring transactions. In consideration of the peculiar characteristics of the operations described above, no fair value sensitivity analyses were carried out; however, in a particularly adverse simulative scenario, the zeroing of the value cannot be excluded.

Changes of financial assets measured at fair value (level 3)

	Financial assets measured at fair value through profit or loss				Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Property, plant and equipment	Intangible Assets
	Total	Of which a) financial assets held for trading	Of which b) financia assets designated at fair value	Of which c) other financial assets mandatorily measured at fair value				
1. Opening balance	187,988	1	-	187,987	43,553	-	24,789	-
2. Increases	2,463	-	-	2,463	66	-	-	-
2.1 Purchases	950	-	-	950	-	-	-	-
2.2 Profits recognized in:	1,513	-	-	1,513	62	-	-	-
2.2.1 Income Statement	1,513	-	-	1,513	-	-	-	-
- of which: capital gains	1,513	-	-	1,513	-	-	-	-
2.2.2 Equity	-	X	X	X	62	-	-	-
2.3 Transfers from other levels	-	-	-	-	-	-	-	-
2.4 Other increases	-	-	-	-	4	-	-	-
3. Decreases	(14,435)	(1)	-	(14,434)	(2,555)	-	-	-
3.1 Sales	(9,981)	-	-	(9,981)	(15)	-	-	-
3.2 Repayments	(130)	-	-	(130)	(3)	-	-	-
3.3 Losses recognized in:	(4,280)	-	-	(4,280)	-	-	-	-
3.3.1 Income Statement	(4,280)	-	-	(4,280)	-	-	-	-
- of which: capital losses	(4,280)	-	-	(4,280)	-	-	-	-
3.3.2 Equity	-	X	X	X	-	-	-	-
3.4 Transfers to other levels	-	-	-	-	(2,537)	-	-	-
3.5 Other decreases	(44)	(1)	-	(43)	-	-	-	-
4. Closing Balance	**176,016**	**-**	**-**	**176,016**	**41,064**	**-**	**24,789**	**-**

Changes of financial liabilities measured at fair value (livello 3)

There are no financial liabilities at fair value on a recurring basis (Level 3).

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis breakdown by fair value level

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	30.06.2021				31.12.2020			
	VB	L1	L2	L3	VB	L1	L2	L3
1. Financial assets measured at amortized cost	22,926,757	3,799,097	20,721	19,872,159	21,203,246	4,089,163	449,025	17,506,667
2. Investment property	96,698	-	-	112,856	97,283	-	-	114,421
3. Non-current assets held for sale and discontinued operations	13,645	-	-	13,645	11,730	-	-	11,730
Total	**23,037,100**	**3,799,097**	**20,721**	**19,998,660**	**21,312,259**	**4,089,163**	**449,025**	**17,632,818**
1. Financial liabilities measured at amortized cost	23,059,381	161,408	6,980,603	15,909,091	21,415,762	171,067	6,194,841	15,080,990
2. Liabilities associated with non-current assets held for sale and discontinued operations	-	-	-	-	-	-	-	-
Total	**23,059,381**	**161,408**	**6,980,603**	**15,909,091**	**21,415,762**	**171,067**	**6,194,841**	**15,080,990**

Key
VB = Book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

OPERATIONS AND PROFITABILITY BY BUSINESS AREAS

Segment reporting required by IFRS 8 Operating segments is provided below. The previous period of income statement data was reclassified for consistency with the current period.

SEGMENT REPORTING AS AT 30 JUNE 2021

	30 June 2021				
	Retail	Corporate	Finance and Treasury / ALM	Equity investments and other	Total
Net interest income	82,289	71,995	13,935	-	168,219
Net fee and commission income	93,581	27,240	(258)	1	120,564
Dividend income	-	-	-	875	875
Net income from banking activities	-	-	15,872	(1,299)	14,573
Other operating income (expenses)	22	700	4	4,289	5,015
Net operating income	**175,892**	**99,935**	**29,553**	**3,866**	**309,246**
Operating expenses	(133,242)	(61,041)	(3,159)	(12,573)	(210,015)
Operating margin	**42,650**	**38,894**	**26,394**	**(8,707)**	**99,231**
Net provisioning for risks and charges	(253)	(77)	-	(3,147)	(3,477)
Net impairments of loans and other financial assets	(22,876)	(23,665)	(3)	(3,632)	(50,176)
Total cost of risk	**(23,129)**	**(23,742)**	**(3)**	**(6,779)**	**(53,653)**
Profit (loss) on other investments	-	-	-	3,261	3,261
Profit (loss) on continuing operations before taxes	**19,521**	**15,152**	**26,391**	**(12,225)**	**48,839**
Taxes on income from continuing operations	(3,391)	(2,632)	(4,584)	2,124	(8,483)
Net profit for the period	**16,130**	**12,520**	**21,807**	**(10,101)**	**40,356**
Direct Funding	12,620,458	4,230,673	1,017,095	-	17,868,226
Indirect Funding	10,125,980	726,651	-	-	10,852,631
Loans to Customers	7,152,446	7,246,154	207	-	14,398,807
Financial assets	-	-	5,514,921	260,837	5,775,758
Employees	2,087	775	14	607	3,483

	30 June 2020				
	Retail	Corporate	Finance and Treasury / ALM	Equity investments and other	Total
Net interest income	69,495	75,377	16,031	609	161,512
Net fee and commission income	82,668	28,866	(277)	682	111,939
Dividend income	-	-	-	759	759
Net income from banking activities	-	-	7,511	(6,700)	811
Other operating income (expenses)	684	331	(3)	6,964	7,976
Net operating income	**152,847**	**104,574**	**23,262**	**2,314**	**282,997**
Operating expenses	(130,486)	(62,414)	(3,149)	(15,309)	(211,358)
Operating margin	**22,361**	**42,160**	**20,113**	**(12,995)**	**71,639**
Net provisioning for risks and charges	1,277	390	-	(4,809)	(3,142)
Net impairments of loans and other financial assets	(22,720)	(22,121)	27	(16,451)	(61,265)
Total cost of risk	**(21,443)**	**(21,731)**	**27**	**(21,260)**	**(64,407)**
Profit (loss) on other investments	-	-	-	34,560	34,560
Profit (loss) on continuing operations before taxes	**918**	**20,429**	**20,140**	**305**	**41,792**
Taxes on income from continuing operations	(18)	(394)	(388)	(6)	(806)
Net profit for the period	**900**	**20,035**	**19,752**	**299**	**40,986**
Direct Funding	12,140,042	3,442,018	2,008,283	-	17,590,343
Indirect Funding	9,434,668	654,683	-	-	10,089,351
Loans to Customers	6,558,144	7,538,077	531,430	-	14,627,651
Financial assets	-	-	5,963,409	259,868	6,223,277
Employees	2,100	821	14	621	3,556

Commercial Bank segment

The Commercial Bank segment (in its Retail and Corporate components) is the core business since it includes all the lending, investment and transfer products and services.

In the first half of 2021, the Retail component generated net operating income of EUR 175.9 million, while the Corporate component generated net operating income of EUR 99.9 million.

Direct funding from the commercial sector amounted to EUR 16,851.1 million (of which EUR 12,620.5 million relating to the Retail component). Loans with commercial customers at 30 June 2021 amounted to EUR 14,398.6 million.

At 30 June 2021, there were 2,862 human resources employed in the Commercial Bank segment and 355 bank branches.

Finance, Treasury and ALM segment

The Finance, Treasury and ALM segment generates its revenue from the management of interbank, loans and institutional funding as well as funding in securities, the securities portfolio of Credito Valtellinese and liquidity risk.

In the first half of 2021, this segment generated net operating income of EUR 29.6 million.

Financial assets, consisting of the securities portfolio of Credito Valtellinese, amounted to EUR 5,514.9 million.

Equity investments and other segment

This segment includes equity investments of the Parent Company and its consolidated companies and other assets not classified in the previous segments. This segment also includes impairment losses and provisions not directly related to the activities of the Commercial Bank.

In the first half of 2021, this segment generated net operating income of EUR 3.9 million.

RISK MANAGEMENT

This section provides an update on risks and hedging policies at 30 June 2021 of Creval, compared to what has already been indicated in the Notes to the Consolidated Financial Statements of the 2020 Financial Statements (Part E – Information on risks and related hedging policies).

Creval adopted a system of governance and measurement/control of risks broken down in the different Corporate bodies/functions involved in order to ensure the best monitoring of relevant risks to which it is or could be exposed and guarantee at the same time the consistency of operations to its risk appetite.

Moreover, as part of risk management, the internal control system represents a fundamental element of the overall governance system of Creval and ensures that operational activities are in line with corporate strategies and policies. It takes on a substantial role in the prevention, identification, management and minimisation of risks, also contributing to the effective oversight of company risks, protection from losses and the safeguarding of asset value.

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP) REPORT

In compliance with the provisions of Bank of Italy Circular no. 285, Creval carried out an independent capital adequacy assessment (ICAAP) during the first half of the year, the results of which were reported in the document " 2021 ICAAP-ILAAP Report" approved by the Board of Directors of Credito Valtellinese at its meeting of 27 April 2021 and sent to the Bank of Italy on 30 April 2021.

The format of the Report follows the provisions of Circular No. 285, Part One, Title III, Chapter 1, Section II, Annexe D. In particular, the first chapter, "Joint ICAAP-ILAAP Section", contains the statement of the body exercising strategic supervision on capital adequacy and the governance and management system of liquidity risk, indications on the business model, the considered strategic lines and forecast horizons, the description of corporate governance, organizational structures, control systems and the self-assessment of ICAAP and ILAAP. In the second chapter, "ICAAP Specific Section", the Group's exposure to measurable and non-measurable risks, the methods used for risk measurement and capital aggregation and the stress tests carried out are outlined. This is followed by the definition of capital components, estimation activities, allocation of internal capital and the reconciliation of internal capital, regulatory requirements and own funds. With regard to the specific ICAAP and ILAAP sections, the contents listed above, which refer to the description of internal processes or policies, are dealt with in the company regulations and included in the Report with reference to the relevant information at the date being analyzed.

The ICAAP process led to the expression of an evaluation of the current and future adequacy of the total share capital to meet the relevant risks that Creval is exposed to and the need to maintain an adequate standing on the markets.

INTERNAL LIQUIDITY ADEQUACY ASSESSMENT PROCESS REPORT (ILAAP)

Together with the ICAAP process, Creval carried out during the first half of the year an independent assessment of the current and prospective adequacy of the system of governance and management of liquidity risk and of the liquidity position over different time horizons (ILAAP Process). The results are included in the specific chapter of the "2021 ICAAP-ILAAP Report". The chapter contains an assessment of the exposure to liquidity risk in the different profiles against which it occurs, under baseline and adverse scenario conditions, and provides a summary of the overall assessment of the adequacy of the liquidity position and related processes.

The ILAAP process led to an assessment of the current and prospective adequacy of both the system of governance and management of liquidity risk and the liquidity position over different time horizons. In particular, with respect to the expected evolution, it is estimated that the operational and structural liquidity indicators remain consistent with the risk propensity defined by the Board of Directors.

INTERNAL CONTROL SYSTEM

The system of internal controls is defined as the set of organisational, procedural and regulatory devices aimed at controlling activities and risks of all kinds to ensure the correct implementation and fairness of transactions.

The aims of the internal control system include reducing the risk within the limits indicated in the framework of reference for determining the risk appetite of the bank (Risk Appetite Framework, RAF), prevention of the risk that the bank is involved, even unintentionally, in illegal activities (such as money laundering, usury and terrorist financing), and compliance of the transactions with the law and supervisory regulations, as well as with policies, regulations and internal procedures.

The design of the internal control system envisages the application of three types of control/levels:

- line controls (known as "first-level controls"), aimed at ensuring proper execution of transactions. The "first line of defense" represented by local entities, organizational structures or specific subjects that assume/generate risk exposure acts in this context, in accordance with the structure of the delegated powers, the RAF and the risk limits;
- controls on risks and on compliance (known as "second-level controls"), aimed at ensuring, among other things:
  - correct implementation of the risk management process;
  - compliance with the operating limits assigned to various functions;
  - that business operations comply with the regulations, including self-regulation.
- internal audit (known as "third-level controls"), "third line of defense", aimed at identifying breaches of procedures and regulations as well as at evaluating on a regular basis the completeness, adequacy, functionally (in terms of efficiency and effectiveness) and reliability of the internal control system and of the information system (ICT audit), at a frequency pre-established according to the nature and intensity of risks.

CREDIT RISK

In line with its focus on retail banking, Creval is mainly exposed to credit risks. The credit risk is primarily defined as the insolvency risk or default of the counterparty, i.e. as "the possibility for the creditor that a financial obligation will not be paid at maturity or later". The lending strategies and policies adopted by Creval aim to support the real economy of the areas where the Group operates (SMEs and households, in particular) and to guide the composition of the loans portfolio by optimising risk-adjusted profitability, limiting the concentration of exposures on single counterparties/groups, single sectors of economic activity and geographical areas.

The overall credit process consists of sub-processes, formalised in specific policies that establish the primary guidelines of the activities and define the organisational monitoring adopted. The processes are supported by specific electronic procedures that allow uniform application of the defined rules. In this context, the following elements are particularly important:

- credit policies, updated annually;
- the credit rating and management process, based on the internal rating system, which is a fundamental and essential element;
- the process of credit forecasting management, strengthened in order to increase the number of indicators to anticipate the identification of the state of financial difficulty (early warning system) of the customer;
- the credit classifications process in the various positions and the valuation of impariment losses (flat rate on performing and non-performing portfolios below threshold, analytical on non-performing portfolios above threshold).

The entire credit process is subject to controls performed internally by the Loans Department and the company control functions (Risk Management Function, Internal Validation Function and Auditing Function), in order to ensure the utmost precision of the risk assessment, maintaining streamlined and efficient processes for evaluation and management.

As from 25 September 2018, Creval was authorized:

- to use the internal A-IRB credit risk measurement system, for the "Exposures to Corporate enterprises" and "Retail exposures" regulatory classes, pursuant to Article 143 of Regulation (EU) no. 575/2013;
- to gradually extend the model according to a defined plan pursuant to Article 148 of Regulation (EU) no. 575/2013;
- to use the permanent partial approach for the categories of eligible exposures pursuant to Article 150 of Regulation (EU) no. 575/2013 and in particular "Exposures to central governments and central banks", "Exposures in equity instruments", "Elements representing securitization positions" and "Other assets other than receivables".

In line with the provisions of IFRS 9 "Financial instruments", Creval estimated the risk parameters over a lifetime horizon and defined a stage allocation model.

The irregularly performing loans are classified in compliance with what is provided by supervisory regulations as: past due non-performing loans, unlikely to pay and bad loans. In addition, the regulations envisage the concept of forborne exposures that include relations in respect of which "forbearance measures" have been extended to a debtor in financial difficulty. Non-performing forborne exposures do not form a separate category of non-performing assets but are a characteristic of the previous categories of non-performing assets.

Loans are classified as non-performing exposures either automatically or on the basis of proposals and expert assessments depending on the circumstances.

As from 1 January 2021, Creval adopts the new definition of default in loan and reporting processes in accordance with Delegated Regulation no. 529/2014 and Delegated Regulation no. 294/2015 and in accordance with the Second Part, chapter 4, Section II of Circular 285 of the Bank of Italy of 17 December 2013.

The new law provides for stricter mechanisms than those adopted to date and aim to standardize the criteria to use to classify debtors in the various countries of the European Union.

More specifically, debtors are classified as past due loans and/or impaired overruns if one of the following conditions are met:

- the debtor is in arrears by over 90 days (in some cases like the public authorities, 180) in the payment of a material debt;
- the bank believes it to be improbable that the debtor will fully repay its debt without recourse to actions such as enforcement of the guarantees.

With reference to condition a), an overdue debt is considered to be significant when the amount of the arrears exceeds both of the following materiality thresholds:

- absolute materiality threshold: EUR 100 for retail loans and EUR 500 for non-retail loans;
- relative materiality threshold: 1% of the overall exposure of the customer to the Bank.

In addition to the above, the main new provisions include the inability to offset the overdue amounts with open lines of credit that have not been used (known as available margins) and continuation of classification under due loans and/or impaired overruns for at least 90 days from when the customer pays the arrears and/or rectifies its overrun situation.

With reference to classification under Unlikely To Pay, the new law introduces an objective threshold for the measurement of the reduced financial obligation due to substantial forgiveness of the debt or deferral of the payments of capital, interest or commissions. If, due to the forgiveness or deferral of a debt, a loss of more than 1% is suffered, the Bank will classify the debtor under probable defaults.

The effects deriving from the application of the new rules are not material for Creval.

Following the persistence of the Covid-19 health emergency, Creval continued with the implementation of the measures issued by the Italian Government and the Supervisory Authorities to support income and liquidity for households and businesses, including credit moratorium measures and the activation of public guarantees. For this particular type of transaction, Creval adopts a specific process of customer assessment, investigation and monitoring. In particular, an origination process was defined and adopted characterized by the application of specific controls aimed at checking the existence of the requirements and obligations envisaged by the regulations and assessing the creditworthiness of the customer, also through the analysis of the reasons for the financial difficulty in order to find out how temporary it is and how it can be traced back to the particular economic situation. The credit monitoring process is aimed at checking the operational continuity and management performance of all the counterparties involved, in addition to checking if there is a need for any actions to restructure the debt, including through the granting of a portion of additional funding as permitted by current laws in force.

CREDIT QUALITY

VOCI	GROSS EXPOSURES – WEIGHT ON TOTAL				Changes	
	June 2021		December 2020		Absolute	%
- Bad loans	369,446	2.3%	304,988	1.9%	64,458	21.1%
- Unlikely to Pay	560,497	3.6%	627,920	3.8%	(67,423)	-10.7%
- Past-due/overlimit loans	29,142	0.2%	23,018	0.1%	(6,124)	26.6%
Non-performing loans	**959,085**	**6.1%**	**955,926**	**5.8%**	**3,159**	**0.3%**
- Performing loans - stage 2	1,077,907	6.8%	1,114,526	6.8%	(36,619)	-3.3%
- Performing loans - stage 1	13,724,607	87.1%	14,325,493	87.4%	(600,886)	-4.2%
Performing loans	**14,802,514**	**93.9%**	**15,440,019**	**94.2%**	**(637,505)**	**-4.1%**
Gross loans to Customers	**15,761,599**	**100.0%**	**16,395,945**	**100.0%**	**(634,346)**	**-3.9%**

VOCI	NET EXPOSURES – COVERAGE RATIO				Changes	
	June 2021		December 2020		Absolute	%
- Bad loans	145,075	60.7%	113,304	62.8%	31,771	28.0%
- Unlikely to Pay	320,701	42.8%	359,958	42.7%	(39,257)	-10.9%
- Past-due/overlimit loans	26,320	9.7%	20,732	9.9%	5,588	27.0%
Non-performing loans	**492,096**	**48.7%**	**493,994**	**48.3%**	**(1,898)**	**-0.4%**
- Performing loans - stage 2	1,030,180	4.4%	1,069,318	4.1%	(39,138)	-3.7%
- Performing loans - stage 1	13,703,556	0.2%	14,302,359	0.2%	(598,803)	-4.2%
Performing loans	**14,733,736**	**0.5%**	**15,371,677**	**0.4%**	**(637,941)**	**-4.2%**
Net loans to Customers	**15,225,832**	**3.4%**	**15,865,671**	**3.2%**	**(639,839)**	**-4.0%**

Net non-performing loans totalled EUR 492.1 million, down 0.4% compared to the end of 2020.

At 30 June 2021, net non-performing assets as a percentage of total net loans to customers amounted to 3.4%.

The coverage ratio of non-performing loans is increasing and amounted to 48.7%. The coverage ratio of performing loans was stable at 0.5%.

MARKET RISK

TRADING BOOK:

The trading book comprises bonds, shares and trading derivatives. The financial instruments in the book are mainly in Euro.

The exposure remains well within established limits; the size and risk of the book comply with the established limits. Risk hedging tools and techniques are used in the management of the portfolio.

Risk is measured using both analytical techniques (establishing the duration of the bond portfolio with regard to interest rate risk exposure) and statistical estimate techniques of the Value at Risk (VaR) that allows to evaluate the maximum potential loss in the trading book within a given time horizon with an established level of confidence.

The estimate is carried out by using the parametric approach, based on the volatility and the correlations of risk factors observed in a certain period, over a 10-day period and a 99% confidence interval. The data used is provided by Prometeia (RiskSize).

During the half-year, the VaR recorded limited values with relation to the book's size and to the allocated VaR. At the end of the reporting period, the main factors to which the book is exposed are currency and price risk. Exposure to issuer risk and exposure to interest rate risk are limited.

BANKING BOOK

The banking book consists of all financial instruments payable and receivable not included in the trading book. It mainly comprises loans and receivables with banks and customers, Government bonds and GACS-backed securities of securitisation.

The interest-rate risk mainly derives from the existence in the financial statements of the bank of interest-bearing assets and onerous liabilities. Interest rate risk management aims to minimize the impact of unfavorable changes in the rates curve on the economic value of equity and on cash flows generated by statement of financial position items. Limiting exposure to interest rate risk is achieved primarily by index-linking asset and liability items to money market benchmarks (usually the Euribor rate) and by balancing the duration of the asset or liability.

Measurement of interest rate risk is firstly based on the economic value approach, defined as the current value of expected net financial flows generated by assets, liabilities and off-statement of financial position items. The behavioral profile of sight items, analyzed on a statistical basis with a special model, is also considered in the assessment of the exposure to risk, based on the revaluation of positions in different scenarios.

In the measurement of the risk, the current profit approach is used additionally and leads to the estimate of the impact of change in interest rates on net interest income, which represents a significant portion of bank revenue.

The exposure to interest rate risk was subject to limits defined in terms of change in the equity value at the end of the reporting period (static ALM) resulting from instantaneous movements of the rate curve. To this end, both parallel shifts of fixed size (typically 200 basis points) and specific changes for each node of the interest-rate structure are considered, determined on the basis of major decreases and increases actually recorded in an observation period of 6 years (considering the 1st and 99th percentile of the distribution, respectively). Moreover, non-parallel shifts of the yield curve that can change its inclination (flattening, steepening and reversal of the interest rate structure) are also taken into consideration.

Participation in monetary policy operations (increase and rescheduling of funding from the ECB - TLTRO III) led to a lengthening of the maturities of the liabilities, making it possible to reduce the duration gap between assets and liabilities and mitigating the risk exposure profile.

At half-year end, the changed duration calculated for all financial statement assets and liabilities as well as the duration gap were moderate. Assuming that the rate structure makes a parallel shift upwards of 100 basis points, the equity value would decrease by EUR 61.8 million. In the event of an equal downward shift, using the floor provided by the EBA, which goes from -100 basis points for short-term maturities to 0 basis points for the 20-year node, there would be an increase of EUR 75.7 million.

The banking book also includes equity investments that are held as part of more in-depth relations with specific companies. Therefore, the price risk management methods for such financial instruments tend more towards the management approach for investments in associates and companies subject to joint control, rather than the risk measurement techniques and instruments used for the trading book.

FAIR VALUE HEDGES

The hedging of interest rate risk aims to protect the banking book from fair value changes of loans caused by changes in the interest rate curve (fair value hedge); types of derivatives used are represented by interest rate swaps (IRS) carried out with third parties.

At the end of the half-year, the banking book of Financial assets at amortized cost included only one hedging operation for Italian government bonds (BTPs). To this end, hedging derivatives (IRS) were used. They were entered into together with the purchase of underlying securities.

The effectiveness tests carried out on a monthly basis confirmed a very high effectiveness and, anyway, within the range required by the IFRS.

LIQUIDITY RISK

Liquidity management is aimed primarily at ensuring the solvency also in stressful or crisis conditions. Exposure to risk occurs according to different profiles compared to the considered time horizon, to which specific methodological approaches, measurements, mitigation tools and corrective actions correspond. The approach adopted for risk management envisages integration of the cash flow matching approach (which tends to make expected cash inflows coincide with expected cash outflows for each time horizon) with the liquid assets approach (which requires the financial statements to include a set number of financial instruments that can be readily converted into cash). In order to face up to the possible occurrence of unexpected liquidity requirements and thus to mitigate the relevant risk exposure, Creval provides itself with adequate short-term cash reserves (liquidity buffer). The liquidity risk management process mainly involves some specific structures.

The deterioration of the overall economic situation as a result of the health emergency and previous interventions in favour of customers by governments and monetary and supervisory authorities led to a partial review and reallocation of expected cash flows, which did not however have a significant impact on the liquidity position.

Creval held liquidity reserves mostly consisting of Italian Government bonds and other assets eligible for refinancing operations with the ECB (including loans that meet the eligibility requirements), deemed appropriate to the contingent and perspective requirements. The “Liquidity Coverage Ratio” is comfortably above the minimum required by the regulation.

The main source of funding consisted of stable and diversified retail customers; the use of long-term refinancing transactions with the Central Bank are also recorded.

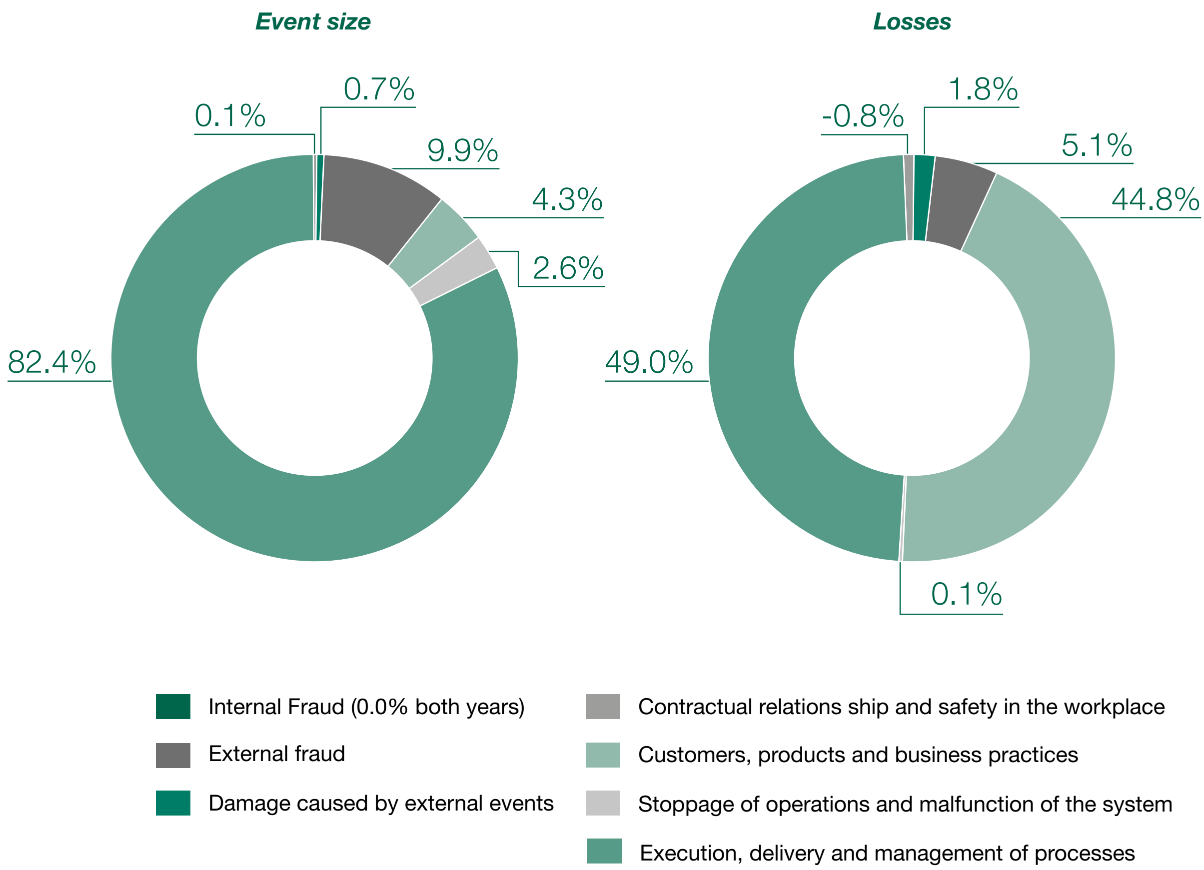
In consideration of the current composition of deposits carried out by Creval, in order to assess the concentration, the degree of dependence on a limited number of counterparties is analysed, in particular, whereas transactions in currencies other than the euro and the concentration on special technical forms such as securitisations are not important. The Group monitors the stock of liabilities on sight or with a short-term to the major wholesale counterparties (institutional investors, large companies or groups, non-economic institutions) considered more sensitive to the market situation and to the real or perceived situation of the Bank. The degree of concentration remains at low levels. From the structural perspective, Creval carried out a modest transformation of maturities.

OPERATIONAL RISK

ALLOCATION OF LOSSES

The operational risk is defined as the risk of incurring losses due to the inadequacy or inefficiency of procedures, human resources and internal systems or due to external events, including the legal risk. It includes, inter alia, losses deriving from fraud, human error, interruption of operations, system break-down, contractual non-performance and natural disasters.

The percentage distribution of operational losses recognised in the internal database during the period is shown in terms of frequency and impact.



The events reported during the half-year are mainly attributable in terms of frequency to the following event types: "Execution, delivery and management of processes" (82.4%), "External fraud" (9.9%) and "Customers, products and business practices" (4.3%).
In terms of impact, losses recognised in the half-year are attributable to "Execution, delivery and management of processes" by 49%, to "Customers, products and business practices" by 44.8% and to "External fraud" by 5.1%; losses attributable to other event types are of lesser importance.

RELATED PARTY TRANSACTIONS

The Bank's related party transactions are mainly regulated:

- by Articles 2391 and 2391 bis of the Italian Civil Code;
- by the "Related Party Transaction Regulation" adopted by Consob with resolution no. 17221 of 12 March 2010, as amended;
- by the supervisory provisions issued by the Bank of Italy (Circular 285/13 as amended) on risk assets and conflicts of interest with respect to "Associated Parties";
- by the provisions of Article 136 of the Consolidated Banking Act on obligations of banking representatives.

Within this regulatory framework, Creval adopted Procedures relevant to Related Party Transactions and Associated Parties (the RPT Creval Procedures). The RPT Creval Procedures establish, in compliance with the principles laid down in the RPT Regulations, the procedures and rules for ensuring transparency and substantive and procedural correctness in related-party transactions and associated parties carried out directly by Credito Valtellinese or by means of its subsidiaries. The RPT Creval Procedures also define the cases, methods, conditions and circumstances in which, without prejudice to the obligations required, the partial or full exclusion of the application of the RPT Creval Procedures is allowed. They also adopt the provisions on the assumption of risk assets towards associated parties pursuant to the Regulations of Bankit Associated Parties. In accordance with current regulations, the document is published on the Website, www.gruppocreval.com – Corporate Governance section – Corporate documents.

During the first half of 2021, the Bank concluded only transactions that benefited from the exemption from the application of the RPT Creval Procedures, as provided for in the RPT Creval Procedures. No significant transactions were carried out during the first half of the 2021 financial year as defined in the RPT Creval Procedures.

The Board of Directors also approved the Internal policies regarding controls on risk activities and on conflicts of interest towards associated parties that describe, in relation to the operational features and the strategies of the Bank, the business segments and the types of business relations, also other than those implying the assumption of risk assets, in relation to which conflicts of interest may arise, as well as the safeguards inserted in the organisational structures and in the internal control system to ensure constant compliance with prudential limits and the above decision-making procedures. The document also summarises the principles and rules applicable to transactions with associated parties that were used for the preparation of the relevant Procedures.

The Bank set up a Related Party Transactions Committee (the RPT Committee), composed of independent Directors, who are competent to carry out the functions and activities relating to Related Party Transactions as described in the RPT Creval Procedures. The duties and functions of the RPT Committee are entrusted by the RPT Creval Procedures on Transactions with Members of the Single Perimeter carried out by the Company, also through its subsidiaries. Moreover, the RPT Committee reserves the right to provide its non-binding comments on transactions that the Bank intends to carry out with Subjects Potentially Associated with a Related Party, as defined and in accordance with the procedures set out in the current RPT Creval Procedures.

The Related Party Transactions Committee at 30 June 2021 is composed as follows:

- Carmela Adele Rita Schillaci – Chairman;
- Eufrasio Anghileri – member;
- Carlo Berselli – member.

This Body was appointed by the Board of Directors on 18 June 2021, following the Ordinary Shareholders' Meeting which, on the same date, appointed the new Board of Directors for the three-year period from 2021 to 2023.

The Committee has its own Regulations governing its operation. The meetings are attended, in an advisory capacity, by the Chairman of the Board of Statutory Auditors or another member of the Board designated by him/her.

DISCLOSURE ON RELATED PARTY TRANSACTIONS

The following natural persons and legal entities are considered related parties:

a) the company representative;
b) the company;
c) the subject who, directly or indirectly, including through subsidiaries, trustees or intermediaries:
    1) controls the bank, is controlled by it or is subject to joint control;
    2) holds a stake in the bank such as to be able to exercise Significant Influence;
    3) exercises control over the bank jointly with other parties;
d) the party, other than the company, able to appoint on it own one or more members of the Board of Directors also on the basis of agreements signed in any form or clauses in the Articles of Association having as their subject matter or effect the exercise of such rights or powers;
e) a company or enterprise, including a non-corporate enterprise, over which the bank is able to exercise control or significant influence;
f) an associate of the bank;
g) a joint venture in which the bank is a company;
h) the Executives with strategic responsibilities of the bank or of the parent companies;
i) a supplementary pension fund, whether collective or individual, set up for the benefit of employees of the bank or any other entity related to the bank.

The following natural persons and legal entities are considered to be related parties:

1. companies and enterprises, including non-corporate enterprises, controlled by a related party among those listed in letters a), b), d) and e) of the relevant definition, as well as companies and enterprises, including non-corporate enterprises, subject to Significant Influence by a related party among those listed in letter a) of the relevant definition (i.e., company representative);
2. subjects exercising control over a related party among those listed in subparagraphs b) and d) of the relevant definition as well as subject, directly or indirectly, under common control with the same related party;
3. the close relatives of a related party among those listed in points a), b), c), d) and h) of the relevant definition and companies or enterprises, including non-corporate enterprises, which are controlled, jointly controlled or subject to significant influence by the latter.

Associated parties are defined as a combination of a related party and all parties related to it.

Related party transactions are governed by market or standard conditions. Relations between the companies falling within the consolidation scope are regulated based on specific contractual agreements taking into account the actual use by each user company. The Board of Directors is exclusively responsible for the definition of intra-group contractual agreements and approval and possible amendment of the related economic conditions. Transactions with other related parties are part of normal banking activities and are generally regulated at arm’s length for specific transactions or aligned to the most favourable measure that may have been agreed for employees.

No atypical or unusual transactions that impacted significantly on the financial position or results of operations have taken place during 2021.

FINANCIAL POSITIONS WITH RELATED PARTIES

TYPE OF RELATED PARTIES	Financial assets measured at fair value through profit or loss	Financial assets measured at fair value through other comprehensive income	Loans to Customers	Due from banks	Other assets	Due to customers	Due to banks	Guarantees given	Commitments
Controlling Company	-	-	-	-	-	-	-	-	-
Entities exercising significant influence on the Company	-	-	-	-	-	-	-	-	-
Jointly controlled companies	-	-	-	-	-	23	-	-	-
Associates	-	-	45,693	-	2	4,317	-	1,223	145
Directors and Managers with strategic responsibilities	-	-	1,274	-	-	1,882	-	-	614
Other related parties	-	-	37,983	-	86	38,705	-	11,787	20,099
Total	**-**	**-**	**84,950**	**-**	**88**	**44,927**	**-**	**13,010**	**20,858**

MAIN INCOME TRANSACTIONS WITH RELATED PARTIES

Amounts in thousands of Euro	Net interest income	Net fee and commission income	Administratives expenses	Other operating expenses / income
Controlling Company	-	-	-	-
Entities exercising significant influence on the Company	-	-	-	-
Jointly controlled companies	-	-	-	-
Associates	349	19	-	34
Directors and Managers with strategic responsibilities	1	1	(3,977)	-
Other related parties	219	4,739	(200)	85
Total	**569**	**4,759**	**(4,177)**	**119**

As regards fees paid to related parties, note that Directors' fees are defined by specific shareholders' resolutions for the three-year term of office. For further details on the remuneration of managers and control bodies, please refer to the Remuneration Report published on the website www.gruppocreval.com – Governance Section – Remuneration Policies.

CERTIFICATION OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ARTICLE 81-TER OF CONSOB REGULATION NO. 11971/99

1. The undersigned, Filippo Zabban, as Chairman of the Board of Directors, and Simona Orietti, as the Manager in charge of financial reporting of Credito Valtellinese S.p.A., also considering the provisions of article 154-bis, paragraphs 3 and 4, of Legislative Decree no. 58 of 24 February 1998, hereby certify:
   - the adequacy, in relation to the business characteristics and
   - the effective application of administrative and accounting procedures for preparing the condensed interim consolidated report during the period 1 January 2021 – 30 June 2021.
2. The assessment of the adequacy and the actual application of the administrative and accounting procedures for preparing the condensed interim consolidated report during the period between 1 January 2021 – 30 June 2021, is based on a model conceived by Credito Valtellinese S.p.a., in line with the "Internal Control - Integrated Framework (CoSO)" and with the "Control Objective for IT and Related Technologies (Cobit)", which represent reference standards for the internal control system and for financial reporting in particular, generally accepted at international level.

3. We also certify that:

3.1 the condensed interim consolidated report:

a) was prepared in compliance with applicable IFRS endorsed in the European Community pursuant to (EC) Regulation no. 1606/2002 of the European Parliament and Council, dated 19 July 2002;

b) is consistent with accounting books and records;

c) provides a true and fair view of the financial position and performance of the issuer and the group of companies included in the scope of consolidation.

3.2 the interim report on operations includes a reliable analysis of the references to the important events that occurred in the first six months of the year and to the effect they had on the condensed interim consolidated report, together with a description of the main risks and uncertainties for the remaining six months of the year. The interim report on operations also includes a reliable analysis of the information on significant transactions with related parties.

Sondrio, 16 July 2021

Chairman of the Board of Directors	Manager responsible for preparing the Company's financial reports
Filippo Zabban	Simona Orietti

Independent Auditors’ Report

REVIEW REPORT ON CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

To the shareholder of Credito Valtellinese SpA

Foreword

We have reviewed the accompanying condensed consolidated interim financial statements of Credito Valtellinese SpA and its subsidiaries (Credito Valtellinese Group) as of 30 June 2021, comprising the consolidated balance sheet, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and the related notes. The directors of Credito Valtellinese SpA are responsible for the preparation of the condensed consolidated interim financial statements in accordance with International Accounting Standard 34 applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

We conducted our work in accordance with the criteria for a review recommended by Consob in Resolution No. 10867 of 31 July 1997. A review of the condensed consolidated interim financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than a full-scope audit conducted in accordance with International Standards on Auditing (ISA Italia) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the condensed consolidated interim financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements of Credito Valtellinese Group as of 30 June 2021 are not prepared, in all material respects, in accordance with International Accounting Standard 34 applicable to interim financial reporting (IAS 34) as adopted by the European Union.

PricewaterhouseCoopers SpA

Sede legale: **Milano** 20145 Piazza Tre Torri 2 Tel. 02 77851 Fax 02 7785240 Capitale Sociale Euro 6.890.000,00 i.v. C.F. e P.IVA e Reg. Imprese Milano Monza Brianza Lodi 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 071 2132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 080 5640211 - **Bergamo** 24121 Largo Belotti 5 Tel. 035 229691 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 051 6186211 - **Brescia** 25121 Viale Duca d’Aosta 28 Tel. 030 3697501 - **Catania** 95129 Corso Italia 302 Tel. 095 7532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 055 2482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 010 29041 - **Napoli** 80121 Via dei Mille 16 Tel. 081 36181 - **Padova** 35138 Via Vicenza 4 Tel. 049 873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091 349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521 275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 085 4545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06 570251 - **Torino** 10122 Corso Palestro 10 Tel. 011 556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461 237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422 696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 040 3480781 - **Udine** 33100 Via Poscolle 43 Tel. 0432 25789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332 285039 - **Verona** 37135 Via Francia 21/C Tel. 045 8263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444 393311

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Other Matters

The consolidated financial statements as of and for the year ended 31 December 2020 and the condensed consolidated interim financial statements for the period ended 30 June 2020 were audited and reviewed, respectively, by other auditors, who on 26 March 2021 expressed an unqualified opinion on the consolidated financial statements, and on 13 August 2020 expressed an unmodified conclusion on the condensed consolidated interim financial statements.

Milan, 4 August 2021

PricewaterhouseCoopers SpA

Signed by

Raffaella Preziosi
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

Annexes

Reconciliation of Parent Company equity and profit (loss) for the period and consolidated equity and profit (loss) for the period

	30.06.2021	
	Equity	of which: Profit for the period
Balances as per parent financial statements	**1,774,205**	**39,528**
Investee results as per Separate financial statements:		
- consolidated on a line-by-line basis	(364)	(364)
- equity accounted	1,794	1,794
Differences compared to carrying amounts for:		
- companies consolidated on a line-by-line basis	18,159	-
- equity-accounted companies	3,629	-
Adjustment to dividends collected during the period:		
- related to the profit of prior period	-	(1,215)
Other consolidation adjustments:		
- elimination of intra-group profit and loss	(2)	(86)
- other adjustment	(225)	699
Balances as per Consolidated financial statements	**1,797,196**	**40,356**

Creative and graphic design and images

Redpoint.

Creval Società per Azioni – sole shareholder
Registered Offices in Piazza Quadrivio 8 - Sondrio, Italy

Tax code and Sondrio Company Registration
no. 00043260140 - Register of Banks no. 489
Company belonging to the Crédit Agricole Italia
Banking Group registered in the Register of Banking Groups with no. 6230.7
Subject to the management and coordination
of Crédit Agricole Italia S.p.A.
Website: http://www.gruppocreval.com
E-mail: creval@creval.it
Data at 30 June 2021: Share capital EUR 1,643,508,053.06
Member of the Interbank Guarantee Fund
and of the National Guarantee Fund.